

**REDUCING WASTE, FRAUD, AND ABUSE
IN HOUSING PROGRAMS: INSPECTOR
GENERAL PERSPECTIVES**

HEARING
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS
OF THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRTEENTH CONGRESS
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REDUCING WASTE, FRAUD, AND ABUSE IN HOUSING PROGRAMS: INSPECTOR GENERAL PERSPECTIVES

Tuesday, September 10, 2013

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:04 a.m., in room 2128, Rayburn House Office Building, Hon. Patrick T. McHenry [chairman of the subcommittee] presiding.

Members present: Representatives McHenry, Fitzpatrick, Duffy, Fincher, Hultgren, Wagner, Barr; Green, Maloney, Delaney, Sinema, Beatty, and Heck.

Chairman MCHENRY. The Subcommittee on Oversight and Investigations of the Financial Services Committee will come to order.

The hearing today is entitled, "Reducing Waste, Fraud, and Abuse in Housing Programs: Inspector General Perspectives." And we have one witness today in the first panel.

Without objection, the Chair is authorized to declare a recess of the subcommittee at any time.

And now, we will recognize both the ranking member and the chairman for an opening statement, and then we will get on with the Inspector General's testimony. I recognize myself for 5 minutes.

In Fiscal Year 2013, Congress allocated \$34 billion for the Department of Housing and Urban Development's (HUD's) budget, with an additional \$16 billion appropriated to HUD's Community Development Block Grant (CDBG) program in the aftermath of Superstorm Sandy.

In the first 6 months of this year, the HUD Inspector General's (IG's) office has released 49 audits, which included recommendations that \$739.5 million in funds be put to better use. These 49 audits also identified over \$770 million in questioned costs and more than \$1 billion in collections from audits.

As a result of the HUD IG's investigations of suspected fraud in HUD programs, HUD has so far recovered \$74.9 million, and the investigations resulted in 225 indictments or information gathering and 270 convictions, pleas or pretrial diversions during this fairly short 6-month period.

Of particular concern to this committee is the handling of the CDBG program, the largest source of Federal financial assistance to support State and local neighborhood revitalization, housing re-

habilitation, and economic development activities. Over the years, HUD has failed to adequately account for how taxpayers' funds are being spent in the CDBG program, leading to wasteful spending and frivolous pork barrel projects.

Although one of the three natural program objectives for the CDBG program is that projects principally benefit low- and moderate-income persons, critics have noted that the CDBG funds often end up being used for parks, pools, street signs, and community centers, thus diverting dollars from those communities with the greatest need, in particular housing. In fact, The New York Times has exposed a practice where well-off communities sold grants to other communities in exchange for smaller purses that had no strings attached. This is very troublesome. It also highlights a concern that CDBG's formulas for disbursing grant funds may be outdated and unsuitable for today.

Others have commented on administrative failures within the program. The Government Accountability Office (GAO) has noted failures in HUD's ability to track funds appropriated in the program. This goes back to a 2006 GAO review of the CDBG program which found that HUD does not centrally maintain the data needed to determine compliance with statutory spending limits. GAO added that HUD had not developed a plan to replace monitoring staff or fully involved its field staff in plans to redesign an information system that they use to monitor these grant recipients.

I understand the Office of Inspector General has worked tirelessly to fight waste, fraud, and abuse identified within HUD, and I look forward to our testimony today from the Inspector General, Inspector General Montoya, on ways in which HUD can better track the taxpayers' money and put it to best use as the Congress intended.

With that, I yield back the balance of my time, and I recognize the ranking member for 5 minutes for an opening statement.

Mr. GREEN. Thank you, Mr. Chairman. And I thank the witness for appearing today. I also would like to thank the staff for the stellar performance it has demonstrated in providing us with intelligence on some crucial and critical issues that we will confront today.

I am very grateful for this hearing, Mr. Chairman, because this hearing affords us an opportunity to explain how HUD is being required to do much, much more with much, much less. And I would quote the IG, who indicates that the Department's primary mission is to create strong, sustainable, inclusive communities and quality affordable homes for all, and that is a noble mission.

I would also quote from the IG wherein it is cited that achieving HUD's mission while exercising the appropriate level of oversight to prevent or mitigate waste, fraud, and abuse continues to be an ambitious challenge for its limited staff. The IG goes on to say that over the years, HUD has seen a steady decline in its staffing level while at the same time it was called upon to administer an increasing number of programs. At the end of Fiscal Year 2012, HUD had just over 8,300 staff compared to about 9,700 a decade earlier, and even greater levels in the 1990s. This has forced HUD to continue to rely heavily on contractors to carry out many of its programs

and to expect that local and State jurisdictions and recipients of HUD's funds conduct their own oversight and due diligence.

HUD has a success story, but this hearing is not about the successes. HUD has some situations, some circumstances that we have to address, but I don't think we can overlook the fact that HUD is understaffed. I don't think we can overlook the fact that sequestration has had an impact on HUD and is having an impact on many of HUD's programs.

I have intelligence indicating that about 125,000 individuals and families could lose assistance provided through the Housing Choice Program and become at risk of homelessness because of sequestration; further, that sequestration cuts would result in 100,000 formerly homeless people, including veterans, being removed from their current housing or emergency shelter, putting them at risk of being homeless. Further sequestration cuts could result in 7,300 fewer low-income households receiving permanent and short-term supportive housing assistance. This would be rent and utility assistance. Nine hundred fewer Native American families would be able to obtain housing loan guarantees. Three thousand vulnerable children would not be protected from lead poisoning.

Now, this was just accorded me, and I am going through it rather hurriedly, but my point is that there is more to the story than meets the eye. And my hope is that the headlines tomorrow will not indicate that HUD has not been diligent in trying to help people and to meet its goals.

In fact, I would like to share just a brief story that is not true, but let us assume that you have a beach that is being patrolled by two lifeguards, and let us assume that due to sequestration, one is cut, and we have one lifeguard who is patrolling this beach. And we have three persons who are in need of assistance, and the lifeguard swims out, and he pulls in two people, but unfortunately, he cannot bring in the third. My hope is that the headlines would not read, "One Person Drowns While Lifeguard is on Duty," because there is a lot more that is happening at HUD than what will be presented today. My hope is that the entire story will be told, and I appreciate greatly what the Inspector General has done to present both sides of the story.

I yield back the balance of my time.

Chairman MCHENRY. We will now recognize the vice chairman for 1 minute for an opening statement.

Mr. FITZPATRICK. I thank the chairman for the moment here, and I thank Mr. Montoya for your testimony here today and for the time that we spent in my office talking about specific issues.

In February, Representatives Scott Garrett and Rob Andrews of New Jersey and I wrote a letter to Secretary Donovan asking him for more details about the mechanisms in place to ensure that disaster relief administered by HUD was going to go only to those communities that were affected by Superstorm Sandy. We also wanted to better understand how HUD was going to ensure that the money would only be used on projects specifically related to Sandy relief.

It took 6 months to receive a reply, but in August we finally got back a two-page response dated August 12th. And quite frankly, I expected a few more details from a letter that took 6 months to

write. The response we got back touches on a few programs and specifically mentions your office as being part of the oversight effort. So, Mr. Montoya, I appreciate your testimony on disaster relief, and I am looking forward to it. I plan on following up with a few questions about how exactly HUD plans on accounting for and tracking the money that many of us supported in the Sandy relief package with the expectation it would be spent appropriately.

I yield back.

Chairman McHENRY. I will now recognize the Inspector General of the U.S. Department of Housing and Urban Development, the Honorable David Montoya. Mr. Montoya was sworn in as HUD Inspector General on December 1, 2011. Mr. Montoya's 26-year career has been dedicated to public service, focused on law enforcement, with over 16 years of oversight, supervisory, and leadership positions, including more than 10 years experience in the Federal Senior Executive Service. Mr. Montoya is a native of El Paso, Texas. Our ranking member is also a Texan, although from a different end of the State, and apparently that is about a million miles apart—

Mr. GREEN. We all have the same humidity, Mr. Chairman.

Chairman McHENRY. Mr. Montoya is a 1986 graduate of the University of Texas at El Paso.

Without objection, the witness' written statement will be made a part of the record. The witness will now be recognized for 5 minutes to give an oral presentation of his testimony.

Mr. Montoya, I know you are very familiar with testifying before Congress. We have a very simple lighting system: green; yellow; red. Yellow means hurry up, as it does in the traffic system.

Once you have given your opening statement, we will recognize each Member for 5 minutes for the purposes of questioning, and just be aware that the microphone is very sensitive and sort of directionally sensitive in particular.

So with that, we will now recognize Mr. Montoya for 5 minutes.

STATEMENT OF THE HONORABLE DAVID A. MONTOKA, INSPECTOR GENERAL, OFFICE OF THE INSPECTOR GENERAL, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. MONTOKA. Thank you, Mr. Chairman.

Chairman McHenry, Ranking Member Green, and members of the subcommittee, I am David Montoya, the Inspector General of the Department of Housing and Urban Development, and I thank you for the opportunity to discuss our good work today.

During the last 2 semiannual reports, we issued 135 audits and other reviews which resulted in more than \$1.5 billion in funds put to better use, nearly \$2 billion in questioned costs, and more than \$1 billion in collections as a result of our audit efforts. Our investigations led to \$613 million in recoveries, 579 indictments or informations, and 555 convictions of criminals that impacted HUD programs.

The Department faces a significant management challenge in monitoring the billions of dollars it disburses through its various programs, not the least of which is the disaster program funds provided to various States, cities, and local governments. This challenge is particularly pressing for HUD because of limited resources to directly perform the oversight, the broad nature of HUD pro-

grams, the length of time needed to complete some of these projects, the ability to waive certain HUD program requirements, and the lack of understanding of disaster assistance grants by recipients.

As it relates to OIG's work involving oversight of Hurricane Sandy funding, we are employing our best practices garnered from years of experience in reviewing disaster recovery efforts. Starting at the earliest stages, we are working diligently with the Department and the affected States to examine the program design and to review their implementation plans for ways to efficiently promote desired disaster assistance.

After initial stage activities, and as funding begins to flow, we will use our evaluation and inspection capability and data-mining capacity to review implementation activities. One of our primary tasks will be to analyze and mine vast amounts of data to look for indicators of fraud and mismanagement.

Our efforts in disaster fraud are threefold: our fraud awareness and prevention efforts; auditing to ensure compliance with laws, rules, and regulations in order to disrupt mismanagement or fraud at the earliest occurrence; and finally, civil and criminal investigations of allegations of disaster-related frauds.

With regard to the Federal Housing Administration's Mutual Mortgage Insurance Fund, for the past 4 years, the Fund has failed to meet its legislatively mandated 2 percent capital ratio, and each of these 4 years has seen a further decline in the ratio to the point that based on the latest actuarial study in November of last year, the Fund has a negative economic value of \$16.3 billion. Based on current projections, the capital reissue will not reach the 2 percent level until 2017, marking 8 years below the 2 percent threshold mandated by Congress. Moreover, for the first time in its history, FHA may need to use its mandatory appropriation authority to supplement its reserves.

Restoring the Fund's finances has been a priority of HUD, and while HUD has increased premiums and taken other steps to restore the financial health of the Fund, we have focused on civil fraud investigations with the Department of Justice in an effort to further prevent or mitigate fraud and to return losses to the fund account.

The FHA single-family program continues to be a major focus for us. During the last 2 semiannual periods, we issued 25 audits in this program area, reporting \$325 million in questioned costs and nearly \$800 million in funds to be put to better use.

In addition to audits of participating lenders, we completed internal audits of various aspects of HUD's administration of the program. For example, a recent review of FHA's Preforeclosure Sale Program (PFS), we identified that based on our statistical projection, FHA paid an estimated \$1 billion in claims for just under 12,000 preforeclosure sales that did not meet the criteria for participation in the FHA program.

In another audit on HUD's oversight of the Home Equity Conversion Mortgage (HECM) program, we concluded that HUD's policies did not always ensure that borrowers complied with the program residency requirements.

Finally, in an audit of HUD's oversight of its REO management and marketing program, we found that HUD did not have adequate procedures in place to ensure consistent and adequate enforcement of asset and field service manager contracts.

Since Fiscal Year 1991, OIG has reported on a lack of integrated financial management systems, including the need to enhance FHA's management controls over its portfolio of integrated insurance financial systems.

The Department's role has greatly increased over the last decade as it has faced unanticipated disasters and economic crisis, in addition to its other missions that have increased its visibility and reaffirmed its vital role in providing services that impact the lives of our citizens. My office is strongly committed to working with the Department and the Congress to ensure that these important programs operate efficiently and effectively.

Thank you for the opportunity to testify today, and I would be happy to answer any questions.

[The prepared statement of Inspector General Montoya can be found on page 22 of the appendix.]

Chairman MCHENRY. Thank you, Inspector General Montoya. I now recognize myself for 5 minutes for questions.

Inspector General Montoya, on August 28th, I sent you a letter which requested you to investigate whether HUD violated statutory prohibitions on lobbying in an email communication sent from the Deputy Secretary of HUD. On July 31st, HUD's Deputy Secretary sent an email which requested that "friends and colleagues" contact specific U.S. Senators and encourage them to vote in favor of procedural motions in advance of Senate consideration of the HUD appropriations bill. As I stated in the letter, the directness and specificity of the email communication appeared to violate the well-established Federal restrictions on lobbying by Federal agencies.

To that end, I asked your office to thoroughly investigate the matter and report your findings no later than September 30th of this year. So, Mr. Montoya, I understand you cannot discuss an ongoing investigation, but in the interest of transparency, can you acknowledge receipt of my letter on August 28, 2013?

Mr. MONTTOYA. Yes, Mr. Chairman, we are in receipt of that letter.

Chairman MCHENRY. Thank you.

Do you anticipate that you will be able to comply with the committee's request by September 30th?

Mr. MONTTOYA. Yes, Mr. Chairman, we are hoping to do so.

Chairman MCHENRY. Thank you.

Also in the interest of fairness, we have received—as of 10:19 this morning, the GAO has accepted our request to review this very same matter, and will begin engagement shortly, and will contact us with their findings as well.

To explore how big the HUD Inspector General's job is in managing the record disaster relief funds, I want to ask you, how is your office collaborating with HUD to fight waste, fraud, and abuse with respect to Superstorm Sandy disaster relief?

Mr. MONTTOYA. Thank you for the question, Mr. Chairman. We have been involved with HUD since the outset of the disaster. Our

experience in hindsight through many years of disaster recovery suggests that we need to be looking at these issues at the very beginning. And so, we have been working with them on not only fraud prevention and outreach sort of efforts, but also providing them our experience on other issues and concerns we have seen in previous disasters, namely Hurricane Katrina in the Gulf Coast.

Chairman MCHENRY. Sure.

And what steps has HUD taken independently of the HUD IG to ensure that disaster relief for Superstorm Sandy will be responsibly disbursed?

Mr. MONTTOYA. The Secretary created a task force, and it is my understanding that they have been diligently working with the various States, including New York City, to ensure that these funds, as they begin to roll out, are properly used and oversights not only by HUD, but by the various States and the City of New York.

Chairman MCHENRY. Going back to 2000, even as late as 2009, the HUD IG has uncovered and repeatedly identified HUD-approved lending—FHA-approved lending, they were not following HUD loan underwriting requirements. What systemic problems has your office uncovered in the FHA program regarding underwriting practices of FHA-insured mortgages? And when did the HUD IG first take issue recommendations to HUD on this topic?

Mr. MONTTOYA. We did get back them about 2009. We became heavily involved in the whole idea of underwriting and origination practices and the servicing, quite frankly, of FHA mortgages, and we have been providing HUD recommendations since that time.

Early on, we were looking at much of this stuff in a more regionalized, localized sort of environment. It was only until about 2010 that we started looking at this as a national problem and primarily focused on the larger lenders which were insured by FHA mortgages.

What we were finding through our civil reviews of loan files, if you will, are basically what we call material underwriting deficiencies. These are not technical violations like forgetting to include a signature or a Social Security number; these are whole-scale material deficiencies that really go to the fundamental ability of the loan to survive, for example: failing to document a borrower's employment, that is fundamental to any mortgage; failing to document a borrower's payment history of housing obligations; and finally, failing to verify that borrowers possess the necessary funds to close.

Chairman MCHENRY. And has HUD taken prompt corrective action on this?

Mr. MONTTOYA. We believe they tried to make some headway on that. I think that on many occasions HUD is still very slow to respond to a lot of these. They play a dual role, if you will, between trying to buffer the mortgage market and provide mortgages to low- and moderate-income families, while at the same time trying to adhere to a very strict—

Chairman MCHENRY. Yes, but they have not complied with material deficiencies, is what your office has said, and so at the same time, they have come to Congress and asked for an appropriations for shortfalls in the FHA fund. This is deeply concerning to us, and

I hope this message becomes loud and clear to HUD that they should comply with your recommendations in a prompt manner.

With that, I now yield to the ranking—okay, we will recognize Mr. Delaney for 5 minutes.

Mr. DELANEY. I was going to yield my time to the ranking member.

Mr. GREEN. I thank the gentlemen very much. And, again, I thank the witness for appearing.

As I indicated previously, you have indicated that HUD has limited staffing, and that over the years you have seen a decline in the number of persons who are staffing HUD. I would like you to comment on this if you would, please, in terms of how this limited staffing impacts HUD's ability to meet its mission.

Mr. MONTOKA. Yes, sir. Thank you, Mr. Green, for the question.

In essence, what we have seen is the lowest staffing numbers of HUD probably ever. I think they are at their lowest staffing number, if our information serves us correctly, and it comes at a point where they have taken on more responsibilities. We just went through a serious financial crisis; we are still trying to dig out of that. We also have disasters with which we are dealing. And so, it becomes more and more difficult with regard to HUD's staffing to properly and directly oversee these programs that they administer.

The reason for the lower numbers, part of it, I think, goes back to the numbers being set by OMB and just how much staffing each agency should have. So what HUD has obviously tried to do to get past that staffing number is to have more contracting and more contractors on board. In fact, we have seen contractors overseeing contractors because HUD's own staff isn't able to oversee the contractors, which is a little ironic and, of course, quite frankly, I think more expensive than having full-time employees on board. And I think it does have an impact on them.

Having said all of that, what I would also say, Mr. Green, is that with regards to much of the funding that goes to the State and localities, it is our fundamental belief, and, I believe, HUD's, that these localities should also take responsibility for proper oversight and management of those programs.

Mr. GREEN. Thank you.

And you do agree that much of what your report speaks to involves the localities in terms of things that have not been done to meet the proper standards so as to guard against waste, fraud, and abuse?

Mr. MONTOKA. Yes, sir, that is correct.

Mr. GREEN. Now, let us talk for a brief moment about CDBG disaster grants. Is it true that historically when Congress has allocated these supplemental appropriations, Congress has also allocated administrative funds?

Mr. MONTOKA. Yes, sir, that is correct.

Mr. GREEN. And with the lack of administrative funds, how does that impact HUD's ability to properly engage in oversight?

Mr. MONTOKA. With regards to the administrative funds, the administrative funds are to be used by the local and State organizations receiving them to conduct their own oversight. These administrative funds really go to the localities to oversee the program

that they are managing. Somewhere on the order of 20 percent of their funding goes to administrative accounts.

We have done some reviews to determine just what those administrative monies are going for, and whether they are going to serve the purpose of oversight management of the programs, or whether they are being used for other purposes that really don't have anything to do with the particular program or assisting low- to moderate-income households.

Mr. GREEN. When we have these large supplemental appropriations, should HUD be accorded additional resources to help manage the supplemental appropriations?

Mr. MONTROYA. That is a tough question, given sequestration and the budget cuts that we are all facing. I think there is enough oversight responsibility to go around. We can always do more with more is as the old adage goes. I don't know what the right balance of proper staffing would be.

I think part of what affects HUD in being able to be more robust in oversight is the fact that they just can't seem to finish or complete the information on IT projects, projects that would help them to look at data closer, to review information more specifically in each of these programs. I think that until some of their IT infrastructure is completed, you are going to have manual work to accomplish the goal of oversight. So, it is sort of twofold; it is not just staffing, I think it has to do with their infrastructure and their ability to oversee it technically.

Mr. GREEN. Thank you. I yield back.

Chairman MCHENRY. We will now recognize the vice chairman, Mr. Fitzpatrick, for 5 minutes.

Mr. FITZPATRICK. Thank you, Mr. Chairman.

And, Mr. Montoya, again, thank you for your testimony here today.

I want to follow up on comments in the opening statement of Ranking Member Green. He was talking about unfortunate headlines, and on that issue, in September of 2005—I guess it is the anniversary of Hurricanes Rita and Katrina probably next week, it has been 8 years to the day—there were a lot of unfortunate headlines. The Federal Government, through FEMA and through HUD, rushed to the scene, wanted to provide assistance, and provided significant Federal dollars. Housing dollars were dispatched, Community Development Block Grants. And there were a lot of unfortunate headlines in the waste and fraud that existed, the massive dollars and the lack of controls.

I referenced in my opening remarks the letter that we sent to HUD earlier this year requesting how the Department will ensure that the Community Development Block Grant funds are being used appropriately and effectively. And the response we got back 6 months later stated that there are rules set forth requiring that the money is only spent in the most distressed areas, and listing a couple of monitoring techniques.

Sixteen billion dollars requires very aggressive oversight. So my first question, Mr. Montoya, and it is really following up on the questions of the chairman, is what specific controls does HUD have? Specific controls. What do they have in place to ensure—not just require, but to ensure—that the monies spent in those areas

that were most effective, which is where the money was intended to be spent and where it needs to be spent—so what did HUD have either before February of this year, or what have they put in place subsequent to February when those dollars were released that is forming the basis of how you monitor their activities, specifically in the \$16 billion CDBG appropriation?

Mr. MONTROYA. Sir, I don't know that anything different has changed within their programs. They have their program that will help to conduct some of this oversight and, again, working with the States and the City of New York. I think what was different in this particular case is that the money that was allocated does have a lifespan to it. In Katrina, when money was allocated, there was no lifespan to the money. In fact, there are still billions of dollars out there to be used in the Gulf Coast for recovery.

So for Sandy I think that is a turn in the right direction, and we have opined on that for a number of years. It allows or it requires people to manage this money more quickly, to actually have something happen with it. And I think that is one of the biggest tools that HUD will have at its disposal to help monitor it. I think they have done a far better job than any of us did really with Katrina in the Gulf Coast disasters with the early coordination and with what we have seen with them coordinating with the States and the City of New York and us being involved at the very outset.

But what I can tell you is that with any amount of money such as this, we can expect to see some fraud. At some level, at some point, we can expect to see some fraud. I don't think we are ever going to get away from that when you deal with money. But to the extent that HUD appears to be aggressive in this preparation for the rollout, and that we are doing the same, we are also coordinating with a whole host of other IGs and other State and local entities as a sort of force multiplier so that we are not all looking at the same thing, to the extent that we all be looking at different things, we multiply these forces exponentially so that we can actually get to more oversight, if you will.

Mr. FITZPATRICK. So what other State and local agencies would you be working with—county level, community development, monitors? Who are the others that you are using to describe what you call the force multiplier?

Mr. MONTROYA. Quite frankly, at all levels, at the very local level, at the State level. We have met with attorneys general of the States, we have met with district attorneys, we have met with regulators, we have met with the State community development program folks. We have provided already some very early fraud prevention-type messaging on what we see with regards to disaster funding and where we expect to see these frauds.

Mr. FITZPATRICK. Have you begun to see any examples of jurisdictions wanting to spend Sandy relief resources outside of affected areas or outside of storm-damaged counties?

Mr. MONTROYA. No, sir, we have not heard of that.

Mr. FITZPATRICK. I yield back.

Chairman MCHENRY. I now recognize Mrs. Maloney for 5 minutes.

Mrs. MALONEY. Thank you very much, and welcome, Mr. Montoya.

HUD's IG has a very difficult job, but also a very important one, because so much disaster funding now flows through HUD. And disaster funding, by definition, needs to be spent quickly, and there is an inherent tension between the need to get the money out the door quickly to ensure the maximum impact and the need to ensure that the money is spent properly. So you have quite a challenge and a really important and vital role.

Recent press reports have indicated that the FHA plans to reduce the conforming loan limits for Fannie Mae and Freddie Mac later this year; however, this movement will not affect FHA's conforming loan limits, which will remain at \$729,000. If Mr. DeMarco proceeds with the plan to lower Fannie and Freddie's conforming loan limits, I would strongly urge him to reconsider. Will FHA be able to pick up the slack with that movement? Will FHA be able to pick up the conforming loan limits for the larger ones that Fannie and Freddie will no longer be covering? And in your opinion, is FHA adequately prepared to take on the additional mortgages that will shift from the GSEs to FHA?

Mr. MONTROYA. I don't know that I can completely answer your first question, Mrs. Maloney, as far as whether HUD can take that on and what those right limits should be. In the area of higher loan amounts, as long as the loans are written appropriately, we do see better activity with those loans.

With regard to HUD's—FHA's capacity to properly oversight that, I think, quite frankly, they have difficulty managing their current risk without adding yet more to that.

Mrs. MALONEY. I think that is something government has to look at, because if the change goes through, then there will be a huge shift over at FHA of all these higher loan limits. And as one who represents a high-cost-of-housing district, higher loan limits are what the middle class is. So if we don't have FHA there to handle it, it will really close access to the market for my constituents and many people across the country. I would like to ask you to look at it, and discuss it with Sean and others, and see what we can do about it.

But you said in your testimony that your staff began another review of the underwriting practices of FHA-approved lenders in 2012, and you have been already questioned on this, but my specific question is, have the error rates in this review been as high as the error rates in the 2010 review?

Mr. MONTROYA. Most of what we are looking at still relates to the earlier years, ma'am, the 2010 sort of timeframe.

Mrs. MALONEY. So you are not looking at 2012 yet?

Mr. MONTROYA. For the most part, no.

Mrs. MALONEY. For the most part, no?

Mr. MONTROYA. No, most of those would not have not seasoned enough for us to be able to tell whether these things are going into early default.

Mrs. MALONEY. What are the error rates in 2010 reviews; what are they?

Mr. MONTROYA. I don't know that I can give you a specific number; I can give you some specific examples. We have found many of these lenders in the 50 percent range, where 50 percent of these loans that we have statistically sampled should never have been

underwritten. I think at one particular lender we found the percentage as—I believe it was 85 percent of those loans should never have been underwritten.

Mrs. MALONEY. Would the Dodd-Frank Act address that, now that you have to have certain criteria, no more no-doc loans? Has that been corrected now with government reform?

Mr. MONTROYA. I believe so, yes, and certainly the seller-funded downpayment has been addressed. And what I would like to also say is keep in mind that what we are targeting is the higher-risk lenders, those where we have seen sort of a pattern or practice of high risk or early default-type loans.

Mrs. MALONEY. Can you briefly discuss the lessons your office learned in our audit of HUD's hurricane/disaster recovery program?

Mr. MONTROYA. Yes, ma'am. We had a number of lessons learned, most of which we have shared—I think all of them we have shared with the Department. Certainly, one of the lessons we learned was that there is a need, we think, to have money earmarked for certain timeframes so it is not just out there. I think we estimate something over \$2 billion is still left out in Gulf Coast States for expenditure for the disaster, keeping in mind, though, that the disaster funds need to be used for necessary and reasonable needs. And so 8 years after the fact, we would question just how much necessity and need is still there for that \$2 billion.

Chairman MCHENRY. The gentlelady's time has expired. We will now recognize Mrs. Wagner of Missouri for 5 minutes.

Mrs. WAGNER. Thank you, Mr. Chairman, and I thank the Inspector General for being here.

Inspector General Montoya, in your prepared testimony you describe how HUD IG audits of the FHA Single-Family Mortgage Insurance Program uncovered questioned cost totaling \$325 million and \$800 million in funds that could be put to "better use." Has HUD indicated to your office that it is taking the necessary steps to limit waste in the Single-Family Mortgage Insurance Program?

Mr. MONTROYA. Yes, ma'am, and I think with the recent legislation and changes they have made, it appears to us that they are certainly making some headway into accepting our recommendations. Our concern has been the length of time it takes HUD to accept our recommendations.

Mrs. WAGNER. And what is the average length of time?

Mr. MONTROYA. I think with regard to the seller-funded downpayment concern, that was 8 years. It took them 8 years.

Mrs. WAGNER. Eight years.

Mr. MONTROYA. Yes. I think with regard to those loans, that will impact the Fund by something on the order of \$15 billion.

There is a little bit of a pattern of HUD not recognizing the good work of our audit staff, and even some of the recommendations of our investigative staff. And when we take—when they take those kind of serious delays on what otherwise we think are good practices, it does have an impact.

Mrs. WAGNER. Should Congress expect more HUD IG reports documenting hundreds of millions of dollars of questioned costs and funds to be put to better use in the FHA program?

Mr. MONTROYA. Yes, ma'am, I believe you will. I think with the series of civil reviews and investigations we are conducting of some

of these larger lenders, we are hoping to have some settlements by the end of calendar year. I think you are going to see some very large dollars.

Mrs. WAGNER. What have the HUD IG internal audits of HUD's administration of FHA programs revealed about HUD's ability to responsibly manage FHA?

Mr. MONTROYA. What I would say about both FHA and Ginnie Mae is in a lot of ways, they may very well lack the inherent experience they need to run financial markets like this. They do a fair amount of contracting, but I think, quite frankly, trying to keep good people in—components that you can compare to private sector organizations which operate in the marketplace is difficult on a Federal salary. And I have said it before—I think one recommendation I would make is some exemption or exception not to all of FHA or Ginnie Mae, but to portions of it to allow for higher salary to compete in the market with good people, good staff.

Mrs. WAGNER. The FHA program has a large inventory of foreclosed properties due to poor underwriting practices that we talked about here and declines in the housing market. In your view has FHA done a solid job in ensuring the maximum returns for its REO inventory?

Mr. MONTROYA. No. In our view, they haven't done enough. Recently, there was a GAO audit which looked at how FHA compared to the GSEs, and I believe in certain cases they were far below what the GSEs were capable of doing. And I will give you one example. For 2011 alone, FHA's return on disposition timeframe had equaled those of the Enterprises—well, it had not. It could have increased its proceeds by as much as \$400 million and decreased its holding costs by up to \$600 million. Overall, FHA would have reduced its REO losses by \$1 billion if they had followed more of the practices of what you see in the GSEs.

Mrs. WAGNER. Thank you. I yield back my time, Mr. Chairman.

Chairman MCHENRY. We will now recognize Mrs. Beatty for 5 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman, and Mr. Ranking Member. Inspector General Montoya, I also thank you for being here, and giving testimony. I have had an opportunity to look through your testimony, and we have heard from some of my other colleagues as we talked about the disaster relief funds, and hopefully, you can help me have a better understanding.

In your testimony on page 2, you talk about some of the difficulties, more specifically as it related to Sandy, which became somewhat contentious to us when we had to, as lawmakers, look at the dollars that we were going to allocate to it.

Then further through the testimony, you talk about how it becomes more compounded and complex to figure out because of dollars given to HUD from various departments of how to monitor this.

So since we don't control those things, we didn't expect Sandy, what can you say to me that would be helpful to me as a lawmaker as we look at funding disasters? I think about what we went through with Katrina and what we went through with Sandy. So now having the experience on doing the audits, allocating the dol-

lars, can you share with me what really has not worked or what has worked that you are looking at, from your purview?

Mr. MONTROYA. Yes, ma'am. Thank you for the question. It is an excellent question.

I think one of the biggest things we can do is adjust the Stafford Act and the provisions of the Stafford Act with regards to data sharing and data matching. Frankly, it is quite cumbersome and quite time-consuming for agencies to try to enter agreements to share data, for example, HUD sharing data with FEMA, who is also sharing data with SBA, three of the primary deliverers of relief. And then it becomes even more concerning when IGs, folks in my oversight position, have to enter these agreements to share data.

Really, this is borne by the Computer Matching Act that has these requirements for us to enter into these agreements. And what I would say is that the only effect that really has is making it more difficult for the government to use the information it already has. So I think if Congress could do anything, we would certainly support— and I know that the Council of Inspectors General has sent to the OMB some legislative proposals to make those changes so that it is easier for us to share data. And it is certainly an oversight function for the IGs to share data between the various groups. That is about the only way we are going to be able to tell where all the money is going and whether it is going to the same individual, which also then gets to the duplicative payment sort of concern that we have in any disaster.

Mrs. BEATTY. Thank you.

Speaking of payments, what are the expected spend-out rates for disaster funding, and how close are we to those rates?

Mr. MONTROYA. I don't know that I could give you what the rates are, ma'am. I can tell you that the first round of allocations have gone out to the States and the City. I think the City of New York, just under \$2 billion; New York State, just under \$2 billion; same thing with New Jersey. I don't know what those spending rates are. I would have to get back to you on that, ma'am. But when you talk about a timeline of 2 years for expenditure, the rates are going to be pretty swift.

Mrs. BEATTY. Thank you. I yield back.

Chairman MCHENRY. We now recognize Mr. Barr for 5 minutes.

Mr. BARR. Thank you, Mr. Montoya, for your service.

In reviewing the semiannual report from your office, you reported that during the last two 6-month cycles, the OIG issued 135 audits and other reviews, which resulted in more than \$1.5 billion in funds put to better use, and nearly \$2 billion in questioned costs, and more than \$1 billion in collections from audits. Your investigations led to \$613 million in recoveries, 579 indictments, and 555 convictions of criminals that impacted HUD programs.

On the one hand, the taxpayers would be very heartened to hear about the hard work that your office is engaging in, in terms of rooting out waste, fraud, and abuse. On the other hand the underlying fraud that we are seeing would lead the taxpayers to be very, very concerned about the level of fraud that is taking place in these HUD programs. And I was particularly alarmed to read about the programs related to the Hurricane Katrina efforts on the home ele-

vation issue and how the vast majority of the beneficiaries of these funds were not actually doing what was required of them in the grant agreement; namely, to elevate their homes so that the next time the hurricane comes, we won't see the same level of destruction and disaster.

So my initial question to you is, what do these numbers tell us? Are these numbers telling us that you are getting at most of the fraud that is out there, and that you are just doing a lot of good work, or is what you are uncovering here just the tip of the iceberg?

Mr. MONTOYA. I would have to say it is a little bit of the tip of the iceberg. And just to clarify what some of these numbers mean, when we say, "funds put to better use," really what we are talking about are funds that could be better utilized if they followed our recommendations, for example, or monies that weren't spent in accordance with the requirements.

So it is not necessarily money we would have saved. They very well could have spent that money anyway. It is just that they would have spent it the right way instead of the wrong way. Our review of that is it to ensure that the wrong way doesn't continue, because that is where you end up with potential fraud aspects.

So just to clarify, with regards to our Office of Investigations, when we talk about recoveries in the \$600 millions, that does come back to the taxpayer. That comes back to the U.S. Treasury in the form of fines, penalties, and restitution. So I just wanted to clarify that.

But when we talk about fraud in its various programs, it runs the gamut, not the least of which is the Home Elevation Incentive Program, to which you just referred. We would potentially consider that a fraud by the individuals because, as you said, they signed a contract agreement, they took \$30,000, and they didn't do what they needed to with it.

So while it is a little bit of the iceberg, I would keep in mind that HUD has many, many programs. It is a \$40-billion-a-year-plus disbursement organization. So on any financial transaction, you are going to see some level of fraud.

Mr. BARR. I understand that, but your testimony that it could be just the tip of the iceberg is troubling, mainly because not only it is a waste of taxpayer dollars, but also because as these funds are diverted through fraud, they are diverted away from people who really need the assistance. And so I think from a fiscal responsibility standpoint, we can be concerned, but if this is the tip of the iceberg, we should also be concerned that disaster assistance is not getting to the people who really need it and is instead going to fraudulent transactions.

Let me ask you about the undisbursed funds. It looks like there are quite a few appropriations that have not actually reached victims of disaster. It looks like 89 percent of the funds for Hurricanes Katrina, Rita, and Wilma have been allocated, but that remains—there is still 11 percent that has not. Only 39 percent of the funds have been made available for Hurricanes Ike, Gustav, and Dolly. And then for 9/11, it looks like only 83 percent of the funds have been disbursed.

So of the funds that have not been disbursed, is that an indication that Congress is overappropriating, that Congress is actually appropriating funds in excess of the actual need?

Mr. MONTOKA. That would be hard to say, sir, but what I would tell you is by putting time limits on these funds, like you did in Sandy, that would certainly give us a better sense of whether we are over- or underfunding.

It is very hard to calculate, I think, in any disaster, especially with what happened in the Gulf Coast States. But, again, what I would say is that because these funds that are still outstanding in the Gulf Coast States are really meant for needs—necessary and reasonable needs that haven't been met, our question would be after 8 years just how many of those are there, and are there \$2 billion worth?

Mr. BARR. It looks like my time has expired, so I will yield back. Thank you.

Chairman MCHENRY. Thank you for the self-policing.

We will now recognize Mr. Heck for 5 minutes.

Mr. HECK. Thank you, Mr. Chairman, Ranking Member Green. And, Mr. Montoya, thank you so much for being here, sir.

Last month, my good friend Congressman Fitzpatrick and I had the distinct pleasure to see H.R. 2167 become Public Law 113–29, otherwise known as the Reverse Mortgage Stabilization Act. Has your office had a chance to review that?

Mr. MONTOKA. Yes, sir, we have.

Mr. HECK. And accordingly, have you had a chance to compare the two mortgagee letters that HUD sent out last week to the intent and language of 113–29?

Mr. MONTOKA. I personally have not. My audit staff has, and we believe it does comport with the intentions of Congress.

Mr. HECK. Thank you.

I note in your report that one of your findings was of a sample of 174 reverse mortgage borrowers, 37 were revealed to not meet the requirement that the home for which they were granted a reverse mortgage was their primary residence. My question, sir, is do you have an opinion one way or another on whether or not that percentage, which I think calculates out to be about 20 or 21 percent, is a true representative indication of the number systemwide?

Mr. MONTOKA. Yes, sir. When we do our sampling, we use statistical modeling, and so we try to extrapolate the entire universe of those loans. So I would say—it would be safe to say that based on our statistical sampling modeling, probably 20 percent of all loans you could argue have homeowners not living in them as their primary residences as is required by the program.

Mr. HECK. And your office's finding is that constitutes legal default?

Mr. MONTOKA. Yes, sir, that would be correct.

Mr. HECK. You recommended that HUD “direct the applicable lenders to verify and provide documentation of borrowers’ compliance with residency and implement control policies or procedures to at least annually match information.” What is the status of HUD’s effort to do that?

Mr. MONTROYA. With regards to the home issue and whether they are using it as their primary residence, it certainly wasn't one of the issues that they had addressed in the new mortgagee letters.

I think it is always going to be a concern. It is honestly a difficult area for them to look at in one particular area where we have fraud, where you have people who will come out and take the elderly to use them as straw buyers, they are obviously never going to live in the home. So we have those type of issues we have to deal with, but it is an area we believe HUD needs to be strong in for a number of reasons, not the least of which is that it helps the elderly not being taken advantage of as straw buyers when it comes to these sorts of schemes.

Mr. HECK. I guess the question is have they directed the applicable lenders to verify and provide documentation per your recommendation?

Mr. MONTROYA. I don't know if they have, in fact, or not, but certainly the lenders involved in these programs should be familiar with the requirements of the program. But we can certainly ask HUD to do that and to ensure that they have.

Mr. HECK. It would seem, given that not doing so yields a 21 percent default rate, that it would be prudent to do so.

My last question is related to VASH. Obviously, as somebody who represents the third largest military installation in America where a huge percentage of people choose to retire for their quality of life and remain, this is a program that is especially utilized. And given that there are two agencies that share jurisdiction over it, both HUD and the VA, which seems to me to be an occasional recipe for confusion and, therefore, noncompliance, perhaps you could talk to me a little bit about how the IG offices work together to ensure that those two agencies with overlapping jurisdiction get it right to the benefit of our veterans, sir.

Mr. MONTROYA. Yes, sir. Thank you for the question.

With regard to homeless veterans, it is certainly an area of concern for us, so much so that in November of this year, we will be conducting an oversight review of the VASH program, and how that is working, and whether these housing authorities are abiding by the program's rules and requirements to provide housing for veterans and their families, sir. So thank you for the question.

With regard to our coordination, the housing IGs, for lack of a better term, have created a little work group, and that would be myself as HUD, the Federal Finance Housing Agency, the VA, and the Department of Agriculture, and we meet quite regularly in order to coordinate on these kinds of things. Again, the idea of force multipliers—I don't want to be looking at something the VA may be looking at and vice versa, because if we are all looking at something different, we provide, I think, better economies of scales to the taxpayers.

So I can assure you that we are having daily discussions, and if we were to find something amiss, we would certainly involve the IG of the VA in this particular case to work with us on either an audit or an investigation if we felt it was needed.

Mr. HECK. And, Mr. Chairman, could I sneak one tiny quick one in?

Chairman MCHENRY. Yes, you have, but go right ahead.

Mr. HECK. Thank you, sir.

You indicated you would be doing a review of VASH in the fall. What is the estimated completion date of that effort?

Mr. MONTAYA. We are shooting for prior to March 31st, sir, and we will be sure to get you a copy of that.

Mr. HECK. Again, thank you, sir.

Thank you, Mr. Chairman, for your indulgence.

Chairman MCHENRY. Thank you for your line of questioning.

And we will now recognize the ranking member for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman.

Let me start with FIRREA. You have indicated that we have considerable monies that are recovered pursuant to this statute, and for edification purposes, that is the Financial Institutions Reform, Recovery, and Enforcement Act. And you make a recommendation with reference to these recoveries.

First, give us some indication as to how you have used this to make the recoveries, and then, if you would, I would like for you to address the recommendation.

Mr. MONTAYA. With regard to our civil oversight, using a number of different laws, the False Claims Act, FIRREA, to recover loans from these larger institutions, we are making headway in recoveries. We have done that previously on a number of cases, the largest for us being a settlement with Bank of America to the tune of about a billion dollars, some of that coming back to the FHA's mortgage fund. We have others that are in the pipeline in negotiations that we are still looking at; they have not been settled.

With regard to our servicing, a national settlement that we had a year-and-a-half ago, the \$25 billion, some of those funds came back to FHA's Mutual Mortgage Fund to help offset these losses. So I think these are certainly strong laws for us to use.

The Department of Justice (DOJ), though, makes the decision on which one to proceed. When we are working our matters as fact finders, we will coordinate with DOJ and, working with them, we will make a decision whether a False Claims Act charge would be more appropriate than FIRREA or what other charge might be. So really it is up to DOJ not only to do that, but to negotiate what type of settlement would come out of these in conjunction with HUD as a partner in that.

Mr. GREEN. Your recommendation is really what I want to get to. You have indicated that the funds, when you recover them, will go to the Treasury, and you have an alternative recommendation.

Mr. MONTAYA. Yes, sir. My recommendation would be that more of these funds come back to the program that was impacted. In this case, it would be the MMI Fund of FHA.

Mr. GREEN. And if you would, just go into the rationale for this, please. Why would you want the funds to come back to the program as opposed to Treasury?

Mr. MONTAYA. On most civil settlements, the whole idea is you are trying to make the entity that suffered the loss whole, and to the extent that FHA's fund has suffered in the billions, my feeling as an overseer would be that some of those funds should come back to make that program whole. It is the one that suffered the losses. By making it whole through these settlements, it avoids them having to go the Treasury to make an appropriations draw sometime

later this year. So it is actually a benefit to the taxpayer for FHA to be able to do that, and those are issues that we are in discussion with DOJ on when it comes to settlement agreements and where that money should go.

Mr. GREEN. Now, one more thing. You have tried to put things in a proper perspective with reference to the fraud that you have called to our attention, and you have made the statement, "you can expect to see some fraud." In terms of trying to put things in perspective, in all of the programs that we find that are huge—let us take the Department of Defense—we find that we have some fraud in the Department of Defense when properly audited. Is this a fair statement?

Mr. MONTTOYA. Yes, sir. And I would like to add to that. It is not just fraud; it is mismanagement.

Mr. GREEN. Do you find some mismanagement when we audit the Department of Defense? You don't do—

Mr. MONTTOYA. Defense or HUD? Are you referring to—

Mr. GREEN. No, I am speaking now of other programs, because you were trying to put it in perspective when you said you are going to see some fraud.

Mr. MONTTOYA. Right.

Mr. GREEN. What I am trying to do is give you an opportunity to do this, because there are other programs, when you put them in perspective, they, too, have fraud, but it is your job to root out and find this fraud, call it to our attention so that we can eliminate it.

Mr. MONTTOYA. Absolutely, sir, and that is the role of all inspectors general.

Mr. GREEN. So, with reference to your statement, "we should expect to see some fraud," just elaborate briefly, please, because I think that it helps us to better understand that while we have some problems that we have to deal with, that HUD is not at the point of about to crash, and that these are not insurmountable problems.

Mr. MONTTOYA. Right. No, sir, HUD is certainly not about to crash, and what I would say is, yes, in all of these government agencies and programs, there are about 78 inspectors general, and in our discussions we all virtually see the same thing. There is a matter—there is an amount of fraud, there is an amount of mismanagement, waste, abuse. All of these things could have a financial impact on the agencies which we all oversee. HUD is no different than anyone else. It is just the nuances on where those mismanagements, frauds, and abuses occur.

Mr. GREEN. And finally, in the private sector, you also have fraud, and it is uncovered, and hopefully we take appropriate action when we find it. Your point is that it happens, we want to eliminate it, and that your office is doing a good job. Is that a fair statement? And I assume you would agree that you are doing a good job?

Mr. MONTTOYA. I would agree with the entire statement, sir. Thank you.

Mr. GREEN. Thank you.

Chairman MCHENRY. With no further questions, this hearing entitled, "Reducing Waste, Fraud, and Abuse in Housing Programs:

Inspector General Perspectives” now concludes. I would like to thank our witness for his testimony today.

The Chair notes that some Members may have additional questions for this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to this witness and to place his responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned.

[Whereupon, at 11:08 a.m., the hearing was adjourned.]

A P P E N D I X

September 10, 2013

Testimony before the U.S. House of Representatives
Committee on Financial Services
Subcommittee on Oversight and Investigations

“Reducing Waste, Fraud and Abuse in Housing
Programs: Inspector General Perspectives”



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

September 10, 2013
10:00 a.m., Rayburn House Office Building, Room 2128

Chairman McHenry, Ranking Member Green, and Members of the Subcommittee, I am David A. Montoya, Inspector General of the U.S. Department of Housing and Urban Development (HUD). Thank you for the opportunity to highlight our perspectives on waste, fraud and abuse in HUD programs, along with related HUD oversight issues. I will also discuss some of the results from our last two semiannual reports to Congress.

Background

The Department's primary mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD seeks to accomplish this mission through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. It relies upon many partners for the performance and integrity of a large number of diverse programs. Among these partners are cities that manage HUD's Community Development Block Grant (CDBG) funds, public housing agencies that manage assisted housing funds, HUD-approved lenders that originate and service FHA-insured loans, Government National Mortgage Association (Ginnie Mae) mortgage-backed security issuers that provide mortgage capital, and other Federal agencies with which HUD coordinates to accomplish its goals. HUD also has responsibility for administering disaster assistance programs which has evolved substantially over the years. It also has assumed a prominent role in administering new mortgage assistance and grant programs in response to the Nation's financial crisis, to increases in foreclosures, and to declining home values.

Achieving HUD's mission while exercising the appropriate level of oversight to prevent or mitigate fraud, waste and abuse continues to be an ambitious challenge for its limited staff. Over the years, HUD has seen a steady decline in its staffing level while at the same time it was called upon to administer an increasing number of programs. At the end of fiscal year 2012, HUD had just over 8,300 staff compared to about 9,700 a decade earlier and even greater levels in the 1990s. This has forced HUD to continue to rely heavily on contractors to carry out many of its programs and to expect that local and state jurisdictions and recipients of HUD funds conduct their own oversight and due diligence. This only serves to magnify the importance of having robust information systems to help HUD meet its oversight responsibilities. Unfortunately, as I will point out later in my testimony, HUD systems fall short of what is needed. Moreover, it is continually challenged to effectively manage its contractor work force to ensure appropriate use of its limited funding.

Last year, I spoke about the Department and the Office of Inspector General working collaboratively to achieve a historical result in the national mortgage settlement of more than \$25 billion – the largest consumer financial protection settlement in U.S. history. We are building on that success and have undertaken an initiative to review fraudulent loan originations made by some of the nation's largest mortgage companies in the FHA program. These endeavors showcase the accomplishments that we have achieved not only with the Department, but working closely with the Department of Justice. While I continue to support our activities relating to this review, I also strive to manage my limited resources to provide proper oversight of the many other programs and operations within the Department.

Semiannual Report

I am pleased to highlight the results from our latest two Semiannual Reports to the Congress, which showcase key results for the period April 1, 2012 through March 31, 2013. The Inspector General Act requires each inspector general to report on its results every six months. My office is charged with eliminating and preventing fraud, waste, abuse and mismanagement in HUD programs and operations, and the audits, evaluations and investigations conducted by my office have had a significant impact on safeguarding HUD and the taxpayer. During the last two 6-month cycles, we issued 135 audits and other reviews, which resulted in more than \$1.5 billion in funds put to better use, nearly \$2 billion in questioned costs, and more than \$1 billion in collections from audits. Our investigations led to \$613 million in recoveries, 579 indictments or informations, and 555 convictions of criminals that impacted HUD programs. Our audits and investigations assist HUD in identifying program vulnerabilities and the rest of my testimony will focus on the critical HUD programs and activities that are particularly susceptible to fraud, waste and abuse.

Role of the Office of Investigations

Much of our work for this committee has focused on the results of our audits and evaluations but given the focus of this hearing, I wanted to also highlight the work of our Office of Investigations (OI). HUD OIG is charged with detecting and deterring fraud and criminal activities throughout all of HUD's programs. OI investigates allegations of violations of laws or regulations in the administration of HUD programs and activities, or misconduct on the part of HUD employees or recipients of HUD funds. Our highly skilled team of criminal investigators, information technology specialists, management analysts, investigative analysts, and administrative support staff are dedicated to this objective. Examples of OI's investigative results are included throughout the remainder of my testimony.

Administering Programs Directed Toward Victims of Disasters

The Department faces a significant management challenge in monitoring disaster program funds provided to various States, cities, and local governments under its purview. This challenge is particularly pressing for HUD because of limited resources to directly perform the oversight, the broad nature of HUD projects, the length of time needed to complete some of these projects, the ability by the Department to waive certain HUD program requirements, and the lack of understanding of disaster assistance grants by the recipients. HUD must ensure that the grantees complete their projects in a timely manner and ensure the use of funds for intended purposes. Since HUD disaster assistance may fund a variety of recovery activities, HUD can help communities and neighborhoods that otherwise might not recover due to limited resources. However, oversight of these projects is made more difficult based on the diverse nature of HUD projects and due to the fact that some construction projects may take between 5 and 10 years to complete. HUD must be diligent in its oversight duties to ensure that grantees have identified project timelines and are keeping up with them. HUD also must ensure that grantee goals are being met and that expectations are achieved.

In March 2013, we completed a follow-up review regarding our recommendations made to HUD pertaining to our March 2010 inspection of the State of Louisiana's Road Home Elevation

Incentive program. That review's objective was to determine whether homeowners used funds to elevate their homes as set out in their grant agreements. Our inspection covered 199 (about 10 percent) of the 1,906 property owners who received more than \$44.4 million in elevation grants during the first round of State funding in 2006 and 2007. Results of our inspections strongly suggested that the elevation grant program was at risk and could fail to achieve its intended goal of reducing homeowner flood risks from future hurricanes. Most homeowners had not elevated their homes, even though they received grants of up to \$30,000 in 2006 and 2007 to pay toward the construction costs. Seventy-nine percent of the inspected homes (158 of 199 properties) were not elevated. These noncompliant homeowners received grant funds exceeding \$3.8 million. Interviews with homeowners who had not elevated their homes revealed a lack of understanding about the obligations set out in the grant agreements.

Our follow-up review found that as of August 31, 2012, the State's documentation showed that a total of 24,042 homeowners had not elevated their homes, were noncompliant, were nonresponsive, or did not provide sufficient documentation to support that they had elevated their homes. Therefore, the State did not have conclusive evidence that the \$698.5 million in CDBG Disaster Recovery (CDBG-DR) funds had been used to elevate homes.

On September 5, 2013 my office non-concurred on proposed management decisions by the Office of Community Planning and Development (CPD). CPD concurred with the State of Louisiana's request to amend the State's action plan which will now allow homeowners who received a grant under the Road Home Incentive Elevation Program to demonstrate that they used those funds to *either* elevate *or* rehabilitate their home. CPD's changing the scope of work for the expired elevation incentive agreements, entered into as early as 2006, to now allow homeowners to either elevate or rehabilitate their homes is overriding the intent of the program and unfair to the reported 4,371 homeowners who played by the rules and either elevated their homes or paid back \$6.7 million in funds. The intent of the program was not to rehabilitate homes but to provide incentive awards to homeowners to elevate their homes to mitigate future damage. HUD's actions leave those homeowners and tax payers potentially exposed to home destruction again since those homes were not elevated. A similar program is now an integral part of discussions and efforts to deal with the devastation in the aftermath of Superstorm Sandy on the populated coasts of New York and New Jersey.

CPD's actions diminish HUD's ability to properly administer grant agreements and the affected homeowners' trust and confidence that HUD maintains the highest standards of integrity, efficiency, and fairness in its grant award process.

Keeping up with communities in the recovery process can be quite demanding for the Department as the amounts of money dedicated have escalated and previous funding had no deadlines for its expenditure. Disaster funding appropriated to the Department over the past several years has exceeded \$29 billion and active disaster grants nationwide have totaled approximately \$26 billion in obligations and \$20 billion in disbursements. Although many years have passed since some of the specific disasters occurred, significant funding remains unexpended. HUD must continue to maintain its focus on oversight efforts to ensure that funds are expended as intended.

Additional CDBG funding to the Department of \$16 billion in the aftermath of Superstorm Sandy further compounds this challenge. This funding must be monitored for internal controls,

audited for waste and investigated for fraud. With experience gained from a series of disasters where significant funds were appropriated through HUD, the OIG has been a major contributor in the detection and deterrence of disaster-related fraud, waste and abuse. To this end, in March 2013 we issued a comprehensive audit assessing the disaster recovery programs for hurricanes that hit the Gulf Coast states from August 2005 through September 2008. Our objectives were to (1) determine what had been accomplished using the funding and the funds remaining to be spent; (2) compare actual versus projected performance; and (3) identify best practices, issues, and lessons to be learned.

The Gulf Coast States had made progress in recovering from the presidentially declared disasters as a result of several hurricanes. As of August 2012, the States had spent more than 87.5 percent of the available Katrina, Rita, and Wilma funds and 27.2 percent of the available Gustav, Ike, and Dolly funds. Thus, States had received almost \$24 billion and disbursed almost \$18.4 billion, resulting in about \$5.6 billion remaining to be spent. However, the States had budgeted only \$22.6 billion of the \$24 billion in CDBG-DR funds. Some of the delay in budgeting funds could be attributed to the States revising their programs, State delays encountered due to lawsuits, or HUD's rejection of a State's Action Plan. The States primarily used the funding to assist communities in repairing and rebuilding housing, compensating homeowners, repairing infrastructure damage, and providing economic development. The States could improve on reporting their activities, as some of their activities had no or nominal progress reported because they did not generally report their progress until the projects were complete. In addition, while the States generally met the various statutory mandates, Texas and Louisiana had not yet met two mandates relating to (1) repairing, rehabilitating, and reconstructing affordable rental housing stock and (2) benefiting low- and moderate-income persons.

Although the States had made progress, based on our prior audits and a review of the program's data, there have been some lessons to be learned regarding deadlines, program guidance, information system technology acquisitions, procurements, and homeowners' insurance. If HUD makes needed changes, it should improve HUD's administration of Sandy funding as well as future disaster funding.

As it relates to our own work involving oversight of Sandy funding, HUD OIG will employ our own best practices garnered from years of experience in reviewing disaster recovery efforts. Starting at the earliest stages, we are working diligently with the Department and the States affected to examine their program design and to review their implementation plans for ways to efficiently promote desired disaster assistance. This involves our assistance in advice on program design and documentation requirements, in educating program administrators to recognize disaster assistance vulnerabilities, and in numerous other activities that should mitigate opportunities for fraud, waste and abuse during the disaster assistance roll-out.

After initial stage activities and as HUD funding begins to flow, we will use our evaluation and inspections capability and data mining capacity to review implementation activities. One of the primary tasks for this function will be to analyze and mine vast amounts of data to look for indicators of fraud and mismanagement. In addition to evaluations, our efforts in investigating disaster fraud are threefold: beginning with our fraud awareness and prevention efforts, auditing to ensure compliance with laws, rules and regulations in order to disrupt mismanagement or

fraud at its earliest occurrence and finally, civil and criminal investigations of allegations of disaster related frauds as funding begins in earnest.

FHA Single Family Mortgage Insurance

The Mutual Mortgage Insurance (MMI) Fund is the largest of the Federal Housing Administration's (FHA) four mortgage insurance funds. The Fund consists of a system of accounts used to manage FHA's single-family mortgage insurance programs. For the past four years, the fund has failed to meet its legislatively-mandated 2 percent capital ratio and each of these four years has seen a further decline in the ratio to the point where, based on the latest actuarial study in November of last year, the fund has a negative economic value of \$16.3 billion. Based on current projections, the capital ratio will not reach the 2 percent level until 2017, marking 8 years below the 2 percent threshold. Moreover, for the first time in its history, FHA may need to use its mandatory appropriation authority to supplement its reserves. Based upon FHA's deteriorating financial condition, the Government Accountability Office (GAO) recently included FHA concerns in its "high risk" area relating to "Modernizing the U.S. Financial Regulatory System and Federal Role in Housing Finance." Restoring the fund's finances has been a priority of HUD. While HUD has increased premiums and taken other steps to restore the financial health of the Fund, we have focused on civil fraud investigations with the Department of Justice in an effort to further prevent or mitigate fraud, waste and abuse and return losses to the Fund account. It is also incumbent upon the Department to make every effort to prevent or mitigate fraud, waste and abuse in FHA programs.

In the early part of 2011, the OIG, in partnership with the Department and the U.S. Department of Justice (DOJ), initiated a number of mortgage lender reviews whereby statistical samples were drawn of claims, defaults, and all other loans in order to determine the accuracy and due diligence of the underwriters of FHA loans by a number of the largest lenders nationwide. Our results to date have shown high percentages of loans reviewed containing multiple significant deficiencies that should not have been underwritten. The reviews completed to date have resulted in a total of \$1.24 billion in civil settlements for alleged violations of the False Claim Acts and for failure to fully comply with FHA requirements. The loan level reviews my office has been conducting, and which have resulted in large civil fraud settlements with major lenders, is a responsibility we would expect HUD to be doing for itself as part of its inherent program oversight and risk management.

Joint Civil Fraud Division

In recent years, we have made a concerted effort to actively pursue civil remedies to recover losses from fraud against FHA's single-family mortgage insurance programs and have dedicated significant resources to this effort. OIG's new Joint Civil Fraud Division is the primary resource for OIG civil fraud investigations of HUD programs. The emphasis on civil fraud has begun to pay off for both HUD and the taxpayers both financially, through settlements and court-ordered judgments, and as a deterrent to those who would defraud HUD programs.

In late 2009, HUD OIG recognized a growing and alarming trend related to FHA single-family mortgage insurance programs. OIG auditors repeatedly identified FHA-approved lenders that were not following HUD loan underwriting requirements, and were approving loans that did not

qualify for FHA insurance. HUD relied on lender certifications that assured HUD that program rules were followed and the loans were insurable. Unfortunately, FHA became responsible for thousands of loans that never should have been insured. As the borrowers on these poorly underwritten loans defaulted, the FHA insurance fund paid millions of dollars in claims to the lenders and has suffered unprecedented losses in recent years. In addition, HUD OIG's Office of Investigations had been actively investigating FHA mortgage fraud and while it was very successful in having a number of individuals prosecuted, the cases were localized in nature. Further, while there might have been many loans at issue, typically information on only a handful of loans was fully developed to serve as the basis for a prosecution. As a result, restitution orders in those cases could not fully address the full scope of the fraud, especially by large institutions, and the losses that FHA suffered.

In early 2010 due to the increasing prominence of FHA in the mortgage marketplace and its significant percentage of loan originations, and departmental concerns emanating from the Commissioner over growing defaults, OIG conducted a review of the underwriting practices of 15 FHA-approved lenders with high default and claim rates which produced alarming results. Nearly half of the FHA loans evaluated were not qualified for FHA insurance, indicating a systemic problem with FHA lender underwriting practices and the need for more HUD oversight and enforcement efforts.

As result, in mid-2010, OIG formalized its commitment to civil fraud reviews by creating a new division, the Civil Fraud Division, bringing all forensic auditors under one umbrella and working as one team under a centralized supervisory structure. This team quickly became the focal point of HUD OIG's civil fraud work. Our work resulted in several high profile high dollar cases. The most significant case was a nearly \$1 billion settlement with Bank of America, regarding fraudulently-insured loans underwritten by Countrywide, the largest settlement reached for a False Claims Act case in HUD history. HUD OIG was also instrumental in the successful outcomes of civil cases brought by various other U.S. Attorneys' Offices that resulted in FHA-related settlements with other lenders: Deutsche Bank – MortgageIT (\$196 million), CitiMortgage (\$123 million), and Flagstar Bank (\$133 million).

In light of the apparent systemic problems with the underwriting of FHA insured loans and successful pursuit of civil enforcement against violators, I directed my staff to join forces with DOJ and HUD's Office of General Counsel on another initiative, begun in early 2012, to focus on the underwriting practices of 10 of the largest FHA-approved lenders. To date, the underwriting of thousands of FHA insured loans has been reviewed, as has the overall FHA loan origination and underwriting practices of the selected lenders. Results to date have been presented to nearly all of the lenders and settlement talks have begun; however, the reviews are still underway. Given the sheer volume of loans involved and the high error rates identified in the underwriting, settlements and favorable court actions may result in significant recoveries by the government from each of the 10 lenders.

In recent months, this same multi-agency team kicked off a second lender initiative, again focusing on FHA loan underwriting practices of a similar-sized group of large lenders. These reviews are in the early stages, with even more U.S. Attorneys' Offices joining in the effort than in the first large lender initiative. As you might expect, these large, multi-agency initiatives take considerable resources. To address these complex lender initiatives and other ongoing and

continually increasing civil workload, I directed additional resources to this effort and further enhanced the team by dedicating investigative expertise to the division in late 2012, adding a Special Agent in Charge. This move afforded the division more direct access to, and coordination with, investigators within OI, and prosecutors have expressed their approval of the new approach.

As FHA's prominence grew in terms of market share and its simultaneous increase in liabilities due to its stepping into a role to stabilize the housing market, HUD had to develop new ways to address a rapidly expanded \$1 trillion FHA portfolio. A key to our success to date has been the partnership developed between DOJ's Civil Fraud Unit (CFU), HUD's Office of Program Enforcement (OPE), and HUD OIG.

The Joint Civil Fraud Division has a nationwide focus and partners with prosecutors from coast to coast. While mortgage fraud is a high-priority that encompasses a majority of the current workload, the division is expanding its focus to conduct more investigative work in HUD's other main program areas of community planning and development, public housing, and multifamily housing, with an emphasis on grant fraud and the civil remedies this may produce.

HUD OIG's Joint Civil Fraud Division also investigates "*qui tam*" (whistleblower) cases, and pursues civil actions and administrative sanctions against entities and individuals that commit fraud against HUD. The division pursues civil actions and administrative sanctions under a variety of statutes, including the False Claims Act (FCA), the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) statute and the Program Fraud Civil Remedies Act (PFCRA). It also pursues debarments, suspensions, and limited denials of participation through HUD's Departmental Enforcement Center. In addition to the more traditional use of civil and administrative tools, the Division is also pursuing referrals to State boards of licensing agencies for entities and individuals that commit civil fraud to the detriment of HUD (for example, independent public accountants, notaries, attorneys, etc.).

HUD OIG and the U.S. Attorney's Office of the Central District of California successfully used the FIRREA statute against a real estate professional that defrauded HUD, ultimately reaching a \$5 million settlement in July 2012 – the largest settlement against an individual seen by HUD since having the statute apply to FHA-insured loans. We are proud to have worked with the Congress to add FHA as a predicate to the FIRREA statute. Although FIRREA can result in considerable monetary recoveries, the recoveries generally end up going to the U.S. Treasury, rather than the defrauded agency. HUD OIG believes that a change in this practice is warranted so that the injured agency is at least made whole, to the extent possible. This change would also allow for limited funds to be placed back into the programs designed to help eligible participants, or, in the case of FHA, to help to restore the financial health of the insurance fund.

FHA Single Family Audit and Investigative Results

In addition to the focus on civil fraud, the FHA single-family program continues to be a major focus of HUD OIG. During the last two semiannual periods, OIG issued 25 audits in this program area reporting \$325 million in questioned costs and nearly \$800 million in funds to be put to better use. In addition to audits of participating lenders, we completed internal audits of various aspects of HUD's administration of the program. For example, HUD continues to face

challenges in ensuring its single-family programs benefit eligible participants and is not paying improper claims. In a recent review of FHA's pre-foreclosure sale program, OIG identified that, based on our statistical projection FHA paid an estimated \$1.06 billion in claims for 11,693 pre-foreclosure (short) sales that did not meet the criteria for participation in the FHA program. Another audit looked at HUD's oversight of the Home Equity Conversion Mortgage Program and concluded that HUD's policies did not always ensure that borrowers complied with program residency requirements. Finally, we completed an audit of HUD's oversight of its REO management and marketing program and found that HUD did not have adequate procedures in place to ensure consistent and adequate enforcement of asset and field service manager contracts.

Regarding FHA's REO program, the need for reform was also recently highlighted in a June 2013 GAO report. GAO compared FHA's REO performance with Fannie Mae and Freddie Mac (enterprises) and found that FHA's performance lagged both enterprises. Its combined 2007-2012 returns were about 4-6 percent below the enterprises' returns. The enterprises took an average of around 200 days after foreclosure to dispose of REO properties. FHA took about 340 days – more than 60 percent longer. For 2011 alone, if FHA's return and disposition timeframe had equaled those of the enterprises, it could have increased its proceeds by as much as \$400 million and decreased its holding costs by up to \$600 million. Overall, FHA would have reduced its REO losses by \$1 billion. GAO made 10 recommendations intended to increase FHA's returns on the disposition of REO properties.

Moreover, on the investigative side, during the last two semiannual periods, HUD OIG investigators completed a total of 159 administrative or civil actions; 159 convictions, pleas or pretrial diversions; and had financial recoveries totaling about \$568 million. In one case, for example, nine bank officials were sentenced to varying terms of up to 10 years in federal prison in a case involving 1,900 FHA loans with a potential loss to FHA of \$30 million.

Financial Management Systems

Since fiscal year 1991, OIG has annually reported on the lack of an integrated financial management system, including the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems. We continue to report that HUD's financial management systems did not substantially comply with the Federal Financial Management Improvement Act of 1996, which encourages agencies to have systems that generate timely, accurate, and useful information with which to make informed decisions and to ensure accountability on an ongoing basis.

The lack of an integrated financial system impedes HUD's ability to generate and report the information needed to both prepare financial statements and, more importantly, manage operations on an ongoing basis accurately and in a timely manner to conduct more robust oversight and mitigate fraud, waste and abuse.

A June 2013 GAO report entitled; "HUD Needs to Improve Key Project Management Practices for Its Modernization Efforts," evaluated the implementation of project management practices for HUD's IT modernization efforts. GAO determined that because HUD has not taken fundamental project management steps to fully define its modernization efforts, the Department is not well positioned to successfully manage or execute the associated projects. HUD's current

IT environment has not effectively supported its business operations because its systems are overlapping and duplicative, not integrated, necessitate manual workloads, and employ antiquated technologies that are costly to maintain.

Community Planning and Development (CPD) Programs

HUD's CPD programs seek to develop viable communities by promoting integrated approaches that provide decent housing, suitable living environments and expanded economic opportunities for low- and moderate-income persons. Most of our work in this program area relate to HUD's largest formula grant programs, HOME and CDBG. During the last two semiannual periods, OIG issued 38 audits in the CPD program area reporting over \$800 million in questioned costs and about \$15 million in funds to be put to better use. HUD OIG investigators completed a total of 37 administrative or civil actions; 35 convictions, pleas or pretrial diversions; and had financial recoveries totaling about \$2.5 million.

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

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

Twice in 2011 and once in 2012, my office testified on oversight and fraud issues relating to this program. Our external audit work, which focuses on problem grantees, commonly found the lack of adequate controls. This included issues in subgrantee activities, in resale and recapture provisions to enforce HUD's affordability requirements, in incorrectly reporting program accomplishments, and in incurring ineligible expenses. There is also a repetitive thread of not always meeting the objectives of the program to provide affordable housing or not always meeting local building code requirements. HUD focuses its monitoring activities at the grantee level through its field offices. Grantees, in turn, are responsible for monitoring their subgrantees. Our audits have found that, in some instances, little or no monitoring was occurring, particularly at the subgrantee level.

The susceptibility of this program to fraud is illustrated in a recent investigative case from East St. Louis, IL. A builder attempted to obtain more than \$1.9 million in public financing, to include \$800,000 in HOME funds, for a failed development located in an urban community. The defendant contracted with a city to construct a \$5.6 million low-income affordable housing project. Instead, he provided cash payments and promises of future employment to the director of the city's Community Development Department (CDD). The defendant admitted that he did this to ensure that he would receive favorable treatment from the city as he attempted to develop the project. The director of CDD also pled guilty in May 2011 to aiding and abetting, wire fraud, and bribery for accepting improper benefits in connection with business conducted by his office.

He unlawfully obtained \$66,449 in HOME funds from the city's Community Development Department.

I noted earlier the problems with HUD's financial systems and this particularly impacts the HOME program. HUD uses its Integrated Disbursement and Information System (IDIS), to accumulate and provide data to monitor compliance with HOME requirements for committing and expending funds. It was our contention that HUD's design and implementation of IDIS was not in compliance with Federal financial management system requirements. The system arbitrarily liquidates obligations on a "first-in-first-out" basis, irrespective of the budget fiscal year funding source, and decreases the amounts that HUD would be required to return to the U.S. Treasury after the programs' fixed-year appropriations expires. Because the Department did not agree with our interpretation and we could not seek alternative actions that met the intent of our recommendation, we forwarded our concern to the GAO, which ruled on the matter in a July 17, 2013 decision. GAO agreed with our position and concluded that HUD has not complied with the requirements of Section 218(g) of the HOME Investment Partnership Act, 42 U.S.C § 12748(g), which imposes a two-year deadline by which participating jurisdictions must commit grant funds allocated to them. Section 218(g) requires that HUD recapture grant funds that remain uncommitted by participating jurisdictions after the statutory deadline and reallocate such funds through additional formula grants to participating jurisdictions. Because of deficiencies with IDIS, HUD faces challenges in implementing GAO's decision.

HUD also uses the system to generate reports used within and outside HUD, including by the public, participating jurisdictions and the Congress. We believe that with a more robust, up-to-date information system as described earlier, HUD would be able to better monitor the HOME program in a more transparent way.

Our work in this program continues and we have been working with the Appropriations Committee staff to help the Department strengthen controls. To its credit, and in part, in response to our prior audit work, HUD proposed new rules that were finalized on July 24, 2013. If properly implemented, the rules should strengthen HUD's future enforcement authority. In a recent audit, my office summarized the results of audits of the program completed during a 6-year period and assessed whether the then proposed rule changes would mitigate the systemic deficiencies identified in prior OIG audit reports. We concluded that if the new regulations are properly implemented, they will address our prior findings except that improvements are still needed with (1) HUD headquarters' oversight of its field office monitoring activities and (2) validating the reliability of data in HUD's IDIS. While the Department has taken steps to improve HOME program management, my office continues with its oversight work in this area.

Regarding the CDBG program, much of our audit work in this program was highlighted earlier in the section relating to disaster assistance programs. Other audits typically are at the grantee level and seek to determine whether grant funds were administered for eligible activities and that the grantee met program objectives. For example, HUD OIG audited a \$6 million loan of CDBG funds to a not-for-profit community development corporation, which was expected to be used to revitalize an historic hotel and surrounding properties. The grantee did not properly evaluate, underwrite, and monitor its loan to the not-for-profit and, after nearly 10 years and \$6 million expended, the project did not meet its designated national objective of job creation.

Public and Assisted Housing Program Administration

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofit and for profit) and to public housing agencies (PHAs). These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. The Office of Public and Indian Housing (PIH) and the Office of Multifamily Housing provide funding for rent subsidies through its public housing operating subsidies, the tenant based housing choice voucher and the Section 8 multifamily project-based programs. These programs are administered by thousands of intermediaries and provide affordable housing for 4.5 million households. PIH programs continue to be a priority of HUD OIG. During the last two semiannual periods, OIG issued 33 audits in this program area reporting about \$25 million in questioned costs and nearly \$6 million in funds to be put to better use.

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

HUD has challenges in monitoring the Housing Choice Voucher program. The program is electronically monitored through PHAs' self-assessments and other self-reported information collected in HUD's information systems. Based on recent audits and HUD's on-site confirmatory reviews, it is clear the self-assessments are not always accurate and there remains some question as to the reliability of the information contained in PIH systems. PIH management should be able to address these limitations with the Next Generation Management System, which is under development, and the Portfolio Management Tool, which has been implemented, according to PIH. Until both systems are completely implemented, HUD will continue to face challenges monitoring this program.

Our investigative activity in this program area continues to be significant. During the last two semiannual periods, HUD OIG investigators completed a total of 121 administrative or civil actions; 314 convictions, pleas or pretrial diversions; and had financial recoveries totaling more than \$14 million. Of continuing concern is the level of public corruption exhibited by some of the local government officials entrusted to administer these programs. To highlight a recent example, the former executive director of the Chelsea Massachusetts Housing Authority pled guilty and was sentenced to 36 months in prison, followed by two years of supervised release for falsely reporting his salary in annual budgets required by HUD and the Massachusetts Department of Housing and Community Development. He was also indicted by the Commonwealth of Massachusetts for unlawfully soliciting contributions from State employees and other individuals to support multiple campaigns.

Because of long-standing concerns that my office has had with HUD's PIH programs, I am highlighting our current and future work products, recommendations and best practices in this area on our new website to focus stakeholder and HUD management's attention on problem areas that we and others have reported on over the years that will provide HUD and the Congress

a clear path to correct such enduring problems. The areas of concern we are highlighting are as follows:

- Ethics/Governance Structure
- Housing Quality Standards
- Improper Payments
- Issues Related to the Performance of Executive Directors and other Officials and Their Movement from One PHA to Another
- Moving to Work
- PIH Program Oversight and Enforcement
- Procurement and Contracting
- Questionable/Ineffective Use of Administrative Funds
- Receiverships

Our goal is to foster positive change that will improve the management of the nation's public and assisted housing and ultimately the lives of the people who benefit from these programs. This will be a long term and continuing process that will require HUD to put forth innovative solutions and the OIG stands ready to assist where appropriate. In addition, the PHAs themselves and the organizations that represent them can play a critical role in addressing many of these concerns. Working together, we can all help to solve many of these recurring problems.

Conclusion

The Department's role has greatly increased over the last decade as it has had to deal with unanticipated disasters and economic crises that, in addition to its other missions, have increased its visibility and reaffirmed its vital role in providing services that impact the lives of our citizens. Because of the limited capability of the Department to provide direct oversight and federal budget cuts throughout the government it is more critically important than ever that program participants and beneficiaries take responsibility for their proper oversight of their programs. My office is strongly committed to working with the Department and the Congress to ensure that these important programs operate efficiently and effectively and as intended for the benefit of the American taxpayers now and into the future.

