



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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Subcommittee on Insurance, Housing and Community Opportunity of the
House Financial Services Committee

on

“Fraud in the HUD HOME Program”

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Chairmen Neugebauer and Biggert, Ranking Members Capuano and Gutierrez, and Members of the Subcommittees, thank you for inviting me to testify today about the efforts by the Department of Housing and Urban Development to prevent and combat fraud committed against government programs, including the HOME program.

I am the Deputy Director of HUD’s Departmental Enforcement Center or DEC in the Office of General Counsel at HUD. In that capacity, I manage the day-to-day operations of the DEC. Among other activities, this includes the suspension and debarment of individuals who violate HUD regulations and commit fraud, the imposition of civil money penalties for various violations of HUD regulations, responding to Office of Inspector General (OIG) audits that have recommended HUD imposition of administrative sanctions against individuals and corporations, and helping ensure that HUD’s Recovery Act funding has been effectively utilized. I am the agency’s Deputy Debarring Official and a member of the Association of Certified Fraud Examiners, and I participate in the National Mortgage Fraud Working Group, the National Procurement Fraud Working Group, and the Federal Interagency Suspension and Debarment Committee.

My entire career has been devoted to law enforcement and related anti-fraud efforts. Before coming to the DEC in 2008, I worked for nine years in HUD’s Office of Inspector General.

My responsibilities there have included serving as a senior special agent on OIG's Los Angeles Housing Fraud Initiative, working as the case agent with the FBI on one of the largest white-collar cases in the Los Angeles area, supervising the largest OIG investigative region in the country, and helping manage all the activities of the Office of Investigations. My work at OIG involved virtually all HUD programs, including HOME.

Before coming to OIG at HUD, I worked for nine years on anti-fraud enforcement at the Department of Interior's Bureau of Land Management. Before that, I worked for seven years for the U.S. Border Patrol, where I began as a Border Patrol Agent in Yuma Arizona, eventually being assigned as a Field Operations Supervisor in El Paso, Texas.

Throughout the course of my career at HUD, I am aware of no fraud by any HUD or other federal official in connection with the HOME program. As I understand it, the focus of today's hearing is on fraud by private individuals or state or local officials in which funds provided under the HOME program were involved.

The vast majority of people involved with HOME and other federal programs with which I am familiar, as well as people who work with private entities that deal with large sums of money, are honest and trustworthy. Unfortunately, dishonest and greedy people do exist. We strongly condemn fraudulent activity relating to HUD programs, and we place a high priority on preventing, uncovering and sanctioning such activity. However, while we have in place systems aimed at curbing fraudulent acts and appropriately punishing perpetrators (and as described below we continue to seek to strengthen these systems), fraud relating to funds provided under HOME and other programs, -- just as in private institutions like banks and loan companies -- has occurred from time to time and it is unfortunately likely that people will try to commit fraud using HOME and other federal funds. This is true for non-block grant and block grant programs. It is of course our goal to prevent any fraud in HOME and other HUD programs.

Overall, in my experience at HUD, there has been relatively little fraud by private individuals or, even more rarely, by state or local officials with respect to HOME funds.

With respect to the HOME program in particular, I would agree with then-Assistant Inspector General Jim Heist's testimony to the full Committee in June that there is a "very good" relationship between OIG and HOME, that the administration of the program is "probably better than most," that HUD has been "very responsive in the last couple of years" to OIG suggestions about HOME, and that HOME has agreed with OIG audits "95% of the time." Transcript of June 3 hearing at 16, 19, 28, 38.

A key component to combating and preventing fraud is aggressive enforcement. That is a current focus at HUD, where Secretary Donovan and other officials have made clear that there is zero tolerance for fraud. Indeed, Mr. Heist noted in his written testimony that several of the 48 fraud investigations opened by OIG over the last 3 years related to HOME were specifically referred to it by HUD officials. Just last week, for example, the DEC suspended a housing rehabilitation contractor who was recently indicted for fraudulently obtaining HOME funds from the City of Lewiston, Maine in 2005-08.

Debarment is a particularly powerful civil enforcement tool because it permanently bars an individual from ever participating in any federal grant or contract. A recent GAO report indicated that the agencies with the highest numbers of suspensions and debarments are those that have a dedicated suspension and debarment staff, detailed policies and procedures, and practices that encourage an active referral process. That is just what we have at HUD, thanks to our senior leadership, the DEC, OIG, OGC's Office of Program Enforcement, and program staff concerned with preventing and combating fraud and other misconduct, including HOME program staff. The working relationship between the Office of Inspector General and HUD ensures that we are able to initiate debarment and other actions against a violator at the earliest point in time.

Another important approach to help prevent and detect fraud is improved monitoring and oversight. When Congress sets up a block grant program like HOME, by definition, Congress has designed it for flexible local control and implementation. As Mr. Heist testified with respect to HOME, the structure of the program as enacted by Congress has "devolved much of the decision making to the local level." Transcript of June 3 hearing at 28. With approximately 30,000 pending individual HOME projects at any time, it would require a significant additional appropriation of funds to reach the level of increased numbers of HUD staff to literally allow the monitoring of day-to-day progress of each of these projects.

Nevertheless, HUD has a fiduciary responsibility as a steward of federal taxpayer funds and has ultimate oversight responsibility with respect to HUD programs. From my experience, particularly with respect to block grant programs, a critical part of that is monitoring performance by grantees – the state and local governments that receive the funds from HUD – and providing those grantees with appropriate guidance and technical assistance. Therefore, subject to overall financial resource constraints, HUD itself should engage in that process as actively as possible, through monitoring of participating jurisdictions by HUD field offices and referral of suspected problems to OIG for more detailed investigation and audit. In my experience at HUD, this is exactly the approach taken by the Office of Community Planning and Development with respect to HOME.

Within the last few years in particular, HUD has undertaken efforts to improve monitoring and oversight with respect to HOME, as Assistant Secretary Marquez testified in June before the full Committee. These steps include, for example:

- The "Participating Jurisdiction analysis" report, first posted in 2009, that is updated quarterly and provides HUD field offices with a quick overview of each jurisdiction's HOME performance and compliance, highlighting areas of particular concern for each jurisdiction. This includes the number of open HOME projects and projects in "final draw" status for more than 120 days; completion rates for rental projects and for projects undertaken by Community Housing Development Organizations (known as CHDOs); and lease-up rates for rental units.

- The “final draw” report, begun in January, 2011, which provides field offices with a monthly list of projects in final draw, where all HOME funds have been expended but the project has not been completed for more than 120 days, to be used for follow-up with local jurisdictions.

In addition, I understand that HUD has been working since 2009 on revisions to the HOME regulations that are designed in part to improve accountability and performance. The proposal is still under review by OMB, which limits what can publicly be said about it. As Acting Inspector General Michael Stephens concluded in a letter to Senators Murray and Collins after OIG review of the proposed rule changes in August, the proposed revisions “should help ensure the timely completion of future Program activities” and “strengthen HUD’s future enforcement authority.”

The Department is also making key enhancements to the Integrated Disbursement and Information System (IDIS) to ensure better reporting and tracking of grantee projects. These improvements include additional financial and project risk mitigation controls.

In conclusion, it is unfortunately likely that there will continue to be instances of attempted fraud by private developers and others with respect to HOME funds, as will tend to be the case with virtually any government program or private activity involving substantial sums of money. In my opinion based on a career in anti-fraud efforts, however, it is incorrect to single out the HOME program as being particularly susceptible to fraud. To the contrary, based on my experience at HUD and OIG, HUD continues to take important, positive efforts to improve monitoring, oversight, and related efforts that can prevent and combat fraud with respect to HOME, as well as other programs. HUD takes very seriously its role as a steward of taxpayer dollars, and the agency places a very high priority on ensuring that we provide funding and services to responsible participants. In concert with the Office of Inspector General, HUD will continue to vigorously pursue debarment and other remedies against violators.

Thank you again for the opportunity to testify. I would be pleased to answer any questions from members of the panel.