

# Reznick Group

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**WRITTEN STATEMENT OF  
KENNETH M. DONOHUE  
FORMER INSPECTOR GENERAL  
DEPARTMENT OF HOUSING AND  
URBAN DEVELOPMENT**

**BEFORE THE  
SUBCOMMITTEE ON  
OVERSIGHT AND INVESTIGATIONS  
AND THE  
SUBCOMMITTEE ON  
INSURANCE, HOUSING AND  
COMMUNITY OPPORTUNITY  
U.S. HOUSE OF REPRESENTATIVES  
November 2, 2011**

Good afternoon Chairman Neugebauer, Chairwoman Biggert, Ranking Member Capuano and Ranking Member Guttierrez and distinguished members of these subcommittees. I am Kenneth M. Donohue, former Inspector General at the Department of Housing and Urban Development Office of the Inspector General and currently a Principal and Senior Advisor with Reznick Government. I thank you for the opportunity to discuss oversight of HUD's HOME program. Today I will speak on this issue based on my more than 35 years of federal law enforcement experience, including nine years as HUD Inspector General.

## **Background**

It is rare for a former Inspector General to testify and I welcome the opportunity. I would, however, be remiss if I did not recognize the work of my many former colleagues that served honorably throughout my nine-year term. My mission as Inspector General was to independently and objectively report to the Secretary and Congress for the purpose of supporting a positive change in the integrity, efficiency and effectiveness of HUD programs. As you know, as one of the largest federal block grant programs, HOME disperses funds to local and state governments to create affordable housing options for low-income households.

Based on specific formulas, this program annually allocates approximately \$2 billion to hundreds of localities nationwide. Often these funds are used in partnership with local nonprofits to build, buy and rehabilitate affordable housing for rent or homeownership. HOME provides direct renter assistance to low-income persons. Of the annual appropriations, 60 percent goes to local governments and 40 percent supports state programs. This formula is based, in part, on factors including age of units, substandard occupied units, number of families below the poverty rate and population in accordance with the most recent census debts.

During my term as Inspector General, my office conducted approximately 60 audits relating to the HOME program. In addition, we addressed mandated congressional oversight and reporting of the redevelopment of Lower Manhattan following the 9/11 disaster and while performing oversight of FHA and Ginnie Mae relating to the mortgage fraud crisis that witnessed the largest growth of mortgage applications and securitization in history. We were also actively involved with the oversight and redevelopment of the affected Gulf States region following the hurricane Katrina, Rita and Wilma disaster, which was described as the largest natural disaster of its kind. I approached these programs with a proactive sense of urgency and a position of zero tolerance for those wrongdoers that might attempt to commit fraud or abuse their authority.

## **Oversight Concerns**

As Inspector General, I expressed my concerns and disagreement with HUD regarding its accumulative approach for measuring the department's compliance as well as the process for recapturing current and future funds due to noncompliance.

I further expressed my concerns about compliance, controls and information systems related to the HOME program. At times, HUD agreed with my concerns, and on 12 separate occasions the department expressed concerns which resulted my ordering audits to be completed. Both the current and previous administrations privately expressed to me their concerns over fund recipients' compliance. The Secretary often expressed the importance of the HOME program, based on his positive experience while serving as Commissioner for the New York Community Preservation Corporation.

In my judgment, there is a need in many of the HUD programs, including HOME, for HUD and the grantee recipients to aggressively monitor the subgrantees.

HOME funds are distributed to thousands of grantees and subgrantees. HUD generally focuses its compliance at the grantee level through its 42 local field offices, which is an enormous undertaking. Grantees, in turn, are responsible for ensuring compliance of their subgrantees. Unfortunately, HUD-OIG audits and investigations have uncovered frequent instances of noncompliance and criminal fraud, particularly at the subgrantee level. While it is true that HUD uses the Integrated Disbursement and Information System (IDIS), which includes more than 15,000 individual grantee users and is reviewed by HUD headquarters and field officers, in my estimation the system does not provide the needed data or oversight to monitor compliance with HOME program requirements for committing and expending funds. Under IDIS, grantees and subgrantees are allowed to subreport their projects without a comprehensive review by HUD. I believe HUD's information system used to administer the HOME program was incapable of producing complete audit trails for the entire grant life cycle and was unable to produce reports that would facilitate timely identification of fraud in the program.

Yes, it is true that as Inspector General there is never enough compliance and oversight to satisfy any such programs that distributes precious taxpayer dollars. I do, however, believe there is a needed balance between program efficiency and oversight to be applied collectively between the programs and the oversight

agencies. Never in our nation's history have we seen the need for such oversight and transparency as in the current state of our economy. In my opinion, you cannot have effective oversight without transparency.

As I stated earlier, having spent 35 years in federal law enforcement, without an effective compliance and monitoring practice we unfortunately encourage those wrongdoers who would seize upon the system to use federal funds for unintended purposes and for their own self gain, as stated in several examples throughout this hearing.

Such criminal cases could be described as anomalies or a pattern of behavior, but I think we have an obligation to ensure through monitoring that grantees and subgrantees understand clearly that HUD will aggressively address these matters and hold accountable those responsible.

### **Monitoring Program**

There were countless examples of audits and investigations that support my concerns of lack of aggressive oversight with such examples as the Mobile, Alabama Housing Board; the Puerto Rico Department of Housing, HOME Investment Partnerships Program; and the District of Columbia HOME Funds Program, to name a few, that clearly demonstrated the need for such oversight.

I was pleased by comments the Assistant Secretary made during her June testimony before this Committee that she agrees that HUD has some fiduciary responsibilities for oversight within the HOME programs and her reference to the Department's Enforcement Center and the important services they provide. I recognize the legislation that created the HOME program and that it was designed primarily to place compliance responsibility on the local grantees. HUD and Congress might consider reforming the legislation to expand the role and responsibility of HUD to ensure a more active compliance program.

During my term, I enjoyed a very positive relationship with the Department's Enforcement Center and referred many proposed actions to the Enforcement Center for resolution. I have had several conversations with past HUD Secretaries and other officials regarding the role and placement of the Enforcement Center in the HUD structure. I believe that though the Enforcement Center was entrusted with significant responsibility, it was not provided the resources or independent authority to act on such important issues relating to sanctions, debarments and civil recoveries. Their enforcement efforts often ended at the grant level and, therefore,

did not satisfy my concerns of active hands-on monitoring and compliance of the subgrantees.

As stated earlier, an effective Inspector General must be diligent in encouraging, and at times insisting, on strong oversight and transparency within any government programs. The practice of monitoring state and local government entities is paramount, and such effective programs do exist today and are available.

Following the 9/11 disaster in New York, the state of New York and city of New York recognized the importance of real-time monitoring of the redevelopment of Lower Manhattan. They created a practice in coordination with the New York Department of Investigations and the New York/New Jersey Port Authority Office of the Inspector General that is actively applied today. It provides for a qualified monitoring firm to be 'the eyes and ears' of grant recipients on a real-time basis. Such firms are hired in coordination of the grant recipient and the Inspector General of jurisdiction to report on the compliance of such funds and such issues as waste, fraud and abuse. The reimbursement for such services is included in the administrative costs of the grant.

In my judgment such a program needs to be considered as an alternative or addition to the oversight of the HOME program and other programs within HUD.

I agree with the three-step program that the Chairwoman of this Committee proposed during the June hearing- first, that the contracts require repayment for failed projects or misspent funds; second, that those who defraud the government are pursued vigorously; and third, that eligibility requirements for developers are substantially tightened. By adopting a monitoring system like the one I've just described, HUD can meet these three objectives while ensuring future compliance from grantees and subgrantees.

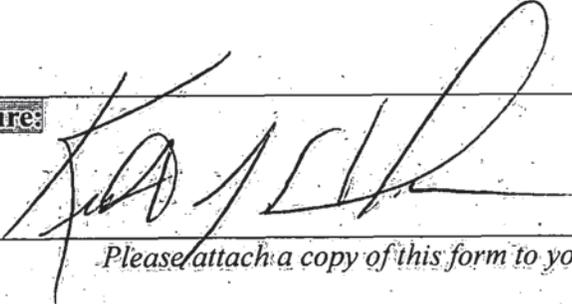
## **Conclusion**

I am at a disadvantage in not knowing the constructive changes reported by the HUD Assistance Secretary being made within the HOME program. to ensure a more robust compliance effort, but I look forward to its continuation. I do believe that programs like HOME provide needed support to low-income recipients and those that are most in need during this difficult time. I am, however, always concerned about funds derived from taxpayer money being misused or additional fraudulent activity that would take away or deplete these resources from those in need.

United States House of Representatives  
Committee on Financial Services

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Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
HON. KENNETH A. DROTAR	REZNICK GROUP Bethesda, Md.
3. Business Address and telephone number:	
	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
6. If you answered yes to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
7. Signature: 	

Please attach a copy of this form to your written testimony.