

# HUD OVERSIGHT: TESTIMONY OF THE HUD INSPECTOR GENERAL

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## HEARING BEFORE THE SUBCOMMITTEE ON HOUSING AND INSURANCE OF THE COMMITTEE ON FINANCIAL SERVICES U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED EIGHTEENTH CONGRESS FIRST SESSION

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## **HUD OVERSIGHT: TESTIMONY OF THE HUD INSPECTOR GENERAL**

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**Wednesday, June 21, 2023**

U.S. HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON HOUSING  
AND INSURANCE,  
COMMITTEE ON FINANCIAL SERVICES,  
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 2:22 p.m., in room 2128, Rayburn House Office Building, Hon. Warren Davidson [chairman of the subcommittee] presiding.

Members present: Representatives Davidson, Luetkemeyer, Fitzgerald, Garbarino, Flood, Lawler, De La Cruz; Cleaver, Velazquez, Tlaib, Garcia, Williams of Georgia, and Pettersen.

Ex officio present: Representative Waters.

Chairman DAVIDSON. The Subcommittee on Housing and Insurance will come to order.

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

Today's hearing is entitled, "HUD Oversight: Testimony of the HUD Inspector General."

I now recognize myself for 5 minutes to give an opening statement.

Today, the subcommittee will hear from the Inspector General of the U.S. Department of Housing and Urban Development (HUD), the Honorable Rae Oliver Davis. We welcome your testimony today, and thank you for all your work to ensure that HUD operates more effectively for the people it serves and the taxpayers who fund its programs. Indeed, it is no small task to oversee an agency like HUD with a long-documented record of waste, fraud, abuse, and mismanagement.

Most recently, the Office of Inspector General reported that it found \$950 million in HUD funds that could be redirected, and recovered \$49 million in overdue collections. Your office has also made numerous recommendations that, if executed, would save taxpayers tens of billions of dollars. In addition, Ms. Oliver Davis, your team pursued enforcement actions that resulted in 51 criminal convictions, 5 civil actions, 12 government debarment actions, and \$28 million in restitution and judgments, and that's an impressive record. These actions saved taxpayers money and helped protect the very people HUD is supposed to be helping, which is why we have proposed legislation along with this hearing to make the IG's appearance before this committee an annual event.

And the work of the Inspector General has only gotten tougher, more complicated, and even more essential in recent years. HUD's annual budget has grown from \$44 billion in 2015 to \$75 billion today, a 70-percent increase. Further, as a result of the spending on natural disasters as well as COVID, HUD now manages over \$100 billion in Federal grants. That is a staggering amount.

And as you reported, Ms. Oliver Davis, HUD has had numerous challenges in overseeing grant money for programs like the Community Development Block Grant for Disaster Recovery, or CDBG-DR, as it is known. Community Development Block Grants for Disaster Recovery is now HUD's single-largest grant, and believe it or not, it is a program that has never been formally authorized by Congress. In fact, most of HUD's programs are funded each year but remain unauthorized. These include programs for the nation's most-vulnerable populations, such as public housing, Section 8, and health and safety programs. It is a problem that I believe this subcommittee must address to ensure that HUD receives proper oversight.

A lapse in authorization is also a lapse by Congress in providing the scrutiny that HUD, of all agencies, needs. It is clear to me that we must take a closer look at HUD's management organization structure and the way it operates. Creating a smarter, better-run, and more-efficient HUD should be a goal we all share, which is why I have proposed setting up a new bipartisan independent commission to study what works and what does not work within HUD's current organization. And they would report back to Congress on how we can streamline HUD's operations to better get productivity and the actual outcomes that we see for the same kinds of dollars we are currently spending.

Thankfully, however, we are able to hear from the Inspector General today, whose boots on the ground at HUD have done important work in highlighting some of the Agency's most-serious deficiencies. Notably, Ms. Oliver Davis and her team have found a shocking abundance of health and safety concerns in HUD-assisted properties. For example, one report identified almost 33,000, "life-threatening exigent health and safety issues in public housing." These homes should be safe for their residents. Another identified poor physical conditions in multifamily housing developments as well as the failure of HUD to flag these conditions. And yet another one reported inadequate oversight of the lead-based remediation in HUD properties, a particular problem for young children who are susceptible to the harmful effects of lead. This is particularly concerning as HUD's core mission as a Federal agency is to provide decent, safe, sanitary, and affordable housing.

I expect that HUD will do everything in its power to immediately address these failures that the IG has identified, and it is, quite honestly, unacceptable if they do not do so because lives are indeed at stake. All of this only shines a light on why the testimony and the work of the HUD Inspector General is so critical.

Ms. Oliver Davis, we look forward to hearing your remarks and working with you on ways to address these and other issues for what I would say is an agency with significant challenges. Thank you.

And I now recognize the ranking member of the subcommittee, Mr. Cleaver, for his remarks.

Mr. CLEAVER. Thank you, Mr. Chairman. Before I get into my remarks, let me say that I do agree that maybe we should spend some time looking at programs, looking at those that work and those that can be improved, and the chairman and I have had this discussion. Housing is less affordable today than it has been in the last, well, forever. This is true for both rental housing and homeownership, and the lack of affordable housing has fueled a national crisis of housing and homelessness.

HUD is on the forefront in trying to respond to the devastating impacts of this crisis through the pursuit of transforming housing and community building policies and programs with the mission of creating strong, sustainable, and inclusive communities, and quality affordable housing. The HUD Office of Inspector General plays an important role in advancing the integrity, efficiency, and effectiveness of these policies and programs.

We are fortunate to have this perspective today from our Inspector General, the Honorable Rae Oliver Davis. And before I proceed any further, I want to take some time to just say I think your report is very valuable to us. But the memo that my Republican colleagues put forth looks at funding trends between Fiscal Years 2017 and 2023. First, rather than 5 years, this would be a period of 7 years. That is a small, but very important detail. Second, the increase from Fiscal Years 2017 to 2023 in regular appropriations, not accounting for emergency funding, would be \$20.4 billion. More than half of this increase was driven by increases in per-unit costs to renew existing subsidies, which are primarily driven by increasing rents in March of 2017, when average monthly cost of a voucher was \$682 per month. In March 2023, it was \$896 per month, according to HUD. That is a 30-percent increase in rent cost from 2017 to 2023.

This cost increase is the result of inaction on the affordable housing crisis by Congress, including the inability to pass any of a number of bills that Democrats have put forward to lower costs. I am pleased that this week, under the leadership of Full Committee Ranking Member Maxine Waters, Congress has again seen the introduction of the Housing Crisis Response Act, the ending of homelessness through the Ending Homelessness Act, and the Downpayment Toward Equity Act. It is my continued hope that this committee can find bipartisan support on a housing bill of substance during this term.

Another \$2.98 billion of the increase in funding for HUD from Fiscal Year 2017 to Fiscal Year 2023 is attributable to congressional-directed spending, earmarks, whatever you want to call it, which were not funded in Fiscal Year 2017 but were funded at \$2.98 billion in Fiscal Year 2023. These two factors, rental assistance costs and earmarks, account for most of the increased funding for HUD since Fiscal Year 2017, 65 percent of the increase, excluding emergency rental assistance.

Despite increased funding at HUD, several challenges remain. In the period between 2012 and 2019, the number of full-time equivalent employees at HUD declined from 8,576 to 6,837. This was a reduction of 20 percent and presented serious risks to HUD's abil-

ity to deliver on its mission. President Biden's Fiscal Year 2024 budget requests funding for 8,635 full-time employees, which is still below the capacity of the Agency in 2012. As noted in testimony, a common theme in HUD OIG oversight findings has been that HUD does not have the capacity necessary to address the challenges it faces, and that the Department is underfunded and understaffed. And while the memo put out by my Republican colleagues points out that HUD had 985 outstanding recommendations open from OIG, we should also note that that number is down from 2,335 in 2027, a reduction of more than half.

Mr. Chairman, I will forego the remainder of my comments and use them during the question-and-answer period. Thank you.

Chairman DAVIDSON. I thank the ranking member.

Today, we welcome the testimony of HUD Inspector General Rae Oliver Davis. She was sworn in as the Inspector General for HUD on January 23, 2019. Previously, she served as the Acting Assistant Inspector General at HUD, and prior to that, as the Chief Investigative Counsel for the Office of the Special Inspector General for the Troubled Asset Relief Program. She earned her juris doctor degree from the University of Memphis. We thank her for taking the time to be here here.

Inspector General Oliver Davis, you are now recognized for 5 minutes to give your oral remarks. And without objection, your written statement will be made a part of the record.

**STATEMENT OF THE HONORABLE RAE OLIVER DAVIS, INSPECTOR GENERAL, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)**

Ms. OLIVER DAVIS. Good afternoon, Chairman Davidson, Ranking Member Cleaver, and members of the subcommittee. Thank you for inviting me to testify about my office's oversight of the U.S. Department of Housing and Urban Development.

HUD plays a critical role in the American economy, providing billions of dollars for rental assistance, preventing homelessness, and recovering from disasters, as well as ensuring trillions of dollars from mortgage insurance and guaranteeing trillions of dollars in housing finance. The stakes are high for HUD and its 40,000 program participants if they do not deliver their significant economic and health impacts on communities and vulnerable families.

The supply of affordable housing has reached unthinkable levels and many low-income families have been waiting for vouchers to help them find a home to rent. What is available has fallen into disrepair, exposing residents to health hazards like mold, infestations, lead-based paint, or collapsing structures. Communities ravaged by natural disasters have been waiting years for HUD funding to help them recover and build back stronger.

HUD faces significant challenges in executing its programs, many of which are longstanding, because they are complex and the solutions are not easy. For example, there is a well-known backlog of deferred maintenance in America's public housing stock, which is the root cause of many physical condition problems in those buildings, and there is not enough funding available to fix these problems. HUD cannot control that, but it can control how it oversees public housing authorities through the inspection process, and

HUD can control how it monitors the remedying of deficiencies found during inspections.

We recently issued reports which found that HUD needs to do more to ensure that inspections happen timely and that those with historically-poor scores receive priority for inspections. We also found HUD's field offices need to be more consistent in their oversight of the housing authorities' handling of emergency health and safety findings and inspections. Oversight of housing authorities and other program participants is a major key to HUD success. HUD must ensure that they execute effectively, efficiently, and with integrity.

HUD is also facing enterprise-level challenges. HUD staffing has decreased over the years, while its program responsibilities have grown. Many of its experts are retiring, which strains the support that it provides participants and threatens their customer experience. HUD has also been uniquely challenged in managing IT modernization and cybersecurity efforts, resulting in too many of its programs running on old systems that were not built for today's business world and are not optimized to gather the right information or to protect it.

My office's approach is to focus on the spaces that HUD can and should control and help them to deliver the best they possibly can. Since becoming the HUD Inspector General, my goal has been to make a difference and our strategy is centered on that goal. Last year, we released our first Priority Open Recommendations Report highlighting the open recommendations that could have the greatest impact. This effort helped push HUD to bolster its oversight of assisted housing near contaminated sites, strengthen its hiring process, close gaps in the cybersecurity framework, and enhance its strategy for increasing utilization of vouchers.

HUD deserves recognition for this significant progress, but there is more work to be done. Looking forward, areas of focus for my office are safety hazards in assisted housing and fraud risk management. We are attacking safety hazards in assisted housing at the community level by reviewing unit conditions and lead hazard management at housing authorities across the country. We have increased criminal investigations into bad actors in this space, targeting landlords, contractors, and inspectors who knowingly fail to follow environmental and safety requirements or who sexually assault or harass tenants.

We have also recommended that HUD review fraud risk in each of its programs and enhance controls that prevent fraud. HUD's historical position has been that its grantees are primarily responsible for managing fraud risk. Our oversight has shown that many grantees struggle in this area, especially those responding to disasters, that are already challenged in building capacity and establishing strong internal controls. We have launched our own audits to review fraud risk and management practices at the Puerto Rico Department of Housing, which is currently overseeing \$20 billion in HUD funding, as well as several entities that received pandemic emergency solution grants. Congress appropriated, overall, \$4 billion for this program during the pandemic, which represents a 1,391-percent increase in funding for these grantees.

As we continue to fight fraud, waste, abuse, mismanagement, and misconduct in HUD's programs, we look forward to working with this committee to help HUD improve its delivery for Americans, and I look forward to answering your questions today.

[The prepared statement of Inspector General Oliver Davis can be found on page 28 of the appendix.]

Chairman DAVIDSON. Thank you, Ms. Oliver Davis. We will now turn to Member questions. And I recognize myself for 5 minutes for questioning.

Ms. Oliver Davis, as I noted in my opening remarks, almost every single HUD program is funded but technically unauthorized, which means that they are not receiving the proper scrutiny from Congress. Your office has conducted numerous audits, investigations, and other actions that further demonstrate a critical need for actual oversight.

For example, in one of your reports published last month, you noted that HUD was in violation of the Payment Integrity Information Act of 2019 when they failed to report improper and unknown payment estimates for the Office of Public and Indian Housing's Tenant-Based Rental Assistance Program and the Office of Multi-family Housing's Project-Based Rental Assistance Program. From my position, it is frustrating, because Congress passed this law and HUD simply hasn't abided by it.

There are other programs going on in D.C., and thankfully, the D.C. Inspector General uncovered an example that clearly has criminal implications, where the D.C. Public Housing Authority was forgiving rental payments, not collecting money that is owed to HUD, i.e., the American taxpayers, and then charging others in excess of the amounts owed, and it is not clear from anything I have read that HUD is actually taking action to do anything about it.

So I applaud your work, Ms. Oliver Davis, for highlighting the problems like this that are going on, but I think that is the tip of the iceberg.

When I think about the challenges of HUD, America broadly supports a social safety net, and HUD offers one of the most important ones—housing, a place of shelter and a core need for just human survival—and it doesn't do as good a job at it as we think they could, and I think that is bipartisan. A lot of people will say, if you have these concerns, Republicans simply want to cut spending. Well, that is not entirely true. We support the idea of a social safety net. And frankly, if Republicans are accusing Democrats, they will say that you just want more free stuff for more people, and that is not entirely true. They would just want people to not have the need in the first place, ideally, but there are needs and there are challenges.

And that is why I hope that we can get one of the bills that we noticed for this hearing across the finish line, which would create a commission with two Republicans, and two Democrats, and give them a period of time to work together. And it takes off the table the scary things, that we are going to somehow cut funding, or that we are going to somehow launch more free stuff for more people and expand the scope of the programs.

What would they do? My hope is, and I think the ranking member's hope is, that they would make the program better so that by the end of this 118th Congress, we could have passed a bill that not only addresses the authorizations for HUD that have lapsed, but it prioritizes the things that are most needed, that it maybe addresses benefit cliffs, maybe simplifies the role for the social worker who would sit down with someone in need of assistance, who would then look at a simple income and asset test versus a patchwork and what have you. Surely there are ways to make the system work better for the people that it is supposed to serve. Surely there are ways to manage the maintenance budget more effectively so that the houses are properly maintained.

I had someone tell me that they believed that the New York City Housing Authority (NYCHA) could be run better as a literal commune because at least the people who lived there would fix the place. I don't know how that goes. We may have field hearings to kind of look at some of these situations around the country.

But, Ms. Oliver Davis, when you look at what HUD does, what do you think they do best?

Ms. OLIVER DAVIS. Thank you for that question. You touched upon a number of topics that are quite important to my organization, our oversight. In terms of what HUD does well, that is something we are always striving to accomplish on our oversight is give credit where credit is due and make sure that we highlight places where HUD has made progress.

I would note it is a vast mission. As I said in my opening statement, there are 40,000 program participants that help HUD carry out that mission, so it is not without its challenges. And especially when we look at capacity challenges, like we have been talking about, in terms of what HUD does well, I believe the ranking member flagged the closure of recommendations. We have worked very closely with HUD. We had over 2,000 outstanding recommendations when I became Inspector General, and that is something that HUD has worked very hard on. In addition, they are closing what I would call priority recommendations. We issued our first Top Priority Recommendations Report last year in order to focus the leadership on what is truly important.

Chairman DAVIDSON. Thank you, and I will have to get more information from you in writing for the record, since my time has expired.

I now recognize the gentlewoman from New York, Ms. Velazquez, for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman, and I am happy to hear you saying that you support the safety net, and I believe you. But when we look at the Appropriations Committee, the Republicans on the Appropriations Committee approved an estimated \$131-billion cut to the topline spending level for Fiscal Year 2024, effectively cutting next year's Federal spending to Fiscal Year 2022 levels. Under the Republican proposal, HUD programs will be cut by over \$22 billion, more than a 25-percent cut from Fiscal Year 2023 levels. In a letter to Ranking Member DeLauro, HUD Secretary Fudge said that almost 1 million tenant-based and project-based Section 8 participants will lose their assistance. HUD's public housing operating fund will face a 78-percent cut, and almost

100,000 people experiencing homelessness will lose their assistance.

Inspector General Oliver Davis, your report on HUD's top management challenges highlights ensuring access to and the availability of affordable housing as a top challenge for the Department for Fiscal Year 2023, specifically citing preserving its aging housing stock as a significant concern. As you know, the public housing capital backlog is currently estimated at more than \$70 billion. In your view, is there a correlation between this capital repair backlog and HUD's ability to meet this critical management challenge?

Ms. OLIVER DAVIS. I believe that there is certainly a crisis in public housing. The capital backlog, as you pointed out, is in the billions of dollars. Funding has not kept pace with the need there, so certainly that will affect conditions going forward. Funding cuts, as you mentioned, will be the responsibility of the Secretary, certainly, to prioritize and to figure out, frankly, what to do should those funding cuts come down the pike. My oversight is definitely focused on what can HUD do with what it has, certainly, and I think that is an area where HUD is struggling. It is struggling in its oversight of public housing and its program participants.

Ms. VELAZQUEZ. So what you are saying is that if HUD was appropriated more money to address the deterioration of its public housing infrastructure, it could address this challenge?

Ms. OLIVER DAVIS. I don't think it would be reliant solely on HUD. Public housing authorities (PHAs) don't get their funding solely from HUD. So, there will be a lot of judgment calls down the road on how to address those capital needs as well as the health and safety concerns in those housing projects.

Ms. VELAZQUEZ. Inspector General, your testimony also highlights decreasing utilization of the Section 8 Program as a top management challenge for HUD in Fiscal Year 2023, specifically stating that more than 191,000 authorized vouchers were unused and unfunded, but that HUD would need additional appropriations to utilize these vouchers. Could you explain this finding?

Ms. OLIVER DAVIS. We focused on voucher utilization because it is a key part of rental assistance. It is a key part in ensuring that we have affordable housing. Given the capital improvements and the aging public housing stock, the natural answer is to segue to the private sector and define rental assistance for individuals. So, we found that work to be very impactful in terms of the success of rental assistance.

Our recommendation was that HUD look at optimizing the program, that they look at whether or not they had the legislative authority to reallocate funding from one section to another. There are some areas where vouchers are going unused and others where they simply don't have enough. HUD has since closed out that priority recommendation. They have issued guidance on optimizing the program. They have several things that they are exploring, and we will look for the implementation of that to see how it goes.

Ms. VELAZQUEZ. Thank you for that answer. I just would like to say to my colleagues on the other side that it is unfair to starve a department of resources and then criticize it for not meeting its mission. I yield back.

Chairman DAVIDSON. The gentleman from Missouri, Mr. Luetkemeyer, who is also the Chair of our Subcommittee on National Security, is now recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. And welcome, Ms. Oliver Davis, to our committee today, and thank you for the good work of your team.

This hearing is probably one of the most important we have all year from the standpoint that hearing from you and reading your report enables us to do our job, which is to provide oversight over the HUD and its programs, and you are an integral part of that oversight. Thank you for what you do and for being here today. With that being said, did you do any sort of oversight or counting of noses on how many people actually show up for work every day at HUD?

Ms. OLIVER DAVIS. Congressman, we have not done any work on that. We did some work initially on HUD's capacity during the pandemic to go into full telework mode, but we have not done any sort of look into who is coming back into the office at this time, no.

Mr. LUETKEMEYER. Okay. Thank you. It is a really important question from the standpoint that we see a lot of agencies that still have way, way, way too many people working from home, and it really hurts the efficiency of the agencies. So, thank you for that.

With regards to grant management, you talked a little bit about that, I think—in your testimony, you talk about HUD's challenges in overseeing over \$100 billion in Federal grants, and that your office found that HUD had difficulty ensuring that grantee expenditures are eligible and supported, as well as requiring complete financial and performance information. You also found that HUD struggled with spending these funds in a timely fashion, a particular problem considering the billions of dollars in disaster grants that HUD is responsible for managing as part of the Community Development Block Grant Program. In your opinion, does HUD have the capacity and competence to effectively oversee such enormous levels of spending through these Federal grants?

Ms. OLIVER DAVIS. Congressman, I think HUD's capacity is quite limiting, and it is limiting—

Mr. LUETKEMEYER. Is quite what?

Ms. OLIVER DAVIS. I think HUD's capacity is quite limiting, and it is limiting throughout their portfolio. Whether we are talking about grants or we are talking about public housing or voucher assistance, frankly, it is one of the number-one—

Mr. LUETKEMEYER. When you say capacity to do this, they don't have the people with the capabilities of doing this, they don't have the training? What is the problem with their capacity to handle the problem?

Ms. OLIVER DAVIS. When we talk to external stakeholders about HUD's capacity, they say that the skills are concentrated in particular parts of HUD's workforce, some of whose employees are about ready to retire. We have recommendations about IT solutions that will require money. That is capacity. We have attrition of individuals that I think has already been discussed in the committee. They have attrition of 13 percent over 10 years at HUD. So, there is a shortage of capacity in terms of all of the oversight that we

are talking about. I would call it the number-one management challenge, frankly.

Mr. LUETKEMEYER. That begs the question, if they don't have the capacity to do this and they are handling over \$100 billion, what should we do differently? Should we restrict their ability to do this, since they are not doing it? One of my questions here shortly is with regards to fraud risk management, if they can't do fraud risk management, we are just throwing money off a roof and hoping some of it lands in somebody's hands. Is that a fair characterization here?

Ms. OLIVER DAVIS. There has to be prioritization, certainly. HUD has to do the best it can with what it has. In terms of fraud risk management, there are some things that they can do that will not require additional bodies. Now please, keep in mind, I have not done a workforce assessment of HUD, but I can tell you, putting together a checklist at the program level of issues that a particular program has that makes it susceptible to fraud, that is something that can be easily accomplished, in my mind. It is something we are pushing the Department to do.

Mr. LUETKEMEYER. That brings up the question with regards to improper payments. It has been 9 years in a row now that we have seen HUD not be compliant with the Improper Payments Act. Is it going to turn around in the next 9 years? What do we need to do to get somebody to shake them by the shoulder and say, hey, things have to change?

Ms. OLIVER DAVIS. This is definitely a concern. We want HUD to be able to evaluate its programs, identify the risk from improper payments, get an estimate of improper payments, and then mitigate these things going forward. What it is going to take for the Tenant-Based Rental Assistance and the Project-Based Rental Assistance, which is 40 percent of HUD's expenditures, is a technological solution. It is going to take them having a platform where they can take in tenant files, secure personally identifiable information (PII), and validate the information.

Mr. LUETKEMEYER. Ms. Oliver Davis, you have outlined to me here today that we don't have the management, the capacity to handle a \$100-billion program here. So, how do we affect this program in a way that can be successful? If we are going to sit here and hope things change, hope is not a solution. That is not an effective strategy. Somebody is going to have to be answerable to this. There will have to be a breakup someplace to go get things changed. Otherwise, nothing is going to happen except more money being wasted. Is that a fair assessment?

Ms. OLIVER DAVIS. I believe HUD has to focus. They have to have the modernization of their technology, and they have to focus on the improper payments, and they have to see fraud as a risk that—

Mr. LUETKEMEYER. Okay. So, what you are saying is we need change. Thank you. And thank you, Mr. Chairman.

Chairman DAVIDSON. The gentleman's time has expired. The gentlewoman from Michigan, Ms. Tlaib, is now recognized for 5 minutes.

Ms. TLAIB. Thank you so much, Mr. Chairman. And thank you, Inspector General Oliver Davis, for highlighting the outcome of not

having capacity or the resources available for HUD to do its job or to be able to follow their mission. One of the things that you mentioned is mold. And you may have mentioned lead.

I ask unanimous consent to submit for the record a July 2020 news article entitled, "Inkster Public Housing Exec Under Fire After Two Baby Deaths." The claim from the family, and there is an investigation going on, is that they were exposed to mold or to lead in that HUD home.

Inspector General, the outcome of not having the capacity or the resources available for HUD to implement on the ground to protect the families who are in housing is very detrimental to the communities that I represent.

You noted in your testimony that HUD has roughly 30 percent fewer employees than it did 10 years ago, and a common theme in your findings was that HUD does not have the capacity necessary to address the challenges it faces, even though we increasingly have seen the housing affordability crisis get worse every single year. Can you talk a little bit about the instances and what has resulted because of the lack of capacity that has prevented HUD from being able to effectively address the nation's housing challenges?

Ms. OLIVER DAVIS. Thank you for the question. I think that we are seeing capacity and a lack of capacity play out throughout HUD's portfolio, certainly in oversight. HUD has to rely on program participants to carry out its mission, whether we are talking about public housing, rental assistance, etc.. We are talking about grants, disaster relief, and they have to have oversight of those program participants, and they are really suffering in that respect.

In terms of housing, we have quite a focus on unit conditions right now. I have launched an environmental initiative, looking at lead, looking at living conditions. I also have an initiative looking at sexual harassment in housing, but we have seen, quite frankly, failures time and time again and struggles with oversight in these areas. We have highlighted them in two recent reports that came out. We looked at the oversight of health and safety, corrective actions in public housing, and we found that HUD did not have a nationwide standard that they were rolling out to their field offices in order to hold people accountable for correcting these problems. They were not consistently tracking what we call emergency health and safety problems. And then, something that might not be deemed an emergency, they weren't tracking it at all.

And we have problems with the inspection process. We have long since pointed out compromises in the Real Estate Assessment Center (REAC) inspection process, and recently we reviewed the timeliness, and they are really struggling in their timeliness. They are struggling with prioritizing the right properties to make sure they are reviewed, and that calls into question the annual inspections. All of the landlords have a requirement to do an annual inspection of their units, and the reason they have that requirement is because the REAC inspection has traditionally been a sample. HUD can't, and has never had the capacity to look at every unit, so we have to rely on the landlords to do that as well. So, all of this is being called into question.

Ms. TLAIB. And some of the units, the majority of them, are under city housing commissions. How does that work? There is a city housing commission that oversees some of the operations in some of this housing. How are they interacting with HUD, according to your findings?

Ms. OLIVER DAVIS. I would be happy to talk with you, and, frankly, learn something about that from you, but what I know is that all of these program participants have to adhere to HUD standards. They have to produce housing that is safe, sanitary, and free of hazards, so that is something on which we are missing the mark.

Ms. TLAIB. Also, for my colleagues to know, I read in, I think it might have been your report, that half of HUD's workforce is eligible for retirement in the next 5 years. Is that correct?

Ms. OLIVER DAVIS. I don't have that number in front of me. I did mention in my opening statement, though, that many are retirement-eligible. I think that is a government-wide problem, but it certainly will exacerbate HUD's capacity issue and, frankly, their expertise.

Ms. TLAIB. According to the Congressional Research Service, from 2002 to 2019, HUD's regular non-emergency appropriations increased roughly 10 percent, adjusted to inflation, yet to take just one measure over the same nearly 2-decade period, the average sale price of a home has increased by 65 percent in the United States. How does your funding picture change if we zoom out to look at the past 2-plus decades? You can respond in writing for the record. Thank you.

Ms. OLIVER DAVIS. I may need clarification.

Ms. TLAIB. Yes. I will submit the question to you in writing for the record.

Ms. OLIVER DAVIS. Thank you.

Chairman DAVIDSON. Thank you. The gentlewoman's time has expired. The gentleman from Wisconsin, Mr. Fitzgerald, is now recognized for 5 minutes.

Mr. FITZGERALD. Inspector General Oliver Davis, thank you for being here today. I am concerned about GSEs taking market share from the Federal Housing Administration (FHA). It would obviously leave FHA with only the riskiest mortgages. And as we know, riskier mortgages need kind of commensurate controls to ensure that only eligible individuals receive FHA. Do you think there is a balance there or that enough is being done to protect taxpayers from these riskier mortgages at this point?

Ms. OLIVER DAVIS. FHA certainly has the distinction—its loans carry the full faith and credit of the government, so it is important that HUD does its best to manage risk against the mortgage insurance fund. It is the largest mortgage insurance fund in the world. We have looked at this issue with our audit work, and we have made some priority recommendations around this. We do see a remarkable amount of ineligible mortgages become approved for FHA insurance, and we have made some recommendations around flood insurance. We see individuals with delinquent tax debt. I think the number was \$13 billion in loans that HUD insured with individuals who had delinquent tax debt. And for individuals with child support way up, an offset for child support as well. So this is defi-

nately an issue, and it is something that we are hoping that HUD will shore up. Yes.

Mr. FITZGERALD. The situation for the most part is that adults 25- to 35-years-old simply can't enter the housing market at this point, either because they can't get the downpayment, or because they are just being denied based on the level of income that they have. I know that HUD offers some low downpayment programs. If you look across-the-board of what HUD has available, are there certain things that you see as shortcomings right now or things that need to be changed to assist kind of this decade of adults who are completely unable to purchase a home at this point?

Ms. OLIVER DAVIS. I have those same adults in my family, and they are all talking to me about their struggles right now. Frankly, that would be something I believe the Secretary would be better suited to address in terms of what they are offering and how they are trying to reach individuals who are trying to accomplish homeownership at this time. I can't think of anything in the moment that I see as a real shortcoming. We are really looking at the rest of the fund. I am not aware of any programs that are causing risk right now outside of these eligibility issues to FHA.

Mr. FITZGERALD. Yes. We talk about it kind of ad nauseam right now in Financial Services, because with everybody who comes before the committee, I try and raise a question, and I know other Members do as well, that obviously with homeownership being the cornerstone of building wealth in this country, if we continue to have these 25- to 35-year-olds who are being denied access to the market overall, there have to be some flexibilities built in.

I guess what I would ask is, what is HUD's role in kind of encouraging more entry-level housing, and is this something you could work with financial institutions on as well, or how do you perceive this issue right now?

Ms. OLIVER DAVIS. I understand the concern. Our oversight hasn't touched that necessarily. We have been looking at the riskiest parts of HUD's portfolio and making recommendations there. I am not sure I am doing my best to answer your question here, but I think the Secretary would have some thoughts on how they can extend options for homeownership.

Mr. FITZGERALD. Yes. In the minute I have left, there is kind of direct messaging that has been done to these individuals. It could be any of the social websites, it could be Instagram, or whatever it might be, where they specifically talk about the difference between a 35-year-old in 1995 compared to a 35-year-old right now. The home they are trying to purchase is almost 4 times the price, and their ability to pay is not even close to being equal.

I don't think anybody on the committee is trying to waive, and I certainly am not trying to waive any of the basic points that you would look at when you are trying to make a mortgage. But what we are trying to say is, I think that if there is a way to try and accommodate or to make changes to programs that would allow them the ability to get into the market—there are a lot of different programs obviously in the private sector, but certainly, FHA should be aware of this and should be working on it.

Ms. DE LA CRUZ. [presiding]. Thank you. The gentlewoman from Georgia, Ms. Williams, is now recognized for 5 minutes.

Ms. WILLIAMS OF GEORGIA. Thank you, and thank you, Ms. Oliver Davis, for coming before the committee today, and for upholding your responsibility to keep the Department of Housing and Urban Development accountable since you took office.

It is disappointing to hear some of my colleagues on the other side of the aisle continue to complain about HUD programs and the management of the Agency, when nearly 2 years ago, in late October of 2021, we held a hearing to discuss the housing provisions of the Build Back Better Act. It was an opportunity to replace the dollar signs with faces, real people, to really see how much it will harm the people that we are sent here to represent. To not make these investments was devastating for a lot of people that I represent in Atlanta. To see the human impacts of the decisions that we make here in Washington should weigh heavily on all of us.

At that time, 39 percent of all individuals experiencing homelessness in our country were Black. We are only 12 percent of the U.S. population but 39 percent of Americans experiencing homelessness are Black. Two years later, we are seeing the consequences of abandoning the housing-related provisions of the Build Back Better Act. As of last month, over 1.8 million people reported that they were at risk of eviction or foreclosure within the next 2 months. Nearly 54 percent are Black or Latino.

I consistently remind everyone who is willing to listen that the City of Atlanta, the heart of my district, has the widest racial wealth gap in the nation. And I just heard one of my colleagues on the other side mention how homeownership is a way to build that generational wealth, and without homeownership, and the provisions, and the policies, and the opportunities provided by your Agency, that racial wealth gap only continues to widen in my home district.

What I have heard and read is that it is only going to continue to be more desperate for the people I represent until the Republican Majority joins with House Democrats to put people over politics, and actually look at faces and people, and not just numbers and dollar signs. There is a shortage of nearly 14 million homes for families to rent or purchase. And as a member of this committee, I am dedicated to not only filling that shortage, but ensuring that HUD has all the tools in its toolbox to ensure that families of color are not bearing the brunt of this housing crisis.

Ms. Oliver Davis, it is concerning to me that the Republican Majority is fighting tooth and nail to roll back spending to levels that pre-date current housing costs and inflation. But if you ask any relative or anyone looking to buy a home in Atlanta, housing costs are still sky high, and there is no rolling back on those costs in sight. Returning to Fiscal Year 2022 funding levels will result in funding cuts to HUD programs, less affordable housing, and more families losing their homes.

Ms. Oliver Davis, could you provide an analysis of the impact these funding cuts may have on HUD programs, particularly in terms of HUD's ability to address housing needs and provide assistance to vulnerable populations?

Ms. OLIVER DAVIS. Thank you for the question. I think the HUD Secretary is best-positioned to talk about how cuts could actually impact the Department. Certainly, in my oversight, we look at how

HUD can do better with what it has. Look, less is less, right? Less money is going to translate into less aid. It is going to translate into less capacity overall. But in terms of where that money goes, how it is spent, I would have very little input or impact into that, but I believe the Secretary would certainly be able to speak to that.

Ms. WILLIAMS OF GEORGIA. Thank you. It is critical that we understand that slashing agency budgets prevents public servants from doing their jobs and serving our constituents. Anyone here who has talked to their casework teams knows that a fully-staffed and properly-funded agency is going to be much easier for both staff and constituents to work with. So far this Congress, the Majority has both failed to convene serious housing-related hearings and neglected to include homelessness or affordable housing in their oversight plan. This lack of focus, coupled with the absence of viable legislation and solutions, raises concerns about the Committee Republicans' ability to effectively tackle the challenges of affordable housing and the unhoused.

Ms. Oliver Davis, in light of this, do you believe that the ongoing and proposed cuts to HUD, along with the Committee Republicans' focus on program oversight investigations, hindered the potential for substantial progress in addressing our nation's affordable housing and homelessness crisis?

Ms. OLIVER DAVIS. I would feel presumptuous trying to opine on the intent of the subcommittee and the oversight actions that it is taking, I truly would, but I appreciate the engagement. I appreciate the question.

Ms. WILLIAMS OF GEORGIA. Thank you so much. I have many more questions, but I am out of time, so I will submit them for the record. I yield back.

Ms. DE LA CRUZ. Thank you. The gentleman from Nebraska, Mr. Flood, is now recognized for 5 minutes.

Mr. FLOOD. Thank you, Madam Chairwoman. Following up on Representative Luetkemeyer's questioning, HUD recently submitted their congressional budget justification to the Appropriations Committee. That justification recommended a \$101.834-billion budget from Congress for Fiscal Year 2024, an increase of 35 percent over their enacted level in Fiscal Year 2023. Now, it is not uncommon for any and every Federal agency to advocate for more funding from Congress. However, in the case of HUD, we are talking about an agency that recently had the responsibility of doling out large amounts of COVID-related assistance, such as the Rental Assistance Program, and does not have a great track record of conducting strict oversight of the funds that it disburses.

Inspector General Oliver Davis, can you summarize the results of your office's audit of HUD compliance with the Payment Integrity Information Act of 2019 and the Office of Management and Budget's (OMB's) guidance for reducing improper payments?

Ms. OLIVER DAVIS. Thank you. This has certainly been a focus of our oversight. And what we really are hoping for here with the Department and their compliance with this Act is that they can take a look at their portfolio, identify areas that are susceptible for what we call improper payments, give an estimate of what they think those improper payments are likely to be, and then take action going forward to mitigate against those.

What we found is that in one of HUD's largest grant programs, Tenant-Based Rental Assistance and Project-Based Rental Assistance, which accounts for about, I believe it is 60 percent of the expenditures, and I apologize if I am incorrect; I will correct it for the record. But I believe it is 60 percent of HUD's expenditures, that they can't arrive at an estimate, so they are identifying it as being at risk, but they can't test the full cycle of the payment.

And what that means is they can say what HUD is paying to landlords because that is the payment that we are talking about, the money that goes to the program participants, but they can't say what happens after that. So, we can't look at the money that goes to the tenants and the expenditures, and we can't say for certain if those are appropriate payments that are being made. And HUD doesn't have a reliable platform to collect that information, secure it, and test it, and then give us an estimate for it.

That is really what we are talking about. It has been 6 years in a row. The last time they had an estimate on that particular pool of funding was 2016, and I believe the estimate then was \$1.6 billion, so it is significant. It is a significant thing that we just don't know.

Mr. FLOOD. To be clear, HUD was noncompliant with a law passed by Congress that was focused on preventing and reducing improper payments. Specifically, the OIG's audit found that HUD did not report improper and unknown payment estimates for 2 HUD programs that make up more than \$41 billion in spending in Fiscal Year 2022. In other words, HUD is a long, long way from having the kind of tools necessary to catch fraudsters reliably in programs that make up more than 60 percent of its budget.

Inspector General Oliver Davis, can you please walk us through what the problems are with HUD's implementation of the Payment Integrity Information Act requirements?

Ms. OLIVER DAVIS. Certainly. In one respect, it is technology. They need a platform that will collect tenant files, and secure PII that is contained in those files. They normally would be able to manually check that information if they were to go onsite and look at the files. They didn't do that during the pandemic. They are in the process of modernizing the Enterprise Income Verification (EIV) System, so I am hopeful they will get something there, but frankly, it is a technology issue. They need the right platform there. They need the right platform, and they just, of course, place importance on this and make it a priority.

Mr. FLOOD. Would this be resolved with more resources or prioritizing resources inside the Agency currently? What do you think the hurdle is here?

Ms. OLIVER DAVIS. I think there has been significant discussion between my office and the Chief Financial Officer's (CFO's) office on improper payments. I think they are headed in a direction to modernize that platform and achieve this. They have made progress. The year before, we didn't have an estimate that we consider reliable from the Hurricanes Harvey, Irma, and Maria part of the money, which was also significant, but they have cleared that up. They have made strides there, so I believe we are headed in the right direction. I am certainly hopeful. It is important.

Mr. FLOOD. Let me just say this. I appreciate your work as the HUD Inspector General. It is imperative that we ensure that taxpayer dollars are spent wisely and in concert with the requirements laid out by Congress. We need to ensure that money is getting into the hands of those who need it, not fraudsters who seek to manipulate the system. With that, I yield back.

Ms. DE LA CRUZ. Thank you. The ranking member of the subcommittee, the gentleman from Missouri, Mr. Cleaver, is now recognized for 5 minutes.

Mr. CLEAVER. Thank you, Madam Chairwoman. And I thank you again, Inspector General Oliver Davis, for being here. HUD is always being put in a tough situation, and I will try to do this quickly. We have been dealing for almost a year with a growing problem all over this country, in the suburbs, in the urban centers, and that is the theft. And I know that you have put out an OIG fraud bulletin, which means that you recognized the issue.

The first case I dealt with came from a couple in their early 70s in Independence, Missouri, a suburb of Kansas City. They lost their home. It was stolen. They had to go out and hire an attorney to try to get their home back. I have met with local police, FBI, I met with officials in Dallas who called when they saw that we were dealing with the problem. It is exploding all over the country, \$350 million in the fraudulent taking of homes all over the country. It is growing. And when you add the likelihood that we are going to start having cyber title theft, there is some of that already going on, so it is just going to get worse.

So, we are in a situation, HUD needs to deal with the issue, and we need to deal with it right now. I have a bill, the Good Documentation and Enforcement of Estate Deeds (Good DEED) Act, designed to try to create at least the awareness, but it is going to cost \$10 million, whatever a year. And then, if you say to HUD, this is an important program, people are losing their homes, but you have to take the \$10 million somewhere else. You are squeezing the water in the balloon. We are going to have a problem. And I have become really concerned about this as Black, White, suburbs, urban, New York, Los Angeles, Hollywood—people are losing their homes.

I know you are aware of it, but I don't think your office can handle it. I know you are dealing with it in terms of awareness, but what can be done? My bill puts the responsibility on HUD, but then it costs money, and so we say, well, we can't do this because it costs money. But thousands of people are losing their homes.

Ms. OLIVER DAVIS. You mentioned our fraud bulletin, and we attempt to issue those when there is something that is just so important that we need the public to know about it immediately. As soon as we started hearing about that scam, we issued that bulletin. I haven't studied, frankly, what HUD can do about it. I would love to learn more about that. I appreciate hearing about all of the various examples that your constituents are suffering from; it is a terrible thing. It is something I would have to investigate a bit more, talk to my staff about, but I would love to talk to you about it more.

Mr. CLEAVER. Yes, I know more about it than I want to know—

Ms. OLIVER DAVIS. I'm sorry.

Mr. CLEAVER. Because I have sat with a police captain in Kansas City and just mentioned this—you stopped getting mail, and you are thinking, well, I am going to be mad at the U.S. Postal Service. And then, you find out you are not getting mail because somebody has taken your name and your address, and they are now in control of your life, and all of that. I get excited about it because I have sat down and had this discussion with people crying because they lost their homes, and HUD needs to deal with it. I would love to have a conversation with you.

Ms. OLIVER DAVIS. Yes. Absolutely. I would welcome that.

Mr. CLEAVER. I yield back, Madam Chairwoman.

Ms. DE LA CRUZ. Thank you. The gentlewoman from Colorado, Ms. Pettersen, is now recognized for 5 minutes.

Ms. PETTERSEN. Thank you, Madam Chairwoman, and thank you, Ms. Oliver Davis, for being with us today. My 3-year-old son's name is, "Davis," so I am a big fan of your name and also a huge fan of your work.

I just want to thank you for the critical work that you and your team are doing every day to support our most-vulnerable people, to support those first-time homebuyers. One of the programs specifically is very important to me, because my mom was one of the lucky ones who was able to qualify through the Housing Voucher Program. And it is because of that program that my mom was able to stay housed. She would absolutely not be alive today without that support, and I can only imagine how much money your Agency is saving the U.S. every day at the local level because of keeping people housed. I can say that she was one of the lucky ones, but my dad, unfortunately, was one of the ones who was denied because the wait list was so long in Colorado.

I was surprised to see in a report that you submitted in November of 2020, that the estimate was that 62 percent of the public housing agencies had unused vouchers. So, I would love to talk about what you are doing to make sure that you can increase the number of vouchers being utilized and what you are doing to make sure that it is more appealing or what we can do to make sure it is more appealing for private owners.

Ms. OLIVER DAVIS. Thank you for pointing out our work. The Housing Choice Voucher Program is certainly important in going towards solving the affordability crisis that we see in this country. In terms of landlords, we have certainly recognized in our work that landlords often don't participate in this program. It is a problem in that just because someone gets a voucher, it doesn't mean for certain that they are going to get a home. And often, they have to relocate and go elsewhere to find the home away from family, away from their source of income, or simply away from their community where they want to be. So, there are challenges. I believe HUD is working to study landlord incentives for participating in the program. That is what we have learned during our work.

In terms of the Housing Choice Voucher Program, we made a priority recommendation to the Department that they look at the vouchers that are going unused. They have closed out that recommendation. They have issued guidance that should help PHAs optimize their program with very specific tools. This is a new devel-

opment and it is something that will look for the implementation of, and we are very hopeful that it reaches people who need these vouchers.

Ms. PETTERSEN. Great. Thank you very much for that. And I know that something that you have covered in your testimony, a common theme in the oversight findings has been that HUD does not have the capacity necessary to address the challenges that you face. We know that we continue to ask you to do more. The needs are so great, but you are understaffed and underfunded, and your IT is significantly outdated. What would it look like if we actually invested in the work that we are asking you to do, and how different would those outcomes be if we did what we needed to on our side?

Ms. OLIVER DAVIS. I will echo my comments about capacity. HUD's capacity is strange. We hear that from external stakeholders, both stakeholders that represent housing owners and developmental entities, as well as people who represent tenant groups. We are hearing this from all across HUD's portfolio. I know through my work that they have technology challenges, and that itself is a capacity challenge and will take funding and prioritization to fix. The Secretary is really the best person, I think, though, to sit and talk about an influx of funding and how it might help her, but I can certainly speak to that in the realms of the risk that we see in our work as the oversight entity, certainly.

Ms. PETTERSEN. We have a little bit of time left. What programs are you most proud of, that you think our constituents should know about?

Ms. OLIVER DAVIS. I am certainly proud of the work that we are doing overseeing the programs. HUD has a very, very, very important mission. I know if the Secretary were sitting here, she would have many things to say about her pride in the programs and what they are doing for the country. I certainly have pride in our work. We are trying to make HUD the best it can possibly be with our oversight. That is our goal, that is our mission at the end of the day, so that is what I would say I am most proud of; the people of HUD OIG are serving the community very well these days. They are making a very good impact on HUD's programs.

Ms. PETTERSEN. Thank you very much. I yield back.

Ms. DE LA CRUZ. Thank you. The ranking member of the Full Committee, the gentlewoman from California, Ms. Waters, is now recognized for 5 minutes.

Ms. WATERS. Thank you very much, and I am very pleased about this hearing today because there are so many unanswered questions about housing. The one thing that we do know is we need more housing. We are in a crisis in this country. And I would like to ask in terms of your responsibility, usually I think of your capacity that you are looking at what happens inside HUD, what the personnel is doing, et cetera. I want to know, how far does that extend? For example, if you discover that vouchers are not being used, do you go so far as to deal with the issues about why they are not being used?

There are some communities that discriminate. They do not want Section 8 vouchers in their community. We have that problem in Los Angeles County. Does your investigation go that far as to say,

yes, we have vouchers that are unused, but let me tell you what we know about what is happening in, say, San Bernardino County?

Ms. OLIVER DAVIS. Thank you for the question. We certainly look at the effectiveness of the program, so we look at how effective the program participants are in carrying out HUD's mission. If we see something that falls within our purview to actually open an investigation, we will certainly do so. If we see something that would be a fair housing violation, that would be something for the Department to look at in their capacity, we would refer that to the Department as well. We are looking for any kind of wrongdoing or abuse or waste that touches these programs.

Ms. WATERS. Oh, that is very good to know. Let me raise another question. Do you know how long a person has to utilize that voucher? Is there not a cutoff date for the length of time they are holding that voucher?

Ms. OLIVER DAVIS. That is a very good question. I don't know the specifics of that.

Ms. WATERS. I think there is a problem there in that after a certain length of time, I think the voucher is no good. Please check that out, because if that is the case, we need to understand those communities where the housing is not easily available. And they need to look and look and look to find a landlord who will take that voucher, and that may take more time. So, would you take a look at that also, please?

Ms. OLIVER DAVIS. I will look into that. I would love to talk to you more about that to see if that is a far-reaching program. If you are having experiences with that, hearing about that from your constituents, I would love to hear about that.

Ms. WATERS. In addition to that, I heard you allude to the landlords and that there are complaints about the local housing authorities and how they manage their responsibility working with HUD. And there are some complaints about whether or not they are required to do too much in order to get a person in. For example, if they find a vacant apartment, if the person finds it and the housing authority has a responsibility for putting it in its top shape as mandated by HUD, what is being done to shorten that length of time, but ensure that it is safe and it is secure? Do you have any idea about things like that?

Ms. OLIVER DAVIS. Can I ask for clarification? Are you speaking about when they initially do an inspection before a tenant moves in?

Ms. WATERS. Yes, absolutely.

Ms. OLIVER DAVIS. Okay. I am aware that is what is supposed to happen, that a unit should be inspected before a new tenant comes in. I am aware of overall challenges with the inspection process and we are now aware of challenges with annual inspections on the part of landlords. I can't speak to that particular issue in my work, but I would love to hear more about that if you are aware of shortcomings there.

Ms. WATERS. What I would like to know is whether there is a certain time that the housing authority must get that tenant ready, get that apartment ready for the tenants, or can they take 3 months to do it or 4 months? Do they have to do it in 30 days, and if it is not being done, is that part of what you do? I am asking

you a lot of questions beyond what I think I have always thought you were supposed to do, but maybe you know more about it. How far does it go?

Ms. OLIVER DAVIS. I think those are great questions. They are things that I would like to know more about, but I confess, I don't know if there is a standard length of time that they have to inspect before a tenant enters a unit. I don't know that. That may very well be reflected in our work somewhere and I would want to get back to you on that.

Ms. WATERS. Thank you. We have three or four things we need to talk about and delve into. Thank you, and I yield back the balance of my time.

Ms. DE LA CRUZ. Thank you. I now recognize myself for 5 minutes.

Thank you, Inspector General Oliver Davis, for appearing before us today. As the Representative for a district that is predominantly Hispanic, and which also includes one of the poorest counties in the entire nation, I am deeply concerned about the Department of Housing and Urban Department's ability to consistently and safely execute its public housing mandate. Inspector, with a simple yes or no, does HUD have the capability today to ensure, on a consistent basis, that its grant programs are not exposed to instances of waste, fraud, and abuse?

Ms. OLIVER DAVIS. You are giving me a tall order here. I think it would be difficult to always ensure that grants are free of fraud. To me, it seems like something that is very difficult to do regardless of capacity.

Ms. DE LA CRUZ. With that being asked, is there a better way to steward the dollars, the taxpayer dollars, that are being used right now in HUD?

Ms. OLIVER DAVIS. There are several recommendations that we have made, that we deem priority, that would certainly help in that respect. We have what we call slow spenders in the world of grants, in the world of disaster relief, and those are entities that take a longer time to spend the money. We find in our oversight work that the longer funds hang out there, the more susceptible to fraud they become.

So, we have made a priority recommendation for the Department to work more closely with grantees, to ask them for projections on spending and to hold them accountable when they don't meet those, and to work with them to find out why in order to set a course for a better future for that grant and that grantee going forward. So, that is something that we could do. We could work closer with slow spenders.

Fraud risk management is something that I can't speak enough about; it is a very important activity that we are urging the Department to undertake. It is something they need to be doing at the program level. So if we are talking about a grant, the people who administer that particular grant, the people who get that particular program off the ground, are best suited to talk about fraud in that program and to put anti-fraud measures in place. And to do the testing, again, the improper payment testing is crucial. All of these things go hand in hand, so yes.

Ms. DE LA CRUZ. What I am hearing is that currently, there is no system in place to see what type of fraud is happening in the grant programs. Has there been a study done?

Ms. OLIVER DAVIS. A study on particular types of fraud? Yes. We at HUD OIG, along with the Pandemic Response Accountability Committee (PRAC), which I serve on, did a series of audit work looking at fraud in virtually every program that was touched by the CARES Act and the American Rescue Plan, and we put together a fraud risk inventory for all of these programs. We identified dozens of risk factors, sometimes 60 fraud schemes, so we have, in fact, put that information out there. We have urged HUD to use it in its own assessments of its programs, so yes.

Ms. DE LA CRUZ. And have they used those suggestions?

Ms. OLIVER DAVIS. I believe we are making progress in that area. We have talked about it quite a bit. I know that CPD, in particular, has made some strategic hires of individuals who have some anti-fraud backgrounds. I know that the CFO is interested in getting fraud risk assessments off the ground, so we are working towards that. However, our recommendations remain open, so it remains to be seen.

Ms. DE LA CRUZ. When were these recommendations made?

Ms. OLIVER DAVIS. They were made during the pandemic. I am taxing my brain for the exact date of those, but it was during the pandemic.

Ms. DE LA CRUZ. So, a couple of years ago?

Ms. OLIVER DAVIS. Within the last couple of years, we did that work, yes.

Ms. DE LA CRUZ. It is very concerning to me that when you all have done an internal audit, you have found, as you said, several cases of fraud, however, it has taken 2 years and you are still just talking about it. It is time that we implement these measures so that we can look for dollars that are being wastefully spent and use them to people who really need those dollars. With that, I yield back.

I now recognize the gentlewoman from Texas, Ms. Garcia, for 5 minutes.

Ms. GARCIA. Thank you, Madam Chairwoman, and thank you, Ms. Oliver Davis, for being here today. I understand that you are the first one in 5 years to come down and visit with us, so I hope we are both learning from each other today.

One of the things that really struck me from the report that you gave us was the number of outstanding or open unimplemented recommendations from OIG audits: 985. That sounds like a lot today. How old are these items? Are they all these that weren't found last year or the year before? Have you aged these and determined how far back we have had them on the books?

Ms. OLIVER DAVIS. We have aged these. I don't have those numbers off the top of my head. I will tell you that we have closed many recommendations in the last 4 years. We concentrated first and foremost on some of the older ones, so I suspect that we are dealing with more recent recommendations, but I would want to get back to you on that exactly on how old some of these are. There may be some aged ones—

Ms. GARCIA. Can you tell us how many, where findings are unopened since before January 2021?

Ms. OLIVER DAVIS. I wish I could. I don't have those numbers in front of me, but I will certainly get those to you.

Ms. GARCIA. How long have you been Inspector General at HUD?

Ms. OLIVER DAVIS. Since 2019.

Ms. GARCIA. Since 2019, so you are familiar with many of these then?

Ms. OLIVER DAVIS. I am, and some of these certainly pre-date me, and they span Administrations and policy changes certainly, yes.

Ms. GARCIA. So, some of these audit findings are not just within the last 28 months of the current Administration? These are carryovers, in fact, from the prior Trump Administration?

Ms. OLIVER DAVIS. I would expect we have some beyond that.

Ms. GARCIA. Because, in fact, you have actually had some findings about the lack of attention to some of these issues with Secretary Carson before Secretary Fudge. And some of these were management alerts for unreasonable delays in HUD OIG access to the Department's information, which caused OIG oversight efforts to be diluted, to become stale, or worse, halted entirely. Is that still an existing challenge? Have you been able to correct that with the current Administration? Are you getting timely information? Do they have the staffing requirements to be able to implement these, or what seems to be the problem?

Ms. OLIVER DAVIS. I have asked my staff to keep me abreast of any issues we have regarding access or delays in getting electronically stored information, and I have not been made aware of any.

Ms. GARCIA. So, you currently don't have any challenges with dealing with Secretary Fudge?

Ms. OLIVER DAVIS. Secretary Fudge and I meet regularly. We issued a joint cooperation memo. I think we have a workable relationship, certainly.

Ms. GARCIA. Right. And what are your plans to be able to reduce this backlog?

Ms. OLIVER DAVIS. We work on this all the time, frankly. This is a concentrated effort between us and HUD leadership. We have a number of teams. The CIO's team works with our people. The CFO's team works with our people to reduce these outstanding recommendations. We have done our first Priority Recommendations Report last year in order to really focus leadership on the things that we think are the most important, the things that we think should rise to the top. So, that is how we will proceed going forward.

Ms. GARCIA. And what criteria do you use for deciding what rises to the top? Is it based on the savings that you could get from some implementation, or is it the efficiencies to the programs, or is it better oversight on the management, or give me a sense of what criteria you use to establish it? When I saw the number, again, 985, that is almost a thousand.

Ms. OLIVER DAVIS. It was much larger than that.

Ms. GARCIA. You can't tell me today how many you have done, so in my mind, it is still a thousand until I get that letter from you

telling me, no, we have already closed another 300, but 985 is a hell of a lot.

Ms. OLIVER DAVIS. It is a lot, and I appreciate your interest in that. I appreciate your interest in our efforts to close those recommendations. With the top recommendations report, we are really doing risk assessments constantly. That is how we decide what work to look at, is the riskiest parts of HUD's portfolio, so our top recommendations span the portfolio. There are things like lead hazards. There are things like radon. Those are certainly of the utmost importance. Then, there are things with a bigger risk, fiscal impact. We discussed earlier the ineligible loans that receive HUD insurance. Sometimes, those were in the \$13-billion range. So really, each one is different, but they are very impactful and of the high-risk areas in the portfolio.

Ms. GARCIA. Okay. My time is running out, but I look forward to your document showing me the aging of the 985 and how many were inherited in January 2021.

Ms. OLIVER DAVIS. Okay.

Ms. GARCIA. Thank you.

Ms. DE LA CRUZ. Thank you. The gentleman from New York, Mr. Lawler, is now recognized for 5 minutes.

Mr. LAWLER. Thank you, Madam Chairwoman. Inspector General, the New York City Housing Authority, known as NYCHA, has a long history of mismanagement and corruption, which has created unsafe and unacceptable living conditions for thousands of New York City residents. In 2021, the Brooklyn District Attorney charged nine NYCHA contractors with bribery as part of a kick-back scheme. Your office recently participated in an investigation that led to the sentencing of two NYCHA superintendents for accepting bribes from contractors. It seems that every time you turn around, someone tied to NYCHA goes to jail for one form of corruption or another.

Inspector General, in 2019, New York City formally committed to addressing the serious problems with living conditions in NYCHA Housing as part of an agreement with HUD, the EPA, and the Southern District of New York. In your opinion, have they fulfilled this commitment?

Ms. OLIVER DAVIS. You are referencing the monitor that was assigned to NYCHA. We have not reviewed the activity of the monitor. We keep an eye on NYCHA. We look at their reports as they come out. We have a—

Mr. LAWLER. I'm sorry. To whom does the monitor report?

Ms. OLIVER DAVIS. That is a good question. I don't want to get out too far on the issue with the monitor and be incorrect, so I would have to get back to you on that.

Mr. LAWLER. Okay. But when you say that you have not reviewed any of the actions of the monitor, did HUD not enter into an agreement with NYCHA with respect to improving the living conditions of its residents?

Ms. OLIVER DAVIS. I believe HUD is a party to the agreement with the monitor. We, as the oversight agency, are not a party to that agreement. And when I say we didn't look at the monitor, we do look at the reports that the monitor puts out, and we take NYCHA into concern when we are looking at our work. We learn

from NYCHA, and we have several investigations involving NYCHA, as you pointed out.

Mr. LAWLER. Who administers the Federal funds that go to NYCHA?

Ms. OLIVER DAVIS. HUD does.

Mr. LAWLER. So, you are telling me that we continue to administer Federal funds, NYCHA was party to an agreement with HUD, with the Southern District of New York, with the EPA, on serious problems with living conditions, and we haven't done anything to talk to the monitor? We haven't done anything to provide oversight of the serious failures of NYCHA?

Ms. OLIVER DAVIS. I confess, Congressman, I have not spoken to the monitor. Perhaps, I should speak to the monitor.

Mr. LAWLER. I would strongly recommend that when you leave here today, you might want to pick up the phone.

Ms. OLIVER DAVIS. Okay. And I would be happy to speak with you about this and learn what you know about this.

Mr. LAWLER. Oh, I can tell you, last year being part of the New York State Assembly, I voted down the New York City Public Housing Preservation Trust because it was nothing more than a scam. New York City Public Housing was changing the way that it was getting funding as part of this scam. It was using tenant protection vouchers instead of Section 9 so they can get more money. And yet, you are telling me not only are we giving them more money now, but we are not providing any oversight?

Ms. OLIVER DAVIS. I believe the monitor is providing oversight. I can't speak to the quality of that oversight, frankly. I can't. I can tell you we do investigations—

Mr. LAWLER. Whose job is it to investigate the quality of that oversight?

Ms. OLIVER DAVIS. I am not certain to whom the monitor reports. I will do my best to find out.

Mr. LAWLER. That is just remarkable. So given that, based on your testimony, you have not had any conversations with the monitor. You are, frankly, unaware of what the monitor has been doing. Is that what you are testifying today?

Ms. OLIVER DAVIS. We speak to the Department. I speak to the Southern District of New York. We ask for updates periodically, and we read the reports that come out, and we also conduct our own independent investigations and activities at NYCHA.

Mr. LAWLER. Okay. What independent investigations have you recently conducted that would answer my original question, which is, has NYCHA fulfilled its commitment to improve the health and living standards for its residents?

Ms. OLIVER DAVIS. We conducted an investigation of a lead worker at NYCHA, who was a whistleblower who came forward, and we uncovered hundreds of inspections at NYCHA that did not live up to the Lead Safe Housing Rule. They were falsifying documents. They were getting out of visual inspections because of the falsification of those documents, and it caused me to start my entire initiative looking at health and safety issues and public housing.

Mr. LAWLER. And yet, what HUD is doing is giving NYCHA more money, despite its failures to improve the living conditions of its

residents. It is shameful, and I would strongly encourage you as the Inspector General to meet with the monitor immediately.

Ms. DE LA CRUZ. The gentleman's time has expired. I would like to thank our witness for her 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 her 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 3:46 p.m., the hearing was adjourned.]

## **A P P E N D I X**

June 21, 2023



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

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HUD Oversight: Testimony of the HUD Inspector General



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

**June 21, 2023**





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

Before:

The Subcommittee on Housing and Insurance of the Committee on Financial Services, U.S. House of Representatives, June 21, 2023

Hearing Titled:

“HUD Oversight: Testimony of the HUD Inspector General.”

Introduction

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

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

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

Initiatives to Reduce Environmental and Public Health Hazards

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

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

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

Additionally, my office is expanding our efforts to ensure HUD tenants are protected from sexual misconduct in housing.<sup>2</sup> Working with HUD and the Department of Justice, we will continue seeking justice for victims through criminal and civil prosecution and penalties for those who sexually assault or harass HUD tenants. No one should have to face the threat of being sexually harassed or sexually assaulted by their housing provider in order to have a roof over their head.

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

Over the past several years, OIG has repositioned our staff to provide more comprehensive oversight over HUD's critical programs and operations, aligning teams with HUD program functions to apply deeper subject matter expertise and analysis towards areas of greatest risk to HUD's success. We have aligned our investigative staff to regions of the country using a data-driven approach that focuses on risk presented to HUD funds and beneficiaries. By doing so, OIG provides strategic, targeted oversight over critical HUD programs, which results in actionable recommendations that identify a roadmap for HUD and its stakeholders to achieve program improvements. We have also ensured that our investigative work provides accountability and deterrence in those areas of greatest risk to HUD and the taxpayer.

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

To ensure comprehensive oversight of HUD's key functions, OIG work addresses what we have independently determined to be the top management and performance challenges the Department faces. Each challenge is tied to HUD's strategic plan and is informed by past OIG oversight findings, the

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

<sup>2</sup> See HUD OIG Press Release, "Sexual Harassment in Housing is ILLEGAL. Fair Housing is your RIGHT." <https://www.hudoig.gov/newsroom/video-library/sexual-harassment-housing-illegal-fair-housing-your-right>

views of Department leadership, the work of our oversight partners, such as the U.S. Government Accountability Office (GAO), and input from key external stakeholders.

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

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

Additionally, last year OIG issued its first Priority Recommendations resource<sup>3</sup> to focus the Department's, Congress', and the public's attention on high-impact OIG recommendations. We issued this report to highlight for action the recommendations that we have determined can have the largest positive impact on HUD's programs and the individuals and communities HUD serves.

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

A common theme in our oversight findings has been that HUD does not have the capacity necessary to address the challenges it faces. HUD employees, program partners, and external stakeholders consistently describe HUD as underfunded and understaffed, with inadequate IT and support structures to address its ever-growing mission, program responsibilities, and expectations. Challenges, such as HUD's technical ability to securely collect, use, and analyze data, which is often maintained at the recipient or subrecipient level, continue to impede to HUD's success.

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

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

*Ensuring Access to and Availability of Affordable Housing*

The United States struggles with creating and maintaining an affordable housing stock, a situation that worsened during the COVID-19 pandemic. HUD's FY 2023 Annual Performance Plan<sup>4</sup> states that finding an affordable home in America is worse now than it has been at any point since the 2008 financial crisis.

HUD continues to experience challenges in efficiently and effectively overseeing its rental assistance programs, including in providing oversight of local program partner performance and doing so with limited funding and resources. In addition, HUD and its local partners have difficulty attracting new business partners, such as landlords and property owners, to participate in its tenant-based rental assistance programs. A lack of interested property owners reduces the availability of affordable rental housing. HUD is also challenged with preserving its aging housing stock to provide quality affordable housing for individuals and families, the deterioration of which exacerbates the shortage of affordable housing.

To help HUD address this challenge, OIG has dedicated considerable resources toward assisting HUD and its partners in improving the delivery of these critical programs. With respect to HUD's rental assistance programs, we target our oversight of rental assistance programs to address risk reduction and operational improvements to help HUD preserve affordable housing. We also focus on oversight of grantee and subrecipient performance and customer experience to help HUD enhance outcomes in these programs. Finally, OIG has focused on the Office of Fair Housing and Equal Opportunity (FHEO) and its implementing partners enforcement of civil rights laws, including the effectiveness of FHEO's complaint intake, case management, and compliance reviews.

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

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

Our audit of the Section Eight Management Assessment Program (SEMAP), which HUD uses to remotely evaluate the performance of PHAs' Housing Choice Voucher (HCV) Programs, identified that the program needed enhancements in order to accurately measure PHA performance. We found that (1) SEMAP uses performance indicators that are based on PHAs' self-certifications and self-reported data, which may not have accurately represented the performance of their HCV Programs. We also noted that HUD's process for verifying the information PHAs use for SEMAP reporting did not capture the performance of all PHAs' HCV Programs, creating a gap in HUD's ability to identify PHAs' HCV Programs that may have needed improvement. We recommended HUD (1) enhance SEMAP or develop a new performance measurement process that would identify PHAs with underperforming HCV Programs and

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

(2) provide additional training and guidance to HUD staff to enable more effective use of the measurement processes.

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

Our audit found that HUD's voucher utilization rate had decreased, and HUD estimated that as of November 2020, more than 62 percent of PHAs in the program had leasing potential and that leasing potential could increase in coming years. In addition, our audit showed that HUD had not exercised its regulatory authority to reallocate HCVs and associated funding when PHAs were underutilizing their vouchers. HUD remains challenged with voucher utilization because some PHAs continue to encounter difficulties that are not within their control and which negatively impact their ability to increase leasing in their service areas, such as insufficient landlord interest or participation, lack of available affordable housing, and housing cost increases that outpace the PHA rents. In addition, HUD believed that it could not implement its reallocation regulation because of legislative changes dating back to 2003. As a result, nearly 81,000 available HCVs could potentially be used to provide additional subsidized housing for eligible families. Further, more than 191,000 authorized vouchers were unused and unfunded, meaning that more than 191,000 additional low- to moderate-income families could possibly benefit from subsidized housing by using these vouchers. However, HUD would need an additional appropriation of nearly \$1.8 billion to fund these vouchers.<sup>5</sup>

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

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

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

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

FHEO's Oversight of State and Local Fair Housing Enforcement Agencies

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

**Ongoing Oversight:**

- Occupancy of Public Housing Units: OIG is auditing PIH's public housing program to assess the occupancy of public housing units, including examining the accuracy and completeness of the data PHAs provide and PIH relies on to determine related funding and to target technical assistance.
- Assessment of FHEO's Fair Housing and Civil Rights Compliance Reviews: FHEO has authority to conduct compliance reviews to determine whether a recipient of HUD funds was following applicable civil rights laws and implementing regulations. Our audit will assess how the Department, through FHEO and its partners, performed compliance reviews.
- Timeliness of FHEO's Investigations for Title VIII Complaints: Federal law requires that HUD complete investigations of each Fair Housing complaint within 100 days of the date it was filed unless it is impracticable to do so. Our audit will assess challenges faced by FHEO in meeting the 100-day investigation requirement.
- Assessment of Fair Housing Complaint Intake Process at a FHAP Agency: Our audit will focus on a FHAP agency in Kentucky to (1) determine the extent to which the FHAP agency processed fair housing complaints in a timely manner, (2) evaluate the reasons for closing complaints, and (3) evaluate how the FHAP agency provided customer service to complainants on closed fair housing complaints.

**Impactful Investigations:**

- [Justice Department Obtains \\$4.5 Million Settlement from a New Jersey Landlord to Resolve Claims of Sexual Harassment of Tenants](#): A landlord who owned hundreds of rental units in and around Elizabeth, New Jersey, agreed to pay \$4.5 million, including monetary damages and a civil penalty, to resolve a Fair Housing Act lawsuit concerning his sexual harassment of tenants and housing applicants for more than 15 years. This settlement is the largest monetary settlement the Justice Department has ever obtained in a case alleging sexual harassment in housing. The monetary damages awarded have been used to compensate numerous women and men who were sexually harassed by the landlord.
- [Justice Department Secures \\$400,000 in Sexual Harassment Lawsuit Against Connecticut Landlord](#): A former Section 8 Housing Assistance Payment landlord, agreed to pay \$400,000 to settle a lawsuit that he and two companies that owned properties with him, violated the Fair Housing Act. As part of the agreement, the landlord is also permanently enjoined from owning and managing residential rental properties in the future. The lawsuit alleged that the landlord

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

- [Three Family Members of the Former Director of the St. Clair Housing Commission Sentenced to Prison for Defrauding HUD](#): Three family members of the former executive director of the St. Clair Housing Commission were sentenced having previously pled guilty to various Federal offenses due to their involvement in the former executive director's fraudulent scheme to steal money from HUD. The former executive director (now deceased) had previously pleaded guilty and been sentenced to prison for conspiring with several family members to steal Federal funds provided to the St. Clair Housing Commission by HUD to administer low-income housing programs within St. Clair County. As part of their scheme, the former executive director and her family stole approximately \$336,000 in Federal funds, including money earmarked for HUD's HCV program. In total, \$336,340.22 in restitution has been repaid to HUD as a result of the prosecutions of the family.

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

HUD is required to ensure that its assisted properties are decent, safe, sanitary, and in good repair. Properties participating in HUD programs must be free of hazardous materials, contamination, toxic chemicals and gasses, and radioactive substances, when such a hazard could affect the health and safety of occupants or conflict with HUD's intended utilization of the property.<sup>6</sup> In particular, our Top Management Challenges report discusses HUD's difficulty in addressing risks associated with lead hazards, radon hazards, physical conditions of HUD-assisted properties, and the role of inspections in identifying and remedying poor living conditions. While HUD has made progress in its efforts toward eliminating hazards in its assisted properties, several safety and health issues remain to be addressed.

OIG is prioritizing oversight work that helps reduce environmental and public health hazards in HUD-assisted housing. We are committed to holding housing providers accountable for complying with environmental laws and regulations to protect the health of low-income households and vulnerable populations and will use every tool available to combat environmental crime and injustice in housing. In addition to the Inspector General's initiatives discussed above, our recent and ongoing oversight has been focused on identifying ways that HUD and its partners can improve the physical conditions of HUD-assisted properties.

#### Improvements Are Needed To Ensure That Public Housing Properties Are Inspected in a Timely Manner

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

<sup>6</sup> 24 CFR 50.3(i)(1) and 24 CFR 58.5(i)(2)(i)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Instead, we reviewed whether HUD properly flagged properties that received poor physical inspection scores.

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

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

OIG audited HUD to assess HUD's oversight of lead-based paint hazard remediation in public housing. The audit found HUD established procedures in the Lead Safe Housing Rule (LSHR) in 1999 to eliminate lead-based paint hazards, as far as practicable, in public housing. However, it did not have a plan to manage lead-based paint and lead-based paint hazards in public housing. Additionally, HUD generally did not monitor whether PHAs had implemented lead-based paint hazard reduction and documented the activities at their public housing developments. We found HUD relied on PHAs to implement their own methods to achieve lead-safe housing, which should have included implementing lead-based paint hazard reduction. Further, instead of monitoring PHAs for compliance with the lead-based paint hazard reduction procedures in the LSHR, HUD relied on PHAs' annual certifications of compliance. Without a plan to manage lead-based paint and lead-based paint hazards in public housing and ensure that PHAs implemented lead-based paint hazard reduction, HUD lacked assurance that (1) families with children under 6 years of age residing in public housing were not exposed to lead-based paint hazards and, thus, protected from lead exposure and (2) its procedures for eliminating lead-based paint hazards in public housing were effective.

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

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

Our evaluation found that HUD did not align its EBLL value to the Centers for Disease Control and Prevention's (CDC) blood lead reference value (BLRV) for children under the age of 6. As of August 2022,

HUD was using the EBLL value of 5 micrograms of lead per deciliter of blood ( $\mu\text{g}/\text{dL}$ ), despite CDC lowering the BLRV to  $3.5 \mu\text{g}/\text{dL}$  in October 2021. By aligning EBLL processes with CDC's BLRV, HUD can help to ensure that cases of children with EBLLs between  $3.5 \mu\text{g}/\text{dL}$  and  $4.9 \mu\text{g}/\text{dL}$  are reported and monitored. The evaluation also found ways HUD could improve the data fields of HUD's EBLL tracker to monitor cases of children with identified EBLLs residing in public housing, including facilitating access to historical EBLL cases, and the number of children living in a housing unit, or whether a specific unit, building, or development previously had an EBLL case. Additionally, when we compared the percentage of public housing development buildings constructed before 1978 to a snapshot of the EBLL tracker we found that New York and Pennsylvania together accounted for virtually all (94.1 percent) of EBLL tracker cases of children living in public housing with an EBLL resulting from a confirmed lead-based paint hazard. This result was despite other states' having the same amount or more public housing development buildings built before 1978, when lead-based paint was banned. Additionally, HUD can improve timeliness standards for addressing cases on HUD's lead-based paint response tracker.

**Ongoing Oversight:**

- Audit Series –PHA Management of Lead Based Paint in Public Housing: Like the audit of the Philadelphia Housing Authority above, OIG is currently auditing two large PHAs in Ohio and California to determine whether the PHAs adequately managed lead-based paint and lead-based paint hazards in their public housing.
- Carbon-Monoxide in HUD-Assisted Housing: OIG is evaluating HUD's plan to ensure all PHAs and owners of certain HUD-assisted housing comply with the requirements for carbon monoxide detector installation in accordance with the Consolidated Appropriations Act of 2021. The evaluation will also determine HUD's progress in implementing its plans and developing guidance for PHAs to educate residents, and determine what barriers PHAs' experience in implementing the requirements.
- HUD's Oversight of Multifamily Housing Properties with Failing REAC Scores or exigent health and safety deficiencies (EH&S) Deficiencies: We are auditing HUD's oversight of multifamily housing properties with failing REAC scores or EH&S to assess whether HUD has adequate oversight for (1) multifamily properties that failed the most recent REAC inspection and (2) multifamily properties with EH&S deficiencies.
- Audit Series - HUD's Oversight of the Physical Conditions of Project Based Rental Assistance (PBRA) and Federal Housing Administration (FHA)-insured Project Based Voucher (PBV) Units Under RAD & non-FHA Insured PBV Units Under RAD: OIG is conducting two audits of HUD's oversight of the physical conditions of units converted under the RAD program. The audits will assess whether HUD and PHAs have adequate oversight of the physical conditions of the units converted under RAD. They will also determine if the physical conditions of the RAD units improved, remained the same, or declined.
- Audit Series – Unit Conditions of PHAs: HUD OIG is conducting audits of two PHAs, one in Massachusetts and one in Ohio, to determine whether the physical conditions of the public housing agency's HCV and Public Housing Program units comply with HUD's and the PHAs' requirements.

**Impactful Investigations:**

- [Apex Waukegan LLC and Integra Affordable Management LLC Fined for Breach of Contract](#): Apex Waukegan LLC (Apex), a multifamily housing landlord receiving rental assistance subsidies from the HUD, and Integra Affordable Management LLC (Integra), Apex's affiliated management

agent, were ordered to pay \$1,258,671 in civil money penalties for breaching their Housing Assistance Payment Contract by knowingly failing to maintain housing units in a decent, safe, and sanitary manner.

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

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

HUD expands homeownership opportunities for first time homebuyers and other borrowers who would not otherwise qualify for conventional mortgages on affordable terms, as well as for those who live in underserved areas where mortgages may be harder to obtain. FHA is one of the largest mortgage insurers in the world, insuring mortgages for single family homes, multifamily rental properties, and healthcare facilities. More than 1 million individuals and families benefit from FHA's single-family mortgage insurance programs each year. As of July 2022, FHA had an active single family forward mortgage portfolio of nearly \$1.2 trillion, and there were 11,088 insured multifamily properties. The Government National Mortgage Association (Ginnie Mae) supported more than 2.3 million households in our nation's urban, rural, and tribal communities, including underserved segments of the population, and veterans. Ginnie Mae mortgage-backed security (MBS) issuance exceeded \$653 billion in fiscal year 2022, and the Ginnie Mae MBS outstanding reached a historic high of \$2.284 trillion.

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

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

Select completed and ongoing oversight includes:

[Servicers Generally Did Not Meet HUD Requirements When Providing Loss Mitigation Assistance to Borrowers With Delinquent FHA-Insured Loans<sup>7</sup>](#)

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

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

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

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

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

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

Our audit found borrowers were not always made aware of their right to a COVID-19 forbearance under the CARES Act. Based on a statistical sample, at least one-third of the nearly 335,000 borrowers who were delinquent on their FHA-insured loans and not on forbearance in November 2020, were either not

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

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

**Ginnie Mae Did Not Ensure That All Pooled Loans Had Agency Insurance**

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

**Opportunities Exist for Ginnie Mae To Improve Its Guidance and Process for Troubled Issuers**

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

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

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

**Ongoing Oversight:**

- COVID-19 Moratorium Foreclosures: OIG is conducting an audit of Office of Single Family Housing's oversight of the COVID-19 foreclosure moratorium (March 18, 2020 through July 31, 2021) to determine if servicers followed the requirements of the pandemic foreclosure moratorium.
- Audit Series – Servicer Post-Moratorium Foreclosures: OIG is auditing two mortgage lenders that service FHA single-family loans to determine whether the servicers (1) established that borrowers were ineligible for loss mitigation assistance before commencing foreclosure, and (2) reviewed requests received during foreclosure before continuing.
- HUD-Held Vacant Loan Sales Controls for Mission Driven Entities: OIG is auditing the Office of Asset Sales' HUD-Held Vacant Loan Sale (HVLS) program, which is another disposition option for defaulted FHA notes HUD uses to reduce losses and improve recoveries for FHA's Mutual Mortgage Insurance Fund, to assess the extent to which HUD has ensured the achievement of its mission objectives for the HVLS 2022-2 part 1 loan sale.
- FHA Appraiser Roster: Our audit will review whether Single Family's FHA appraiser roster, which is the list of individuals approved to conduct valuations for FHA-insured properties, is accurate and contains only eligible appraisers. HUD's appraiser roster is the foundation for these valuations and consists of approximately 40,000 different appraiser IDs.
- Audit Series - Quality Control Programs for Originating and Underwriting FHA Loans: We are auditing four large and mid-sized mortgage originators' quality control programs for originating and underwriting loans, including the companies' reviews of rejected mortgage applications. The lenders were selected following a risk assessment using origination, default, monitoring, and complaint data from HUD, HUD OIG, and the Consumer Finance Protection Bureau.

**Impactful Investigations:**

- [Salem Man Sentenced to Four Years in Prison for Decade-Long Mortgage Fraud Scheme](#): A Massachusetts real estate developer was sentenced to four years in prison for his involvement with a decade-long mortgage fraud scheme. He and his co-defendants caused false information about borrowers' employment, income, assets, and intent to occupy the property to be submitted to banks and other financial institutions on behalf of borrowers recruited to purchase local properties. Since the borrowers did not have the financial ability to repay the loans, they defaulted on loan payments involving 19 of 21 properties involved in the scheme, resulting in foreclosures and losses to the lenders. Additionally, the defendant sought to obstruct the investigation by encouraging his co-defendants to make false statements and create false documents to make the transactions appear legitimate.
- [California Mortgage Lender Agrees to Pay More Than \\$1 Million to Resolve Fraud Allegations](#): A mortgage lender based in Brea, California agreed to pay \$1,037,145 to resolve allegations that it improperly and fraudulently originated government-backed mortgage loans insured by FHA. The settlement resolves allegations that between December 2011 and March 2019, the mortgage lender knowingly underwrote certain FHA mortgages and approved for insurance certain mortgages that did not meet FHA requirements or qualify for insurance, resulting in

losses to the United States when the borrowers defaulted on those mortgages. The settlement further resolves allegations that the mortgage lender knowingly failed to perform quality control reviews that it was required to perform.

#### *Grants Management*

HUD's grant programs are vast and varied, and are often the largest source of flexible grant funding available to communities for broad economic and development activities. HUD must effectively oversee and manage over \$100 billion dollars in grant programs, thousands of grantees, and even more subrecipients. Below we discuss the challenges faced by HUD in (1) ensuring that grantee expenditures are eligible and supported; (2) meeting the need for reliable and complete financial and performance information; (3) the timely spending of grant funds and execution of grant programs; (4) navigating efficient and effective solutions to complex societal challenges when there are multiple sources of funding; (5) ensuring HUD's, grantees', and subrecipients' capacity to oversee grant programs; and (6) subrecipient monitoring.

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

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

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

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

We audited the Los Angeles Homeless Services Authority's CoC program to determine whether the Authority met the goals and objectives of housing and helping the homeless become self-sufficient through its CoC program and administered the program in accordance with HUD requirements. We found that the Authority did not fully meet the goals and objectives of the program and did not always follow program requirements. The Authority (1) did not use \$3.5 million in CoC grant awards and left the funds to expire, (2) did not support Homeless Management Information System and planning grant

costs, and (3) did not submit timely annual performance reports (APR). As a result, the unused CoC funds represent a missed opportunity to meet the program's goals of assisting the homeless, and HUD does not have assurance that \$879,847 in salary and rent costs were for the CoC grants. We recommend that HUD require the Authority to (1) ensure that grant agreements are executed in a timely manner and effective monitoring is performed to prevent similar occurrences of grant funds going unused, (2) support payroll and rent costs or repay its CoC grants \$879,847 from non-Federal funds, and (3) develop and implement strategies to address capacity and organizational problems or obtain technical assistance.

**Ongoing Work:**

- **ESG-CV Subrecipient and Contractor Monitoring:** We are auditing HUD's ESG-CV program, which is a grant program that funds rapid re-housing, homelessness prevention programs, and emergency shelters for people experiencing homelessness. Our objective is to assess HUD's monitoring of the \$4 billion supplemental ESG-CV grantees to ensure grantee monitoring of subrecipients and contractors that carry out the program meets program requirements.
- **Audit series – ESG-CV Program Fraud Risk Management:** HUD OIG is auditing a New York-based and a California-based grantees' CARES Act, ESG-CV program to assess the grantees' fraud risk framework, that encompasses control activities to prevent, detect, and respond to fraud.

**Impactful Investigations:**

- **Conspirators Sentenced for Scheme To Defraud Local Housing Programs**  
A housing specialist and three associates were collectively sentenced in U.S. District Court to 51 months and 1 day incarceration, 8 years supervised release, and 3 years probation. For more than 2 years, the housing specialist defrauded his employer, a nonprofit corporation funded in part through HUD's HOME Investment Partnerships and ESG programs, by falsely representing that the three associates were landlords eligible to receive funds dedicated to the nonprofit's programs. The housing specialist used fake rental agreements with stolen applicant identities and other documentation to cause the nonprofit to write 34 checks payable to the three associates, who then cashed the checks and split the proceeds with him. The housing specialist was sentenced in connection with his earlier guilty plea to conspiracy to commit wire fraud and aggravated identity theft and was ordered to pay jointly and severally with the three associates \$101,053 in restitution to the nonprofit and an insurance company.
- **Former Rochester Housing Authority Chair Going to Prison for Fraud, Money Laundering, and Lying to the FBI:** The former housing authority chair was sentenced to 78 months in prison following his conviction by a Federal jury for his role in defrauding the housing authority and three nonprofit organizations. He converted funds for his personal use that were intended to go to these organizations to provide supportive services for the elderly, disabled, low-income residents, and after-school and extended-day learning programs.

***Disaster Recovery and Mitigation***

OIG is focusing its oversight on ways in which HUD and its grantees' programs can be improved and deliver better and quicker disaster relief, while minimizing fraud, waste, and abuse. Our office has

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

OIG has issued oversight reports recommending that HUD codify, or seek permanent authorization for, its disaster recovery program. HUD has taken consistent, meaningful steps to address OIG's recommendations. Successive administrations have expressed support for permanent authorization in testimony before Committees of Congress, and HUD is again seeking permanent authorization in its Congressional Budget Justification for FY 2024.<sup>8</sup> We believe legislation permanently authorizing HUD's disaster recovery program would streamline, reform, and inject greater fiscal responsibility into the program, while also mitigating funding lags and duplicative requirements.

Examples of recent and ongoing disaster recovery oversight can be found below:

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

**The State of Georgia Did Not Adequately Monitor Its Harvey, Irma, and Maria Grants' Activities and Subrecipients**

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

<sup>8</sup> [https://www.hud.gov/sites/dfiles/CFO/documents/2024\\_CJ - CDBG-DR\\_Crosscut.pdf](https://www.hud.gov/sites/dfiles/CFO/documents/2024_CJ - CDBG-DR_Crosscut.pdf)

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

#### Virgin Islands Housing Finance Authority Ineffectively Monitored CDBG-DR Activities

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

#### Ongoing Oversight:

- Audit Series: Key Steps in HUD's implementation of its CDBG-DR and CDBG-MIT Programs: We are conducting audits of key aspects HUD's CDBG-DR and CDBG-MIT programs, including Program Timing, and Preventing Duplication of Benefits.
- Assessment of Puerto Rico CDBG-DR Grantee's Fraud Risk Management Practices: We are auditing the Puerto Rico Department of Housing's control activities to prevent, detect, and respond to fraud when administering the over \$20 billion in grants it received after the 2017 disasters.

#### Impactful Investigation:

- [Former West Haven Employee and State Representative Sentenced to Prison for Stealing COVID Relief and Other City Funds](#): A State Representative who was also employed by the City of West Haven, most recently serving as the Administrative Assistant to the City Council, was sentenced to 27 months in prison following a previous guilty plea to conspiracy charges stemming from involvement in schemes that resulted in the theft of more than \$1.2 million dollars in COVID relief funds and other funds from the City of West Haven. The individual conspired with others to steal the funds through the submission of fraudulent invoices, and subsequent payment, for COVID relief goods and services that were never provided. Two co-conspirators were sentenced to 13 months and 6 months in prison after pleading guilty to conspiracy to commit wire fraud. A third co-conspirator was sentenced to 8 years in prison, after being convicted of wire fraud and conspiracy charges following a jury trial.

### *Financial Management & Fraud Risk*

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

HUD has long struggled to come into compliance with the Payment Integrity Information Act of 2019 (PIIA) and is unable to fully and accurately estimate improper payments in its largest grant programs and a key disaster recovery program. HUD OIG will continue to focus audit resources to improving HUD's financial programs through statutorily required oversight of the Department's financial programs. We will also continue to test HUD's programs for systemic weaknesses in fraud risk controls and other gaps that could negatively impact HUD's programs.

#### HUD Did Not Comply with the Payment Integrity Information Act

We audited HUD's FY 2022 compliance with the Payment Integrity Information Act of 2019 (PIIA) and implementation of OMB guidance on preventing and reducing improper payments. Our objectives were to assess (1) whether HUD had met all requirements of PIIA and OMB Circular A-123, Appendix C- Requirements for Payment Integrity Improvement and (2) HUD's efforts to prevent and reduce improper and unknown payments. OIG found that, while making some progress, HUD was still noncompliant with PIIA in FY 2022.

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

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

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

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

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

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

We audited the maturity of HUD's fraud risk management program at the enterprise and program-office levels, including control activities to prevent, detect, and respond to fraud. We found that in all four phases of HUD's fraud risk management program was in the early stages of development, or at an "ad hoc" maturity level.<sup>9</sup> HUD's program is still in its infancy because HUD had not previously dedicated sufficient resources to lead and implement fraud risk management activities. Although HUD has recently taken steps to mature its program, HUD needs to commit resources to enhancing antifraud controls and promoting a culture of fraud risk management. Without improvements to its program, HUD may miss opportunities to identify and eliminate fraud vulnerabilities, leaving its funds and reputation at risk. OIG recommended HUD take several actions to assess and improve the maturity of HUD's fraud risk management program, as well develop policies, procedures, and strategies for collecting and analyzing data to identify fraud within HUD's programs, promote fraud awareness, and develop antifraud risk mitigation tools. We also recommend that the Chief Financial Officer determine and seek to fulfill an appropriate level of dedicated staff resources to administer HUD's enterprise and fraud risk management programs effectively and increase fraud risk awareness and strengthen antifraud controls in HUD's program offices.

#### Audit of HUD's Fiscal Years 2022 and 2021 Financial Statements<sup>10</sup>

We contracted with the independent public accounting firm of CliftonLarsonAllen LLP (CLA) to audit the financial statements of HUD as of and for the FYs ended September 30, 2022 and 2021. In its audit of

<sup>9</sup> The Antifraud Playbook established by the Chief Financial Officers Council and the U.S. Department of the Treasury assess maturity of an agency's fraud risk management program in four phases: (1) culture, (2) identifying and assessing fraud, (3) preventing and detecting fraud, and (4) turning insight into action.

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

HUD, CLA reported that the financial statements as of and for the FYs ended September 30, 2022 and 2021, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. CLA identified one material weakness for FY 2022 in internal control over financial reporting, based on the limited procedures performed. The material weakness was related to (a) FHA's financial accounting and reporting controls over borrowing authority and loan receivables and (b) HUD's financial reporting controls over grant accruals and Public and Indian Housing's cash management process. CLA also identified two reportable matters for FY2022 of noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements or other matters.

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

Ongoing Oversight:

- CDBG Grantee Federal Financial Reporting: Our audit will review HUD CDBG-Non-State Grantee Federal Financial Reporting to determine (1) whether the financial information collected from CDBG entitlement grantees is sufficient to monitor grantee financial reporting and performance as required by Federal rules; (2) whether HUD is properly reporting this information; and (3) whether HUD's monitoring of grantee's excess cash on hand is sufficient to ensure compliance with cash management requirements and to safeguard funds against fraud, waste, and abuse.
- FY 2023 HUD Financial Statement Audit: OIG has contracted with CLA to conduct the annual HUD financial statement audit. The objectives of CLA's audit are to (1) express an opinion on whether HUD's fiscal years 2023 and 2022 financial statements are fairly presented and adequately disclosed, in all material respects, in accordance with U.S. generally accepted accounting principles; (2) report any significant deficiencies and material weaknesses in internal control over financial reporting that come to its attention during the audit; and (3) report on the results of its tests of HUD's compliance with selected provisions of laws, regulations, and contracts.

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

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

## Impactful Investigations:

- [NYCHA Superintendents Sentenced to Prison for Accepting Bribes](#): Two superintendents were sentenced in U.S. District Court to 33 months in prison and 15 months in prison, respectively, for accepting bribes in exchange for awarding no-bid contracts at the New York City Housing Authority (NYCHA) facilities where they worked, undermining the integrity of the procurement process. One superintendent also obstructed justice in the weeks before his sentencing. Each superintendent previously pled guilty to one count of solicitation and receipt of a bribe
- [Baltimore Business Owner Sentenced to Federal Prison for Fraudulently Obtaining Federally Insured Loans to Sell Two Baltimore Properties He Owned](#): A business owner was sentenced in U.S. District Court for the District of Maryland to one year incarceration and one day, followed by one year home detention, and three years supervised release. He was ordered to pay more than \$370,000 in restitution and to forfeit over \$490,000. This sentence followed an earlier guilty plea to one count of conspiracy to commit bank fraud in relation to federally insured home loans. The defendant conspired to circumvent the rules governing FHA insured loans, including by falsifying bank account records, and not disclosing familial relationships in the sale of two properties.
- [Former Mortgage Broker Sentenced in \\$8 Million Southern California Mortgage Loan Fraud Scheme](#): A former mortgage broker was sentenced to five years and four months in prison following a no context plea in the Superior Court of the County of Los Angeles to all 91 charges of a felony complaint, including conspiracy, mortgage fraud, grand theft, and identity theft. The broker, along with an accountant and unknown co-conspirators, carried out a scheme involving falsified verification of employment documents, W-2s, Earning Statements, 1099s, gift letters, and school transcripts to assist borrowers in qualifying for loans that they were not otherwise qualified to receive. Their actions resulted in a potential loss to the government of \$5,736,840 for 17 loans. Seven FHA loans, totaling \$3,462,891 in value were referred to the Homeownership Center for indemnification.

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

A common thread woven through our Top Management Challenges report was HUD's challenges with managing human capital, IT modernization and cybersecurity, as well as efficiencies in procurement. These are not unique to HUD, as the IG community has found these issues to be Top Management Challenges throughout the Federal government. HUD has also taken recent steps to address some of the challenges, notably through improved communications between offices responsible for these services and the program offices that rely on them. HUD's most recent Strategic Plan shows how the Department has dedicated considerable effort to strengthening its internal capacity. OIG's oversight has and will continue to provide actionable recommendations that HUD can act upon to further those efforts.

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

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

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

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

#### **HUD FY 2022 Federal Information Security Modernization Act of 2014 (FISMA) Evaluation<sup>11</sup>**

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

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

We assessed the maturity of HUD's Robotic process automation (RPA) activities to determine whether HUD had implemented related controls to address technology and program management risks.<sup>12</sup> We found that HUD lacked adequate controls and capacity to operate its RPA program efficiently and

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

<sup>12</sup> RPA is a software technology used to emulate human actions on a computer. RPA software programs, referred to as "bots," can complete repetitive tasks quickly and consistently, freeing up employees to work on other, higher value activities.

effectively. Approximately 3 years since its inception, HUD's program had achieved minimal progress and results, and maintained a low program maturity. The program lacked a clear vision or measurable metrics to define program success. HUD also did not maintain adequate oversight of bot development and operations to ensure that limited RPA program funds were used efficiently. Finally, HUD lacked important IT controls related to the security and auditability of its RPA system infrastructure. As a result of these weaknesses, HUD missed opportunities to capitalize on the potential benefits of RPA and expended IT resources inefficiently on projects that provided minimal value. We recommended HUD implement new internal controls and further develop its internal capacity to manage and oversee the RPA program.

**Ongoing Oversight:**

- **HUD's Employee Retention:** Our evaluation will determine whether HUD has a high voluntary separation rate relative to similar agencies, and which program offices or demographic groups, if any, have high rates of attrition. The evaluation will also determine what retention-relevant programs HUD employs, the extent to which program offices use them, and where HUD's retention strategies align with best practices.
- **HUD's Recruitment Efforts To Address Underrepresentation of Employees Who Identify as Hispanic or Latino:** Our evaluation will assess HUD's recruitment efforts to address underrepresentation of employees who identify as Hispanic or Latino to (1) determine the status of HUD's recruitment plans and (2) identify how HUD tracks the effectiveness of associated recruitment actions. Employees who identify as Hispanic or Latino is the only Race and National Origin group for which HUD is underrepresented.
- **HUD FY 2023 FISMA Evaluation:** HUD is conducting the FY 2023 evaluation of HUD's information security program and practices to assess the maturity of the program and practices based on the annual IG FISMA reporting metrics.

**Conclusion**

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



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

To Questions for the Record

The Subcommittee on Housing and Insurance of the Committee on Financial Services, U.S. House of Representatives, June 21, 2023

Hearing Titled:

“HUD Oversight: Testimony of the HUD Inspector General.”

Question Submitted by Chairman McHenry

**Oversight of Scandals at the DC Housing Authority (DCHA)**

**Question:**

IG Oliver Davis: I want to turn our attention to a more local example of what happens when a housing agency lacks both oversight and competent leadership. My question involves the DC Housing Authority (DCHA), which has been plagued with troubles for some time. As you know, DCHA is one of the 126 Moving to Work (MTW) agencies nationwide. MTW is a HUD demonstration program for PHAs that allows them great funding flexibility from many existing public housing and voucher rules so that they can innovate and test locally designed strategies to increase housing choices for low-income families. DCHA has been an MTW agency since 2003.

Last September, HUD issued a report regarding the ongoing, serious, and in some cases likely criminal failures of the DCHA. This report, which the Washington Post called “[scathing](#),” found that DCHA is so poorly operated that it is actively jeopardizing the health and safety of its programs and making millions in illegal overpayments to landlords. The 72-page [report](#) cited, among other concerns with DCHA’s operations: “*Inadequate oversight...failure to comply with program requirements...Inadequate management and knowledge of property management functions...[a] failure to provide decent, safe, and sanitary housing opportunities for residents in violation of program requirements.*”

Making matters worse, when this scandal was uncovered, the DCHA Director Brenda Donald opted to retaliate by [firing](#) the whistle-blower on the DCHA Board, Bill Slover, and then coordinated to [give herself](#) a \$41,000 [bonus](#) on top of her \$275,000 annual salary (which already exceeds HUD’s salary limits). I know this report was done by HUD and not the IG, but can you comment on what has been going on here with DCHA and its management, and what can be done about it to protect DC residents and taxpayers?



Responses to Questions for the Record: Inspector General Oliver Davis, July 2023

**Answer:**

Thank you for your questions regarding the District of Columbia Housing Authority (DCHA). I am very concerned about the problems at DCHA, especially after having read HUD's September 2022 report, as well as the numerous media reports alleging fraud, waste, and abuse.

HUD's review of DCHA was very thorough, and the financial, administrative, and other findings from HUD's 2022 report are serious. Since my office became aware of HUD's report, we have analyzed and tracked its findings and HUD's recommendations for DCHA. I have tasked senior staff in my office with monitoring the systemic hurdles DCHA must clear to be on a path to successfully serve the needs of the D.C. community.

As the report outlines, DCHA is struggling to meet the fundamental requirements of a public housing authority. DCHA must expeditiously resolve those fundamental problems it faces. My office is actively engaged with internal and external stakeholders, including other law enforcement and oversight organizations and organizations that represent the tenants of DCHA, to make sure that we are apprised of DCHA's progress. DCHA is making in addressing the findings and recommendations in HUD's report. We are constantly evaluating how we can best apply our oversight in a manner that produces better outcomes for DCHA communities.

Your question raises concerns about potential criminal misconduct and whistleblower retaliation. As you are likely aware, it is long standing policy to neither confirm nor deny the existence of criminal investigations, and this response should not be taken as such. However, my office takes all allegations of misconduct seriously, and conducts our investigative operations fairly while also vigorously pursuing suspected misconduct. The same is true for allegations of whistleblower retaliation.

My office has initiated an audit as a direct result of our analysis of HUD's DCHA report. In the DCHA report, HUD determined that DCHA had an occupancy rate of 76.44 percent, which was identified as the lowest occupancy rate of any PHA across the country. DCHA is a participant in the Moving to Work demonstration program and as such, has the statutory requirement to continue to assist substantially the same total number of eligible low-income families as it did outside of the demonstration. The HUD report found DCHA is serving 1,400 less households than it is required to serve. HUD also found that DCHA does not have an accurate listing of vacant units and was not reporting accurate unit status information in HUD's Inventory Management System/PIH Information Center (IMS/PIC). In most of the developments inspected, there were units listed as vacant in IMS/PIC which were recorded as leased on DCHA's records and vacant units were listed as occupied in IMS/PIC. As these discrepancies affect the efficient and appropriate use of HUD's limited resource in its Operating Fund, we initiated an audit looking at PHAs across the country, including DCHA, to determine the extent PHAs are having similar issues with their vacant units.

Additionally, I previously directed my staff to identify other DCHA-specific audits and reviews that, if initiated at the appropriate time, may shed further light on the issues DCHA faces and provide findings and recommendations that HUD and DCHA to best serve the communities that rely on them. I look forward to keeping the Committee apprised of our oversight of DCHA in the future.