



U.S. Department of Housing and Urban Development
OFFICE OF INSPECTOR GENERAL




Top Management Challenges

Facing the U.S. Department of
Housing and Urban Development
in 2020 and Beyond

Memorandum

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Subject: Management and Performance Challenges for Fiscal Year 2020 and Beyond

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Each year, in compliance with Public Law 106-531, the Reports Consolidation Act of 2000, the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), issues a report summarizing what we consider the most serious management challenges facing the Department. In turn, HUD is required to include this report in its annual agency financial report. This report represents HUD OIG's perspective on the top management challenges facing HUD in fiscal year 2020.

HUD's top management challenges result from critical unaddressed internal or external risks, either longstanding or recently emerged. They represent HUD's greatest vulnerabilities to waste, fraud, abuse, and mismanagement or pose significant risk to HUD's ability to accomplish its mission. In developing this report, we considered the issues affecting HUD and applied our own judgment. We have continued to use the framework adopted last year after concluding that most of the challenges identified in 2019 are ongoing. We have added two new challenges – human capital and ethical conduct – based on the broad impact these challenges have on HUD's ability to accomplish its mission across programs and operations.

We have identified top management challenge within the following eight broad categories:

1. HUD's Human Capital – Fewer Employees, Significant Reliance on Contracted Services.
2. Ensuring the Availability of Affordable Housing That Is Decent, Safe, Sanitary, and in Good Repair.
3. Protecting the Mortgage Insurance Programs.
4. Providing Adequate Monitoring and Oversight of Its Operations and Program Participants.
5. Administering Disaster Recovery Assistance.

6. Modernizing Technology and the Management and Oversight of Information Technology.
7. Instituting Sound Financial Management.
8. Ensuring Ethical Conduct.

Within each of these categories, we have identified specific programs and practices, which represent critical risk to HUD's ability to meet the needs of its beneficiaries and protect taxpayer dollars. We have also identified HUD's progress, where applicable, to begin to address these challenges. We look forward to working with HUD to address these critical areas for improvement.

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TOP MANAGEMENT CHALLENGE

1

HUD's Human Capital—Fewer Employees, Significant Reliance on Contracted Services



- HUD Struggles To Maintain a Qualified Federal Workforce
- HUD Relies on Contractors To Conduct Its Mission

The U.S. Department of Housing and Urban Development's (HUD) accomplishment of its mission has been challenged by a steady decline in staffing and related reliance on third parties to operate, implement, and monitor HUD programs. As of May 2019, HUD had 7,306 employees, nearly 30 percent fewer than it had 20 years ago. HUD predicts that by fiscal year 2020, 57 percent of its employees will be retirement eligible.¹ At the same time, HUD's overall footprint in lending and grant programs has increased and with this, its responsibilities to manage this portfolio of programs. Examples include Federal Housing Administration (FHA) and Government National Mortgage Association (Ginnie Mae) support to the U.S. residential lending system during the financial crisis² and new and burgeoning programs to support America's aging population, including home equity conversion mortgages (HECM)³ and the Section 232 program⁴ (which insures mortgages on residential care facilities). HUD also faces an aging rental housing portfolio and increasing demand for affordable housing. Finally HUD, as a key source of disaster recovery funds, has administered \$83.7 billion in funding since 2001, of which \$35.8 billion has been appropriated since 2017.

¹ HUD Strategic Workforce Plan 2018-22, issued June 28, 2018, p. 10

² As of August 2019, FHA's insured loan balance was almost \$1.5 trillion, and Ginnie Mae's insured securities approached \$2.087 trillion.

³ As of 2018, FHA had insured more than one million HECM loans, of which approximately 551,000 are still active. See the U.S. Government Accountability Office (GAO) report, Reverse Mortgages, HUD Needs to Improve Monitoring and Oversight of Loan Outcomes and Servicing, GAO-19-702 (September 2019).

⁴ The 232 program has also grown substantially. As of March 2018, HUD insured 2,458 loans with a principal balance exceeding \$19.6 billion (Audit Report 2018-BO-0001, HUD's Monitoring of the Financial Performance of Section 232 Nursing Homes, issued September 17, 2018).

HUD has been challenged to adjust its workforce to these changes and to seek other avenues for meeting its human capital needs, primarily through contracts. The impacts of these challenges contribute to many of the other management challenges discussed in this report.

HUD Struggles To Maintain a Qualified Federal Workforce

By HUD's own assessment, its top enterprise risks include the hiring and retention of qualified staff, the justification of staffing levels and reassignments, and staff training and skills gaps.

A key issue is attracting and hiring qualified staff. Over the past 2 years, the Office of Inspector General (OIG) has expressed concerns about HUD's inability to retain leadership and supporting staff in certain key positions. Over the last year, HUD's Federal staff has continued to decrease by the hundreds, and the lack of staff in key management positions has affected a number of HUD offices. A review of HUD's staff directories indicates the scope of the problem. The Office of Housing, HUD's largest office, is led by an Assistant Secretary who also acts as HUD's Deputy Secretary. The current Deputy Assistant Secretary in Housing is also acting, and nearly a quarter of the management positions in Housing are either vacant or filled by acting staff.⁵ The Office of Administration lacks an Assistant Secretary, one of the two deputies is acting, and approximately one quarter of the Office of the Chief Human Capital Officer's management positions are either vacant or held by acting staff.⁶ In the Office of Public and Indian Housing (PIH), a quarter of the management positions are either vacant or held by acting staff. In the Office of the Chief Information Officer (OCIO), approximately half of the key positions are either vacant or held by acting staff.⁷ And in the Office of Fair Housing and Equal Opportunity, nearly two-thirds of the field management positions are either vacant or held by acting staff.⁸



HUD's hiring processes take longer than the Federal standard of 80 days, with HUD reporting its average time to hire as 113 days in fiscal year 2018, resulting in a deficiency in hiring needed staff, even when funds are available.

Specifically, a March 2019 U.S. Government Accountability Office (GAO) report examined HUD staffing for its Community Development Block Grant Disaster Recovery (CDBG-DR) program and noted that despite significant increases in appropriations for disaster relief, the program's number of staff members had increased at a significantly slower rate.⁹ HUD officials reported an intent to hire some 20 new staff members with

⁵ Office of Housing Directory, https://www.hud.gov/program_offices/housing/dirhousi

⁶ The Office of the Chief Human Capital Officer's Key Staff Directory, https://www.hud.gov/program_offices/administration/about/ochcodir

⁷ Chief Information Officer Functional Points of Contact, https://www.hud.gov/program_offices/cio/dircio

⁸ Who's Who in FHEO [Office of Fair Housing and Equal Opportunity], https://www.hud.gov/program_offices/fair_housing_equal_opp/fheodir

⁹ GAO report, Disaster Recovery, Better Monitoring of Block Grant Funds is Needed, GAO-19-232 (March 2019)

approved funding in fiscal years 2018 and 2019; however, as of August 2019, HUD had not hired any additional staff.

HUD has made progress in filling senior positions, notably in the hiring of a Chief Financial Officer (CFO). The CFO is making strides to address the Department's longstanding financial governance issues. In addition, HUD's Strategic Plan and its Integrity Taskforce are focusing on improving HUD's hiring process, with goals that include shortening the hiring timeframe, expanding avenues for hiring, and improving data resources. HUD's fiscal year 2018 Performance Plan notes that it has reduced its hiring timeline by several days. Additionally, HUD's hiring performance may improve due to congressional action in fiscal year 2019, which authorized HUD to annually spend salaries and expenses over a 2-year period.

HUD also faces challenges in its workforce and strategic planning. The same issues HUD referenced as enterprise risks were identified by GAO in multiple reports dating back to 2013. GAO noted that while HUD has historically responded to these reports by updating its workforce and strategic plans, HUD has struggled with maintaining these updates and its strategic vision regarding its workforce. For example, the 2019 GAO report on CDBG-DR noted that HUD had not conducted any strategic workforce planning and could not demonstrate that planned hiring would provide the needed knowledge, skills, and abilities for its mission.

In March 2018, HUD adopted a Human Capital Operation Plan and Strategic Workforce Plan and noted particular challenges regarding its aging workforce and the need to close skills gaps.¹⁰ HUD identified in its fiscal year 2018 Performance Report that it had completed strategic workforce and succession planning for 67 percent of its mission-critical occupations.¹¹

HUD Relies on Contractors To Conduct Its Mission

With HUD's number of Federal employees in decline, the Department relies on third parties to manage program development, implement and monitor HUD programs, and support HUD planning and policy development. While contracting out for services has enabled HUD to conduct its mission despite a decreasing workforce, HUD faces challenges in overseeing the contractors' substantive program work, monitoring their performance, and evaluating the value of the services. In fiscal year 2017, HUD awarded 1,589 contracts and related commitments with a total cost of \$3.9 billion.¹² Ginnie Mae,¹³ the Office of Housing,¹⁴ OCIO, and the Office of Administration are the largest users of these contracting services. HUD's fiscal year 2019 Forecast of Contracting Opportunities

¹⁰ This plan is required by 5 CFR (Code of Federal Regulations) part 250, subpart B, and is required to align with the HUD Strategic Plan.

¹¹ HUD Fiscal Year 2020 Annual Performance Plan and Fiscal Year 2018 Annual Performance Report, p. 79, fn. 171

¹² Evaluation Report, 20017-OE-0006, HUD's Use of Contractors, dated December 20, 2018

¹³ In fiscal year 2018 alone, Ginnie Mae obligated \$616 million for contractors, while the appropriation for its in-house staff was \$27 million. Ginnie Mae has estimated that contractors constitute more than 80 percent of its human capital, with most of those contractors performing core Ginnie Mae functions. See GAO report, Ginnie Mae: Risk Management and Staffing-Related Challenges Need to Be Addressed, GAO-19-191 (April 2019).

¹⁴ Housing relies heavily on contractors for numerous back office functions, most notably to support its claims payments, real-estate owned (REO) program, and asset sales program. Contractors also implement HUD's distressed asset sales program, which is increasingly used by HUD in lieu of REO sales. See GAO report, FHA Property Conveyance, GAO-19-517 (June 2019).

identifies additional HUD functions that rely on contractors, ranging from the development of HUD policy and guidance documents to the comprehensive management of Section 232 program troubled projects – which would include monitoring troubled assets, managing claims, foreclosure, and receivers – and acting as an accounts receivable lender. HUD recently sought industry input for a contract that would establish a HUD Office of Chief Data Officer, including developing the structure and terms of the office, operationalizing the office, developing governance standards, and training HUD staff.¹⁵

HUD's reliance on third parties for key functions creates challenges for HUD's Federal staff members, who must understand the HUD program and the contract structure and requirements. In its 2019 Enterprise Risk List, HUD acknowledged risks regarding untimely procurement, improper training and workload of contracting officer representatives (COR), and inadequate oversight of vendors and third-party service providers. A contract's failure risks HUD's ability to accomplish its mission. For example, HUD's recent lapse in a contract to operate HUD's records management and tracking system prevented Freedom of Information Act (FOIA) requestors from submitting requests online, and HUD was unable to electronically track requests or redact documents.¹⁶ HUD processed more than 2,000 FOIA requests in both fiscal years 2017 and 2018.¹⁷

HUD's contract deficiencies have also contributed to the Department's failure to provide OIG with timely access to electronically stored information. In April 2019, the Inspector General outlined for the Secretary the significant negative effects that delayed access to electronically stored information has had on OIG's oversight efforts, specifically in criminal investigations.¹⁸ In 2017, OIG raised similar concerns with deficiencies in HUD's e-discovery contract, which could subject HUD to monetary and other court sanctions and otherwise prevent HUD from effectively prosecuting and defending lawsuits.¹⁹

HUD's procurement office is understaffed and cannot handle HUD's current procurement needs. In 2014, Ginnie Mae transitioned its contracting needs to the U.S. General Services Administration (GSA) after concluding that HUD could not meet these needs in a timely manner.²⁰ HUD relies on the U.S. Department of Health and Human Services' Shared Services for acquiring several contracts. Additionally, HUD is working with GSA's Technology Transformation Services' Center for Excellence to procure six major information technology (IT) modernization contracts.

HUD relies heavily on program staff to oversee contracts. CORs generally work in the program offices seeking the services. In many cases, COR functions are an additional duty to the employee's current position. Ginnie Mae has identified a shortage of Federal staff to oversee its contracts.²¹

The Secretary has included the goal of streamlining acquisition management in HUD's 2018-2022 Strategic Plan.²² HUD's Integrity Taskforce includes a project management

¹⁵ FedScoop, HUD Wants some Help In Creating Its Office of the Chief Data Officer, dated May 17, 2019

¹⁶ Propublica, HUD's System for Processing Public Records Requests Died During the Shutdown, February 13, 2019

¹⁷ HUD 2018 Annual FOIA Report at https://www.hud.gov/program_offices/administration/foia/foiarpts

¹⁸ Management Alert: OIG Access to Electronically-Stored Information Memorandum No: 2019-IG-001

¹⁹ Evaluation Report 2017-OE-0008, E-Discovery Management System's Capacity To Meet Customer Demand for Electronic Data, dated December 6, 2017

²⁰ GAO report, Ginnie Mae: Risk Management and Staffing-Related Challenges Need to Be Addressed, GAO-19-191 (April 2019)

²¹ GAO report, Ginnie Mae: Risk Management and Staffing-Related Challenges Need to Be Addressed, GAO-19-191 (April 2019). According to the report, Ginnie Mae plans to hire a contractor to help fill this gap.

²² See HUD Fiscal Year 2020 Annual Performance Plan and Fiscal Year 2018 Annual Performance Report, p. 89.

team focused on this issue, stating that it has completed an assessment of HUD's Procurement Office and has begun to initiate a process to improve time to acquisition and to provide full-time CORs in some offices.

TOP MANAGEMENT CHALLENGE

2

Ensuring the Availability of Affordable Housing That Is Decent, Safe, Sanitary, and in Good Repair



- Affordable Housing
- Safe Housing
- Housing Inspections

HUD is responsible for providing quality, affordable homes for all. HUD's basic property standards require that housing be decent, safe, sanitary, and in good repair. HUD is challenged with addressing the full spectrum of housing needs, from emergency homelessness, low-rent public housing, and multifamily and scattered-site rental assistance to single-family home ownership. Economic and demographic factors, as well as aging housing stock, contribute to the Nation's severe shortage of safe, affordable housing. HUD needs to take continuous action to ensure that the quality and quantity of affordable and safe housing match demand.

Affordable Housing

HUD has several programs designed to ensure affordable housing for low- to moderate-income households, the largest of which are its public housing and rental housing assistance programs. HUD's 2017 Worst Case Housing Needs Report found that there is a critical unmet need for safe and affordable housing.



Although these programs assist millions of American households, the report found that the supply of affordable rental units for very low-income renters is inadequate, with only 62 affordable units available per 100 very low-income renters and only 38 units available per 100 extremely low-income renters.²³

Further, because of the rapid increase in renter households and competition among applicants, that scarcity of affordable units is impacting people higher on the income scale. HUD has stated that a family with one full-time worker earning the minimum wage cannot afford the local fair-market rent for a two-bedroom apartment anywhere in the United States.²⁴

In June 2019, the President issued an executive order to establish a White House Council on Eliminating Regulatory Barriers to Affordable Housing. Secretary Carson will chair the Council, which is tasked with studying the effects of exclusionary zoning by local governments. These zoning regulations prohibit the development of multifamily complexes in areas zoned for single-family residences. Secretary Carson stated, “Increasing the supply of housing by removing overly burdensome rules and regulations will reduce housing costs, boost economic growth, and provide more Americans with opportunities for economic mobility.”²⁵

Out of necessity, HUD is implementing a number of creative strategies to address the affordable housing issue. For instance, to address an estimated \$35 billion capital needs shortfall, HUD is using programs like the Rental Assistance Demonstration Program (RAD) to encourage public housing agencies (PHA) to transition public housing units to a private-public partnership model. According to an August 2018 newsletter, HUD reports that RAD has saved 100,000 affordable residences.²⁶ In another example, multifamily project owners who receive tenant subsidies from HUD are using alternative financing vehicles, such as low-income housing tax credits and municipal revenue bonds to leverage capital for aging properties. Under its existing regulatory scheme, this majority of alternate financing processes is outside HUD’s control. The long-term effect of both of these approaches remains unknown. OIG’s past work demonstrates that some negative effects could derive from these funding models. Some observable and foreseeable consequences include the possible reduction of affordable housing stock as financing is paid off, program funds are defederalized, and regulatory oversight is limited (caused by the absence of regulatory agreements). OIG will continue to monitor HUD’s implementation of these strategies to increase the availability of quality, affordable housing.

Safe Housing

In addition to ensuring that affordable housing is available, HUD is responsible for guaranteeing that the units are environmentally safe. HUD’s most noteworthy safe housing challenges include addressing lead paint hazards and hazardous waste in public housing.

²³ Worst Case Housing Needs, 2017 Report to Congress, The Office of Policy Development and Research, August 2017

²⁴ HUD’s program definition of affordable housing, https://www.hud.gov/program_offices/comm_planning/affordablehousing/

²⁵ DS News, Ben Carson Named Affordable Housing Chair, June 25, 2019

²⁶ HUD Newsletter on Rental Assistance Demonstration, 100,000 Homes Preserved, dated August 13, 2018

Many buildings constructed before 1978 contain lead paint. HUD has created a strategic goal to remove lead-based paint and other health and safety hazards from its housing sites. Recent events at the New York City Housing Authority demonstrate the challenges HUD faces in implementing this goal. For years, the Authority violated key HUD and U.S. Environmental Protection Agency (EPA) lead paint safety regulations, including failure to inspect apartments for lead paint hazards and to remediate peeling lead paint. In a 2018 audit report, OIG found that HUD did not (1) ensure that PHAs properly reported and mitigated cases involving children with lead contamination, (2) establish policies and procedures for PHAs reporting children with lead contamination, or (3) ensure that PHAs completed required lead-based paint inspections.²⁷

Lead paint is also a major concern for HUD's multifamily housing programs.



According to the Centers for Disease Control and Prevention, nearly 24 million households contain elevated levels of lead paint, with roughly 1.2 million of these households identified as low income with children under 6 years of age.²⁸

While Congress has conducted hearings on viable approaches to permanently deal with these lead problems, no solution has been identified. OIG's continuing work on the hazards of lead paint in public housing indicates that some property owners have disregarded the Lead Safe Housing Rules, with little attempt at compliance.

Drinking water contaminated with lead is also an ongoing public housing issue. In 2016 and 2017, OIG reported that HUD did not provide sufficient guidance and oversight to ensure that properties approved for mortgage insurance had a continuing and sufficient supply of safe and potable water.²⁹ As a result, HUD may have endorsed loans for properties with water contaminants that affected tenants' health.

In addition to HUD's challenges with lead paint and water contamination, some subsidized housing tenants have an increased risk of contamination from hazardous waste sites, commonly called Superfund sites.³⁰ After elevated levels of lead were found in the blood of 21 children at the West Calumet Housing Complex in East Chicago in 2016, HUD collaborated with EPA to conduct a nationwide review to identify its properties that were near Superfund sites. EPA found that 18,158 HUD-assisted buildings were located within 1 mile of a Superfund site. EPA also found that approximately 41 percent of the sites had not been cleaned, had ongoing human exposure to toxins, had soil contamination, or had no data to determine the level of exposure to toxins.³¹ Although EPA reported these findings to HUD in October 2016, HUD has not determined which

²⁷ Audit Report 2018-CH-0002, HUD's Oversight of Lead-Based Paint in Public Housing and Housing Choice Voucher Programs, issued June 14, 2018

²⁸ The Prevalence of Lead-Based Paint Hazards in U.S. Housing, (David Jacobs et al) Environmental Health Perspectives, Vol. 110, No. 10, October 2002

²⁹ Audit Report 2016-PH-0003, HUD Did Not Ensure That Lenders Verified That FHA-Insured Properties in Flint, MI, Had Safe Water, issued July 29, 2016, and Audit Report 2017-PH-0003, Oversight of Safe Water Requirements for FHA-Insured Loans Nationwide, issued September 29, 2017

³⁰ The Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, was enacted by Congress on December 11, 1980. Superfund sites are contaminated sites that exist due to hazardous waste being dumped, left out in the open, or otherwise improperly managed. These sites include manufacturing facilities, processing plants, landfills, and mining sites.

³¹ Report entitled EPA/HUD NPL Proximity Analysis, October 2016 (nonpublic)

sites pose the greatest risk to residents and has not tested sites to determine whether contaminants exist, which could endanger nearby residents.

Property owners' use of alternative financing mechanisms has become more prevalent in the subsidized housing market. Specifically, property owners in the multifamily market are using low-income housing tax credits and mortgage revenue bonds to create a funding stream with advantageous financial terms in return for keeping the units affordable for low- and moderate-income households.

The structure of these alternative financing deals can result in the overleveraging of properties and shortages of operating funds, issues that are sometimes revealed through deferred maintenance or the property's inability to meet its financial obligations. Although alternatives to HUD-insured financing are viable options, the properties lack a regulatory agreement (associated with FHA insurance), which provides more safeguards and remedies for HUD than the Section 8 contracts. Additionally, the assignment of a Section 8 contract to a bond servicer creates a situation in which most of the value of the subsidies is committed first to debt service.

OIG investigations reveal that relationships solely governed by the housing assistance payments contract create a severe disadvantage for HUD's ability to enforce the contract terms. When landlords fail to provide decent, safe, and sanitary housing, HUD's only recourse is to terminate the contract. Some landlords have pressed this advantage to their benefit through extracting fees and proceeds from the financing transactions and severely deferring maintenance, the latter of which can create deplorable conditions and in some cases, dangerous and deadly outcomes.

Housing Inspections

HUD is tasked with the challenge of providing oversight of its properties to ensure that they are decent, safe, sanitary, and in good repair. HUD uses Real Estate Assessment Center (REAC) inspections to assess the physical condition of many of HUD's insured and subsidized properties. HUD has acknowledged inspection process limitations, such as the Department's use of a single inspection process, regardless of the property type. HUD is currently modernizing its process with the development and testing of a new protocol called the National Standards for the Physical Inspection of Real Estate (NSPIRE). The NSPIRE process places greater value on the living areas of dwellings and requires the owners' affirmative acknowledgement that their self-inspections are 100 percent completed.

REAC inspections have repeatedly produced substandard and inconsistent results in public housing, multifamily, and healthcare facility inspections. When program participants fail inspections, HUD management is typically slow or completely fails to act. PIH allows PHAs to use Federal funds to hire REAC consultants, resulting in an insider group of REAC Inspectors who coach PHAs and multifamily owners on manipulating the system. HUD acknowledges that the current REAC system permits owners to pass inspection even if they fail the unit inspections. Egregious health and safety violations inside living units are valued at less than one percentage point of the overall score. On multiple occasions, healthcare and multifamily facilities that made few or no changes between REAC inspections would receive substantially different scores in later inspections. Public housing and multifamily properties scoring less than 80 are supposed to be inspected annually; however, despite failing REAC scores, many nursing home

properties were not inspected again for more than 3 years. NSPIRE is purported to resolve many of the unacceptable REAC deficiencies that allow units to obtain passing scores while health and safety issues persist.

HUD has expressed a need for nursing home facilities to have inspection procedures separate from those of housing. However, the development of these procedures is not expected to occur until the completion of NSPIRE's 2-year testing period. The Office of Residential Care Facilities is responsible for overseeing the administration of HUD's skilled nursing facilities. HUD policy allows properties with a score of 60 (out of 100) to be inspected solely by the Centers for Medicaid and Medicare Services. The resulting inspection process is skewed toward patient care and disregards the physical structures in which services are provided. This practice, coupled with HUD's self-proclaimed "aggressive avoidance of claim" strategy when dealing with healthcare facilities, creates an environment in which extremely vulnerable individuals may be exposed to unsafe and unhealthy living conditions.

TOP MANAGEMENT CHALLENGE

3

Protecting the Mortgage Insurance Programs



- FHA's Mortgage Insurance Programs Lack Sufficient Safeguards
- HECM Losses Undermine FHA's MMI Fund
- Ginnie Mae's Nonbank Issuers Increase Its Risk
- Ginnie Mae's Shift Toward an Entirely Digital Mortgage Life Cycle Presents New Challenges

HUD plays a significant role in the housing finance market by providing insurance to private lenders through FHA and expanding market liquidity through Ginnie Mae. FHA provides government insurance and guarantees on single-family mortgages, HECMs, apartment buildings, residential health facilities, and hospitals. By committing the full faith and credit of the United States to repayment of lenders should the borrower default, HUD expands affordable home ownership, rental housing, and healthcare facilities. As of May 2019, FHA had insured more than 8 million mortgages with an outstanding principal balance of nearly \$1.2 trillion, amounting to 17 percent of all mortgages in the United States.

Ginnie Mae, a wholly owned corporation within HUD, allows lenders with government-insured and -guaranteed loans to bundle those loans as collateral for mortgage-backed securities (MBS) and sell those securities to investors, thereby recouping funds extended to fund the loans and replenishing lenders' liquidity. Ginnie Mae's outstanding MBS portfolio is valued at more than \$2 trillion.³² Ginnie Mae issuers, which issue the MBS and service the collateral loans, are required to ensure that investors are paid monthly, regardless of whether the borrower pays. The issuer must advance its own funds when

³² Progress Update: Ginnie Mae 2020-The Road to Modernizing and Enhancing Our Programs, issued June 2019

the borrower defaults until it can make a claim to a loan guarantee agency (for example, FHA). These issuers must have significant liquidity available to meet these obligations.

While Ginnie Mae is funded through fees and maintains a reserve of \$15.9 billion,³³ FHA's guarantees are backed by mortgage insurance funds, primarily the Mutual Mortgage Insurance (MMI) Fund. The MMI Fund is funded by insurance fees from borrowers and is used to pay lenders when loans default. If HUD cannot maintain the MMI Fund at a certain level, it must seek an appropriation consistent with Federal Credit Reform requirements.

FHA's Mortgage Insurance Programs Lack Sufficient Safeguards

To maintain the solvency of mortgage insurance programs, FHA must ensure that the borrower meets HUD's eligibility requirements and follows the processes put into place to avoid or minimize default expenses.

Individuals who have delinquent Federal debt or who are subject to Federal administrative offset for delinquent child support are ineligible for FHA-insured loans. Lenders who originate the FHA-insured loans make these eligibility decisions and approve insurance on HUD's behalf. In fiscal year 2019, HUD OIG found that lenders lacked information critical to compliance with Federal requirements and that FHA did not adequately guide lenders on reviewing an applicant's child support records. HUD OIG estimated that in 2016 alone, FHA insured more than 9,500 ineligible loans worth \$1.9 billion. As of August 2019, FHA is working with representatives from the U.S. Department of the Treasury's Do Not Pay portal to evaluate using the portal to identify delinquent Federal debt or child support as part of the FHA insurance endorsement process.

When an FHA-insured loan defaults and the lender submits a claim, HUD is obligated to reimburse the lender for losses, including the unreimbursed principal of the mortgage and the holding costs of the lender during the foreclosure and conveyance process. Typically, the longer the process takes, the greater the costs for HUD. HUD regulations incorporate timeframes for foreclosure and conveyance, but HUD does not establish a maximum timeframe for filing a claim or a limitation on holding costs when timeframes are not observed.

HUD regulations require the servicer to obtain a good and marketable title and convey the property to HUD, generally within 30 days of the date on which the servicer filed the foreclosure deed for record. FHA officials said the conveyance process should take about 37 days to complete—30 days for servicers to make necessary repairs and convey title to FHA and 7 days for FHA to inspect the property and process it for sale. A June 2019 GAO report found that from 2010 to 2017, the process for conveying foreclosed-on properties to FHA took a median of 70 days, with servicers exceeding the required conveyance timeframe 55 percent of the time.³⁴ In 2017 alone, the corresponding figure was 72 percent. In fiscal year 2018, HUD recouped only 54-59 percent of losses paid out on defaulted loans conveyed to HUD.³⁵

³³ As of March 2019, this was the balance of Ginnie Mae's Capital Reserve Fund.

³⁴ GAO report, Federal Housing Administration - Improved Procedures and Assessment Could Increase Efficiency of Foreclosed Property Conveyance, GAO-19-517 (June 2019)

³⁵ Congressional Research Service report, FHA Single-Family Mortgage Insurance: Financial Status of the Mutual Mortgage Insurance Fund (MMI Fund), by Katie Jones, updated March 4, 2019

In March 2018, FHA implemented a preconveyance inspection pilot, in which FHA physically inspects certain properties and provides the servicer with the opportunity to fix any issues before conveying the property. However, HUD has not addressed the significant lag between HUD timeframes for conveyance, the actual conveyance times of a majority of submitted properties, and the impact of this lag on costs to HUD.

HECM Losses Undermine FHA's MMI Fund

The HECM portfolio has had a longstanding negative impact on the MMI Fund that has worsened this past year. In HUD's 2018 Annual Report to Congress on the financial status of the MMI Fund, HUD reported that the net worth of its HECM portfolio was a negative \$13.63 billion. In fiscal year 2018, HECM claims increased to \$5.69 billion, up from \$5.03 billion reported in fiscal year 2017.



As a result of the rising claims, fiscal year 2018 net cash flow from insurance operations was a negative 21.75 percent of the value of the existing HECM portfolio.

Because the HECM program is complicated and targets an aging population, it is vulnerable to fraud schemes. The program incorporates protections for these borrowers, but they could be improved. For example, applicants are required to attend housing counseling to obtain the HECM loan, but HUD does not require that these sessions be conducted in person. Because a great majority of these counseling sessions take place over the telephone, a housing counselor would not know whether he or she was speaking with the borrower or someone posing as the borrower or whether an interested party or family member was coaching the elderly borrower. According to a 2018 report by the U.S. Special Committee on Aging, elder financial abuse was one of the top 10 consumer scams targeting seniors in 2017.³⁶

HUD must ensure that lenders participating in the HECM program comply with HUD requirements and minimize claim costs to HUD. When a loan becomes due and payable, the lender is permitted to submit a claim to HUD for reimbursement of the outstanding loan amount, allowable costs of servicing, and debenture interest (DBI) on the unpaid principal balance. But the lender is required to observe a number of HUD timeframes to claim interest. The failure to observe these timeframes requires that the lender curtail or exclude DBI to the date of failure in the claim to HUD.

Since 2015, the OIG has conducted several investigations, which found that the HECM industry was aware of the DBI regulations and in some cases, chose to ignore them and concealed failures to observe these timeframes. For a time, lenders have acknowledged their failure to follow HUD regulations and were willing to settle with the government. OIG's progress in prosecuting these violations has been hampered, however, by HUD's lack of support. The Department's failure to enforce lender misconduct places HUD at greater risk for losses in the future.

³⁶ U.S. Special Comm. on Aging, 115th Cong., Fighting Fraud: Senate Aging Committee Identifies Top 10 Scams Targeting Our Nation's Seniors (Comm. Print 2018)

HUD has made several program changes over the years to stabilize the HECM program. FHA plans to continue to assess the HECM portfolio throughout fiscal year 2020 and consider other changes as warranted.³⁷

Ginnie Mae's Nonbank Issuers Increase Its Risk

In the past 10 years, Ginnie Mae's issuers have transitioned from being predominantly banks (with an 82 percent majority in 2011) to nonbanks (with a 78 percent majority in 2018).³⁸ Issuers are responsible for servicing, remitting, and reporting activities on the mortgages that collateralize the MBS. They must have sufficient liquidity to advance payments to investors, even when a borrower does not pay, or advance funds to purchase the loan from the pool. Nonbanks are financial institutions that only offer mortgage-services, have no depositor base, and are less regulated than banking institutions. The average amount of MBS issued per nonbank issuer has increased from \$484 million to \$1.16 billion within the past 10 years.³⁹ Both OIG and Ginnie Mae have reported that the increase and complexity of nonbank issuers presents an unmitigated challenge for monitoring efforts.⁴⁰

Nonbank issuers have improved consumer access to federally insured mortgages, but according to Ginnie Mae officials, the sharp growth in nonbank issuers increases HUD's oversight challenges and costs associated with monitoring them. In its 2017 annual report, Ginnie Mae noted that the majority of nonbank issuers involved third parties in their MBS transactions, complicating its oversight of the issuers. Ginnie Mae also noted that monitoring nonbanks significantly increased Ginnie Mae staff's workload.

In addition to an increase in the overall number of nonbank issuers, the concentration of MBS among the largest nonbank issuers has increased. Between 2011 and 2018, the average MBS issuance by the top five nonbank issuers increased from \$7.2 billion to \$28.7 billion (in fiscal year 2017 dollars). If one of these issuers failed, Ginnie Mae would be significantly impacted if it assumed the defaulted portfolio, as it did with the Taylor, Bean, and Whitaker default in 2009. As of September 2018, the vast majority of the issuers on Ginnie Mae's Watch List—an enhanced oversight tool used to monitor issuers exposing Ginnie Mae to relatively high credit or operational risk—were nonbank issuers.⁴¹

In a September 2017 audit, OIG found that Ginnie Mae was not prepared for the shift in its issuer base and Ginnie Mae staff lacked necessary skills to respond to increased risks posed by the shift. Ginnie Mae reported that it was exploring proposals or stress testing to assess a lender's liquidity and include a requirement that lenders have a "living will" that describes how the lender would break down its operations in the event of financial distress or the lender's failure.⁴² Ginnie Mae has also issued new counterparty risk

³⁷ Annual Report to Congress on the financial health of FHA's MMI Fund for fiscal year 2018

³⁸ GAO report, Ginnie Mae: Risk Management and Staffing-Related Challenges Need to Be Addressed, GAO-19-191 (April 2019)

³⁹ GAO report, Ginnie Mae: Risk Management and Staffing-Related Challenges Need to Be Addressed, GAO-19-191 (April 2019)

⁴⁰ [OIG Topic Brief, Monitoring of Nonbank Issuers](#), February 28, 2017

⁴¹ GAO report, Ginnie Mae: Risk Management and Staffing-Related Challenges Need to Be Addressed, GAO-19-191 (April 2019)

⁴² Ginnie Mae 2020 Roadmap for Sustaining Low-Cost Homeownership, issued June 2018

requirements for subservicing arrangements, which would warrant enhanced financial requirements for issuers.⁴³ Ginnie Mae is developing the Default Playbook, which is intended to create a new framework to address issuer default management. While Ginnie Mae has made significant progress in improving and operationalizing the playbook in fiscal year 2018, it is an ongoing project with an expected completion date of September 30, 2020.

Ginnie Mae's Shift Toward an Entirely Digital Mortgage Life Cycle Presents New Challenges

In a fiscal year 2019 report, OIG noted that the mortgage industry's move toward an entirely electronic loan process is an emerging issue for FHA and Ginnie Mae. Because both entities currently rely on paper notes and mortgages, the shift will require adding new platforms and security measures for digital mortgages. This would include digital promissory notes, which are the legal evidence of debts.

Ginnie Mae has committed to modifying the MBS program to include mortgages that only exist in digital form.⁴⁴ It concluded that creating a complete digital mortgage process, from loan application through securitization, will increase credit access for many Americans. As of June 2019, Ginnie Mae reports that it is drafting the process, specifically the technology and document requirements an issuer will need to meet to participate in Ginnie Mae's digital mortgage pilot. In the fall of 2019, Ginnie Mae intends to release the official guidance on the agency's digital mortgage pilot.⁴⁵ Ginnie Mae issued a request for information through GSA to validate the factors that will impact a request for proposals for an eVault vendor. Ginnie Mae states that it plans to issue a request for contract proposals and award a contract by the fall of 2019.

As its issuers adopt e-notes, Ginnie Mae will need to ensure that it can demonstrate legal ownership of the note should the issuer default. Because a paper note will not exist, Ginnie Mae will need to demonstrate in bankruptcy court that the electronic record is the original note and is secure. Additionally, OIG will need to be able to access and understand the security related to the note and mortgage to conduct audits and investigations.

⁴³ Ginnie Mae All Participant Memos 18-07, Counterparty Risk Management Policy Series – Volume 1, published November 5, 2018, and 19-02, Counterparty Risk Management Policy Series – Volume 2: Minimum Portfolio Servicing Spread Requirements for Single Family Issuers, published March 7, 2019

⁴⁴ Ginnie Mae 2018 Annual Report

⁴⁵ Progress Update: Ginnie Mae 2020-The Road to Modernizing and Enhancing Our Programs, published June 2019

TOP MANAGEMENT CHALLENGE

4

Providing Adequate Monitoring and Oversight of Operations and Program Participants



- Insufficient Monitoring of Operations
- Insufficient Monitoring and Oversight of Programs and Program Participants

HUD implements many of its programs through grants, subsidies, and other payments to State and local government entities, private organizations, and individuals. HUD's program funding amounts to approximately \$50 billion per year. HUD relies heavily on partners, such as State and local governments, PHAs, and private housing providers, to use its programs for intended beneficiaries. To protect Federal funds and ensure that intended beneficiaries receive the benefits of these programs, HUD must regularly evaluate the programs' effectiveness and monitor its partners' use of HUD funds.

While the Department has taken steps to improve programmatic risk management and management controls, HUD continues to struggle in effectively managing its own operations and oversight of its program participants' activities. In fiscal year 2019, OIG identified more than \$1 billion in questioned costs⁴⁶ and more than \$7.2 billion in funds to be put to better use.⁴⁷ HUD has demonstrated a lack of guidance on appropriate review of programmatic management controls, a lack of staff to conduct monitoring, and a lack of reliable information from program partners used to assess program performance and compliance.

⁴⁶ Questioned costs - Costs that have been challenged during the audit by the auditor and are comprised of three categories of costs: ineligible costs, unsupported costs, and unnecessary or unreasonable costs

⁴⁷ Funds to be put to better use – Funds to be put to better use quantify monetary savings from management actions in response to OIG recommendations, which prevent improper obligations or expenditures of agency funds or avoid unnecessary expenditures.

Insufficient Monitoring of Operations

For years, OIG has identified HUD's failure to perform its programs' management control reviews (MCR). MCRs are intended to provide reasonable assurance that programs and activities are effectively and efficiently managed and are protected against fraud, waste, abuse, and mismanagement. The MCRs are part of GAO's Standards for Internal Control in Federal Government.⁴⁸

HUD's handbook on conducting MCRs has been removed from its website and has been under revision for the past 2 years, leaving HUD without official guidance on performing these reviews. Since 2015, HUD has not conducted routine or timely MCRs, depriving management of an important monitoring tool that should provide key feedback on the effectiveness and efficiency of departmental operations.⁴⁹ HUD plans to revise the Management Controls Handbook in 2020.

HUD has made progress in assessing enterprise risk as required by Office of Management and Budget (OMB) Circular A-123, although the enterprise risk management program modules have yet to be implemented.⁵⁰ Enterprise risk and fraud management is one of HUD's eight priority areas in its transformation program. In July 2019, HUD issued a new Front End Risk Assessment Policy Handbook, which is applicable to new and substantially amended HUD programs.

Insufficient Monitoring and Oversight of Programs and Program Participants

HUD's monitoring and oversight of third-party program implementation is an ongoing management challenge. HUD lacks a sufficient monitoring model, which limits its ability to prevent and detect fraud, waste, and mismanagement. As a result, grantees and PHAs misspend or cannot justify the expenditure of millions of dollars, with little risk of detection or repercussions. Additionally, HUD's monitoring does not always identify or address the root cause of performance failures. OIG is focused on the continuing challenges of the three program offices listed below.

Monitoring of CPD

HUD's Office of Community Planning and Development's (CPD) mission is to develop viable communities through integrated approaches that provide decent housing, provide suitable living environments, and expand economic opportunities for low- and moderate-income persons. To accomplish this mission, CPD awards grants to fund community development projects, local affordable housing programs, homeless assistance programs, and disaster recovery efforts.⁵¹ Grant recipients may use subgrantees, other government agencies, and private-sector companies to help them meet their objectives.

⁴⁸ GAO report, Standards for Internal Control in the Federal Government, GAO-14-704G (September 10, 2014)

⁴⁹ Audit Report, 2018-FO-0004, Additional Details To Supplement Our Fiscal Years 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Audit, issued November 15, 2017; Audit Report 2017-FO-0003, Additional Details To Supplement Our Fiscal Years 2016 and 2015 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, issued November 15, 2016

⁵⁰ OMB, Management's Responsibility for Enterprise Risk Management and Internal Control Structure, Circular No. A-123 (July 15, 2016)

⁵¹ Because of the scope of HUD disaster recovery efforts, this report addresses those management challenges separately.

In numerous audits dating back to 2015, OIG found that HUD conducted little or no monitoring of CPD program grantees. For the monitoring that was conducted, OIG found that CPD could not be assured that its field offices correctly identified its high-risk grantees or conducted adequate monitoring to mitigate program risk.⁵² In 2018, OIG performed a comprehensive review of CPD's monitoring model and found that CPD did not have effective supervisory controls and its risk assessment and monitoring did not provide effective oversight of programs and grantees.⁵³ HUD is working to implement controls based on OIG's report recommendations but has yet to fully implement them.

CPD continues to waive an OMB reporting requirement for grantees to provide information on their grant's obligations, disbursement, and program income,⁵⁴ despite annual OIG recommendations since 2014. This information would assist CPD in determining whether grantees complied with applicable regulations and statutes and strengthen its monitoring and oversight of grantees.

Monitoring of PHAs

PIH administers public housing, tenant subsidy, and resident self-sufficiency and economic independence programs. Approximately 57.6 percent of HUD's annual appropriations go through PIH.⁵⁵ PHAs are key partners in PIH programs, such as the Housing Choice Voucher Program. HUD electronically monitors the voucher program through a system that relies on PHAs' self-assessments and self-reported information.



Past audits and HUD's onsite reviews have confirmed that these self-assessments are not always accurate, questioning the reliability of the information in PIH systems.

Due to its limited funding for new systems development and staffing constraints, PIH employs a risk-based approach to monitoring. Currently, HUD uses a Two-Year Tool to analyze a PHA's utilization situation and a National Risk Assessment Tool to determine which PHAs need increased monitoring or technical assistance, based on their performance, amount of funding, and compliance scores. HUD will continue to face challenges in monitoring PHAs until it has implemented a reliable, real-time, and all-inclusive monitoring tool.

PIH allows PHAs to use a fee-for-service model by paying a central office cost center for certain expenses rather than allocating overhead costs. This practice affects the funding of the Housing Choice Voucher Program, Public Housing Operating Fund, and Public Housing Capital Fund. Once the allocated funds are paid to the central office cost center, the funds are defederalized and are no longer required to be spent on their respective PIH programs. When OIG questioned HUD's lack of support for its central office cost

⁵² Audit Report 2017-FW-0001, HUD's Office of Community Planning and Development Did Not Appropriately Assess State CDBG Grantees' Risk to the Integrity of CPD Programs or Adequately Monitor Its Grantees, issued July 10, 2017

⁵³ Audit Report 2018-FW-0001, CPD's Risk Assessment and Monitoring Program Did Not Provide Effective Oversight of Federal Funds, issued June 26, 2018

⁵⁴ The report is OMB Standard Form 425 – Federal Financial Report.

⁵⁵ This calculation did not include supplemental appropriations for disaster recovery.

center fee limits, it found that PHAs transferred ineligible and unsupported funds to the central office cost centers.⁵⁶ OIG also found that HUD lacked adequate justification for allowing PHAs to charge an asset management fee, which allows PHAs to defederalize more than \$81 million annually.

In December 2018, HUD and OIG reached an agreement on corrective action. HUD agreed to issue rules restricting the use of program funds paid to the central office cost center by requiring those funds to benefit low-income households. HUD also agreed to regularly assess the reasonableness of the central office cost center fee limits. Because of the significance of this issue, PHAs' central office cost center funding will remain a top management challenge until HUD's new rule is adopted. Final action is targeted for completion by May 2020.

Monitoring of Section 232 Residential Care Facilities

FHA provides residential care facilities, such as nursing homes, assisted living facilities, and board and care homes, with mortgage insurance, which can cover the purchase, refinance, new construction, or substantial rehabilitation of a project. HUD has failed to properly monitor these facilities and take appropriate action with troubled properties.



For example, in 2018, OIG conducted an audit of 18 financially challenged nursing homes. OIG found that four of the nursing homes had been in default for up 6.5 years and an additional nine nursing homes should have been classified as troubled.

Along with multiple regulatory agreement violations, OIG found that a majority of the facilities provided inaccurate or incomplete financial data and that the data were not provided in a timely fashion.⁵⁷ In 2018, OIG issued a management alert regarding HUD's failure to oversee the physical condition of these facilities.⁵⁸

In July 2018, HUD issued a request for information on contract support to monitor potentially troubled facilities, process default claims, manage receivership for defaulted owners, and manage accounts receivable financing and disposition of the property. No contract has been announced to date, but OIG believes that a contract by HUD for these activities would significantly help in addressing 232 monitoring issues.

⁵⁶ Audit Report 2014-LA-0004, HUD Could Not Support the Reasonableness of the Operating and Capital Fund Programs' Fees and Did Not Adequately Monitor Central Office Cost Centers, issued June 30, 2014

⁵⁷ Audit Report 2018-BO-0001, HUD's Office of Residential Care Facilities Did Not Always Have and Use Financial Information To Adequately Assess and Monitor Nursing Homes, issued September 17, 2018

⁵⁸ Management Alert - HUD Did Not Provide Acceptable Oversight of the Physical Condition of Residential Care Facilities, 2018-CF-0801, issued January 2018

TOP MANAGEMENT CHALLENGE

5

Administering Disaster Recovery Assistance



- Codifying the CDBG-DR Program
- Ensuring That Expenditures Are Eligible and Supported
- Ensuring and Certifying That Grantees Are Following Federal Procurement Regulations
- Addressing Concerns That Citizens Encounter When Seeking Disaster Recovery Assistance
- Preventing Fraud in Disaster Recovery Assistance

HUD plays a key role in assisting individuals and communities recovering from disasters. Since 2001, Congress has appropriated more than \$83 billion specifically for disaster recovery assistance. In 2017 and 2018, Congress appropriated \$35.8 billion for recovery from Hurricanes Harvey in Texas; Irma in Florida, Georgia, South Carolina, and the U.S. Virgin Islands; Maria in Puerto Rico and the Virgin Islands; and Nate in Mississippi. While disaster assistance is an ongoing challenge for HUD, disaster recovery in Puerto Rico is particularly urgent, given the scope of the devastation, the geographic challenge involved in providing recovery assistance on an island, questions regarding Puerto Rico's capacity to handle funds, and the slow pace of funds and recovery projects.

HUD's primary program for disaster recovery assistance is the CDBG-DR program. Each disaster is funded through a supplemental appropriation separate from HUD's annual CDBG appropriation. Through the CDBG-DR program, HUD awards grants for disaster recovery efforts to States and units of local government, which work with subgrantees and contractors to implement these recovery programs. HUD's role is to rapidly provide funding to jurisdictions, ensure that grantees have the capacity to administer these funds through acceptable programs, and balance the fluid nature of disaster recovery efforts, while ensuring that the funds provided by HUD are being spent properly and effectively.

The following outlines the particular challenge areas for HUD as it administers this ever-growing program.

Codifying the CDBG-DR Program

Unlike other HUD programs, the CDBG-DR program is operated through a series of Federal Register notices. HUD's primary notice containing multiple requirements and waivers is issued for each disaster recovery supplemental appropriation. The primary notice largely repeats the same requirements and waivers from appropriation to appropriation and is periodically updated by additional notices that refer back to the original notices. The supplemental notices issued for more recent disasters may contain new standards that relate to prior disasters. The number of notices continues to increase with each supplemental appropriation, and some grantees manage multiple grants for different disasters.



As of August 2019, HUD had issued 74 notices for CDBG-DR, covering \$83.7 billion. Currently, 72 of the notices are being used to oversee 103 active CDBG-DR grants that total more than \$55.9 billion.

Beginning in August 2019, HUD announced a separate disaster-related program called CDBG-MIT, which is aimed at disaster mitigation.⁵⁹ Since 2018, the program, funded by disaster supplemental appropriations, requires grantees to use a portion of their allocation to mitigate future disaster risks. The program also operates via allocation notices for mitigation funding and will fund grantees for disasters dating back to 2015.

HUD's process is cumbersome and confusing. It delays HUD allocations and forces grantees to cross-reference multiple notices to ensure that they are following the most recent HUD requirements and waivers. CDBG-DR grantees face additional challenges in coordinating the use of CDBG-DR funds with other disaster recovery programs that are initiated at different times and administered by other agencies.

Since 2017, OIG has recommended that HUD codify the CDBG-DR program to simplify the process and standards and to speed up allocation. In March 2019, GAO found that without permanent statutory authority and regulations, such as those that govern other disaster assistance programs, CDBG-DR appropriations require HUD to customize grant requirements for each disaster in Federal Register notices, which is a time-consuming process that delays the disbursement of funds.⁶⁰ HUD officials have stated that the permanent authorization of CDBG-DR would allow HUD to issue regulations for disaster recovery and help address grantee challenges.⁶¹ In May 2019, Secretary Carson

⁵⁹ HUD Press Release 19-129, HUD Releases Program Requirements for CDBG-Mitigation Program, released August 23, 2019

⁶⁰ GAO report, Better Monitoring of Block Grant Funds is Needed, GAO-19-232 (March 25, 2019)

⁶¹ OIG has recommended that HUD issue regulations under the existing CDBG authority. HUD disagrees that it has this authority. See OIG Audit Report 2018-FW-0002, HUD's Office of Block Grant Assistance Had Not Codified the Community Development Block Grant Disaster Recovery Program, issued July 23, 2018.

testified that he would support codification, which he believed would be helpful.⁶² In fiscal year 2019, Congress has proposed bills to codify CDBG-DR.⁶³

Ensuring That Expenditures Are Eligible and Supported

CDBG-DR funding is generally appropriated indefinitely (until spent or returned). Of the \$83.7 billion appropriated by Congress for various disasters since 2001, \$55.9 billion (67.5 percent) had been obligated, and \$40.9 billion (49.4 percent) had been disbursed as of September 30, 2018. Oversight of these activities is difficult due to the diverse nature of the projects and the fact that some construction projects can take between 5 and 10 years to complete. In addition, the structure of the HUD CDBG-DR program provides grantees considerable leeway to revise plans without prior HUD approval.

As disasters continue to occur around the country, HUD's challenge has been ensuring that grantees have the capacity to administer the funds and are using disbursed disaster funds for eligible and supported items. HUD must assess whether grantees that develop and implement action plans for recovery understand the unmet need in their jurisdiction, have the capacity to administer the program, and have the financial procedures and processes in place to ensure that funds will be appropriately spent and documented. A March 2019 GAO report found that HUD's processes were lacking in each of these areas. While HUD has a review checklist, HUD staff lacks guidance on how to assess the grantee and a lack of documentation in the official records to support decision making. As a result, conclusions of sufficiency may vary based on the reviewer.

Once grants are made, HUD monitors the grantees' implementation of CDBG-DR grants but heavily relies on these same grantees to oversee subgrantees and beneficiaries. HUD continues to be challenged in its monitoring capabilities.



In its March 2019 report, GAO found that while HUD determined that the large size of the 2017 CDBG-DR grants posed higher risks, it had no comprehensive plan to monitor these grants.⁶⁴

Further, HUD had not conducted workforce planning to determine the number of staff members needed to monitor the 2017 CDBG-DR grants and other outstanding grants. In fiscal year 2018, HUD planned to hire several additional staff members but as of July 2019, had not added any additional staff. HUD OIG audits of grantees continue to identify improper grant payments and ineligible expenditures.⁶⁵

The Puerto Rico CDBG-DR grants present additional issues and demonstrate instances of HUD progress and future management questions. Puerto Rico was awarded \$19.9 billion in CDBG-DR funds. HUD released \$1.5 billion of those funds to Puerto Rico in

⁶² May 21, 2019, Testimony of Secretary Ben Carson before the House Financial Services Oversight Committee

⁶³ 116th Congress, H.R. 3702, Reforming Disaster Recovery Act of 2019, introduced July 11, 2019 (also known as the Green-Wagner Bill). See also S.2301 Reforming Disaster Recovery Act, introduced July 25, 2019.

⁶⁴ GAO report, Better Monitoring of Block Grant Funds is Needed, GAO-19-232 (March 25, 2019)

⁶⁵ See, for example, Audit Report 2019-NY-1001, The State of New York Did Not Ensure That Properties Purchased Under the Acquisition Component of Its Program Were Eligible, issued March 29, 2019.

2018.⁶⁶ In August 2019, HUD announced plans to appoint a Federal financial monitor to oversee Puerto Rico's disbursement of disaster recovery funds.⁶⁷ HUD claims that this new position will lead a special team to monitor all disaster recovery funds previously awarded or scheduled to be awarded, which will include 100 percent of expenditures. HUD states that it has established a governance framework for overseeing these funds, but it is unclear whether and how Puerto Rico's oversight processes will be applied to other grantees with which HUD has capacity or oversight concerns.

Ensuring and Certifying That Grantees Are Following Federal Procurement Regulations

OIG continues to have concerns about HUD's ability to ensure that disaster recovery grantees follow Federal procurement regulations. Between 2013 and 2017, 17 OIG audits found issues relating to the procurement of disaster recovery funds, totaling nearly \$391.7 million.⁶⁸ OIG has raised concerns about HUD's certification standards, which allow States to certify to requirements using their own standards rather than the Federal standard regulating each aspect of the program. Further, the OIG audits found that grantees' procurement processes did not align with HUD's and HUD could not certify that State procurement procedures aligned with HUD's requirements.⁶⁹ As a result, products and services may not have been purchased competitively at fair and reasonable prices.⁷⁰

HUD has yet to address OIG's recommendations from the September 2017 rollup report. OIG referred the recommendations to the Assistant Secretary for Community Planning and Development on January 25, 2018, but the Assistant Secretary did not respond. On March 16, 2018, OIG referred these recommendations to the Deputy Secretary for a decision, but as of August 2019, the Deputy Secretary had not responded.

Addressing Concerns That Citizens Encounter When Seeking Disaster Recovery Assistance

Individuals impacted by disaster face challenges in obtaining assistance from HUD or any of the Federal and State agencies, nonprofits, or others offering assistance to those affected by a disaster. According to a recent OIG evaluation, citizens may enter a convoluted process and face substantial difficulties in receiving disaster recovery assistance, depending on how, when, and where they enter the response effort. Many nonprofit, private, and government organizations and agencies provide citizens (homeowners and businesses) with a range of assistance and access options in the disaster response and recovery process. The path of the process is not linear, and citizens may start at various points within the disaster recovery assistance process.

⁶⁶ In February 2019, HUD released an additional \$8.2 billion to Puerto Rico but in August 2019 determined to delay these funds, citing alleged corruption and government unrest.

⁶⁷ HUD Notice 119-115, HUD To Appoint Federal Financial Monitor to Oversee Puerto Rico Disaster Funds, issued August 2, 2019

⁶⁸ Audit Report 2017-PH-0002, HUD Did Not Provide Sufficient Guidance and Oversight To Ensure That State Disaster Grantees Followed Proficient Procurement Processes, issued September 22, 2017

⁶⁹ Audit Report 2016-PH-0005, HUD Certifications of State Disaster Grantee Procurement Processes, issued September 29, 2016

⁷⁰ Audit Report 2017-PH-0002, HUD Did Not Provide Sufficient Guidance and Oversight To Ensure That State Disaster Grantees Followed Proficient Procurement Processes, issued September 22, 2017

Citizens may experience lengthy delays between the initial application process and the closing of their cases, due to inconsistent communication, coordination, and collaboration. Further, citizens may experience delays in funding, duplication of benefits, and other challenges after the process is completed.⁷¹

Preventing Fraud in Disaster Recovery Assistance

Fraud is an ongoing challenge for HUD as it balances program rules and requirements, while allowing its grantees the flexibility to design their program delivery model in a way that addresses the unique needs of each jurisdiction. HUD must not only include clearly defined requirements, but also strategically design key program forms that are consistent for all grantees and include the proper certifications. OIG investigative staff has identified instances in which HUD's CDBG DR program lacks permanent statutory authority and proper certifications, creating ambiguities that hinder successful prosecutions. Prosecutors across all levels of government are often hesitant to proceed with legal action if these conditions are not met. Additionally, these ambiguous program requirements and a lack of proper certifications present a major risk to grantees and program participants. In the absence of codification of program rules, HUD should define key program requirements and require certifications in key program forms that would be most effective in preventing changes, which would clarify program requirements, improve participant accountability, and better support OIG's criminal and civil enforcement efforts.

Defining Key Program Requirements:

- Grantees and program participants should be clear on the definition of the term "primary residence."
- There should be consistent language incorporated into the action plan and grant agreement, which informs grantees, subgrantees, and contractors that OIG has oversight authority for all CDBG DR spending and that they are obligated to produce all documents, records, and recipient data to OIG upon request.

Enhancing Program Certifications:

- The signing of certifications under the penalty of perjury by grantees, subgrantees, and contractors is among the most effective tools for educating the program participants on the terms and conditions of grants, for preventing fraud from occurring, and for prosecuting fraud when it occurs.
- It is important that certifications address the specific needs of HUD's program areas. HUD should not rely solely on generic certifications, which are of limited usefulness in educating the grantee of its obligations to comply with grant requirements.
- Grantees should be required to certify to specific activities, costs, or requirements so that HUD has evidence that the grantee had knowledge of the grant requirements and indicated its intent to comply with those requirements.

⁷¹ Evaluation Report 2017-OE-0002S, Navigating the Disaster Assistance Process, issued April 10, 2017

TOP MANAGEMENT CHALLENGE

6

Modernizing Technology and the Management and Oversight of Information Technology



- Modernization
- Procurement
- Project Management
- Federal Information Security Modernization Act
- Cybersecurity

For years, HUD has struggled with maintaining its outdated systems, which cannot be adapted to handle HUD's increasingly complex mission tasks. HUD struggles with its information security program's maturity level and cybersecurity issues. It is hindered by its decentralized IT resources spanning across multiple program offices, specialized job vacancies, and a lack of staff expertise in IT.⁷²

HUD is making progress with a number of these IT deficiencies under its new Chief Information Officer, but the depth and breadth of these issues will require a multiyear investment and strategy.

Modernization

Between 1974 and 1995, HUD instituted its IT systems to support its program and business processes. These systems are now outdated and incompatible with current technology, making them more susceptible to failure and breach because they are no longer supported through patches and updates. Since 2009, HUD OIG has issued numerous audit and evaluation recommendations related to HUD IT issues. Currently, 230 of these recommendations remain open or unresolved. Additionally, GAO has 22 open recommendations related to HUD's IT issues. HUD legacy systems' maintenance is costly because they require specialized skills to maintain and operate them.

⁷² The human capital issues are discussed more fully in Challenge 1: HUD's Human Capital.

These outdated systems create risks for the reliability and security of HUD information. In October 2018, OIG reported on the continued weaknesses of HUD's internal information system data processing controls and security, placing this information at risk for unauthorized access and modification.⁷³ These outdated systems also impede HUD's ability to report complete and accurate data to the public as required by the Digital Accountability and Transparency Act of 2014 (DATA Act).⁷⁴

HUD has made progress in the past year. As of the fourth quarter of 2018, HUD states that it is compliant with the reporting requirements of the DATA Act for all programs.⁷⁵ HUD has also significantly increased its IT investments. In fiscal year 2019, HUD received approximately \$459 million for its IT systems and plans to spend about a quarter of this allocation (about \$118 million) on major projects. HUD's fiscal year 2019 major project funding dollars more than doubled the previous year's investment amount of \$54.8 million.⁷⁶ HUD OIG believes this major project funding will help modernize HUD and reduce its systems' recurring operation and maintenance cost. HUD must continue to identify, prioritize, and successfully implement modernization and IT security program improvement efforts and will need to institute proper oversight to ensure that information security is built into all current and future projects.

Procurement

Because HUD IT modernization will occur through acquisition, HUD's procurement capacity and governance are key factors in HUD's IT modernization efforts. According to the Office of the Chief Procurement Officer (OCPO), in fiscal year 2017, fewer than five people were adequately trained or possessed the expertise to manage HUD's IT projects and contracts. OIG has not tracked the trained staff numbers since this report, but OIG's IT Evaluations Division validated that all program offices, including OCIO, continue to have difficulty awarding contracts because of HUD's lack of expertise. Additionally, OCPO has had a difficult time in hiring experienced contracting personnel and has multiple vacancies.

In 2016, GAO reported that HUD lacked well-documented and fully developed selection processes to ensure consistent contract applicant selection criteria.⁷⁷ In addition, HUD lacked robust processes to ensure that its contractors met their obligations, such as contractor oversight and contractor performance evaluations against expected outcomes.



While HUD has adopted many acquisition procedures since the 2016 GAO report, it has not fully implemented these procedures, leaving significant gaps in its IT acquisition framework.

HUD contracts have begun to include IT security-specific contracting language and service-level agreements to mitigate and monitor the associated IT risks. Additionally,

⁷³ HUD Fiscal Year 2018 Federal Information Security Modernization Act of 2014 (FISMA) Evaluation Report, 2018-OE-003, issued October 31, 2018 (nonpublic)

⁷⁴ Digital Accountability and Transparency Act of 2014, Public Law 113-101, May 9, 2014

⁷⁵ OIG is working to confirm this through its fiscal year 2019 auditing schedule.

⁷⁶ Federal IT Dashboard: <https://itdashboard.gov/#explore-2017>

⁷⁷ GAO report, Actions Needed to Incorporate Key Practices into Management Functions and Program Oversight, GAO-16-497 (public release August 19, 2016)

HUD has provided OIG with an acceptable action plan that will use qualitative and quantitative performance metrics to monitor and report on contractor performance regarding IT systems and services. Even with these improvements, HUD will need to incorporate oversight practices to ensure that the corrective plan is consistently implemented.

Project Management

Historically, HUD has maintained a decentralized IT system and application management model that has resulted in autonomous applications operating on multiple platforms across program offices, resulting in duplication of services. Further, OIG has repeatedly found instances in which OCIO did not have an accurate inventory or knowledge of its web application environment,⁷⁸ which makes modernization efforts extremely challenging. HUD's 2013 New Core project, which was intended to transition legacy financial systems, failed in 2016.

OIG notes that HUD is now working with GSA's Centers for Excellence to modernize HUD's IT infrastructure by adopting a cloud platform to manage data, a central contact center, and a "customer experience" technology.⁷⁹ HUD also plans to create an Office of Chief Data Officer, which will have advance analytics capacity for use in both operations and program management. HUD issued requests for information, which closed in May 2019. HUD must ensure that it applies lessons learned when implementing these critical projects.

Federal Information Security Modernization Act

In 2002, a law passed that required Federal agencies to develop, document, and implement an information security and protection plan. In accordance with the Federal Information Security Modernization Act (FISMA), OIG is required to annually assess HUD's information security program efforts on a maturity model spectrum. OIG's most recent FISMA assessment found that HUD continued to struggle to increase from an overall "defined" level of maturity, or level 2 out of 5 levels. According to OMB and the FISMA OIG metric guidance, a "managed and measurable" maturity level of 4 represents an effective level of security. In the fiscal year 2018 FISMA report, issued October 31, 2018, HUD OIG assigned maturity levels based on the OMB metrics that assess eight IT domains.⁸⁰ Table 1 below shows the FISMA report's overall conclusions.

⁷⁸ HUD Fiscal Years 2016 and 2018 Federal Information Security Modernization Act of 2014 (FISMA) Evaluation Reports, respectively 2016-OE-006, issued November 9, 2016, and 2018-OE-0003, issued October 31, 2018 (nonpublic)

⁷⁹ GSA press release, HUD Issues RFIs for Centers of Excellence Phase II Work, dated May 20, 2019

⁸⁰ OMB based these metrics on eight IT domains that align to the five National Institute of Standards and Technology cybersecurity framework function areas. The metrics are assessed using maturity models. These models allow for the measurement of HUD's information security program effectiveness.

Table 1: FISMA results

| | Maturity level | | | | |
|--|----------------|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| Risk Management | ✓ | ✓ | ✗ | ✗ | ✗ |
| Configuration Management | ✓ | ✓ | ✗ | ✗ | ✗ |
| Identity and Access Management | ✓ | ✓ | ✗ | ✗ | ✗ |
| Data Protection & Privacy | ✓ | ✓ | ✗ | ✗ | ✗ |
| Security Training | ✓ | ✓ | ✗ | ✗ | ✗ |
| Information Security Continuous Monitoring | ✓ | ✓ | ✗ | ✗ | ✗ |
| Incident Response | ✓ | ✓ | ✓ | ✗ | ✗ |
| Contingency Planning | ✓ | ✓ | ✗ | ✗ | ✗ |

Key: 1 - ad hoc, 2 - defined, 3 - consistently implemented, 4 - managed and measurable, 5 - optimized (level 4 = effective program according to OMB)

HUD showed improvement in the incident response domain, increasing from level 2 to level 3 from last year, but both the configuration management and identity and access management domains decreased from level 3 to level 2. HUD’s newly added domain of data protection and privacy was assessed at level 2. All other areas remained a level 2. HUD has remained at an overall level 2 since the new metrics were introduced in 2016.

The FISMA report highlights specific weaknesses associated with each IT domain. The collective FISMA evaluation reports have a total of 92 recommendations, 30 new recommendations and 62 recommendations from prior FISMA assessments that remain open. HUD demonstrates a lack of overall progress, mostly regresses in all domains except incident response, and clearly has more work to do to achieve a managed and measurable maturity level 4.

Cybersecurity

According to the Consolidated Appropriations Act of 2017, HUD is required to incorporate a cybersecurity funding analysis into the President’s budget. The Act identifies cybersecurity as an important component of IT modernization efforts and securing Federal systems from cyber-related threats.⁸¹

⁸¹Section 630 of the Consolidated Appropriations Act, 2017 (Public Law No. 115-31) amended 31 U.S.C. (United States Code) 1105(a)(35), which is further discussed at https://www.whitehouse.gov/wp-content/uploads/2018/02/ap_21_cyber_security-fy2019.pdf.



However, HUD continues to allocate far less of its funding for cybersecurity than other CFO agencies, at \$16.6 million in fiscal year 2018 and \$18.7 million in fiscal year 2019.

This amount is just 5 percent of the total fiscal year 2019 HUD IT budget, compared to other Federal agencies' allocation average of 14 percent.⁸² Not only is HUD insufficiently invested in technology, it is underinvested in cybersecurity personnel. The fiscal year 2017 HUD OIG FISMA evaluation report noted that it is important for HUD to develop a common and risk-based approach to allocate resources that address IT risks identified in HUD OIG reports, GAO reports, and HUD self-assessments.⁸³

Although HUD has established a working plan to begin the initial stages in monitoring network data and devices, it still does not have a fully operable integrated Security Operations Center capable of monitoring the enterprise technology infrastructure. HUD's outdated cybersecurity policies leave critical process and procedural gaps, resulting in operational risks, despite its added effort to modernize the IT and staff critical personnel shortages.

⁸²HUD Fiscal Year 2018 Federal Information Security Modernization Act of 2014 (FISMA) Evaluation Report, 20187-OE-003, issued October 31, 2018 (nonpublic)

⁸³ HUD Fiscal Year 2017 Federal Information Security Modernization Act of 2014 (FISMA) Evaluation Report, 20187-OE-003, issued October 31, 2017 (nonpublic)

TOP MANAGEMENT CHALLENGE

7

Instituting Sound Financial Management



- [HUD's Financial Management Governance](#)
- [HUD's Internal Control Framework and Financial Management Maturity](#)
- [HUD's Financial Management Systems Weaknesses](#)

HUD's financial management has long suffered due to (1) an immature governance process, (2) ineffective internal controls, and (3) an antiquated financial management system consisting of legacy systems and manual processes that have kept HUD from producing reliable and timely financial reports. As a result, HUD has been unable to achieve an unmodified audit opinion⁸⁴ on its financial statements for the last 6 years and has received a disclaimer of opinion for 5 of those years. Ginnie Mae, a HUD component, has also been unable to achieve an unmodified opinion and has received a disclaimer of opinion for the last 5 years due to its poor governance and a weak internal control framework. HUD's CFO has developed and implemented several remediation strategies in an effort to resolve HUD's most longstanding and material deficiencies. While HUD has made significant progress in fiscal year 2019, more work is needed to remediate the effects of years of financial management inattention so that HUD can operate at a level capable of producing reliable financial reports.

HUD's Financial Management Governance

HUD continues to struggle with financial management, due in part to an extended period in which HUD was without leadership in key roles and followed a siloed approach to financial management, which weakened HUD's internal control environment and

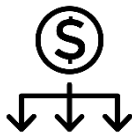
⁸⁴ Codification of Statements on Auditing Standards, AU-C Section 700.11, T4e opinion expressed by the auditor when the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework

framework. These weaknesses caused preventable deficiencies to occur undetected and have precluded HUD from resolving financial integrity issues in a timely manner. As of June 2019, HUD has more than 250 open audit recommendations stemming from the Annual Consolidated Financial Statement and Federal Information System Controls Audit Manual audits.

As part of an Office of the Chief Financial Officer (OCFO) transformation strategy, HUD's CFO has begun to address these challenges by establishing basic governance structures, providing direction, and instilling entity-wide accountability for sound financial management. The OCFO transformation strategy includes (1) improving governance and communication and building relationships across the agency, (2) improving internal controls by evaluating audit findings and developing overall remediation plans and execution, and (3) working with HUD's Chief Information Officer on an IT strategy to address OCFO data needs. During fiscal year 2019, HUD prioritized the implementation and closure of many open recommendations, efforts that will continue in 2020. While HUD's objectives and strategy are dynamic and could broadly affect the entire agency, it will require significant financial and human resources commitments from the HUD Secretary, Congress, and other stakeholders and will take years to implement. In addition, Ginnie Mae implemented a loan-level accounting system in fiscal year 2019, which Ginnie Mae claims will resolve many longstanding weaknesses that have prevented a complete audit of its financial statements for the last 5 years. HUD OIG's audit work in this area is ongoing, and the audit results will be reported at a later date.

HUD's Internal Control Framework and Financial Management Maturity

HUD operates at a financial maturity level, which is, at best, "basic" based on the U.S. Treasury's Financial Management Maturity Model.



Additionally, HUD's most recent OMB Circular A-123 reviews have cited 21 of 42 financial reporting and complementary internal controls as "failing" or not properly designed.

HUD's weakened internal control framework has caused reporting errors in HUD's financial reporting, requiring HUD to restate its financial statements for the last 5 consecutive years. OIG has found that in prior years, HUD was noncompliant with the DATA Act,⁸⁵ the Improper Payments and Elimination and Recovery Act (IPERA), the Debt Collection Improvement Act, the Federal Financial Management Improvement Act, and the Federal Managers Financial Integrity Act.⁸⁶

⁸⁵ Audit Report 2018-FO-0001, DATA Act Compliance Audit of the U.S. Department of Housing and Urban Development, issued November 3, 2017

⁸⁶ Audit Report 2018-FO-0004, Additional Details To Supplement Our Fiscal Years 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, issued November 14, 2017, reissued December 6, 2017

In the past year, HUD has made significant efforts in addressing these deficiencies. HUD has indicated that its financial management processes are now 100 percent compliant with DATA Act standards. OIG's Office of Audit is currently reviewing HUD's claim and will report results later this year. HUD has also developed a corrective action plan to be compliant with IPERA by 2020.

In fiscal year 2019, after 5 years of development, Ginnie Mae has completed its accounting policies and procedures and developed internal controls for its nonpooled loan asset portfolio. OIG is currently evaluating these controls to determine whether they will resolve longstanding noncompliance, which has prevented HUD from auditing Ginnie Mae's financial statements for the last 5 years.

HUD needs to continue to work on completing its policies, procedures, and other artifacts necessary to resolve HUD's internal control deficiencies and improve its maturity level.

HUD's Financial Management Systems Weaknesses

For several years, OIG has reported on HUD's antiquated financial management systems and infrastructure, which challenge HUD's ability to produce timely and reliable financial reports and comply with significant laws and regulations. Several significant financial business processes continue to be manual or are nonexistent, resulting in unreliable and untimely financial reporting and poor financial management oversight. For example, PIH complies with cash management requirements, using manual processes and Excel spreadsheets, resulting in untimely reports on HUD's accounting for prepayments, accounts payable, and accounts receivable. Additionally, HUD lacks an adequate cost accounting system that can accurately report program costs.

HUD is still recovering from an unsuccessful attempt to transition specific core accounting functions to a shared service provider. The transition resulted in significant differences between the General Ledger and subsidiary systems, which remain unresolved 4 years after implementation.

In the past year, HUD has made progress. Ginnie Mae has implemented an automated system to process its accounting activities for its nonpooled loan assets portfolio, which totaled a net of \$3 billion as of September 30, 2018. OIG's audit of this system implementation is ongoing.

In addition, HUD began a pilot program that uses a module of Oracle Federal Financials to properly account for its property, plant, and equipment (PP&E). Previously, HUD did not have a proper information system to support the financial reporting requirements for its PP&E.

HUD continues to face challenges in maintaining its legacy systems and ensuring that they can support proper financial management of HUD's numerous programs and operations.

TOP MANAGEMENT CHALLENGE

8

Ensuring Ethical Conduct



- [Revolving Door With Related Industries](#)
- [HUD's Reliance on External Actors To Carry Out Its Assisted Housing Mission](#)
- [Better Detection and Deterrence of Ethical Misconduct Needed To Benefit the Department's Mission](#)

HUD relies heavily on external parties to implement and manage its programs. While close relationships with private-sector and other external actors may be necessary for HUD to carry out its work, these relationships pose a risk that conflicts of interest or similar ethical misconduct will prevent the Department from effectively carrying out its mission.

Revolving Door With Related Industries

HUD works closely with State and local government and private entities, which focus on implementing and managing HUD programs and rely heavily on HUD grants, insurance, and subsidies to support their enterprises. In addition, the employees of these entities are highly experienced and knowledgeable about HUD programs and are a natural source of hiring for the Department. It is common for representatives of an industry to leverage their experience and expertise to fill senior-level positions within the Department and then to leverage the experience and expertise gained at HUD to secure prominent positions within the industry.

While HUD benefits from the knowledge and abilities that industry representatives bring with them when they enter government service, employees transitioning between HUD and the industries it regulates present a significant “revolving door” risk for the Department. HUD must ensure that its employees act for the benefit of the public and remain free from any actual or perceived conflicts of interest. HUD must also safeguard

nonpublic, predecisional information and ensure that its policymaking process is fair to all market participants and free from undue influence. Even the appearance that departmental decisions are influenced by improper considerations of personal gain undermines the credibility and integrity of those decisions.

Over the last several years, HUD OIG has investigated instances of senior-level HUD employees using their positions at the Department to provide inappropriate access to particular program participants, improperly hire former colleagues, improperly leverage their former HUD positions to obtain information from departmental staff, or otherwise improperly benefit themselves or others.

For example, in 2014, HUD OIG raised numerous concerns with the Department's entering into an agreement to permit a high-ranking Council of Large Public Housing Authorities (CLPHA) employee to serve a detail assignment in a senior HUD position from 2011 to 2014. While in this position, the detailee improperly hired a former colleague and exhibited bias in favor of CLPHA in developing HUD policy and guidance. Within this same timeframe, HUD entered into similar agreements with other detailees, which granted those detailees policymaking authority over the same programs in which their private employer participated.

HUD OIG has also investigated several cases of senior officials seeking or negotiating employment with firms in the mortgage-banking industry and failing to appropriately recuse themselves from departmental decision making impacting those firms. Similarly, OIG has also investigated instances in which senior officials failed to fully recuse themselves from decisions affecting their former employers.



The Department must rely on its senior officials to identify potential conflicts of interest and remove themselves from decisions affected by those conflicts. While the law and departmental policy contain safeguards to ensure that current and former employees do not misuse their HUD positions and remain free from conflicts of interest, these cases suggest that HUD faces significant challenges in monitoring, identifying, and mitigating potential ethical lapses. These challenges present significant risk to the Department's reputation and program integrity.

HUD's Reliance on External Actors To Carry Out Its Assisted Housing Mission

HUD relies substantially on nongovernmental actors to carry out its assisted housing mission, and a key part of accomplishing this mission is to ensure that those actors follow the basic standards of ethical conduct. However, several recent OIG audits, evaluations, and investigations have shown that actual or apparent conflicts of interest are commonly found in underperforming or troubled PHAs.

For example, OIG identified conflicts of interest in its 2018 evaluation report on a severely troubled PHA in Alexander County, IL.⁸⁷ The report described how the PHA had violated multiple legal and policy restrictions, misused Federal funds, committed civil rights violations, and created deplorable housing conditions for its residents. Evidence of the PHA's extreme dysfunction was evident in its hiring and procurement practices, which did not meet acceptable ethical standards. Further, the evaluation noted that nepotism was so pervasive in the PHA's staffing arrangements that its organizational chart resembled a "family tree."

OIG further identified ethical lapses by Alexander County Housing Authority leadership officials in a 2019 investigative report.⁸⁸ The report found that the Authority's long-tenured executive director negotiated both sides of a contract, authorizing him to provide consulting services to the Authority. He then resigned from his executive director position to obtain a \$50,000 buyout and began collecting payments from the Authority on the consulting contract he had arranged for himself.

OIG has dozens of similar "public corruption" open investigations, which largely focus on assisted PHA officials allegedly misusing their positions to benefit themselves, family members, or friends or otherwise engaging in ethical misconduct.

Several recent audits have also shown how ethical misconduct is commonly associated with problematic or troubled PHAs. For example, a 2018 audit found that a historically troubled PHA in Maryland spent more than \$1.6 million in program funds on contracting services from companies owned by individuals related to its leadership officials.⁸⁹ A 2016 audit found that an Alabama PHA with thousands of prospective tenants on its waiting list failed to provide necessary rehabilitation for hundreds of its public housing units, despite making \$1.2 million in payments to a construction company owned by a relative of one of its leadership officials.⁹⁰

Better Detection and Deterrence of Ethical Misconduct Needed To Benefit the Department's Mission

OIG believes that improvements in the Department's ability to detect and deter ethical misconduct would increase the level of efficiency and public trust in its operations. HUD should look for ways to improve upon its existing programs aimed at promoting compliance with Federal ethics regulations, including improvements to its employee training and reporting requirements and in how it counsels employees when potential ethics issues arise. HUD should also find ways to enhance its ability to identify and prevent ethical lapses by its program participants to ensure that they are capable of carrying out their responsibilities effectively.

⁸⁷ Evaluation Report 2017-OE-0014, HUD's Oversight of the Alexander County Housing Authority, issued July 24, 2018

⁸⁸ June 5, 2019, Report of Investigation, Alexander County Housing Authority's Improper Usage of HUD Subsidized Asset Management Project Funds

⁸⁹ Audit Report 2018-PH-1007, Crisfield Housing Authority, Crisfield, MD, Public Housing Program Operating and Capital Funds, issued September 25, 2018

⁹⁰ Audit Report 2016-AT-1010, Mobile Housing Board, Mobile, AL, issued August 4, 2016

Appendix

Management's Response to the OIG Report on Management and Performance Challenges

HUD is committed to fulfilling its mission to create strong, sustainable, inclusive communities, and quality affordable homes for Americans. The work of the HUD OIG is intended to help HUD ensure that our workforce operates with fairness and integrity, and that our programs are delivered in the most efficient and effective way possible.

We are laser focused on improving our business operations by addressing serious challenges, mitigating the risks associated with our programs and past practices, and transforming our processes to address waste, fraud and abuse. We are also committed to addressing open OIG audit findings by proactively updating our policies, streamlining our financial reporting procedures, collaborating with stakeholders, and educating our workforce.

We are continuing to prioritize infrastructure improvements related to human capital, and although more work needs to be done, we have taken steps to improve our hiring process and engage our employees in problem solving efforts aimed at achieving organizational goals and improving the quality of work. We are also working to transform our information technology program by supporting the center of excellence activities, enhancing our acquisition management processes, and prioritizing efforts to improve customer experience.

Over the last year, we made substantial progress in the area of governance and program management. We improved internal controls and implemented a robust Enterprise and Fraud Risk Management framework to enhance coordination, improve reporting and better combat fraud. We believe that organizational excellence is achieved by leveraging diversity, fostering a culture of ethics and integrity, and promoting increased transparency. To this end, we have launched a number of substantive efforts including an Agency-wide Integrity Task Force and a Financial Transformation Plan to help us remediate our remaining material weaknesses and deficiencies. HUD is fully committed to supporting and stimulating continuous process improvement and we will continue to make smart investments in technology and people to achieve our goal of financial excellence and ensure effective mission delivery.

Additionally, we recognize the important role HUD plays in assisting individuals and communities in recovering from disasters. We remain committed to helping

those in need by further enhancing our disaster program oversight, working to simplify the processes, and focusing on improving the citizen experience.

We will use the findings to help inform process improvement efforts and guide us in solving our most pressing management challenges, we were expecting more rigor in a number of audits. We are vested in working collaboratively with the OIG to foster a problem-solving environment that instills more audit rigor, improves mission delivery, better services America's taxpayers, and creates the best place to work for our most valuable asset, our employees.



Top Management Challenges
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