



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

Oversight Hearing – Housing Oversight: Testimony of the HUD
and FHFA Inspectors General



Testimony of the Honorable Rae Oliver Davis,
Inspector General,
U.S. Department of Housing and Urban Development
June 26, 2024

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

Before:

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

Hearing Titled:

“Housing Oversight: Testimony of the HUD and FHFA Inspectors General”

Introduction

Chairman Davidson, Ranking Member Cleaver, and Members of the Subcommittee, thank you for the opportunity to testify today. The Office of Inspector General (HUD OIG) for the U.S. Department of Housing and Urban Development (HUD or the Department) strives to provide timely and relevant oversight that influences positive outcomes for HUD’s programs and operations. HUD OIG leverages a staff of over 510 auditors, evaluators, Special Agents, attorneys, data scientists, and professional staff to produce independent, objective oversight and to protect the integrity of HUD’s expansive programs. My testimony today highlights some of our most significant recent work, ongoing audits and evaluations, and outlines priority areas where HUD action is needed.

I will also discuss our important initiatives to protect the health and safety of low-income and vulnerable populations living in HUD-assisted housing. Notably, we have and will continue to dedicate more of our resources to oversight of dangerous threats to tenants’ health and safety and to work that improves living conditions. We have also increased oversight of PHA’s and landlords’ compliance with environmental safety laws and regulations.

My testimony will then turn to key management challenges that HUD faces, which directly tie to the areas on which HUD OIG focuses our oversight and investigations to improve the effectiveness and integrity of those programs.

Overview of HUD OIG’s Operations and Impact

To provide more comprehensive oversight over HUD’s critical programs and operations, over the past several years HUD OIG refocused our oversight teams to align with HUD program functions more directly. By doing so, HUD OIG provides strategic, targeted audits and evaluations over critical HUD programs, which result in actionable recommendations that identify a roadmap for HUD and its stakeholders to achieve program improvements.

Similarly, our investigations staff are regionally positioned and use a data-driven approach that helps focus our efforts on areas with the greatest potential risk exposure to HUD funds and beneficiaries. This

helps ensure that our investigative work improves accountability and acts as a deterrent to fraud, waste, and abuse.

This approach has produced significant results. Last fiscal year (FY), HUD OIG audits found almost \$1 billion in funds that could be put to better use, \$4.8 million in questioned costs, and resulted in \$86.7 million in collections from audits. Similarly, our investigations resulted in over \$63 million in restitution and judgments, with over \$14 million total recoveries and receivables ordered to HUD programs. Beyond monetary impact, our office's oversight has identified numerous ways that HUD and its partners can improve outcomes for HUD-assisted individuals and communities and has held bad actors accountable through impactful investigations that resulted in convictions, penalties, and exclusion from Federal programs.

Initiatives to Reduce Environmental and Public Health Hazards, and Sexual Misconduct in Housing

Last year, I announced that HUD OIG is prioritizing oversight work that promotes safe, affordable HUD-assisted housing by reducing environmental and public health hazards. We remain committed to holding housing providers accountable for complying with environmental laws and regulations to protect the health of low-income households and other vulnerable populations. My office continues to prioritize the following oversight objectives:

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

Additionally, HUD OIG's Office of Investigation is proactively focusing on efforts to ensure HUD tenants are protected from sexual misconduct in housing.² Under this initiative we have prioritized trauma informed training for our staff, improved out hotline intake procedures, conducted extensive outreach, formed partnerships and developed case all aimed at combatting this unacceptable abuse of tenants and HUD programs. Working with HUD and the Department of Justice, we will continue seeking justice for victims through criminal and civil prosecution and penalties for those who sexually assault or harass HUD tenants. No one should have to face the threat of being sexually harassed or sexually assaulted by their housing provider to have a roof over their head.

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

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

These initiatives are yielding substantial results. We have uncovered schemes to overcharge and abuse vulnerable HUD-assisted tenants and are actively seeking criminal, civil, and administrative remedies against these bad actors. Our partnership with DOJ's Housing Civil Enforcement Section has brought two cases to settlement totaling \$5.23 million dollars on behalf of eighty victims. Since October 2022, HUD OIG's Hotline has received 253 complaints alleging sexual misconduct and our Office of Investigation has opened forty-six investigations. We will continue prioritizing this important work and are proud to partner with our law enforcement and prosecutorial colleagues throughout the country.

Impactful Investigations

[Property Owner Sentenced for Lying About Lead Hazards](#)

The United States District Court for the Western District of New York sentenced the former principal of Williamsville Property Holdings to 5 years of probation, 8 months home detention, and 600 hours of community service with Habitat for Humanity and ordered him to pay \$115,000 in restitution to the buyers of certain properties for making false statements on Lead-Based Paint Rider and Disclosure forms. Between December 2015 and May 2018, the defendant was aware of lead-based paint and lead-based paint hazards at a residence he owned. The defendant rented the property to lessees participating in the Housing Choice Voucher Program (HCVP) and provided them with a lead disclosure form that falsely affirmed that he "had no knowledge of lead-based paint and/or lead-based paint hazards in the housing." The individual later sold properties that he knew to have lead-based paint hazards and failed to properly disclose that information to the purchasers.

[40 Members of a Violent Gang Charged With Drug Trafficking and Firearms Violations in San Juan, Puerto Rico](#)

A federal grand jury in the District of Puerto Rico indicted 40 gang members with crimes spanning conspiracy to possess with the intent to distribute controlled substances, possession and distribution of controlled substances, and firearms violations. The indictment alleged that from 2015 to June 8, 2023, the drug trafficking organization distributed heroin, cocaine base, cocaine, marijuana, Fentanyl, Oxycodone, and Alprazolam near Public Housing Projects for significant financial gain and profit. The defendants used abandoned apartments in the Public Housing Projects to prepare the drugs for distribution and procured access to many vehicles to transport money, narcotics, and firearms.³

[Justice Department Obtains \\$4.5 Million Settlement from a New Jersey Landlord to Resolve Claims of Sexual Harassment of Tenants:](#)

A landlord who owned hundreds of rental units in and around Elizabeth, New Jersey, agreed to pay \$4.5 million, including monetary damages and a civil penalty, to resolve a Fair Housing Act lawsuit concerning his sexual harassment of tenants and housing applicants for more than 15 years. This settlement is the

³ As the introductory phrase signifies, the description of the charges set forth herein constitute only allegations, and every fact described therein should be treated as an allegation.

largest monetary settlement the Justice Department has ever obtained in a case alleging sexual harassment in housing. The monetary damages awarded have been used to compensate numerous women and men who were sexually harassed by the landlord. The landlord is currently facing criminal prosecution, as well.

[New Mexico Landlords to Pay \\$42,000 to Resolve Alleged Tenant Abuses Arising from HUD's Section 8 Low-income Housing Program](#)

Two New Mexico landlords settled allegations that they violated the False Claims Act by charging low-income tenants more than the amount permitted under HUD's HCVP. Under the HCVP, the tenant's share of the rent is determined based upon ability to pay, and the subsidized amount is determined based upon market rental rates. This results in tenants securing decent housing and ensures that landlords realize full market value for their rental properties. One landlord overcharged a vulnerable low-income HCVP tenant and retained the excess payments despite the tenant's request for a refund from the landlord. The other landlord demanded excess rent payments from his tenant, who felt compelled to comply because of her difficulty finding safe, decent housing.

[Newark Landlords Agree to Pay \\$430,000 to Settle Allegations of Collecting Excess Rent in Sparrow Run](#)

Landlords that collectively owned more than 90 properties in Newark, Delaware, agreed to pay \$430,000 to resolve allegations that they violated the False Claims Act by charging a higher rent to their HCVP tenants than unassisted tenants in comparable housing units, as well as providing false information on forms to justify the inflated rents they sought to charge. As part of the settlement, the landlords were also required to reduce the rents they were charging certain current tenants.

[Justice Department Secures \\$400,000 in Sexual Harassment Lawsuit Against Connecticut Landlord](#)

A former HCVP landlord agreed to pay \$400,000 to settle a lawsuit that he violated the Fair Housing Act by sexually harassing female tenants and applicants of rental properties. As part of the settlement agreement, the landlord and his two co-defendant companies were required to pay \$350,000 to compensate individuals harmed by his harassment as well as a \$50,000 civil penalty. The landlord is also permanently enjoined from owning and managing residential rental properties in the future. The landlord has been incarcerated since 2017, following a [guilty plea to federal charges](#) of producing child pornography.

[Hampton Landlord Charged with Fraud, Threats, and Civil Rights Violations](#)

A landlord who owns more than sixty rental properties in Hampton and Newport News was charged with repeatedly harassed his tenants with racist slurs, threats to kill or injure, and retaliatory eviction actions. The alleged threats and racial harassment were often highly graphic and included references to slavery and mocking comments about the Black Lives Matter movement. In addition, the landlord allegedly engaged in physical assaults and other threatening behavior towards tenants, including on one occasion striking a tenant in the face with a shovel and on another occasion attacking a tenant with the blade of a chainsaw while it was off. The landlord orchestrated a scheme to defraud the government and his tenants. For example, the indictment alleges that, to obtain housing-assistance payments from HUD, the landlord repeatedly made false representations about the condition of his rental properties

and whether he was receiving other payments that would be duplicative of federally funded rental assistance.⁴

[Justice Department Sues Ohio Landlord for Sexually Harassing Tenants](#)

A Section 8 landlord is alleged to have discriminated on the basis of sex in violation of the Fair Housing Act by sexually harassing female tenants and applicants since at least 2004. The complaint alleges that the landlord requested sex acts from female tenants and applicants, subjected female tenants to unwelcome sexual touching, made unwelcome sexual comments and advances to female tenants and their female guests, repeatedly drove by and entered female tenants' homes without their permission, demanded that female tenants engage in sex acts with him in order not to lose housing, and offered to reduce rent or excuse late or unpaid rent in exchange for sex acts. The lawsuit also alleges that the landlord-initiated evictions or threatened to evict female tenants who refused sexual advances. The lawsuit, which is the result of a joint investigative effort with HUD OIG and the Civil Rights Section of DOJ, seeks monetary damages to compensate persons harmed by the alleged harassment, a civil penalty to vindicate the public interest and a court order barring future discrimination.

HUD OIG Oversight Focuses on HUD's Top Management Challenges

To ensure comprehensive oversight of HUD's key functions and programs, our work addresses what we have determined to be the top management and performance challenges that the Department faces. Each challenge correlates to HUD's strategic plan and is informed by past HUD OIG oversight findings, the views of Department leadership, the work of our oversight partners, such as the U.S. Government Accountability Office, and input from key external stakeholders.

For FY 2024, we determined HUD's Top Management Challenges to be:

- Promoting Health and Safety in HUD-Assisted Housing
- Increasing Access to Affordable Housing
- Mitigating Counterparty Risks
- Grants Management
- Enhancing Oversight of Disaster Recovery
- Managing Fraud Risk and Improper Payments
- Improving Information Technology (IT) Modernization and Cybersecurity
- Managing Human Capital
- Increasing Effectiveness in Procurement

A common theme in our oversight findings has been that HUD does not have the capacity necessary to address the challenges it faces. HUD employees, program partners, and external stakeholders consistently describe HUD as having IT, human capital, and other support structures that are inadequate to address its ever-growing mission, program responsibilities, and expectations. Challenges, such as

⁴ As the introductory phrase signifies, the description of the charges set forth herein constitute only allegations, and every fact described therein should be treated as an allegation.

HUD's ability to securely collect, use, and analyze data, which is often maintained at the recipient or subrecipient level, continue to impede HUD's success.

HUD OIG has vast oversight responsibilities, as HUD implements its many programs through extensive networks of businesses, non-profit agencies, state and local governments, and other entities that operate HUD's programs. For example, over 500,000 landlords participate in HUD's rental assistance programs, which served over 4.5 million families in 2023. Roughly 19,000 entities do significant business with HUD and the Federal government and are Single Audit Act filers.⁵ HUD insures over 16,700 multifamily loans for over 14,600 property owners with a total unpaid balance on these loans of over \$163 billion. Between FY21-FY23, HUD processed over four million Federal Housing Administration (FHA) loan applications, excluding reverse mortgages. There is currently over \$1.31 trillion in outstanding balance in FHA loans, and over \$2.5 trillion in principal for all pooled loans guaranteed by Ginnie Mae. HUD's mortgage insurance programs rely on over 13,000 underwriters, 1,500 originators, 500 servicers, 33,000 appraisers, and 180,000 loan officers.

HUD's mission and footprint are expansive, which requires HUD OIG to focus our resources on the most significant risks and program outcomes. We execute a data-driven oversight strategy analyzing enterprise-wide risk at the HUD level, then examining primary recipients such as grantees or financial institutions and the subrecipients that HUD relies on to execute its programs. This approach allows HUD OIG to identify the most effective areas to target limited investigative resources, and to make meaningful findings and recommendations to improve how HUD conducts business.

Priority Open Recommendations

HUD OIG recently issued its second Priority Recommendations memorandum⁶ to focus the Department's, Congress', and the public's attention on recommendations that, if acted on by HUD, would have the greatest impact on helping HUD achieve its mission and address its top management challenges.

The report outlines important actions HUD can take to address recommendations related to promoting health and safety in HUD-assisted housing, managing fraud risk and improper payments, improving IT modernization and cybersecurity, protecting whistleblowers, and mitigating counterparty risk. Each priority open recommendation is an opportunity for HUD to take specific action to increase the integrity of its operations and programs. Priority open recommendations are further described within the brief examples below of HUD OIG's impactful oversight.

Management Alert: Protecting Whistleblowers

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

⁵ This includes entities that receive more than \$750,000 in federal funding annually and are subject to Single Audit Act requirements.

⁶ Available at: <https://www.hudoig.gov/reports-publications/memorandum/priority-open-recommendations-fiscal-year-2024>. Current recommendation statuses can be found on the HUD OIG Recommendation Dashboard: <https://www.hudoig.gov/open-recommendation/search>.

Employees of thousands of contractors who receive funds from HUD may not be protected against retaliation for blowing the whistle on wrongdoing. The gap in protections exists because the contracts pre-date July 1, 2013, the date on which the anti-retaliation law codified at 41 U.S.C. § 4712 (Section 4712) became effective, and HUD has not modified the contracts to include the statutory anti-retaliation provisions that would protect the employees. HUD OIG identified this problem following investigations of allegations of whistleblower retaliation against several employees working under long-term Housing Assistance Payments contracts. We believe that the same risk is present in many other HUD contracts.

Whistleblower protections in HUD contracts promote integrity in HUD's programs by ensuring that employees who work under those contracts are safeguarded from retaliation when they disclose wrongdoing, such as dangers to public health and safety. Uncertainty over whether whistleblower protections apply dissuades employees from reporting wrongdoing to HUD, Congress, and HUD OIG, potentially emboldens employers to retaliate.

In May 2023, HUD OIG issued a Management Alert, making five recommendations for action HUD should take, including seeking legislative action, to close the gaps in whistleblower protections involving its contracts. At this time, OIG has not reached an agreement with HUD about whether its planned corrective action addresses our recommendations. Three of the recommendations are Priority Open Recommendations:

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- HUD (a) identify all contracts related to its programs that pre-date July 1, 2013, and that have not yet been modified to include Section 4712 whistleblower protections; and (b) review all contracts entered into on or after July 1, 2013, to ensure they include a clause that requires contractors to comply with Section 4712.
 - HUD seek voluntary cooperation from program participants to proactively modify pre-2013 contracts for the purpose of including a clause requiring compliance with Section 4712.
 - HUD use best efforts to include a clause requiring compliance with Section 4712 at the time of major modifications to contracts with program participants with whom HUD is unable to gain voluntary cooperation.
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Improper Payments & Fraud Risk

For the past 2 years, HUD OIG has highlighted that HUD's overall financial maturity continues to progress. This result is largely due to HUD's financial statements being presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles in fiscal years 2021, 2022, and 2023. However, the next major hurdles for HUD are to address improper payments and to mature its own fraud risk management capabilities.

HUD has long struggled to come into compliance with the Payment Integrity Information Act of 2019 (PIIA) and is unable to estimate improper payments in its largest rental housing assistance programs. Beyond the management alert noted below, several recent HUD OIG reports demonstrate HUD's

challenges in developing more robust improper payment controls, fraud risk assessments, and fraud risk frameworks in its programs. HUD also faces challenges integrating accountability measures into its programs, such as strong certifications throughout a program's life cycle, and adopting leading practices in preventing fraud, such as antifraud training for program participants, and verifying self-reported information.

HUD OIG continues to assess HUD's programs for systemic weaknesses in improper payments, fraud risk controls and other gaps that could negatively impact HUD's programs.

[Management Alert: Action Is Needed From HUD Leadership To Resolve Systemic Challenges With Improper Payments](#)⁷

The Management Alert highlights that the Department will once again be unable to estimate improper payments for the Office of Public and Indian Housing's Tenant-Based Rental Assistance (PIH-TBRA) program and the Office of Multifamily Housing Programs' Project-Based Rental Assistance (PBRA) program for fiscal year 2023. These are the two largest program expenditures in HUD's portfolio, totaling \$45.3 billion in FY23, or 67.5 percent of HUD's total expenditures.

This marks the seventh consecutive year that HUD will be unable to report improper payment estimates for these programs and the 11th consecutive year that HUD will not be in compliance with improper payment laws. Even more troubling, we recently learned that the Office of the Chief Financial Officer (OCFO) believes it will not be able to provide estimates of improper payments in these programs next year either, and OCFO has informed the Office of Management and Budget (OMB) that it may not be able to make these estimates until FY 2027, dependent on funding.

If left unaddressed until FY 2027, hundreds of billions of dollars in HUD rental assistance payments will continue to be at heightened risk of waste, mismanagement, and fraud. Action is needed immediately from HUD leadership to resolve its systemic challenges in preventing, identifying, and remediating improper payments and better protect taxpayer-funded expenditures made through these programs. The lack of proper planning and coordination from leadership in HUD's program and support offices prevents HUD from addressing the root causes behind the failure to comply with improper payment laws.

We made one Priority Open Recommendation in this report, that the Deputy Secretary:

⁷ HUD OIG subsequently completed our annual audit of HUD's compliance with the Payment Integrity and Information Act of 2019. That audit discusses HUD's actions following OIG's Management Alert. HUD's leadership responded to the management alert with a joint commitment to work towards a plan to overcome these challenges. However, HUD did not provide details about the steps it would take to meet its goal of producing an estimate for the PBRA program in 2024, or when it will be able to produce an estimate for the PIH-TBRA program. The audit is available at: <https://www.hudoig.gov/newsroom/press-release/hud-oig-audit-finds-hud-did-not-comply-improper-payment-law?indexRefer=/news-congressional/press-releases>.

- Develop and execute a detailed plan and timeline for both testing and reporting estimates of improper payments in the PIH-TBRA and PBRA programs in compliance with Federal law and OMB guidance.
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Improvements are Needed in HUD's Fraud Risk Management Program

We audited the maturity of HUD's fraud risk management program at the enterprise and program-office levels, including control activities to prevent, detect, and respond to fraud. We found that in all four phases of HUD's fraud risk management program was in the early stages of development, or at an "ad hoc" maturity level.⁸ HUD's program is still in its infancy because HUD had not previously dedicated sufficient resources to lead and implement fraud risk management activities. Although HUD has recently taken steps to mature its program, HUD needs to commit resources to enhancing antifraud controls and promoting a culture of fraud risk management.

Without improvements to its program, HUD may miss opportunities to identify and eliminate fraud vulnerabilities, leaving its funds and reputation at risk. HUD OIG recommended HUD take several actions to assess and improve the maturity of HUD's fraud risk management program, as well develop policies, procedures, and strategies for collecting and analyzing data to identify fraud within HUD's programs, promote fraud awareness, and develop antifraud risk mitigation tools. We also recommend that the Chief Financial Officer determine and seek to fulfill an appropriate level of dedicated staff resources to administer HUD's enterprise and fraud risk management programs effectively and increase fraud risk awareness and strengthen antifraud controls in HUD's program offices.

This report includes a Priority Open Recommendation that HUD's Chief Risk Officer:

- Perform a complete agency-wide fraud risk assessment (which incorporates the fraud risk assessments performed at the program level) and use the results to develop and implement an agency-wide plan to move HUD's fraud risk management program out of the "ad hoc" phase.
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The Puerto Rico Department of Housing Should Enhance Its Fraud Risk Management Practices

We conducted an audit of the Puerto Rico Department of Housing's (PRDOH) fraud risk management practices to assess the maturity of its antifraud efforts for preventing, detecting, and responding to fraud when administering programs funded by HUD grants addressing 2017 disasters. This audit determined that PRDOH's fraud risk management processes to mitigate fraud risks either did not exist or were reactionary, which resulted in the lowest desired maturity goal state, "ad hoc", for organizations' antifraud initiatives. Because PRDOH does not proactively manage fraud risk and its fraud risk management program is at the lowest state of maturity, it may have missed opportunities to

⁸ The Antifraud Playbook established by the Chief Financial Officers Council and the U.S. Department of the Treasury assess maturity of an agency's fraud risk management program in four phases: (1) culture, (2) identifying and assessing fraud, (3) preventing and detecting fraud, and (4) turning insight into action.

strengthen controls and eliminate fraud vulnerabilities, leaving more than \$20 billion in HUD disaster recovery and mitigation funds at increased risk of fraud. Implementing best practices and maturing PRDOH's fraud risk management program will improve HUD and Puerto Rico's ability to prevent and detect fraud and effectively utilize federal funds to support long-term disaster recovery and mitigation needs. HUD OIG made several recommendations, including that HUD instruct PRDOH to implement a process to regularly conduct fraud risk assessments and determine a fraud risk profile. HUD OIG also recommended that HUD assess whether other Community Development Block Grant Disaster Recovery (CDBG-DR) grantees have mature fraud risk management programs and to work with grantees to take further steps to mitigate fraud risks.

This report includes several recommendations for HUD, including that it assess whether grantees have mature fraud risk management programs within the disaster recovery and mitigation programs, as well as determine the fraud risk exposure in HUD's disaster recovery and mitigation programs and work with grantees to implement appropriate fraud mitigation activities.

Impactful Investigations

[70 Current And Former NYCHA Employees Charged With Bribery And Extortion Offenses](#)

In the largest number of federal bribery charges on a single day in DOJ history, 70 current and former employees of the New York City Housing Authority (NYCHA) were charged with bribery and extortion. The complaints allege that these individuals used their positions of public trust and responsibility to solicit and obtain money in exchange for awarding no-bid contracts.

According to the allegations in the complaints and publicly filed documents in these cases,⁹ the defendants, all of whom were NYCHA employees during the time of the relevant conduct, demanded and received cash in exchange for NYCHA contracts by either requiring contractors to pay up front in order to be awarded the contracts or requiring payment after the contractor finished the work and needed a NYCHA employee to sign off on the completed job so the contractor could receive payment from NYCHA. As alleged, the defendants typically demanded approximately 10% to 20% of the contract value—between \$500 and \$2,000 depending on the size of the contract—but some defendants demanded even higher amounts. In total, these defendants demanded over \$2 million in corrupt payments from contractors in exchange for awarding over \$13 million worth of no-bid contracts.

[Former Puerto Rico Public Housing Contracting Company and Executives Sentenced for Corruption and Financial Misconduct](#)

⁹ Available at: https://www.justice.gov/usao-sdny/pr/70-current-and-former-nycha-employees-charged-bribery-and-extortion-offenses#_ftn1. As the introductory phrase of the DOJ press release signifies, the entirety of the text of the Complaints and the description of the Complaints set forth therein constitute only allegations, and every fact described therein should be treated as an allegation.

The United States District Court for the District of Puerto Rico sentenced two executives of a company providing services to the Puerto Rico Public Housing Administration (PRPHA) to prison terms for knowingly and intentionally stealing money from HUD federal assistance programs from 2014 to August 2022. The two executives stole approximately \$3.7 million. The PRPHA contracted with the company the two executives operated to be a management agent for various public housing projects. Despite their fiduciary obligations, the two executives used their positions to operate a scheme designed to circumvent certain prohibitions on conflicts of interest by creating sham companies which purported to provide services to the public housing projects served by the management agent company. The sham companies never actually rendered services to the public housing projects.

[Former Public Housing Authority Bookkeeper Sentenced for Theft of over \\$200,000](#)

A federal court sentenced the former bookkeeper for the Albert Lea (Minnesota) Housing and Redevelopment Authority (HRA) to 1 year and 1 day in prison, 3 years' supervised release, and ordered her to pay restitution in the amount of \$213,217 for her role in committing theft. For over eight years, the bookkeeper stole funds from tenants by embezzling their HRA rent payments by pocketing cash payments and altering the payee information on payments made by check and money order. She then manipulated the HRA's computer system to conceal the money she stole, avoiding detection and prolonging her fraud scheme.

Ensuring Access to and Availability of Affordable Housing

HUD continues to experience challenges in efficiently and effectively overseeing its rental assistance programs. HUD and its local partners have difficulty attracting new business partners, such as landlords and property owners, to participate in its tenant-based rental assistance programs. HUD is also challenged with preserving its aging housing stock to provide quality affordable housing for individuals and families, the deterioration of which exacerbates the shortage of affordable housing. To help HUD address this challenge, HUD OIG has dedicated considerable resources toward assisting HUD and its partners in improving the delivery of these critical programs.

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

[Opportunities Exist To Improve HUD's FHA Resource Center's Routing of Housing Discrimination Inquiries](#)

HUD OIG assessed whether the FHA Resource Center appropriately rerouted inquiries related to housing discrimination, including discrimination in appraisals, to the Office of Fair Housing and Equal Opportunity (FHEO) in accordance with its standard operating procedures. We found the FHA Resource Center did not consistently do so. Specifically, fourteen of 68 sampled housing discrimination inquiries and 3 of 10 HUD OIG test calls relating to housing appraisal discrimination were not routed to FHEO as required. We found that the FHA Resource Center lacked clear guidance on how to handle discrimination inquiries when the inquiries included multiple concerns, such as a customer alleging discrimination while also complaining about living conditions in public housing. HUD OIG made two

recommendations that the Office of Single Family Housing has already resolved. It did so by updating internal guidance to ensure consistency among customer service representatives in rerouting these complaints to FHEO and providing additional training to its staff on housing discrimination.

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

HUD uses the Section Eight Management Assessment Program (SEMAP) to remotely evaluate the performance of PHAs' Housing Choice Voucher (HCV) Programs. We determined that the program needed enhancements to accurately measure PHA performance because SEMAP uses performance indicators that are based on PHAs' self-certifications and self-reported data, which may not have accurately represented the performance of PHAs' HCV programs. We also noted that HUD's process for verifying the information PHAs use for SEMAP reporting did not capture the performance of all PHAs' HCV Programs. This weakness creates a gap in HUD's ability to identify PHAs' HCV Programs that may have needed improvement. We recommended HUD (1) enhance SEMAP or develop a new performance measurement process that would identify PHAs with underperforming HCV Programs and (2) provide training and guidance to HUD staff to enable more effective use of the measurement processes.

[Opportunities Exist To Enhance Oversight of the Foster Youth to Independence Initiative To Improve Program Effectiveness](#)

HUD OIG conducted an audit of HUD's Office of Public Housing Voucher Programs' oversight of the Foster Youth to Independence Initiative (FYI) to determine its effectiveness. This audit determined that opportunities exist to enhance oversight of the FYI to improve program effectiveness. HUD did not implement strategies or provide guidance to maximize voucher utilization and did not have the assurance that youths were informed of supportive services or that the services were available for the duration of their participation. In addition, HUD did not include the FYI in its annual risk assessment and did not have an FYI program-specific risk assessment or monitoring policies and procedures. It also did not establish specific and measurable objectives for the FYI or collect data that would allow it to assess the program's overall effectiveness. HUD OIG made recommendations to help PIH to improve voucher utilization, including through improved coordination between PHAs and public child welfare agencies. HUD OIG also made recommendations to improved accountability measures like requiring PHAs to document that they have informed FYI participants at program entry of their eligibility for supportive services for the duration of the program, and improve monitoring of program partners, and regularly assess the effectiveness of the program.

[The Kentucky Commission on Human Rights Has Opportunities To Improve Its Fair Housing Complaint Intake Process](#)

After reviewing its intake process, we were unable to determine the extent to which the Kentucky Commission on Human Rights processed fair housing inquiries within 30 days due to a lack of supporting documentation. Further, the Commission could not provide evidence that fair housing inquiries were properly closed. The Commission lacked clarity about which inquiries should be recorded in the HUD Enforcement Management System, or how to support closure decisions. These steps are key to assuring complaints are properly processed and inquiries from complainants are closed in a timely manner. If

complainants' alleged discrimination is not addressed properly and in a timely manner, the Commission may not help to stop ongoing discrimination, hold those responsible for their actions, and deter future discrimination. HUD OIG made five recommendations, which include requiring the Commission to update policies and procedures and develop an internal agency intake training guide for all agency housing staff.

Ensuring Assisted Housing Is Habitable and Hazard-Free

HUD is required to ensure that its assisted properties are decent, safe, sanitary, and in good repair. Properties participating in HUD programs must be free of hazardous materials, contamination, toxic chemicals and gasses, and radioactive substances, when such hazards could affect the health and safety of occupants or conflict with HUD's intended utilization of the property.¹⁰ Our Top Management Challenges report discusses HUD's difficulty in addressing risks associated with lead hazards, radon hazards, physical conditions of HUD-assisted properties, and the role of inspections in identifying and remedying poor living conditions. While HUD has made progress in its efforts toward eliminating hazards in its assisted properties, several safety and health issues remain to be addressed.

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

[HUD Lacked Adequate Oversight of Multifamily Housing Properties with Failing REAC Scores or Life-Threatening Deficiencies](#)

HUD requires property owners to immediately remedy life-threatening exigent health and safety deficiencies, including fire safety smoke detector deficiencies, identified during Real Estate Assessment Center (REAC) inspections. Property owners must also provide a certification that they addressed the violation within three business days of the date of the REAC inspection. In our report we identified multiple areas where HUD needs to improve its oversight of physical conditions in multifamily housing properties. Specifically, we found that for 45 percent of the sampled properties reviewed, HUD did not issue notices of violation and default to owners for failed inspections within 15-days. This was caused, in part, because HUD had insufficient procedures and controls to ensure that it timely and consistently issued notices of violation and default to owners. This delayed the start of the cure period for owners to correct identified deficiencies and increased the risk that residents were subjected to inadequate living conditions for a longer period. Further, HUD staff did not consistently collect adequate documentation from property owners to ensure that the owners complied with HUD's requirement to maintain housing in a decent, safe, and sanitary condition. Lastly, HUD did not always provide timely reports to Congress that contained accurate information about the physical condition of assisted multifamily housing properties that received a failing REAC inspection score.

¹⁰ 24 CFR 50.3(i)(1) and 24 CFR 58.5(i)(2)(i)

We recommended that Multifamily develop and implement adequate procedures and controls to ensure that (1) staff issues timely notices of violation and default and that the Office of Multifamily Asset Management and Portfolio Oversight is made aware when notices are issued late so it can take action, as appropriate to ensure future notices are issued in a timely manner. We also recommended that Multifamily include more specific language regarding owner surveys in future notices of violation and default; improve record retention and retrievability; ensure that appropriate staff approve extensions to cure periods; and assess and streamline processes to ensure that reports are accurate and submitted to Congress on time.

[Improvements Are Needed To Ensure That Public Housing Properties Are Inspected in a Timely Manner](#)

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

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

The audit resulted in a Priority Open Recommendation that:

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- HUD implement adequate policies, procedures, and controls to ensure that public housing properties will be inspected within required timeframes.
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[HUD Can Improve Its Oversight of the Physical Condition of Public Housing Developments](#)

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

HUD field offices were inconsistent in overseeing whether PHAs corrected life-threatening deficiencies identified during REAC inspections, and HUD did not track PHAs' corrections of non-life-threatening health and safety deficiencies identified during REAC inspections. HUD lacked a standardized policy or a nationwide protocol to guide its field offices' oversight of PHAs to ensure that all health and safety deficiencies identified during a REAC inspection were corrected. Further, HUD was inconsistent in how it verified PHAs correction of deficiencies, and it lacked assurance that PHAs correctly rectified life-threatening and non-life-threatening deficiencies.

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

If HUD implements a nationwide protocol for monitoring and tracking PHAs' efforts to address inspection results, it could have greater assurance that tenants who reside in public housing are living in units that are decent, safe, and sanitary. Accordingly, HUD OIG designated four of the recommendations from this report as Priority Open Recommendations. Two were closed in March 2024, and the remaining two Priority Open Recommendations are that HUD should develop and implement:

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- a nationwide protocol for field offices, describing how PHA self-inspections should be reviewed, based on REAC's determination of the number and frequency of PHA self-inspections.
 - training for field offices that addresses reviewing or following up with PHAs about the correction of life-threatening and non-life-threatening deficiencies and how:
 - to review physical inspection reports to effectively ensure that PHAs correct physical deficiencies,
 - PHAs should address or correct each type of deficiency observed in the REAC physical inspection report, and
 - to use PASS or any future tracking system.
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[Management Alert: Action Needed to Ensure That Assisted Property Owners Comply with the Lead Safe Housing Rule](#)

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

To mitigate the risk of applying the exemption too broadly and increasing the potential for residents and maintenance staff to be exposed to lead-based paint hazards, we made a Priority Open Recommendation that HUD:

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- should require assisted property owners, including PHAs, to maintain adequate documentation to support their determinations that maintenance and hazard reduction activities that disturb surfaces with lead-based paint qualify for the de minimis exemption from the lead-safe work practices under the Lead Safe Housing Rule.
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[Improvements are Needed to HUD's Processes for Monitoring Elevated Blood Lead Levels and Lead-Based Paint Hazards in Public Housing](#)

Our evaluation found that HUD did not align its EBLL value to the Centers for Disease Control and Prevention's (CDC) blood lead reference value (BLRV) for children under the age of six. As of August 2022, HUD was using the EBLL value of 5 micrograms of lead per deciliter of blood ($\mu\text{g}/\text{dL}$), despite CDC lowering the BLRV to 3.5 $\mu\text{g}/\text{dL}$ in October 2021. By aligning EBLL processes with CDC's BLRV, HUD can help to ensure that cases of children with EBLs between 3.5 $\mu\text{g}/\text{dL}$ and 4.9 $\mu\text{g}/\text{dL}$ are reported and monitored. The evaluation also found ways HUD could improve the data fields of HUD's EBLL tracker to monitor cases of children with identified EBLs residing in public housing, including facilitating access to historical EBLL cases, and the number of children living in a housing unit, or whether a specific unit, building, or development previously had an EBLL case. Additionally, when we compared the percentage of public housing development buildings constructed before 1978 to a snapshot of the EBLL tracker we found that New York and Pennsylvania accounted for 94.1 percent of tracked EBLs for children living in public housing with an EBLL resulting from a confirmed lead-based paint hazard, despite other states' having the same or more pre-1978 public housing development buildings.

This report includes two Priority Open Recommendations, notably that:

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- The Office of Lead Hazard Control and Healthy Homes should update its regulations, policies, and procedures following the regulatory process required by the amended Lead Safe Housing Rule, in consideration of CDC's lowered BLRV of 3.5 $\mu\text{g}/\text{dL}$.
 - PIH in coordination with other HUD offices as necessary, research and address potential causes of the variance in the number of EBLL cases among States on the EBLL tracker and identify solutions that are within HUD's control.
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[HUD Lacked Adequate Oversight of Lead-Based Paint Hazard Remediation in Public Housing](#)

HUD established procedures in the Lead Safe Housing Rule (LSHR) in 1999 to eliminate lead-based paint hazards, as far as practicable, in public housing. However, it did not have a plan to manage lead-based

paint and lead-based paint hazards in public housing. Additionally, HUD generally did not monitor whether PHAs had implemented lead-based paint hazard reduction and documented the activities at their public housing developments. HUD relied on PHAs to implement their own methods to achieve lead-safe housing, which should have included implementing lead-based paint hazard reduction. Further, instead of monitoring PHAs for compliance with the lead-based paint hazard reduction procedures in the LSHR, HUD relied on PHAs' annual certifications of compliance. Without a plan to manage lead-based paint and lead-based paint hazards in public housing and ensure that PHAs implemented lead-based paint hazard reduction, HUD lacked assurance that (1) families with children under 6 years of age residing in public housing were not exposed to lead-based paint hazards and, thus, protected from lead exposure and (2) its procedures for eliminating lead-based paint hazards in public housing were effective.

Without determining the extent of lead-based paint hazards in public housing, HUD cannot effectively assess its progress in making assisted units lead safe or effectively communicate its funding needs to Congress to address lead-based paint in the public housing program. Accordingly, we determined that one of the six recommendations from this audit was a Priority Open Recommendation, that:

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- HUD's Real Estate Assessment Center, in coordination with the Office of Field Operations, determine the number of developments and associated units that contain lead-based paint and lead-based paint hazards.
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[The Philadelphia Housing Authority Needs To Improve Oversight Of Lead-Based Paint In Its Public Housing](#)

In the first of a series of audits¹¹ examining PHAs across the country, we assessed the Philadelphia Housing Authority's management of lead-based paint in its public housing program. We found the Authority did not always perform lead-based paint visual assessments within the required timeframe and mitigate lead-based paint hazards in a timely manner. The Authority needs to improve its processes for maintaining lead-based paint documentation and providing accurate lead-based paint disclosures to tenants. It also did not ensure that its contractors provided lead-based paint inspection and risk assessment reports that met HUD's requirements.

We recommended that HUD require the Authority to establish procedures and controls to ensure that lead-based paint visual assessments and hazard reduction work are performed within the required timeframes, and that all identified hazards are abated or treated with interim controls. We also recommended that HUD require the Authority to better maintain lead-based paint documentation; find historical lead-based paint documentation; and implement adequate procedures and controls to ensure that accurate lead disclosures are provided to current and prospective tenants and that contracted inspectors' deliverables comply with applicable requirements. In addition, we recommended that HUD

¹¹ As part of HUD OIG's environmental justice initiative that prioritizes oversight work that promotes safe, affordable housing by reducing environmental and public health hazards in HUD housing.

provide training to the Authority's staff involved with managing lead-based paint, technical assistance to the Authority in developing and implementing new procedures and controls, and assess the quality of lead-based paint inspections and risk assessments performed by the Authority's contractors.

Impactful Investigations

[Apex Waukegan LLC and Integra Affordable Management LLC Fined for Breach of Contract](#)

Apex Waukegan LLC (Apex), a multifamily housing landlord receiving rental assistance subsidies from the HUD, and Integra Affordable Management LLC (Integra), Apex's affiliated management agent, were ordered to pay \$1,258,671 in civil money penalties for breaching their Housing Assistance Payment Contract by knowingly failing to maintain housing units in a decent, safe, and sanitary manner.

[Richmond Contractor Sentenced to over 1 Year for Violating Federal Lead Paint Laws and Obstructing Justice](#)

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

Addressing Counterparty Risk/ Protecting HUD's Insurance Funds

FHA and Ginnie Mae deliver access to rental and homeownership opportunities to millions of Americans through its mortgage insurance and housing finance programs by offering reduced risk to lenders, servicers, and investors, also referred to as counterparties. A key challenge for FHA and Ginnie Mae in delivering these important services is identifying and mitigating risks related to its counterparties to protect HUD's insurance funds that are ultimately backed by taxpayer funds.

To address counterparty risk in FHA programs and protect HUD's Insurance Funds, HUD OIG's oversight involves (1) preventing risk through early detection, (2) strengthening controls around origination, and (3) ensuring lenders service loans correctly to mitigate losses to HUD's insurance fund. With respect to Ginnie Mae, our audits are targeting areas of risk to Ginnie Mae's securitization platform, focusing on governance, and ways in which Ginnie Mae can mitigate risks and increase the efficiency of its operations. Although Ginnie Mae has enhanced its counterparty risk management, nonbanks comprised over 89% of Ginnie Mae's total issuances. Ginnie Mae securities are highly concentrated in its top issuers, most of which are nonbanks, and HUD OIG remains focused on economic conditions that present unique risk to such entities.

Select recent oversight includes:

[HUD Can Improve Its Loan Purchaser Qualification Vetting To Better Achieve Its Mission Objectives](#)

HUD OIG audited the FHA, Office of Asset Sales' HUD-Held Vacant Loan Sales (HVLS) program. The audit objective was to assess the extent to which HUD achieved its mission objectives for a 2022 vacant loan sale to promote sales first to mission-driven nonprofit organizations and units of local government and to encourage mission outcomes, including increased affordable housing supply, expanded opportunities for home ownership, and revitalized communities. While performing the audit, we focused primarily on how the qualification process advanced the mission objectives. We noted deficiencies in 52 of 53 HUD-approved applications within the reviewed vacant loan sale. These deficiencies included potentially undisclosed principals and incomplete organizational charts within the purchasers' applications. The qualification documents and HUD's contract are critical because HUD uses them to make sure purchasers comply with program requirements. HUD risks not achieving its mission objectives to promote sales first to mission-driven entities or to encourage mission outcomes by allowing purchasers that submitted deficient applications to purchase distressed FHA loans.

OIG made three recommendations to HUD to improve the application review process to prevent incomplete applications, ensure applications are supported by written analysis, improve verifications to prevent participation of restricted entities, and improve the review of and updates to program controls before future sales.

[Servicers Generally Did Not Meet HUD Requirements When Providing Loss Mitigation Assistance to Borrowers With Delinquent FHA-Insured Loans¹²](#)

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

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

¹² HUD OIG concurrently performed an audit of a single servicer provided loss mitigation for borrowers coming out of COVID-19 forbearance. See HUD OIG audit report: "[Nationstar Generally Did Not Meet HUD Requirements When Providing Loss Mitigation to Borrowers of Delinquent FHA-Insured Loans](#)".

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

[HUD Can Improve Oversight of Its Temporary Endorsement Policy for Loans in COVID-19 Forbearance](#)

HUD OIG conducted an audit of HUD's temporary policy for endorsement of loans COVID-19 forbearance activity to determine (1) whether HUD's temporary endorsement policy related to COVID-19 forbearance activity was properly followed by lenders, (2) whether HUD monitored and enforced indemnification agreements for loans that were subject to the temporary policy, and (3) HUD's reasons for ending the policy during the pandemic and its plans to evaluate and use such policies in the future. The audit found that HUD did not ensure that lenders consistently followed policy requirements or that indemnification agreement data and records related to the policy were complete and accurate.

HUD OIG made several recommendations to HUD to resolve these findings and protect the FHA insurance fund from the risks identified.

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

Our audit found borrowers were not always made aware of their right to a COVID-19 forbearance under the CARES Act. Based on a statistical sample, at least one-third of the nearly 335,000 borrowers who were delinquent on their FHA-insured loans and not on forbearance in November 2020, were either not informed or misinformed about the COVID-19 forbearance. As a result, any of these borrowers experiencing hardship due to COVID-19 did not benefit from the COVID-19 forbearance. Additionally, servicers did not always properly administer the COVID-19 forbearance. Based on a statistical sample, they improperly administered the forbearance for at least one-sixth of the nearly 815,000 borrowers on forbearance plans in November 2020, with the most common errors being unnecessary document requirements, improper periods for forbearance, and credit reporting. Servicers also performed excessive communication and collection efforts for borrowers who were already in forbearance. As a result, these borrowers experienced additional burdens from improperly administered forbearance.

[Opportunities Exist for Ginnie Mae To Improve Its Guidance and Process for Troubled Issuers](#)

HUD OIG conducted an audit of Ginnie Mae's guidance and process for managing troubled users to assess Ginnie Mae's policy and procedures for rapid relocation extinguishments and assess Ginnie Mae's implementation of a previous HUD OIG recommendation to develop and implement controls to identify the total impact of a large or multiple-user default (the maximum size default Ginnie Mae could adequately execute) and individual users' ability to adapt to changing market conditions. This audit determined that Ginnie Mae's guidance and process for troubled issuers contained gaps.¹³

¹³ In February and May 2024, Ginnie Mae closed all four Priority Open Recommendations from this report by issuing guidance (1) defining its authority for marketing troubled issuer portfolios and the conditions that must exist to extinguish issuers using rapid relocation; (2) addressing what type of information Ginnie Mae may disclose and how it will handle protected information before extinguishment; (3) outlining how Ginnie Mae will determine

Impactful Investigations

[Movement Mortgage to Pay \\$23.7 Million to Resolve Allegations it Caused the Submission of False Claims to Government Mortgage Programs](#)

Movement Mortgage, LLC, agreed to pay the United States \$23.75 million to resolve allegations that it violated the False Claims Act by failing to comply with material program requirements when it originated and underwrote mortgages insured by FHA or guaranteed by the Department of Veterans Affairs (VA). The settlement resolved allegations that Movement Mortgage failed to comply with material program rules that require lenders to maintain quality control programs to prevent and correct underwriting deficiencies, self-report any materially deficient loans that they identify, and ensure that the underwriting process is free from conflicts of interest. Movement Mortgage admitted that it certified for FHA mortgage insurance and VA home loan guarantees a material percentage of loans that did not meet applicable requirements and, therefore, were not eligible under those programs, despite inaccurately representing to HUD and the VA that such loans complied with applicable program requirements. Movement Mortgage further admitted that it failed to adhere to HUD and the VA's applicable self-reporting requirements.

[Salem Man Sentenced to Four Years in Prison for Decade-Long Mortgage Fraud Scheme](#)

A Massachusetts real estate developer was sentenced to four years in prison for his involvement with a decade-long mortgage fraud scheme. He and his co-defendants caused false information about borrowers' employment, income, assets, and intent to occupy the property to be submitted to banks and other financial institutions on behalf of borrowers recruited to purchase local properties. Since the borrowers did not have the financial ability to repay the loans, they defaulted on loan payments involving 19 of 21 properties involved in the scheme, resulting in foreclosures and losses to the lenders. Additionally, the defendant sought to obstruct the investigation by encouraging his co-defendants to make false statements and create false documents to make the transactions appear legitimate.

[California Mortgage Lender Agrees to Pay More Than \\$1 Million to Resolve Fraud Allegations](#)

A mortgage lender based in Brea, California agreed to pay \$1,037,145 to resolve allegations that it improperly and fraudulently originated government-backed mortgage loans insured by FHA. The settlement resolves allegations that between December 2011 and March 2019, the mortgage lender knowingly underwrote certain FHA mortgages and approved for insurance certain mortgages that did not meet FHA requirements or qualify for insurance, resulting in losses to the United States when the borrowers defaulted on those mortgages. The settlement further resolves allegations that the mortgage lender knowingly failed to perform quality control reviews that it was required to perform.

the portfolio value and price before sale; and (4) defining how Ginnie Mae intends to identify and evaluate prospective buyers to ensure its ability to absorb the extinguished portfolio before executing the purchase and sale agreements.

Grants Management & Disaster Recovery and Mitigation

HUD's grant programs are vast, varied, and are often the largest source of flexible grant funding available to communities for broad economic and development activities. HUD must effectively oversee and manage over \$100 billion dollars in grant programs, thousands of grantees, and even more subrecipients. Several HUD grant programs received large influxes of funding following disasters or during the pandemic, in amounts exponentially greater than funding previously received. Many of these grantees lack experience and familiarity with block grant program rules and activities; furthermore, they lack capacity and staffing to directly administer the programs.

To help mitigate these concerns, HUD OIG oversight adapts to match areas of emerging risk. HUD OIG focused on ensuring HUD pandemic and other grant funding is spent as intended, that timely assistance is being provided, and assessing the program outcomes. This includes assessing how well HUD, its grantees, and subrecipients are performing monitoring activities, the strength of their internal controls, and the fraud prevention measures they have in place. HUD OIG is also assessing outcomes of the program by reviewing grantees and subrecipients before they have expended a significant portion of their funding to assess what they have been able to accomplish and where improvements can be made for the duration of the grant, with the goal being to help HUD and the grantee or subrecipient early on to produce better outcomes.

Importantly, HUD OIG has issued oversight reports recommending that HUD codify, or seek permanent authorization for, its disaster recovery program. HUD has taken consistent, meaningful steps to address HUD OIG's recommendations. Successive administrations have expressed support for permanent authorization in testimony before Committees of Congress, and HUD is again seeking permanent authorization in its Congressional Budget Justification for FY 2025.¹⁴ Legislation permanently authorizing HUD's disaster recovery program would streamline, reform, and inject greater fiscal responsibility into the program, while also mitigating funding lags and duplicative requirements.

Examples of impactful oversight over HUD's grant and disaster recovery and mitigation programs include:

[The Puerto Rico Housing Finance Authority's Homebuyer Assistance Program Positively Impacted Participants but May Not Have Distributed Disaster Recovery Funds Equitably](#)

We conducted an audit to assess whether the Puerto Rico Housing Finance Agency's (PRHFA) homebuyer assistance (HBA) program was on track for delivering the expected program outcomes and the impact the program had on home ownership rates in Puerto Rico after Hurricanes Irma and Maria. Our audit found that the program was on track to deliver the expected outcomes and that program participants were mostly satisfied with the program, stating that the program had a significant impact on their lives. However, HUD's grantee, the Puerto Rico Department of Housing (PRDOH), did not have current and reliable data to measure the HBA program's impact on home ownership rates. In addition, PRHFA could not demonstrate how it calculated household income and the financial assistance award

¹⁴ https://www.hud.gov/sites/dfiles/CFO/documents/2025_CJ_CDBG-DR_Cross-Cut.pdf

amounts in any of the 67 closed cases we reviewed. Further, PRHFA inappropriately allowed participating lending institutions to interpret its vague and confusing program guidelines and procedures to calculate the award amounts, resulting in participants with similar financial conditions receiving substantially different award amounts. By not having a clear, consistent, and verifiable method to determine the financial award for eligible participants, PRHFA could not ensure that disaster recovery funds were equitably distributed among program participants and that it was maximizing the effect of the program.

HUD OIG recommended that HUD work with PRDOH to determine whether its current method of measuring how many applicants purchased homes through the program was the best way to measure the HBA program's impact and to update its guidance and action plan based on the results of the review. We also recommended that PRDOH and PRHFA develop and implement clear and consistent guidance and procedures that establish a verifiable method for determining financial awards and provide necessary training to participating lending institutions.

[Preventing Duplication of Benefits When Using Community Development Block Grant Disaster Recovery and Mitigation Funds](#)

We conducted an audit examining HUD's efforts to prevent duplication of benefits in its CDBG-DR programs to determine HUD's process for assessing the adequacy of grantee procedures to prevent a duplication of benefits before and after grant execution. HUD certified grantees' high-level processes for preventing duplication of benefits before grant execution and allowed grantees to develop more detailed procedures for individual grant activities later. However, HUD did not review grantees' more detailed procedures before grantees began spending funds on program activities and HUD's adequacy criteria did not include all statutory requirements. Because HUD certified procedures that did not meet requirements and did not review detailed activity-level procedures before grantees began spending funds, it risked grantees' failing to prevent duplication of benefits.

HUD OIG recommended that the Office of Disaster Recovery review grantees' activity-level procedures for adequacy before grantees process applications for assistance to prevent any duplication of benefits and ensure that all applicable requirements for preventing any duplication of benefits are included in the adequacy criteria, grantee certifications, and HUD review checklists supporting the certification.

[After More Than 6 Years, The City of New Orleans' National Disaster Resilience Project Activities Had Made Little Impact on Resilience](#)

We audited the City of New Orleans' National Disaster Resilience program to assess whether the City's grant activities were effective in its recovery from past disaster events as well as whether the City improved its ability to withstand future extreme events. We found that all 11 of the City's major infrastructure projects that were planned in 2017 and designed to combat flooding, had been significantly delayed. Specifically, only 1 project had made progress although it had been underway for 5 years, 2 projects were slated for cancellation, and the remaining 8 were still in the design or planning phase. In addition, the City had disproportionately spent more of its National Disaster Resilience funds on planning and administration than on the design and construction of its planned projects and program

activities. Further, the City's Retrofit program did not reduce the flood risk in many cases and left some homeowners with more flooding and physical and financial burdens. As a result, (1) the City has been left vulnerable to damage from future rain and flood events, (2) homeowners are more exposed to property damage, and (3) the City may run out of funds needed for program oversight. If the City runs out of funds, it will need to allocate non-Federal funds, which may be limited, to complete monitoring and oversight of the National Disaster Resilience program.

HUD OIG recommended that HUD require the City to reassess the 8 infrastructure projects still in the design or planning phase to determine whether the City can complete the projects or how the remaining \$14.6 million in project funds could be best used within the 6 years remaining for the grant period; ensure adequate and timely monitoring of the City's projects and programs; implement a HUD-approved planning and administration budget and staffing plan; develop a plan on how it will fulfill its required program oversight if it runs out of planning and administration funds; and, develop a plan on how the City's Retrofit program can better serve homeowners.

[CPD Could Improve the Timing of Delivery of Disaster Recovery Funding](#)

HUD OIG audited HUD's disaster recovery program to determine whether the Office of Community Planning and Development (CPD) had improved the timing of its delivery of disaster recovery funds and whether it met congressional allocation timing requirements. CPD's time to deliver disaster program funds to grant recipients varied between 2001 and 2022 and trended upward. In addition, CPD did not meet publishing requirements in one public law and allocation requirements in another public law. CPD's increase in time to deliver disaster program funds and its inability to meet a few of the statutory requirements were caused by (1) the disaster recovery program's lacking permanent authorizing legislation; (2) required coordination among multiple Federal agencies, various HUD offices, and the grantees; and (3) other external and internal issues. As a result, grantees had to wait longer to execute their grant agreements and start spending the disaster recovery funds. Further, CPD lacked consistent and documented allocation data for all grantees, which impaired its ability to benchmark and consistently report the date of allocation to Congress or the public.

We recommend that HUD (1) collect and record the number of days that it or other entities take to complete each milestone in the grant process, (2) establish timing benchmarks for the milestones at each significant step in the allocation and award process based on actual data accumulated for the various grants, and (3) take steps to ensure that the milestone point of allocation is formally defined and documented, to allow for accurate tracking of compliance with requirements. We believe that implementation of the recommendations would improve overall timing of program delivery and ensure that funds are provided to grantees as quickly as possible.

[The State of Georgia Did Not Adequately Monitor Its Harvey, Irma, and Maria Grants' Activities and Subrecipients](#)

We audited the State of Georgia's monitoring of its \$50.9 million in disaster recovery grants' activities and subrecipients to determine whether the State effectively monitored them to ensure that the activities addressed unmet long-term recovery needs. The State (1) lacked an understanding of the

differences between monitoring reviews and day-to-day operations, (2) had inadequate monitoring procedures, and (3) lacked policies and procedures to conduct remote monitoring. As a result, HUD and the State did not have assurance that the State's controls for program administration were effective for addressing unmet long-term recovery needs. There was also a risk that the planned activities would not serve the State's beneficiaries in a timely manner or meet its goals for the number of beneficiaries it planned to serve.

We recommended that HUD require the State to ensure that it has an adequate approach for monitoring by (1) providing training to staff that includes an understanding of monitoring reviews, (2) updating its policies and procedures, and (3) developing policies and procedures to ensure that monitoring is conducted remotely if needed. We also recommend that HUD monitor the State's CDBG-DR program to ensure that performance expectations are achieved.

[Virgin Islands Housing Finance Authority Ineffectively Monitored CDBG-DR Activities](#)

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

We recommend that HUD require the Authority to develop and implement monitoring policies and detailed procedures to ensure that an activity's performance is assessed, corrective actions in monitoring reports are tracked, and documentation supporting the national objectives is verified. In addition, we recommend that the Authority revise subrecipient agreements to include performance metrics and milestones that are tailored to the activity.

[The Virgin Islands Housing Finance Authority's Administration of Its Non-Federal Match Program Had Weaknesses](#)

HUD OIG audited the Virgin Islands Housing Finance Authority's Non-Federal Match Program for CDBG-DR to determine whether the Authority effectively administered its Match Program by identifying and assessing any challenges that hindered its ability to achieve program goals. This audit determined that the Authority's administration of its Match Program had weaknesses. Specifically, the Authority had (1) insufficient financial controls, (2) insufficient oversight of its Match Program-funded projects, (3) inaccurate performance measures reported in its quarterly performance reports, and (4) insufficient documentation to support its national objectives. We found the Authority did not have adequate policies and procedures or did not implement its existing policies to ensure effective administration of its Match Program. As a result, the Authority was at risk of not managing its Match Program in compliance with HUD requirements and achieving program goals. Further, this condition could result in

the Authority providing program benefits to the intended beneficiaries late and increasing the risk of the Authority issuing improper payments.

HUD OIG recommended that CPD require the Authority to (1) develop and implement policies and procedures to address the challenges identified and (2) conduct training for its staff and disaster recovery Match Program recipients.

[Financial Information Collected from CDBG Grantees Needs Improvement](#)

We audited CPD's process for collecting financial information from grantees participating in the CDBG Entitlement program to determine whether the financial information collected from grantees was sufficient to monitor grantee financial reporting and performance as required by federal regulations. The financial information HUD collected from CDBG Entitlement grantees was not sufficient to monitor grantee compliance with cash management requirements contained in federal regulations. CPD Cash on Hand Quarterly Reports (PR 29 reports) were not submitted or were submitted after the required deadline for certain quarters and resubmissions were not tracked by HUD. Without reliable and timely financial data, CPD cannot adequately monitor grantees' excess cash or properly assess their compliance with cash management requirements, thereby increasing the funds' susceptibility to the risk of fraud, waste, and abuse. Further, since the reports were not submitted in a timely manner and were not reliable, the information collected could not be leveraged by the Office of the Chief Financial Officer to properly report grantee financial information in compliance with the Statements of Federal Financial Accounting Standards.

HUD OIG made several recommendations, including that CPD improve its guidance, training, and monitoring of the PR 29 report to ensure that the information collected is reliable, accurate, and timely.

Impactful Investigations

[Camp Verde Woman Sentenced to 24 Months in Prison for Embezzlement of \\$670,000 from Yavapai-Apache Nation](#)

The former Comptroller and Executive Director of the Yavapai-Apache Nation Housing Department was sentenced to 24 months in prison, followed by 36 months supervised release, and ordered to pay restitution in the amount of \$667,043 for her role in embezzlement and theft. Between August 2017 and May 2022, the former Comptroller/Executive Director embezzled \$670,908 from the Yavapai-Apache Nation, including over \$133,000 of HUD Indian Housing Block Grant Funds. As Comptroller and Executive Director, she was the supervisor of the accounting department and oversaw day-to-day activities and financial transactions. As such, she had access to housing department credit cards and knowledge of its vendor accounts. In 2022, it was discovered that there had been hundreds of thousands of dollars in fraudulent purchases via Tribal credit cards. On at least 184 occasions she fraudulently transferred funds into her personal accounts.

[Former Worcester Housing Official Sentenced to 40 Months in Prison for \\$2.3 Million Property Development Fraud Scheme](#)

A former City of Worcester chief of staff for the Executive Office of Economic Development was ordered to pay more than \$2.3 million in restitution to the City of Worcester following her conviction of conspiracy, wire fraud, and false statements.¹⁵ The defendant and her coconspirator applied for and received approximately \$2.3 million in HOME, Neighborhood Development Program, and lead abatement funds to rehabilitate a multifamily apartment building. The defendant knowingly approved false or fraudulent payment requests for HUD grant funds from her coconspirator for work that had not been completed and costs that had not been incurred.

[Hoboken Woman Admits \\$1.5 Million Fraud Scheme That Targeted Over 100 Non-Profit Victims, Including Schools, and Religious Institutions](#)

A Hoboken woman pled guilty to stealing over \$1.5 million from over 100 victims made up mainly of non-profits, private schools, and religious institutions throughout New Jersey. According to case documents and statements made in court, from 2012 through 2021, the woman falsely claimed to be a certified public accountant and defrauded over 100 victims, resulting in financial losses totaling over \$1.5 million.

[Former West Haven Employee and State Representative Sentenced to Prison for Stealing COVID Relief and Other City Funds](#)

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

Enterprise-wide Support Functions: Human Capital Management, IT, Cybersecurity, and Procurement

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

¹⁵ The defendant was previously sentenced to 40 months incarceration and 3 years supervised release.

oversight has and will continue to provide actionable recommendations that HUD can act upon to further those efforts.

As noted above, employees and program participants have consistently described HUD as being underfunded and understaffed, with inadequate infrastructure to address the growing mission, program responsibilities, and mandates of the agency. In turn, the efficiency and effectiveness of HUD's programs relies on its ability to effectively modernize its IT systems and to protect them from cybersecurity vulnerabilities. HUD's legacy systems are major impediments to effectively addressing necessary operational enhancements, use an inordinate amount of scarce resources, and hinder HUD's ability to provide IT support for emerging and changing program office needs. Further, HUD must address concerns about its technical ability to securely collect, retain, process, analyze, and effectively share and compare data, concerns often connected to outdated IT systems. Notably, HUD has made great progress over the last several years with consistently addressing and closing longstanding cybersecurity recommendations.¹⁶

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

Additionally, HUD OIG will continue its robust oversight over all aspects of HUD's IT programs and operations, including HUD's cybersecurity posture but also how HUD and its components manage IT investments and initiatives. In addition to our comprehensive review of HUD's information security program under the Federal Information Security Modernization Act of 2014, we will conduct penetration testing and threat analyses of HUD's IT systems.

[HUD FY 2023 Federal Information Security Modernization Act \(FISMA\) Evaluation](#)¹⁷

The Federal Information Security Modernization Act of 2014 (FISMA) directs Inspectors General to conduct an annual evaluation of the agency information security program. FISMA, Department of Homeland Security (DHS), OMB and National Institute of Standards and Technology (NIST) establish IT security guidance and standards for Federal agencies. We conducted this evaluation to assess the overall effectiveness of the Department's information security (InfoSec) program, assess their compliance with Federal guidance, and respond to OMB reporting questions for the FY 2023 annual assessment. HUD's InfoSec program averaged a score of 2.60 for the 20 core metrics and a 2.86 for the FY 2023 supplemental metrics, both of which are at the "defined" maturity level and are considered not effective. Although HUD improved overall, four of the five metrics in which HUD dropped in maturity were core metrics. HUD made commendable progress on increasing maturity on 10 metrics and should

¹⁶ HUD's OCIO very recently closed a Priority Open Recommendation from the HUD OIG Evaluation "[HUD IT Modernization Roadmap Report](#)" by approving an IT Modernization strategy that established a framework that aligned with its IT modernization roadmap, which should improve its ability to assign roles and responsibilities, prioritize initiatives, and coordinate processes between OCIO and program offices.

¹⁷ Prior year FISMA reviews include Priority Open Recommendations.

continue to focus on prioritizing maturity in the 20 core metrics and key cyber executive orders and requirements. These efforts will require a shared responsibility of proper resourcing, planning, and support from all levels of leadership across the Department. We issued 23 recommendations to improve HUD's InfoSec program.

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

We assessed the maturity of HUD's Robotic process automation (RPA) activities to determine whether HUD had implemented related controls to address technology and program management risks.¹⁸ We found that HUD lacked adequate controls and capacity to operate its RPA program efficiently and effectively. Approximately 3 years since its inception, HUD's program had achieved minimal progress and results, and maintained a low program maturity. The program lacked a clear vision or measurable metrics to define program success. HUD also did not maintain adequate oversight of bot development and operations to ensure that limited RPA program funds were used efficiently. Finally, HUD lacked important IT controls related to the security and auditability of its RPA system infrastructure. As a result of these weaknesses, HUD missed opportunities to capitalize on the potential benefits of RPA and expended IT resources inefficiently on projects that provided minimal value. We recommended HUD implement new internal controls and further develop its internal capacity to manage and oversee the RPA program.

HUD Employee Retention

OIG's evaluation of HUD's employee retention strategy found: 1) HUD's departmentwide retention strategies mostly aligned with selected best practices; 2) HUD's overall voluntary attrition rate was below the average of the three comparable agencies for FYs 2019-2022, but some subgroups had higher voluntary attrition rates; 3) weaknesses in some employment data may limit HUD's ability to track retention accurately; and 4) use of retention programs vary across HUD. OIG provided HUD with five recommendations, three related to improving the quality and usefulness of retention-related data and two related to determining the causes behind higher than benchmarked attrition in subgroups within HUD and addressing those causes.

¹⁸ RPA is a software technology used to emulate human actions on a computer. RPA software programs, referred to as "bots," can complete repetitive tasks quickly and consistently, freeing up employees to work on other, higher value activities.

Conclusion

There are millions of families across the United States who rely on HUD's programs to provide decent, safe, and affordable housing, and communities throughout the United States look to HUD's programs to provide critical funding for housing and development grants to improve the lives of their residents. Just as HUD must rise to the challenges it faces, HUD OIG will continue to be a force of positive change for the Department.

We could not be prouder of the continued dedication of the HUD OIG staff as we strive to help HUD accomplish its mission to create strong, sustainable, inclusive communities and quality, affordable homes for all. Through performing essential, innovative, and influential work that addresses HUD's most significant management challenges, we are dedicated to helping HUD operate more efficiently and effectively, and helps protect HUD's programs from fraud, waste, and abuse so that our communities receive the critical housing assistance they need.