TOP MANAGEMENT CHALLENGES

Facing The U.S. Department of Housing and Urban Development

OFFICE *of*
INSPECTOR GENERAL

UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

FISCAL YEAR 2025

Memorandum

To:
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From:
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Management and Performance Challenges for Fiscal Year 2025

Each year, the U.S. Department of Housing and Urban Development (HUD or the Department), Office of Inspector General (OIG), issues a report summarizing what we consider to be the most serious management and performance challenges facing the Department for inclusion in HUD's annual agency financial report. This report represents HUD OIG's independent perspective on the top management challenges facing HUD in fiscal year 2025 and beyond.

We have identified the following eight top management challenges:

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 IT MODERNIZATION AND CYBERSECURITY

INCREASING EFFECTIVENESS IN PROCUREMENT

We are pleased to report that we have removed human capital management as a top management challenge for this cycle. HUD has shown sustained progress in human capital management over the last 2 years, notably through the Office of the Chief Human Capital Officer's (OCHCO) closing OIG priority open recommendations. Program offices also reported consistently to OIG that OCHCO's assistance continues improving.

We highlight priority open recommendations throughout this report, which if implemented by HUD, will have the largest beneficial impact on helping HUD achieve its mission and address its top management challenges. We track HUD's progress in addressing all OIG recommendations, including those designated as priorities, on a [Recommendations Dashboard](#).

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Introduction

To identify this year's top management challenges, we reviewed our fiscal year (FY) 2024 Top Management Challenges report as well as progress made by HUD in each area. We placed emphasis on challenges and progress affecting the HUD mission, its Fiscal Year 2022-2026 HUD Strategic Plan, and performance related to key performance indicators in HUD's FY 2024 Annual Performance Plan/2022 Performance Report. We also considered reports issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE), the Pandemic Response Accountability Committee, and the U.S. Government Accountability Office (GAO), as well as the views and input of HUD leadership, program officials, oversight partners, and key external stakeholders to leverage their knowledge, experiences, and expertise.

We determined that while HUD has made significant progress over the past year, eight top management challenges remain. Several of these challenges are common to Federal agencies, as reflected by their inclusion in CIGIE's Top Management and Performance Challenges Facing Multiple Federal Agencies (September 2023). Specifically, the Inspector General (IG) community has identified Information Technology Security, Financial Management (Improper Payments), Procurement Management, Grants Management, and Disaster Preparedness as key areas of concern.

In each section of this report, we highlight progress made by HUD over the past year, discuss additional work that needs to be accomplished to address the challenge, and share resources used to develop and inform each section.

Progress: Human Capital Management

We have determined that human capital management is no longer a top management challenge for the Department, largely due to the sustained efforts of the OCHCO. Over the past few years, OCHCO has consistently closed OIG priority open recommendations, and HUD leadership across the Department has widely reported improved coordination with and assistance provided by OCHCO. OCHCO has helped HUD:

1. reduce the time to hire;

2. increase staffing levels;

3. modernize HUD's human capital policies; and

4. develop workforce planning systems to assess human capital needs and track human capital activity, such as recruitment, retention, attrition, and employee feedback.

These are significant efforts and have led to progress in this challenge. HUD, however, still faces capacity challenges that affect its ability to oversee grantees, contractors, and financial sector counterparties; provide high-touch technical assistance; and modernize its programs and IT systems. Additionally, HUD needs to maintain an emphasis on preserving and sharing knowledge within the Department.

While no longer a top management challenge, we encourage HUD leadership throughout the Department to leverage OCHCO's successes to continue improving human capital and performance management in program delivery and execution.

Whistleblower Protections

Federal employees, as well as employees of Federal contractors, subcontractors, grantees, and subgrantees, are protected by law from retaliation when they disclose information that they reasonably believe to be evidence of gross waste; gross mismanagement; abuse of authority; or a violation of a law, rule, or regulation related to a Federal grant or contract. Whistleblowers play a critical role in maintaining the integrity of Government programs. Facilitating awareness about the rights of whistleblowers and protecting whistleblowers themselves are key elements of mitigating fraud and mismanagement.

We issued a management alert in May 2023 after learning that HUD determined that thousands of its contractors' employees were not protected against retaliation for blowing the whistle. HUD informed OIG that its contracts with many program participants predated the 2013 statute that expanded whistleblower protections to employees of Federal contractors. In our alert, we asked HUD to take immediate action to protect contractor employees who disclose wrongdoing from retaliation.

Continued Impact of Capacity Challenges

Stakeholders consistently identified HUD's capacity as a key theme in addressing its top management challenges. They routinely noted that HUD lacks the funding and infrastructure necessary to meet its growing mission and program responsibilities. Of significant concern was the difficulty HUD faces in recruiting and retaining employees with housing finance, data science, and information technology (IT) skills. Limited staff capacity leads to expertise's being consolidated with too few staff members, posing operational risks when those experts leave the agency.

HUD's stakeholders identified legacy IT systems as a major impediment for HUD in effectively and efficiently administering its programs and delivering an outstanding customer experience. With respect to data, they raised concerns about HUD's ability to securely collect, retain, and share data. We heard from HUD principals and many stakeholders that HUD is unable to leverage technology to innovate and keep pace with its partners, in large part because of its limited authority to reallocate agency funding.

Throughout its strategic and performance plans, HUD builds many of these challenges and considerations into its goals and objectives and establishes strategies and measures to address them. We incorporated HUD's self-identified challenges and considerations into this report to further shed light on what steps HUD must take to address its top management challenges and identify priority open recommendations that would have the greatest impact on helping HUD meet these challenges.

OVERSIGHT & OTHER RESOURCES HIGHLIGHTED THROUGHOUT THIS REPORT

FY 2024 Top Management Challenges report, (November 15, 2023)

HUD OIG's FY 2024 Priority Open Recommendations report, (January 5, 2024)

HUD's FY 2022-2026 Strategic Plan, (March 28, 2022)

HUD's FY 2025 Annual Performance Plan/2023 Performance Report, (March 18, 2024)

CIGIE's Top Management and Performance Challenges Facing Multiple Federal Agencies, (September 2023)

GAO's Priority Open Recommendations: Department of Housing and Urban Development, (June 10, 2024)

Promoting
HEALTH AND SAFETY
IN HUD-ASSISTED HOUSING

RELATED HUD STRATEGIC GOAL 1: SUPPORT UNDERSERVED COMMUNITIES
RELATED HUD STRATEGIC GOAL 4: ADVANCE SUSTAINABLE COMMUNITIES

HUD is responsible for ensuring that its assisted properties are decent, safe, sanitary, and in good repair and that its programs and projects comply with environmental regulations. All properties proposed for use in HUD programs must be free of hazardous materials, contamination, toxic chemicals and gasses, and radioactive substances that could affect the health and safety of occupants.[1] Under HUD's FY 2022-2026 Strategic Plan, the Department committed to work to reduce exposure to health and environmental hazards and substandard living conditions in housing that receives HUD assistance, especially for underserved communities that are disproportionately impacted by these threats.

Whether through project-based rental assistance, public housing, tenant-based rental assistance, or other programs that provide assisted housing, HUD relies on local housing authorities and landlords to maintain the properties and address health and safety hazards in a timely manner. To perform its oversight properly, HUD must collect timely, complete, and accurate data, certifications, and other performance information to ensure that housing providers are abiding by HUD's standards for quality housing. A gap in oversight at any step in the process leaves HUD-assisted tenants in potentially unhealthy and unsafe living conditions. OIG has found two particular areas, which HUD faces challenges in addressing: the risk of lead hazards in HUD-assisted housing, and identification and remediation of health and safety deficiencies through its inspection processes.

HOW GAPS IN OVERSIGHT CAN PLACE HUD-ASSISTED HOUSEHOLDS AT RISK OF LEAD POISONING

HUD allows assisted property owners to determine that work performed on surfaces with lead-based paint is "de minimis," or minor, and does not need to be documented. This significant gap prevents HUD from overseeing the property owner's determination about whether it needs to follow lead-based paint hazard maintenance and hazard reduction work requirements. An OIG priority open recommendation is for HUD to require assisted property owners, including public housing agencies, to be able to support that only minor surfaces with lead-based paint were disturbed when doing work they believe to be exempt from the lead-safe work practices.

Addressing the Risk of Lead Hazards in HUD-Assisted Housing

In the United States, there are approximately a half million children under the age of 6 with blood lead levels above the reference level at which the Centers for Disease Control and Prevention (CDC) recommends that public health actions be initiated. According to the CDC, protecting children from exposure to lead is important to lifelong good health. Lead-based paint and lead-contaminated dust are some of the most hazardous sources of lead for children in the United States, and no safe blood lead level in children has been identified. The effects of lead exposure can cause adverse effects, such as damage to the brain and nervous system, slowed growth and development, and learning and behavioral problems. Even low levels of lead in the blood have been shown to affect intelligence, the ability to pay attention, and academic achievement. The effects of lead exposure can be permanent, although they are completely preventable.

The Lead Disclosure Rule requires landlords and their agents to provide disclosures concerning lead paint to prospective tenants in "target housing," which includes categories of houses constructed before 1978. Additional regulations require specialized training for maintenance workers who disturb lead-based paint, notices to tenants about lead-safe work practices, specific cleaning requirements, and recordkeeping to demonstrate compliance. Maintenance work in target housing can be deemed minimal and exempt from lead-safe work practices, although when the work in HUD-assisted target housing is more than minimal, HUD requires testing dust in the work area before tenants can return to a unit where lead-based paint was disturbed.

Lead-Based Paint Hazards in Public Housing

Public housing agencies (PHA) are responsible for implementing methods to achieve lead-safe housing. HUD is responsible for monitoring compliance with and enforcing its lead-safety requirements. In the past year, HUD provided guidance for its field office clarifying HUD's role and responsibilities for ensuring PHAs comply with the Lead Safe Housing Rule (LSHR) and other lead-based paint (LBP) guidance and requirements. This gap had resulted in inconsistent monitoring of PHAs' handling of lead hazards.

HUD OIG audits of large PHAs have identified common problems with how PHAs manage lead-based paint in public housing developments. Although not all of the PHAs experienced the same problems, the audits found failures to perform timely visual assessments of lead-based paint, inadequate or missing risk assessments and reevaluations following abatement or interim controls, unsupported "lead-free" determinations, and inconsistent and inaccurate lead disclosures to tenants. All three large PHAs lacked adequate procedures and controls to appropriately manage lead-based paint and in some cases, misinterpreted HUD's requirements. OIG previously recommended that the Office of Public and Indian Housing (PIH) determine whether PHAs are maintaining and implementing plans to manage lead-based paint in their developments.[2] Without action to address these gaps, households participating in HUD's public housing program are at an increased risk of being exposed to lead-based paint hazards. Because children under 6 are at greatest risk of health problems from exposure, this is particularly concerning for families with young children.

HUD, PHAs, and other stakeholders note that the capital needs of public housing stock are greater than available funding and that both HUD and PHAs are constrained by limited resources in addressing all lead risks in public housing. HUD can take steps to better quantify the magnitude of the funding needs and what can be done with available resources. HUD OIG issued a priority open recommendation that HUD determine the number of developments and associated units that contain lead-based paint and lead-based paint hazards and also recommended that HUD determine the cost of eliminating or controlling such hazards. OIG further recommended that HUD determine a timeframe to complete such work, given existing funding levels, and strategies to accelerate that work.

Elevated Blood Lead Levels in Children

The LSHR established requirements for instances of a child living in most types of HUD-assisted target housing under 6 years of age with an elevated blood lead level (EBLL). HUD defines EBLL as a child under 6 years of age with blood lead levels equal to or greater than 5 micrograms per deciliter of blood. These requirements include (1) reporting confirmed EBLL cases to the local HUD public housing field office and the HUD Office of Lead Hazard Control and Healthy Homes within 5 business days, (2) completing an environmental investigation to determine the source of lead exposure within 15 calendar days, and (3) addressing any lead-based paint hazards identified in the unit by the environmental investigation or relocating the household within 30 calendar days after receiving the environmental investigation report and notifying all residents of lead evaluation and hazard control activities.

HUD requires PHAs to report cases of children with EBLLs in public housing and monitor owners' reporting of EBLL cases in Housing Choice Voucher (HCV) Program units. OIG reviews have identified inconsistencies in how PHAs report EBLL cases, and there is a risk that HUD is not aware of a significant amount of EBLL cases in HUD-assisted housing. HUD may also not be aware of whether PHAs are providing information about identified EBLL cases to local health departments or adequately confirming suspected EBLL cases. Several recent OIG audits showed that PHAs did not ensure that EBLL cases were reported to HUD, leaving HUD unable to provide adequate oversight. PHAs did not fully understand or did not complete the requirements under the LSHR. Additionally, an enterprise level, PIH has modernized the two trackers it uses for PHAs' reporting of EBLL cases and responding to them. However, PIH still has not addressed a priority open recommendation to determine why 94 percent of all reports on HUD's EBLL Tracker come from only two States.

Identification and Remediation of Health and Safety Deficiencies Through Inspection Processes

The age and physical condition of HUD-assisted housing place additional constraints on HUD and its program partners with a simultaneous need for increased vigilance to ensure that HUD-assisted housing is safe and decent. However, the capital needs of HUD-assisted properties, notably public housing, far exceed what HUD can fund alone. The last portfolio-wide public housing needs assessment performed by the Department in 2010 estimated unmet capital needs of approximately $26 billion at that time, which the Department estimates to have grown to more than $60 billion.[3] In HUD's HCV Program, an acute shortage of affordable housing and increasing rents make it difficult for HUD-assisted families in tight rental markets to find adequate housing that meets HUD's housing quality standards, as well as finding alternate options when conditions are substandard. As noted by GAO, "HUD continues to find some properties that are in poor physical condition and have life-threatening health and safety issues."[4] Two OIG reports, one on the Boston Housing Authority and one on the Columbus Metropolitan Housing Authority, found that the PHAs did not always ensure that HCV units met HUD's housing quality standards and did not stop payments to owners who failed to correct unit deficiencies. The audits noted that both PHAs lacked sufficient oversight of how thoroughly the PHAs' or contractors' inspectors performed their work and did not have adequate controls to ensure that appropriate actions were taken to address unit deficiencies.

PRIORITY OPEN RECOMMENDATION

HUD has not aligned its EBLL value to CDC's blood lead reference value (BLRV) for children under the age of 6. As of August 2022, HUD was using the EBLL value of 5 micrograms of lead per deciliter of blood (μg/dL), despite CDC's lowering the BLRV to 3.5 μg/dL in October 2021. A priority open recommendation is for HUD to update regulations, policies, and procedures following the regulatory process required by the amended LSHR, in consideration of CDC's lowered BLRV of 3.5 ug/dL. Based on the CDC's lowered BLRV being found to be practicable, in September 2023, HUD issued a Federal Register notice on its intention to lower the EBLL value to the CDC BLRV.

HUD PROGRESS:
Consistency in Inspection Oversight of Public Housing

In 2024, HUD closed two priority open recommendations by developing a nationwide inspection review protocol and tracking system to verify that PHAs take corrective action on unit condition deficiencies and training field office staff about followup on health and safety deficiencies found in Real Estate Assessment Center inspections.

Within this context, HUD faces challenges in taking steps to ensure that HUD-assisted housing meets its housing standards. With respect to public housing, a HUD OIG audit found that HUD's Real Estate Assessment Center (REAC) lacked adequate policies, procedures, and controls to ensure that public housing units were inspected in the required timeframes and that HUD was delayed in inspecting properties it designated as high priority. PIH needs to prioritize those inspections and develop controls to prevent future inspections from being delayed. Additionally, while the National Standards for the Physical Inspection of Real Estate (NSPIRE) regulations on inspection timing have been completed, the IT system was not programmed to alert program office staff when a property needs a future inspection. Another audit found that HUD needed to develop and implement a nationwide protocol for its field offices to more consistently oversee PHA self-inspections.[5]   While HUD decided to close the recommendation, we believe it must demonstrate how it has implemented its protocol for field offices, including how PHA self-inspections should be reviewed by field office staff.

Further, PIH manages the performance of PHAs' voucher programs through its Section Eight Management Assessment Program (SEMAP). This system is reliant on PHAs' self-certifications and self-reported data for both housing quality control inspections and housing quality standard enforcement data.[6] PHAs, which HUD entrusts to ensure that HUD-assisted units meet housing standards, are required to hold landlords accountable for providing quality living conditions. However, this often places PHAs in challenging positions of having to terminate housing assistance payments contracts with owners, if the owners refuse or are not timely in making necessary repairs, knowing the family will have to move in order to keep their assistance. In many circumstances, other affordable housing options are not available, which results in tenants continuing to live in substandard conditions while PHAs work with landlords to make improvements to properties. Tenants also have the option of searching for new housing units.

HUD overhauled its housing inspection protocols through NSPIRE. The new inspection standards prioritize the detection and elimination of in-unit health and safety hazards and were instituted to address stakeholders' concerns that inspections had not been measuring the right things to ensure that scores reflected unit conditions. During implementation, providers of HUD-assisted housing subject to NSPIRE had expressed concerns about the readiness of NSPIRE and the need for additional time to integrate its requirements into their own internal operations. To date, NSPIRE is in effect for public housing and multifamily housing properties. The compliance date has been extended to October 1, 2025, for the HCV and Project-Based Voucher Programs, as well as programs of the Office of Community Planning and Development (CPD), such as the Housing Trust Fund and homelessness assistance grants.

HUD PROGRESS:
Addressing Radon Hazards

Radon is a naturally occurring, colorless, and odorless radioactive substance that is the second leading cause of lung cancer in the United States, after smoking. HUD OIG found that HUD did not have a departmentwide radon policy or uniform approach to test for and mitigate excessive radon levels. HUD addressed this issue by publishing "Departmental Policy for Addressing Radon in the Environmental Review Process" on January 11, 2024. The new policy addresses for the first time ever the risk of residential radon exposure across the Department under HUD's contamination regulations governing its environmental review of proposed HUD-supported projects.

Increasing
ACCESS
TO AFFORDABLE HOUSING

RELATED HUD STRATEGIC GOAL 1: SUPPORT UNDERSERVED COMMUNITIES

RELATED HUD STRATEGIC GOAL 2: ENSURE ACCESS TO AND INCREASE THE PRODUCTION OF AFFORDABLE HOUSING

Providing access to affordable housing is a nationwide challenge, and HUD continues to prioritize this critical issue. A shortage in housing limits availability and increases the cost of housing to renters and buyers. In its Out of Reach 2024 report, the National Low Income Housing Coalition estimates that the United States has a shortage of 7.3 million affordable and available rental homes to extremely low-income renters. Aging housing stock leads to a decrease in available units and higher maintenance costs. The lack of affordable housing places further pressure on the availability of affordable rental units and renters.

Against this backdrop, HUD must continue its efforts to work with PHAs to maintain or reposition existing housing stock, increase the usability of vouchers to be used in privately owned housing, and increase the efficiency of its programs that can be used to develop or improve affordable housing.

Challenges in Maximizing the Housing Choice Voucher Program

HUD's HCV Program subsidizes housing for approximately 2.3 million families, including the elderly and persons with disabilities, allowing them to lease safe, decent, and affordable privately owned rental housing. HUD contracts with PHAs to administer voucher programs locally and then monitors PHA performance and provides support through technical assistance, with the ultimate goal of maximizing the use of vouchers across the Nation. PHAs determine family eligibility and subsidy amount, manage properties or landlord relations, and issue vouchers. Once a family has found an acceptable unit, the PHA pays the HUD-funded housing subsidy directly to the landlord on behalf of the family, with the family paying the difference.

The success of HUD's HCV program is contingent on multiple factors and is largely dependent on private landlord participation and the availability of affordable housing in a given community or region. HUD is developing and implementing new ways to increase landlord participation and leasing potential. However, the limited supply of affordable rental properties has left many low-income families unable to use the voucher because they are unable to find a home to lease. A recent study found that the national success rate in 2022 for new voucher recipients was 55 percent, down from a success rate of 65 percent in 2018.[7] A December 2021 study funded by HUD[8] found the voucher success rate in 2019 was 61 percent, using a 180-day search window, excluding Moving to Work PHAs.

HUD Needs To Enhance Oversight of PHA Voucher Programs

PHAs are tasked with assisting the maximum number of eligible families in obtaining decent, safe, and sanitary rental units at the correct subsidy cost. PHAs report data to HUD about their performance through SEMAP, which uses PHA self-evaluation data to identify struggling HCV Programs that need enhanced oversight and technical assistance.

However, the information reported in SEMAP may not accurately represent the performance of PHAs' HCV programs,[9] and HUD's process for verifying the information PHAs use for SEMAP reporting does not effectively assist HUD in evaluating and identifying PHAs' HCV Programs that may need improvement. To better equip HUD to monitor the Program, HUD should enhance or develop a new performance measurement process that would help it identify PHAs with underperforming programs and provide additional training and guidance to help its field staff evaluate and validate the information in SEMAP.

In overseeing voucher and funding utilization, HUD must ensure that the funds authorized for housing assistance are used to assist the maximum number of families. HUD requested and received authority from Congress to offset PHAs' contract renewal allocations for PHAs with excess reserves or that have a history of underleasing and allocate the resulting budget authority to other PHAs with the capacity to serve additional families. HUD has also offered additional flexibilities to PHAs, such as using administrative fees for both landlord incentive and housing search and bonus fees and creating public facing dashboards and financial analysis tools[10] for PHAs to estimate various funding and leasing scenarios. While we are encouraged by HUD's actions, it will take time to realize the sustained progress and impact of its efforts.

HUD also administers a Foster Youth to Independence Initiative aimed at assisting young adults as they age out of foster care by offering a voucher for housing and supportive services to help individuals become independent. We conducted an audit of this program in 2023 and found that HUD lacked assurance that the $46.7 million allocated for vouchers under this program would be fully utilized to reach the vulnerable population it is intended to serve. The audit found that the program could be more effective by ensuring that participants had knowledge of the supportive services, establishing objectives for the program, and collecting data to measure outcomes.

CAPACITY CHALLENGES AT A GLANCE

Office of Fair Housing and Equal Opportunity

The Office of Fair Housing and Equal Opportunity (FHEO) enforces the Fair Housing Act and other relevant laws by investigating allegations of housing discrimination, overseeing entities that it funds to conduct investigations on its behalf, advancing fair housing and civil rights laws, and pushing HUD-funded recipients of Federal financial assistance to comply with civil rights authorities across tens of thousands of recipients and subrecipients of HUD funds. FHEO must manage some local fair housing partners through its legacy IT system that was not designed to handle both case management and grants management, and other partners using manual processes. Additional complaint processing related to the Bostock decision, Violence Against Women Act reauthorization, and other new requirements have increased FHEO's mandatory workload without diminishing expectations for discretionary work both internally and from external stakeholders. OIG has found that FHEO faces capacity challenges, including having a high number of less experienced staff members, which affect its ability to complete investigations within the 100-day timeframe for discrimination investigations and working with local program partners performing local civil rights compliance and investigative work on HUD's behalf.

Reducing Homelessness

In HUD's [Fiscal Year 2022-2026 Strategic Plan](#), HUD set an agency priority goal to make homelessness rare, brief, and nonrecurring by September 30, 2023. The achievement of the goal was to be measured by reducing the number of people experiencing homelessness by 15 percent from the 2020 levels.

In coordination with local partners, HUD collects and reports data about people experiencing homelessness in the United States. Data are essential for understanding the impact Continuum of Care (CoC) grantees have on homelessness and allow HUD to measure its success in more than dollars spent.

GAO has identified HUD's data collection on homelessness as a longstanding challenge and listed as a priority its recommendations that HUD enhance its oversight of the methodologies that CoC grantees use to collect data as well as to enhance the assistance it provides on data collection. HUD agreed with both and is in the process of implementing them. As of March 2023, HUD had updated its guidance to CoC grantees on the point-in-time count methodology, developed an outreach strategy, and addressed outstanding questions. Further steps need to be taken to fully implement the recommendations. In May 2023, we initiated an audit, which is in progress, to determine how HUD and CoC grantees collect and use data to assess performance in identifying and reducing homelessness.

To address homelessness, CoC grantees must be able to effectively use the funding that they receive from multiple sources to assist the intended recipients. In HUD's [2025 Annual Performance Plan/FY 2023 Annual Performance Report](#), HUD noted that it awarded a record $2.8 billion in CoC Competition Awards for thousands of local homeless services and housing programs across the United States. HUD OIG's report, [HUD Could Improve Its Tracking and Monitoring of Continuum of Care Grantee Spending Levels](#), looked at CoC grantees that were slow to spend their funding. Between 2017 and 2020, HUD recaptured nearly $257 million from CoC grantees because they were not able to spend their funds before the end of their respective grant terms.

In some instances, spending challenges that grantees face are beyond HUD's control; however, if left unaddressed, those challenges will continue to adversely affect HUD's ability to address homelessness. The report identifies actions that could help ensure that CoC grantees receive the training, oversight, and assistance they need to address issues that impact timely spending and prevent further recaptures.

Mitigating COUNTERPARTY RISKS

RELATED HUD STRATEGIC GOAL 3: PROMOTE HOME OWNERSHIP

The Federal Housing Administration's (FHA) primary role is to provide insurance against losses suffered by a participating mortgage lender if a borrower fails to make principal and interest payments. This role reduces the financial risk for the lender and provides an incentive for the lender to provide more mortgages, extending access to credit to greater numbers of people. FHA operates in the primary mortgage market, and the Government National Mortgage Association (Ginnie Mae) operates in the secondary mortgage market.

The secondary market provides liquidity to the primary market by purchasing and bundling mortgage loans and using them as collateral for mortgage-backed securities (MBS). Ginnie Mae approves entities that originate and service FHA-insured mortgage loans to participate in its program as "issuers." Ginnie Mae issuers pool federally insured mortgages into MBS, which are sold to investors on Ginnie Mae's platform. The originating lender recoups advances to fund the loan from the MBS issuer, which sells the security to investors who receive a planned stream of income from the underlying mortgages. Ginnie Mae guarantees investors that they will receive payment of full principal and accrued interest. To ensure that investors receive such payments, Ginnie Mae has the authority to remove issuers who fail to meet program requirements and to take full possession of the Ginnie Mae portfolio. In such a circumstance, Ginnie Mae extinguishes the issuer and becomes the servicer of the portfolio.

The public benefits derived from FHA and Ginnie Mae are delivered through the participation of developers; property owners; management agents; State and local government lending agencies; private mortgage lenders; and other real estate professionals, also referred to as counterparties, that promote the purchase of single-family homes and rental properties.

Risks Posed by Ginnie Mae's Nonbank Counterparties

In the last decade, nonbank lenders have become the dominant lender counterparty participating in FHA-insured loans and issuing Ginnie Mae MBS, replacing depository banks that left the government-backed mortgage lending business. Nonbanks are not subject to the same safety and soundness regulations as depository institutions and have less access to capital. Nonbank lenders generally must seek financing through third parties and thus have greater liquidity challenges when faced with economic or market disruptions. Because servicers advance funds for buyouts and foreclosures, nonbanks struggle to a greater extent as servicers and are also at greater risk of default in the payment to investors than are depository banks when mortgage loans go into default and continued payments are required.

The liquidity risks presented by nonbanks to Ginnie Mae have been documented for several years and reported widely in the media. Ginnie Mae has been able to work with nonbank issuers to navigate challenging economic cycles in which interest rates rose quickly and originations and refinances slowed. During the coronavirus

of 2019 (COVID-19) pandemic, many issuers were able to survive the economic challenges because of the sharp increase in refinance transactions that accompanied lowered interest rates.

In response to these risks, Ginnie Mae announced in 2022 that it was increasing the required minimum levels for issuer net worth and liquidity and that it would require nonbank issuers to maintain a risk-based capital ratio. The implementation of the risk-based capital rule has been targeted for December 2024. The proposed changes were met with significant pushback from industry stakeholders, who likened the new Ginnie Mae requirements to the framework imposed on depositories and, therefore, found them inappropriate because the risks that nonbanks face are different from those that depositories encounter.

Historically, Ginnie Mae has not faced rapidly rising interest rates, followed by a period of sustained higher inflation, with such a significant concentration of nonbank issuers in its programs. These conditions can place significant pressure on nonbanks' income, balance sheets, and access to credit. A recent Financial Stability Oversight Council report, which Ginnie Mae assisted with, noted that since nonbanks share similar business models, the risks and vulnerabilities they face are also similar.[11] A significant market disruption heightens the risk that nonbanks may not be able to maintain the liquidity required to operate in Ginnie Mae's program, leading to disruptions in nonbank servicing capacity while simultaneously making it more difficult for Ginnie Mae to identify another servicer to take over the portfolio.

Unique Risks Presented by Reverse Mortgages

A unique risk for Ginnie Mae involves issuers that service reverse mortgage or home equity conversion mortgage (HECM) loans. HECM loans for seniors over the age of 62 enable them to access and use equity in their primary residence. For seniors on a fixed or limited income, the ability to access this source of wealth in retirement can significantly improve their quality of life. FHA's HECM insurance program relies on Ginnie Mae's secondary market HECM MBS (HMBS) program to provide liquidity for lenders to continue offering HECM products.

The HMBS portfolio poses a significant risk to HUD in the current high-interest-rate environment. HECM originations are much more affected by higher interest rates because higher interest rates decrease the funds available to the borrower through a HECM loan.[12] In addition, issuers must buy HECM loans out of their HMBS pools when the borrower has exhausted the amount of funding available under the loan, regardless of whether the borrower is paying off the loan. Buyouts require issuers to advance the full balance of the loan before the loan is assigned to HUD. In a market with increasing or sustained high-level interest rates, the cost of financing to fund these advances becomes increasingly expensive. At the same time, increasing rates may result in decreased new originations and refinances, which are significant sources of lender income. Ginnie Mae's active issuer HMBS portfolio is concentrated among a small group of nondepository financial institutions, with the top 10 MBS issuers being nonbanks. Higher levels of concentration of HMBS issuance, access to financing, and availability of subservicers all increase the complexity of Ginnie Mae's monitoring, oversight, and enforcement.

On December 20, 2022, Ginnie Mae defaulted and extinguished Reverse Mortgage Funding (RMF) from its HMBS program. RMF filed for bankruptcy in November 2022 and was unable to sell its portfolio to another issuer, which required Ginnie Mae to terminate RMF's issuer status, extinguish RMF's interests in the portfolio, and become the servicer of the portfolio, representing approximately 36 percent of existing HECM loans. This was the first time in Ginnie Mae's history that it had extinguished an issuer with an HMBS portfolio. Ginnie Mae subcontracted with a master subservicer, which RMF had also used, to administer the portfolio. Having the existing vendor relationship supported minimal disruption to the borrower and ensured Ginnie Mae's ability to service HECM loans.

After assuming ownership of the largest HMBS portfolio and its HMBS-related expenditures, Ginnie Mae began handling scheduled and unscheduled borrower draw requests, mortgage insurance premium payments, mandatory 98 percent of maximum claim amount repurchases, and investor pass-through payments, which as of September 2023 equated to more than $1.6 billion.

Although as of August 2024 the $57.9 billion HMBS portfolio accounts for a small portion of Ginnie Mae's $2.6 trillion portfolio, servicing an HMBS portfolio is staff intensive even with a contract subservicer. Periods of rising interest rates have challenged HMBS issuers. This condition is especially concerning since the four largest issuers have

approximately 86 percent of the remaining HMBS market. Although Ginnie Mae implemented several policy changes designed to help issuers navigate liquidity challenges, assumption of another defaulted HMBS portfolio could significantly challenge Ginnie Mae's capacity.

Ginnie Mae's Limited Capacity

Ginnie Mae is a relatively small entity with approximately 200 employees and is reliant on outside contractors to perform many functions. Although it operates a secondary market program similar to the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association in size and function, Ginnie Mae's staffing levels are extremely small in comparison to their approximately 8,000 employees each. To compensate, Ginnie Mae relies heavily on contractors. With limited staff operating in a highly technical environment, many of the technical experts on Ginnie Mae's staff must have not only technical programmatic expertise, but also be proficient in government contracting.

Early in 2023, Ginnie Mae completed an assessment of the optimal mix of contractors and in-house staff and determined that it would begin shifting staff from contractor to in-house in FY 2023. Ginnie Mae requested additional appropriations to support hiring more in-house staff in its 2025 budget, with a particular focus on staff that could perform work related to issuer extinguishments. Ginnie Mae noted specifically that it needed additional staffing to support the continued servicing of the HECM portfolios. Ginnie Mae believes that it has robust issuer monitoring protocols in place but that the organization needs more flexibility to respond to significant, rapidly evolving market events that strain Ginnie Mae's resources.

FHA's Mortgage Insurance Programs' Continued Lack of Sufficient Safeguards To Monitor Lenders and Servicers as Well as Prevent Ineligible Loans and Claims

FHA is one of the largest mortgage insurers in the world.[13] Since 2009, an average of 1.15 million individuals and families have benefited from FHA's single-family mortgage insurance programs each year. During this same period, FHA has insured 9.8 million mortgages to first-time home buyers for a total originating loan amount of $2.0 trillion. HUD-approved lenders who originate FHA-insured single-family loans perform the necessary eligibility screenings and make decisions on HUD's behalf. FHA's management of its counterparties and the quality of their eligibility determinations reduce losses to the Mutual Mortgage Insurance Fund.

HUD should improve the use of several data sources to help determine borrower eligibility and include the development of a method for using the Do Not Pay portal, which is a service run by the U.S. Department of the Treasury's Bureau of the Fiscal Service, allowing agencies to check many data sources to identify recipients who are not eligible for a Federal payment. Specifically, HUD could (1) use the Do Not Pay portal during the underwriting process to identify delinquent child support and delinquent Federal debtors, (2) require lenders to obtain borrowers' consent to verify the existence of delinquent Federal taxes with the Internal Revenue Service during loan origination, and (3) update selection rules for the Credit Alert Verification Reporting System to provide for complete reporting of all ineligible borrowers. If implemented, HUD will reduce the approval of loans to ineligible borrowers and prevent billions of dollars in ineligible loans from being endorsed.

PRIORITY OPEN RECOMMENDATIONS TO IMPROVE ELIGIBILITY DETERMINATIONS

Recommendation 1A from FHA Insured $1.9 Billion in Loans to Borrowers Barred by Federal Requirements

Recommendation 1A from FHA Insured at Least $13 Billion in Loans to Ineligible Borrowers With Delinquent Federal Tax Debt

Recommendation 1B from The Data in CAIVRS [Credit Alert Verification Reporting System] Did Not Agree With the Data in FHA's Default and Claims System

Additionally, FHA places requirements on companies that service FHA loans to ensure that HUD requirements are followed through the end of the loan, including providing loan-level information to HUD, communicating with borrowers, administering payments and escrows, ensuring insurance coverage, remitting insurance premiums to FHA, and handling post-endorsement amendments. HUD has faced challenges when overseeing loan servicers at critical stages of the process. For example, during the pandemic, FHA required servicers to take specific loss mitigation steps designed to assist borrowers in default or imminent default in retaining their homes and reduce losses to the FHA insurance fund that would otherwise result from foreclosures. Servicers used several loss mitigation options that lead to home retention, including a partial claim or a loan modification. The pandemic caused a lengthy period of instability that deeply impacted both FHA homeowners and the mortgage companies that originated and serviced FHA loans. HUD intended these options to provide borrowers impacted by the pandemic a path to significant and sustained recovery and, whenever possible, the ability to remain in their homes. In a 2023 audit, we found that servicers did not correctly offer all the available 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 loans totaling $41 billion, servicers did not meet HUD requirements for providing loss mitigation assistance to borrowers of 155,297 loans. Nearly half of the 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.

FHA can take several actions to improve its oversight of servicers that provide loss mitigation, the most important of which are to engage with servicers to determine the reasons for noncompliance and address common loss mitigation issues. Doing so would better position FHA to address future market disruptions.

Lengthy Foreclosure and Conveyance Process

When an FHA-insured loan defaults and the lender submits a claim, HUD is obligated to reimburse the lender for its losses, including the unpaid principal balance, accrued interest, and holding costs of the lender during the foreclosure and conveyance process. HUD regulations require the lender to obtain a good and marketable title and then convey the property to HUD in a timely manner.

OIG has found that HUD paid claims for an estimated 239,000 properties that servicers did not foreclose upon or convey on time.[14] HUD paid an estimated $141.9 million for servicers' claims for unreasonable and unnecessary debenture interest that was incurred after the missed foreclosure or conveyance deadline and an estimated $2.09 billion for servicers' claims for unreasonable and unnecessary holding costs that were incurred after the deadline to convey. OIG also found that HUD paid an estimated $413 million in unnecessary interest and other costs for preforeclosure sale claims after lenders failed to complete servicing actions for defaulted loans within established timeframes.[15] To address this risk, HUD is seeking curtailment of preforeclosure interest and other costs caused by lender servicing delays through the "Maximum Claim Rule," and the issue has been included in the Office of General Counsel's Regulatory Agenda for upcoming rulemaking. HUD has already updated its regulations by clarifying restrictive curtailment timeframes, although it has yet to update its regulations to exclude taxes and insurance from the list of items disallowed.[16]

PRIORITY OPEN RECOMMENDATIONS TO IMPROVE FORECLOSURE AND CONVEYANCE PROCESSES

Both priority open recommendations requested that HUD make regulatory changes to avoid unnecessary costs to the FHA insurance funds, which if implemented, will improve HUD's ability to manage and oversee its single-family portfolio, help protect the FHA insurance fund, and clarify requirements for lenders.

Grants MANAGEMENT

RELATED HUD STRATEGIC GOAL 5: STRENGTHEN HUD'S INTERNAL CAPACITY

The Department's grant portfolio includes a diverse range of programs that provide billions of dollars annually to States, cities, and other entities to fund programs that advance all aspects of HUD's mission. HUD grants support a varied range of activities, such as housing justice, rental assistance, fair housing investigations and outreach, homelessness assistance, community and economic development, affordable housing development, and disaster recovery and mitigation. HUD is responsible for administering its grants in an effective and timely manner, including ensuring oversight of the subrecipients and contractors that carry out HUD programs. Like other grant-making agencies, HUD continues to face challenges in developing and implementing adequate policies, procedures, and other controls to oversee grantees' and subrecipients' compliance, performance, and effectiveness.

Need for Reliable and Complete Financial and Performance Information and Systems

Accurate, timely, and complete financial and performance data are necessary to determine whether HUD grants achieved their intended results. Weaknesses in HUD's monitoring and reporting systems create challenges for HUD program offices and staff tasked with determining whether the grant funds are achieving their desired results. Additionally, information when collected should facilitate robust oversight of the financial and program performance

of grantees, as well as allowing for cross-cutting analysis of issues that broadly affect program and grantee success. For example, in its 2024 Priority Open Recommendations Letter for HUD, GAO identified recommendation 2 of Disaster Recovery: Better Information Is Needed on the Progress of Block Grant Funds, which urged HUD to require recipients of disaster funding to collect and analyze data on critical milestones needed to monitor the timeliness of their housing activities and inform corrective actions. GAO found that grantees do not collect data on application processing and construction milestones for housing programs, which are needed to gauge timeliness. HUD neither agreed nor disagreed but stated that it believed grantees already collect and analyze data on critical milestones. This HUD challenge aligns with those of other Federal agencies as noted in CIGIE's Top Management and Performance Challenges Facing Multiple Federal Agencies.

According to HUD's FY 2025 budget justification, the Housing Trust Fund (HTF) has facilitated state grantees to complete 5,000 units for families with extremely low incomes between the start of the program in 2016 through 2024, leveraging $9.6 in private or other public funding for each HTF dollar invested in rental projects. To ensure that the funds are used efficiently and effectively, GAO issued a report recommending that HUD address weaknesses that exist in its oversight and monitoring. GAO found that HUD has not monitored grantee compliance in reporting project completion in its information

systems or obtaining cost certifications for completed projects. HUD has also not conducted or scheduled a comprehensive fraud risk assessment or disclosed limitations on its external program reports to avoid misinterpretation of project cost and funding data. Following the GAO report, CPD issued an updated risk analysis protocol for CPD programs, specifically adding the HTF, for use by CPD field offices when prioritizing grantees to be monitored. Given the nationwide need for production of affordable housing units, oversight of this program is vital to maximizing units produced for extremely low-income households.

Subrecipient Monitoring

Federal grantees often distribute funds to subrecipients to carry out activities and deliver program assistance to beneficiaries, and like many other Federal agencies, HUD's systems primarily maintain data only at the grantee level. The IG Community's Joint Efforts To Protect Grants From Fraud, Waste, and Abuse noted how grant programs with decentralized structures require departments to oversee how prime grantees administer Federal awards to subgrantees and monitor those subgrantees for compliance with Federal requirements. This decentralized structure, which is often part of the design of the grant program, can lead to limited visibility and control over grantee systems that ensure appropriate expenditure of grant funds at the prime and subgrantee levels. To address this decentralized structure, the Department needs strong monitoring programs and the capacity to provide effective and consistent technical assistance and monitoring. Without both, there is an increased risk of fraud, waste, and mismanagement; unaddressed conflicts of interest; false claims; and inadequate financial management systems.

Many of HUD's grant programs are operated under this decentralized structure, and OIG and others have identified challenges not only with monitoring grantees, but also with how well grantees are monitoring subrecipients. Additionally, HUD's capacity limitations, notably with staff, technology, and reporting requirement deficiencies, make it difficult for the Department to identify when HUD grantees are not effectively monitoring subrecipients. HUD's Emergency Solutions

Grant (ESG) Coronavirus Aid, Relief, and Economic Security Act (ESG-CV) grantees widely reported to OIG that the pandemic impacted their ability to effectively monitor their subrecipients. Similarly, Community Development Block Grant Disaster Recovery (CDBG-DR) grantees have struggled to monitor subrecipients' program progress and review expenditures. Even if HUD staff identifies when select grantees are not monitoring subrecipients, HUD lacks the capacity to oversee the considerable number of grantees and subrecipients in its programs. While HUD can and does provide technical assistance to train grantees throughout the grant cycle and OIG audits of grantees have noted HUD's willingness to provide technical assistance, stakeholders have reported that HUD does not have the staff capacity to provide consistent technical assistance as often as grantees need it.

Timeliness in Spending Grant Funds and Executing Grant Programs

Another challenge that HUD and its grantees face is timely spending and execution of grant-funded programs. Many of HUD's grant programs are designed to address urgent needs, such as homelessness, disaster recovery, and pandemic-related challenges. HUD, its grantees, and their subrecipients are challenged to plan and implement programs in a timely way so that these urgent needs can be met and beneficiaries receive the maximum possible impact from HUD funds. While the pandemic exacerbated the challenges that grantees faced (for example, staff shortage, supply chain disruptions), HUD has opportunities to work with grantees to identify and address roadblocks that can impact the flow of funding to beneficiaries. For example, in a recent report, we found that HUD recaptured $257 million from grantees between 2017 and 2020. HUD generally tracked and monitored CoC grantees; however, the report outlines that it did not prioritize grantees that encountered challenges in spending their grant funds before the grants expired. Again, it was noted that some challenges were outside the control of HUD or the grantees; however, HUD could initiate consistent proactive measures, including training with struggling CoC grantees, to ensure that funds are spent to meet intended purposes before expiring.

Enhancing
OVERSIGHT
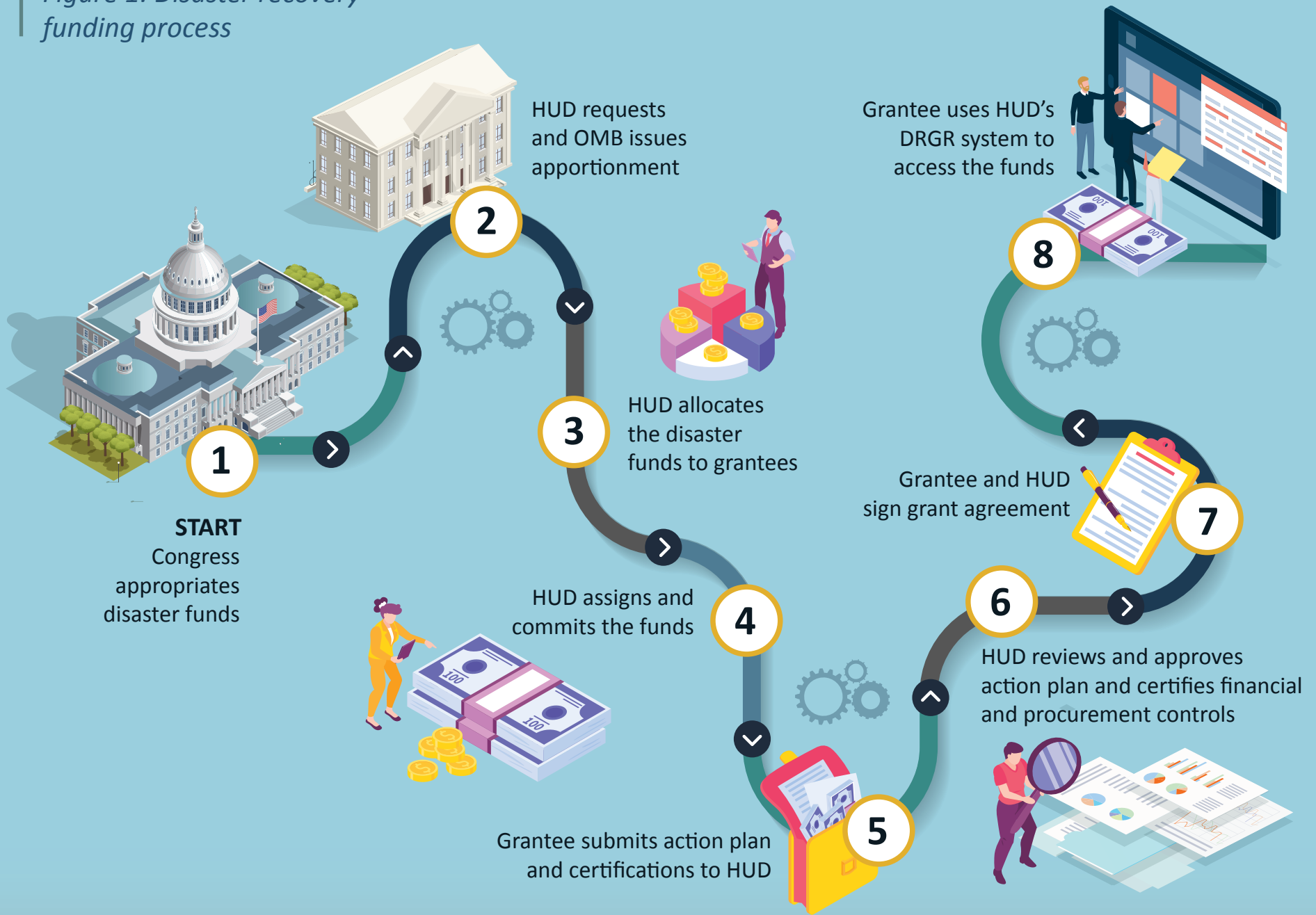## OF DISASTER RECOVERY

RELATED HUD STRATEGIC GOAL 4: ADVANCE SUSTAINABLE COMMUNITIES

HUD is responsible for administering billions in disaster recovery and mitigation grants each year and ensuring that the funding is used effectively and in a timely manner. These funds are distributed to a wide variety of public grantees, which often redistribute funds to subgrantees, subcontractors, and other subrecipients to help communities recover from or mitigate disaster damage. Under this structure, funds—as well as documentation and data—are distributed across a diverse range of organizations, geographic locations, and systems and can be used for a wide variety of activities chosen by the grantees and subrecipients. The delegation of authority to execute HUD's disaster recovery and mitigation programs, coupled with the large influx of funding that States and localities receive that is often spent on extended timelines, results in HUD, its grantees, and their subrecipients facing unique challenges. Key challenges that should be addressed include continuing to seek permanent authorization of HUD's Community Development Block Grant Disaster Recovery and Mitigation (CDBG-DR) programs, the benefits of additional data, and needed improvements to HUD's oversight of the grantees implementing HUD's programs and, in turn, grantee oversight of the subrecipients that collectively undertake the disaster recovery and mitigation work on HUD's behalf.

Permanently Authorizing HUD Disaster Recovery Programs

Unique for programs of similar size and scope, CDBG-DR grant programs are not enacted through regulatory requirements in the Code of Federal Regulations. Instead, Congress provides disaster relief funds in supplemental appropriations, and HUD uses the existing CDBG program as an initial program framework. However, for each appropriation, HUD must issue one or more Federal Register notices with additional requirements, waivers, and allocations for its CDBG-DR grantees. As HUD allocates and amends requirements for each disaster through Federal Register notices, grantees historically have had to develop multiple action plans or amendments, often through synthesizing many notices with different requirements to implement plans for disaster recovery. These steps are expected to be completed during a time of great uncertainty, given that personnel, operations, and infrastructure may have been impacted following a disaster. This becomes even more complex and difficult for grantees in areas prone to disasters, as they are managing multiple grants for different disasters, which can have different rules. These issues can create delays lasting months and even years. Additionally, oversight of this program is complicated by different rules applying to different grantees.

Figure 1: Disaster recovery funding process

1

START
Congress appropriates disaster funds

2
HUD requests and OMB issues apportionment

3
HUD allocates the disaster funds to grantees

4
HUD assigns and commits the funds

5
Grantee submits action plan and certifications to HUD

6
HUD reviews and approves action plan and certifies financial and procurement controls

7
Grantee and HUD sign grant agreement

8
Grantee uses HUD's DRGR system to access the funds

For years, HUD OIG and GAO have reported that HUD's disaster recovery programs would benefit from permanent authorization. Administrations have taken consistent, meaningful steps to address our recommendations to pursue permanent authorization through legislative action, including expressing support for the congressional authorization of CDBG-DR. Bicameral, bipartisan legislation has been introduced to permanently authorize HUD's disaster recovery program, which would streamline, reform, and inject greater fiscal responsibility into the program, while mitigating funding lags and duplicative requirements.

HUD has made meaningful progress toward providing more consistent guidance to its disaster grantees within the limitations HUD believes it has the authority to take. For example, HUD issued Federal Register notices, which contained an appendix collectively referred to as the "Consolidated Notice." HUD incorporated the Consolidated Notice into subsequent Federal Register notices, along with changes or waivers applicable to CDBG-DR grants. HUD also created an interactive guidebook to help those grantees, including preaward grantee submissions and action plan development, which was a recommendation made by grantees according to a 2019 study produced by the Office of Policy Development and Research.

HUD also states that the Consolidated Notice and interactive guidebook will help future grantees, but that is true only to the extent that HUD does not later decide to change the guidance or must change the guidance to reflect new statutory language. In addition, HUD is nearing completion of its "Universal Notice," which is intended to build upon its Consolidated Notices and provide increased transparency, consistency, and more timely access to CDBG-DR funds. HUD anticipates that the Universal Notice will help minimize program delays and accelerate recovery. Additionally, HUD has created a Public Action Plan module in its Disaster Recovery Grant Reporting system that grantees subject to the Consolidated Notice will use for action plan development and submissions. While short of permanent authorization, efforts like these provide additional clarity to HUD grantees and communities, allow HUD to provide assistance more quickly, and help impacted communities better plan for how to best use HUD disaster recovery and mitigation funding.

Monitoring Block Grants To Ensure Efficient and Effective Disaster Recovery Programs

As disaster funding grows and the program increases in complexity, HUD's capacity to monitor and oversee the funding must keep up. That includes having the systems and staff in place to guide and oversee grantee programs. In turn, HUD is responsible for grantees' performing their delegated responsibilities to ensure the eligibility of activities and beneficiaries; that low- and moderate-income requirements are met; and that programs are both timely and effective and otherwise meet Federal financial, procurement, and reporting requirements.

By design, CDBG-DR allows grantees to undertake a broad range of activities to address unmet needs following a disaster and allows HUD to waive statutory and regulatory requirements for good cause. This flexibility also creates challenges for HUD in overseeing the program, as its monitoring systems and processes must account for the wide variety of activities that a grantee must undertake and the data and documentation that would be needed to show that the grantee

DATA LIMITATIONS

GAO found that HUD's use of quarterly reports to monitor grantee performance was hindered by grantees' presenting "cluttered and confusing" information about grantees' performance that makes it difficult to combine performance information to obtain an overall picture of performance. HUD's grantees were not collecting or analyzing data on critical milestones needed to monitor their housing activities for timelines and progress and GAO issued a priority open recommendation that HUD require future recipients to collect and analyze such data.

executed its responsibilities in a timely and appropriate fashion. Grantees themselves often experience difficulties in overseeing their own programs and the programs of their subgrantees, which greatly impacts HUD's ability to rely on grantee monitoring to help ensure that accurate statuses of projects are being reported, to track problems encountered and proposed solutions, to ensure that expenditures are eligible and supported, and to track whether previously identified problems have been addressed. OIG often finds gaps in the frequency and effectiveness of CDBG-DR grantees' monitoring of their activities and those of their subrecipients. When disaster recovery grantees are responsible for implementing new programs with a large influx of funding, they often face challenges in standing up the systems, policies, and practices to ensure that their programs and those of their subrecipients are effective, reliable, and properly implemented. Further, with the large influx of disaster recovery funding, often far in excess of what the grantee or subrecipients typically receive, disaster recovery programs are at a heightened risk of fraud.

OIG reports commonly find that grantees lack an understanding of the differences between monitoring reviews and day-to-day operations, have inadequate monitoring procedures, or simply do not perform monitoring. In some cases, that can include risks that the planned activities would neither serve beneficiaries as intended, achieve outcomes in a timely manner, nor effectively achieve the grantee's goals. A lack of effective or consistent monitoring by grantees of their own disaster-funded activities or those of their subrecipients also results in identified deficiencies not being corrected.

With the responsibility to oversee billions in disaster funding, HUD and its grantees have a responsibility that includes detecting and preventing fraud, waste, and abuse. As discussed later in this report, having a robust fraud risk management framework is an essential control to guard against the financial, reputational, and programmatic harm caused by fraud.

OIG has dedicated significant resources to identifying and addressing weaknesses in grantee programs. Overall, CDBG-DR grantees' highest risk problem area was not following program and administrative requirements. A total of 68 of 118 OIG reports covering 29 CDBG-DR grantees contained 104 instances of program and administrative issues, including issues with general program and administrative requirements, procurement requirements, duplication of benefits requirements, and Federal cost principles. Of the 72 CDBG-DR grantees, 32 (44 percent) had 124 findings in the 118 reports, which contained more than $1.7 billion in questioned costs and more than $751 million in funds to be put to better use. Most CDBG-DR grantees that incurred questioned costs were unfamiliar with the program requirements and did not implement adequate policies and internal controls. HUD's Office of Disaster Recovery should continue to provide grantees with training and other technical assistance to ensure that they are familiar with Federal assistance procurement requirements, cost principles, and other administrative requirements. This assistance is especially important for grantees without experience in administering CDBG-DR funding.

Managing
FRAUD RISK
AND IMPROPER PAYMENTS

RELATED HUD STRATEGIC GOAL 5: STRENGTHEN HUD'S INTERNAL CAPACITY

Fraud risk management is a challenge throughout the Federal Government. Beyond the monetary loss to taxpayers, fraud against HUD programs reduces HUD's ability to meet the needs of vulnerable communities with critical housing needs. HUD is challenged to develop more robust fraud risk assessments and fraud risk frameworks in its programs. It is also challenged to integrate accountability measures into its programs, such as strong certifications throughout a program's life cycle, and to adopt leading practices in preventing fraud, such as antifraud training for program participants and verifying self-reported information. Although HUD made progress in maturing its fraud risk management program during the past year, OIG found that there is still considerable work to be done to achieve the desired goal state for an entity with high fraud exposure characteristics identified by the CFO Council's Antifraud Playbook, such as size, complexity, and heavy reliance on tens of thousands of grantees and non-federal administrators responsible for executing HUD's programs.[17]

Additionally, HUD continues to face systemic challenges in completing its testing requirements for programs susceptible to significant improper payments. HUD has long struggled to come into compliance with improper payment laws, most recently the Payment Integrity Information Act of 2019, and is unable to estimate improper payments in its largest rental housing assistance programs. HUD is missing opportunities to mitigate fraud risks and detect improper and unknown payments when it is unable to test the full payment cycle of certain programs.

HUD's Fraud Risk Management Program

A mature fraud risk management framework will include specific, robust controls at the enterprise and program-office levels that prevent, detect, and respond to fraud. In 2022, we found that all four phases of HUD's fraud risk management program were in the early stages of development, or at an "ad hoc" maturity level. The HUD Chief Risk Officer (CRO) must perform a complete agencywide fraud risk assessment and develop and lead implementation of a plan to improve the maturity of HUD's fraud risk management program.

HUD PROGRESS:
Fraud Risk Management

Within the Office of the Chief Financial Officer (OCFO), HUD's CRO has developed a multiyear, phased fraud risk management strategy that includes education, outreach, assistance, fraud risk mitigation tools, data analytics, and training for HUD program offices and grantees. The CRO is working through the phased approach and has focused OCFO's initial efforts on education and promoting fraud awareness across HUD.

Figure 2: The Fraud Risk Management Cycle

CREATE A CULTURE

UNDERSTANDING EXPOSURE

- Documented fraud risk exposure
- Enterprise-wide strategy to combat fraud
- Antifraud tone
- Understanding that fraud exists, and fraud reduction is beneficial to mission of program

PROMOTING FRAUD AWARENESS

- Antifraud strategy developed and distributed
- Awareness of how to report fraud
- Program-specific training to combat fraud
- Newsletters/promotional activities to boost fraud awareness

DEDICATING SPECIFIC PEOPLE TO FOCUS ON FRAUD

- Dedicated entity to oversee fraud risk management
- Specific people in programs areas dedicated to working on fraud mitigation activities

IDENTIFY AND ASSESS

THINK LIKE A FRAUDSTER TO IDENTIFY POTENTIAL FRAUD SCHEMES AND ENTRY POINTS

- Inventory potential fraud schemes and entry points in specific program areas

DISCOVER FRAUD OPPORTUNITIES THROUGH A RISK ASSESSMENT (LIKELIHOOD, IMPACT, PRIORITIZATION)

- Entity-wide fraud risk assessment, including program-specific assessments

DEVELOP A PROCESS TO REPEAT AND EXPAND FRAUD RISK ASSESSMENT THAT IS UNIQUE AND CUSTOMIZABLE

- Policy and procedures/plan to regularly conduct fraud risk assessments
- Fraud risk profile

INSIGHT INTO ACTION

CONSISTENTLY ACT ON POTENTIAL FRAUD AND ADJUST PROCESSES TO MITIGATE VULNERABILITIES

- List of identified frauds and actions taken
- Specific procedures for identifying and handling potential fraud
- Recent actions on identified potential fraud
- Actions to mitigate identified fraud risks/exploited frauds

MEASURE EFFECTIVENESS OF DETECTION AND PREVENTION ACTIVITIES

- Policies and procedures explaining the process to monitor and evaluate the effectiveness of fraud risk management prevention and detection activities.
- Evidence of evaluation and adjustments as needed

PREVENT AND DETECT

USE RISK ASSESSMENT RESULTS TO DESIGN AND IMPLEMENT CONTROL ACTIVITIES (POLICIES, PROCEDURES,TECHNIQUES, MECHANISMS) TO PREVENT AND DETECT FRAUD

- Completed risk assessment and controls in place or being developed to mitigate identified risks
- Documentation of antifraud controls
- Fraud data analytics program
- Fraud reporting mechanism
- Feedback loop with the IG
- Data sharing agreements

This graphic pulls elements from the OCFO Antifraud Playbook and GAO's Framework for Managing Fraud Risk in Federal Programs and illustrates key elements HUD OIG looks for when assessing fraud risk management maturity at HUD and in non-federal entities administering HUD programs.

HUD program offices must work with the CRO to complete program-level fraud risk assessments and implement response plans. HUD's CRO is close to completing a fraud risk exposure analysis and an agencywide plan; however, most program offices have not completed program-specific fraud risk assessments. Without improvements to its program, HUD may miss opportunities to identify and eliminate fraud vulnerabilities, leaving its funds and reputation at risk.

HUD recently took steps toward maturing its program, including issuing a fraud risk assessment program departmental policy, compiling program-level oversight reports, establishing a fraud risk work group to strengthen HUD's fraud risk culture, and supporting program offices in establishing risk programs within their offices to draw more direct attention to their risk management activities. Further, the Office of Housing completed its first fraud risk assessment, cross-walking individual fraud risks against existing internal controls. While next steps should include testing whether those controls are effective in stopping fraud, conducting the fraud risk assessment is a very positive step that should be replicated by PIH, CPD, and other program offices.

HUD is responsible for designing its programs such that there are sufficient controls to support robust fraud risk management practices and must improve how it treats fraud risk at the recipient and subrecipient level. Many HUD programs are designed to provide flexible resources to recipients and often delegate oversight responsibility to recipients to determine eligibility, oversee subrecipients, and manage the programs on HUD's behalf. While HUD program offices do have controls in place, such as monitoring reviews, they are often not designed to detect or prevent fraud or to determine the recipients' abilities to do so. Notably, although HUD expects its grantees to be proactive in identifying and remediating fraud, OIG has consistently found that HUD grantees have immature fraud risk management programs and are not prepared to prevent, detect, or respond to fraud risks within their programs. For example, because the Puerto Rico Department of Housing did not proactively manage fraud risk and its fraud risk management program is at the lowest state of maturity, it may have missed opportunities to strengthen controls and eliminate fraud vulnerabilities, leaving more than $20 billion in HUD disaster recovery and mitigation funds at

increased risk of fraud. Additionally, the California Department of Housing and Community Development, which had been authorized more than $319.5 million in ESG-CV program funds, a 2,505 percent funding increase from its formula ESG allocation for FY 2020, was not adequately prepared to manage fraud risk and lacked a focus on fraud in the design of its internal controls.

Ensuring That Whistleblowers Are Protected From Retaliation

HUD employees, as well as the employees of contractors, grantees, and other program participants, all play a role in identifying and reporting wrongdoing. In recognition of that important role, for decades Congress has enacted protections for whistleblowers, including their rights, remedies, and requirements of agencies like HUD to ensure that potential whistleblowers are educated about their statutory protections.

HUD faces acute challenges with ensuring whistleblower protections for employees of government contractors, subcontractors, grantees, and subgrantees under 41 U.S.C. 4712 (Section 4712). These individuals are protected from retaliation when they disclose information that they reasonably believe is covered under whistleblower protections related to a Federal grant or contract. Agencies are required to verify that contractors, subcontractors, grantees, and subgrantees have informed their employees of these rights and protections. Unfortunately, employees of thousands of contractors that receive funds from HUD are not protected against retaliation when the HUD contract predates the effective date of Section 4712. This gap results in a significant concern that many employees of contractors that receive HUD funds are not protected under Section 4712 because a significant portion of HUD's contracts do not contain sufficient whistleblower protections.

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 OIG, and potentially emboldens employers to retaliate.

Mitigating and Addressing Public Fraud and Corruption

Fraud involving HUD programs has a negative impact on those in need of HUD's program assistance, and there are often community victims beyond the immediate program beneficiary. It is especially troubling when public officials violate the public's trust by committing fraud. HUD is challenged in its ability to effectively oversee its vast portfolio to mitigate and address public fraud and corruption. HUD OIG regularly investigates fraud by PHA employees who embezzle HUD funds for personal use or accept bribes. These types of public integrity convictions affect the reputation and impact of HUD's programs, waste taxpayer funds, and most importantly, deprive communities of critical housing resources.

Investigative HIGHLIGHTS

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 [U.S. Department of Justice] history, 70 current and former employees of the New York City Housing Authority (NYCHA) were charged with bribery and extortion. The complaints[18] allege that these individuals used their positions of public trust and responsibility to solicit and obtain money in exchange for awarding no-bid contracts. The defendants, all of whom were NYCHA employees during the time of the relevant conduct, allegedly demanded and received cash in exchange or NYCHA micropurchase 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.

Multi-defendant Kickback Fraud at South Bend Housing Authority

Six codefendants who worked with or for the South Bend Housing Authority have been convicted of conducting a years-long illegal fraud scheme involving the issuance of Housing Authority payments to four outside contractors for work that did not occur. The contractors would then deposit the payments, withdraw a portion of each check in cash, and then hand-deliver the cash back to the coconspirators at the Housing Authority. Hundreds of fraudulent documents were created to conceal the fraud. The Housing Authority's former executive director was sentenced to 108 months in prison and 2 years of supervised release and was ordered to pay $3,236,949.97 in restitution to victims of the offense. The Housing Authority's former asset manager was sentenced to 135 months in prison and 2 years of supervised release and was ordered to pay $3,030,940 in restitution to the victims of the offense.

Former Housing Authority Payroll Clerk Admits to Stealing $575K

A former human resources and finance specialist for the Milledgeville Housing Authority, was sentenced to 41 months in prison, 3 years of supervised release, ordered to pay a mandatory assessment of $100 and restitution in the amount of $575,014 for her role in committing theft or bribery concerning programs receiving Federal funds. Between January 1, 2021, and August 18, 2022, while employed at the Milledgeville Housing Authority, the defendant fraudulently entered information into the housing authority's payroll system, overcharging multiple payroll categories such as overtime, vacation, and sick leave, resulting in payroll deposits she was not entitled to. The defendant's fraudulent activity resulted in over $633,000.00 of fraudulent payroll payments deposited into her bank accounts.

Improper Payments

HUD's systemic lack of proper planning and communication prevents it from estimating improper payments for PIH's Tenant-Based Rental Assistance (PIH-TBRA) program and the Office of Multifamily Housing Programs' Project-Based Rental Assistance (PBRA) program. These are the two largest program expenditures in HUD's portfolio, totaling $45.3 billion in FY 2023, or 67.5 percent of HUD's total expenditures. This year marked the 7th consecutive year that HUD was 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.

HUD will try to produce and publish an estimate for the PBRA program in 2024 but will not produce an estimate for its TBRA program in 2024 and is unsure of when it will be able to accomplish this. If left unaddressed, more than $40 billion annually 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.

HUD's leadership issued a joint commitment to work toward 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.

Improving
IT MODERNIZATION
AND CYBERSECURITY

RELATED HUD STRATEGIC GOAL 5: STRENGTHENING HUD'S INTERNAL CAPACITY

HUD and its stakeholders rely on HUD's IT systems, which maintain billions of records containing personally identifiable information (PII) and facilitate thousands of transactions daily. HUD continues to mature its information security (InfoSec) program in FY 2024, notably having achieved a "consistently implemented" program maturity in OIG's annual Federal Information Security Modernization Act (FISMA) report. Similar to other Federal agencies, HUD faces several longstanding challenges in modernizing its IT systems and achieving an effective InfoSec program and doing so with finite resources and competing priorities. OIG has identified several root causes of these challenges, including insufficient staffing retention and knowledge management in the Office of the Chief Information Officer (OCIO) and IT acquisition personnel, weaknesses in planning IT capital investments, and budget management. OIG reports have highlighted HUD's challenges with budget constraints and budget management as well as IT project planning and management, which hamstring HUD's progress in modernizing its IT portfolio, including cybersecurity.

IT Project Management and Modernization

Project management gaps continue to significantly impact HUD's ability to ensure that IT projects are fully implemented in accordance with its enterprise-level modernization strategy and Federal guidance. GAO and OIG assessments identified persistent challenges with HUD's IT project management and modernization efforts that still need to be addressed. Improving IT project management at HUD should result in cost savings, higher efficiencies, and more secure systems. Within HUD's 200 IT investments, a significant number of its mission-essential applications have not been modernized, which presents multiple sources of risk. Many applications are hosted on legacy information systems and mainframe platforms, which are operationally inefficient, increasingly difficult to secure, and costly to maintain.

HUD has historically struggled to fully execute multiple modernization plans, implement projects, and align IT initiatives with the mission. HUD initially developed an enterprise-level modernization roadmap in April 2020, identifying IT projects for modernizing HUD's program office systems and improving enterprise capabilities. The roadmap established timelines based on an agile approach to allow HUD to deliver new functionality incrementally; maximize flexibility; and adjust to potential risks, such as leadership's shifting priorities and insufficient funding for development, modernization, and enhancement. Although it saw initial successes, IT project management challenges have hindered progress. For example, after several years of initial success, poor contract management and communication, a lack of proper cost and schedule estimation, and weak project management of the FHA-Catalyst platform led to implementation delays and stoppage. HUD is leveraging the FHA-Catalyst platform technology and processes to modernize PIH's Native Advantage. Fully transitioning from the Computerized Homes Underwriting Management System and utilizing

the cloud in Native Advantage's development, as appropriate, will help HUD address previously identified deficiencies. However, implementation continues to be stymied due to contract oversight challenges and communication. PIH's Native Advantage contract took months for vendor onboarding, resulting in unmet implementation milestones in the first option period. Two of the five recommendations in the OIG Report, IT System Management and Oversight of the Section 184 Program, remain open, including to develop capabilities using cloud environments.

In March 2024, HUD revised its enterprise-level roadmap to serve as HUD's 5-year plan for continued modernization efforts, identifying a strategy to implement modernized IT capabilities, in alignment with HUD's overall strategic plan. This roadmap identifies key modernization efforts that HUD will address, such as the modernization of the Tenant Rental Assistance Certification System, continued modernization of FHA-Catalyst, modernization of three PIH technologies (PIH Data Warehouse, the Enterprise Voucher Management System, and PIH Housing Information Portal), modernization of REAC's NSPIRE solution, and modernization of HUD's Disaster Recovery Grant Reporting system platform. The roadmap does not set specific milestones, rather it sets priorities for implementation over the next 5 years.

IT project management challenges hinder HUD's ability to modernize its technology. This is a shared responsibility between OCIO and program offices, in which OCIO provides IT expertise to support the business needs. Modernization efforts are affected when OCIO and program offices do not efficiently communicate. Additionally, program office staff has varying levels of expertise and involvement, and IT project managers often have insufficient expertise or resources for managing the technical aspects, schedules, coordination, and funding for HUD's IT investments.

Cybersecurity

HUD continued to take positive steps to improve its IT security posture. HUD improved its InfoSec program to maturity level 3, "consistently implemented," using the FY 2024 IG FISMA metrics. However, this maturity level is not considered an effective maturity level, and HUD should continue to mature its cybersecurity posture. Notably, HUD achieved maturity level 4, "managed and measurable," for the first time and did so in 14 metrics. OCIO had successes in many FISMA domains, notably reaching the "managed and measurable" maturity level for its data protection and privacy, security training, incident response, and contingency planning programs.

HUD was able to close another OIG priority open recommendation during FY 2024 by developing procedures for the HUD Security Operations Center to monitor all inbound and outbound traffic and all HUD network devices. This is notable because this capability allows HUD to better detect nefarious activity or prevent sensitive data from being stolen. However, a lack of accurate and complete inventories of hardware or software systems continues to limit HUD's ability to understand, prioritize, and address its most critical IT risks and prevents it from ensuring that only authorized software is executed on its network. Making progress in this area will help HUD ensure that it is allocating limited resources in a risk-based manner.

HUD PROGRESS:
Closed Priority Recommendations Related to IT Modernization Strategy

In FY 2024, HUD developed an IT Modernization Strategy with an established framework that aligns with its IT modernization roadmap. HUD documented key stakeholder roles and responsibilities throughout the modernization process, identified and prioritized modernization initiatives, and created a process to capture lessons learned, satisfying two priority recommendations.

HUD's legacy systems also present InfoSec challenges, as it must manage a finite budget while maintaining and modernizing a disproportionate number of legacy systems supporting key HUD functions. These legacy systems and processes present elevated risks to HUD's IT environment and increase risk in the functionality of HUD's key programs. Managing cybersecurity risks for legacy systems is resource intensive and limits OCIO's capacity to acquire and deploy the technology necessary to implement or improve critical security controls.

HUD still faces hurdles in addressing the significant increase in the complexity of its hardware, software, and information systems. Managing this risk requires that HUD have a full understanding of its infrastructure and network interconnections and integrate its risk activities across the organization. HUD's IT acquisition program continues to be a crucial challenge and needs to have the capability to monitor and manage risk to the acquisition of a diverse range of IT products and services needed by HUD. Acquisition of IT products and services involves complex, globally distributed supply chains with multiple layers of outsourcing. HUD's supply chain risk management program is weak because it was still establishing a strategy, policies, and procedures late in FY 2024. Fully establishing the program would support an IT acquisition program that monitors and manages risk to the acquisition of a diverse range of IT products and services needed by HUD to accomplish its mission.

Additionally, HUD made limited progress in the identity, credential, and access management domain by defining a plan to implement phishing-resistant multi-factor authentication (MFA) to all privileged and nonprivileged users accessing HUD systems. HUD established an MFA deployment plan with milestones that it had begun to pilot, although it had not met the Office of Management and Budget (OMB) Memorandum 22-09 requirement for the implementation of MFA for all public facing systems by January 2023 and did not reach full implementation by end of FY 2024.[19] Challenges include determining a practical MFA solution for HUD clientele served, as well as establishing MFA for physical access.

HUD continues to focus on IT and cyber compliance and the ability to prioritize and elevate the cyber portfolio to begin addressing the persistent challenges previously described. These efforts will require a shared responsibility across HUD in proper resourcing, planning, and support from all levels of leadership.

Data Protection and Privacy

HUD is responsible for managing and safeguarding the PII of individuals, which it collects, uses, stores, and disseminates. OIG has identified several longstanding challenges that HUD faces in protecting the confidentiality of at least 16 billion PII records and the integrity of financial data for HUD programs processing hundreds of billions of dollars. In the past 2 years, HUD significantly matured its privacy program and its overall governance of PII.

The Privacy Office updated its policies and procedures, integrated its system authorization processes with OCIO, designated privacy liaison officers across the Department, enhanced the specialized training provided to personnel with significant privacy responsibilities, instituted a compliance program, and developed dashboards to monitor operational performance. Further, the Chief Privacy Officer conducted a gap analysis to identify program inefficiencies and identify legal requirements that HUD did not address. The foundational improvements to HUD's privacy program focused on key managerial and operational controls.

However, HUD continued to have limited technical controls required to protect PII and needs additional tools and solutions to strengthen its ability to maintain and minimize the use and collection of PII and to prevent data exfiltration. HUD continues to be challenged with locating and inventorying all collections and uses of PII or properly tracking and securing its PII inventories. This issue directly affects HUD's ability to implement zero trust and improve its implementation of its PII minimization plan, which maintains and manages the inventory of HUD's PII and associated security risks. HUD must improve implementation of access, authentication, and protection controls that support zero trust principles. It also must deploy additional data loss prevention measures to prevent the potentially unauthorized transfer of vast amounts of data to removable media.

Increasing
EFFECTIVENESS
IN PROCUREMENT

RELATED HUD STRATEGIC GOAL 5: STRENGTHEN HUD'S INTERNAL CAPACITY

It is critical that HUD meet the procurement needs of its program offices in a timely manner and effectively use quality assurance surveillance plans.

HUD's program offices require contracting and procurement services to sustain and effectively achieve their mission. While the Office of the Chief Procurement Officer (OCPO) has primary responsibility for HUD's contracting and procurement activities, program offices are responsible for timely coordination with OCPO on their procurement needs, to include promptly providing OCPO with complete and accurate information at each stage of the procurement process. The largest contract users at HUD are significant HUD operational and programmatic offices, such as the Office of Housing, the Office of Administration, OCIO, Ginnie Mae, and the Office of Policy Development and Research.

HUD has taken steps to improve the policies and practices addressing known procurement and acquisition management challenges and should continue focusing on improving the operational support that procurements provide and finding efficiencies in how OCPO and client offices communicate needs, requirements, and contracting support services. Such improvements could, in turn, have a substantial positive impact on HUD's efficiency and effectiveness in serving its program beneficiaries.

HUD has longstanding challenges related to procurement and acquisition management and has acknowledged in its FY 2022-2026 Strategic Plan a need to streamline and improve business function processes. Identified acquisition management risks include untimely procurements, inefficient acquisition processing, insufficient staff training and excessive workloads, and inadequate contract oversight. Additionally, program and support offices reported difficulty in finding staff with programmatic expertise, as well as the contracting experience necessary to navigate and support the acquisitions process and supervise contractor performance. These challenges are faced by many agencies across the Federal Government. In its Top Management and Performance Challenges Facing Multiple Federal Agencies, CIGIE reported that other OIGs are finding the same challenges in their agencies.

Acquisition Challenges

Program offices have described how procurement efficiency and processes can be improved through increased insight into when the acquisition process should begin, requirements that must be provided to OCPO as a part of the acquisition processes, an understanding of when procurements should be initiated or recompeted, and increasing communications that result in efficiencies. Client offices must promptly identify when contracting needs change or arise, and OCPO

necessarily relies on the subject-matter expertise of the client offices to raise their contracting needs in a timely manner. That, in turn, places a strain on some program offices, like Ginnie Mae, which rely heavily on contractors to find staff members who are proficient in both programmatic issues and Federal procurement processes.

A key example of this challenge is HUD's reliance on IT acquisition and procurement, which continue to pose significant risks within HUD's IT environment. Many programs and their related administrative operations rely on systems that are developed, maintained, and operated by contractors. In addition, HUD's IT projects for development, modernization, and enhancement depend heavily on successful contract procurement actions. Unaddressed procurement challenges in IT acquisition have impeded HUD's IT modernization progress and significantly disrupted IT services for HUD programs nationwide. A 2021 review of contracts for the period July 2018 through June 2020 found that 43 IT contracts expired before HUD was able to complete the acquisition process for a replacement award and the associated IT services were discontinued for 18 of these expired contracts. Such gaps create a strain on HUD operations and in some cases, significantly disrupt or impede important mission functions. As IT underpins all of HUD's programs, HUD must evaluate IT acquisition process workflows and identify ways to simplify processes, facilitate more effective stakeholder coordination across offices, and create efficiencies when possible.

In the HUD FY 2023 Performance Plan, OCPO reported that it has exceeded its FY 2023 on-time execution goal for procurement acquisition lead times, awarding 85.6 percent of all procurement actions within established timeframes. However, customer offices in FY 2023 met on-time targets for submitting actionable acquisition requirements to OCPO only 26 percent of the time, far below HUD's goal of 60 percent, which had been reduced from 75 percent based on lower than anticipated performance in FY 2022. OCPO implemented new acquisition dashboards, tools, workshops, trainings, and integrated project teams for critical portfolios to improve acquisitions at HUD.

Contract Management

There have been several instances in which challenges with acquisitions and contract management, notably by program offices, negatively affected core programmatic responsibilities. As noted above, in a 2023 audit of HUD's REAC inspection process timeliness, we found that procurement delays contributed to delays in the national inspection contracts' being awarded. Program officials involved in the awarding of the bridge contract and subsequent acquisition provided differing viewpoints about which office or process caused the delays. In that same audit, we also identified that PIH's ability to collect inspection data from properties approved to participate under the NSPIRE demonstration was delayed because of a delay in procuring the IT solution for collecting the data. CPD has been unable to address a GAO recommendation to improve its quarterly reporting and related guidance for CDBG-DR grantees because the contractor managing the system changed, delaying needed improvements.[20] With respect to FHA Catalyst, offices funding and managing the contract were unable to make agile contract modifications, including those to add funds, because the General Services Administration's procurement action lead time was 45 days. The lead time, coupled

HUD PROGRESS:
Set-Aside Goals

In April 2024, HUD received an "A+" on the Small Business Administration's annual scorecard assessing how well Federal agencies reach their small business and socioeconomic prime contracting and subcontracting goals. In FY 2023, HUD awarded almost 36 percent of its total contracting dollars to small businesses and almost doubled the Federal Government small disadvantaged business goal through achieving 21.11 percent.

with a lack of detailed contract management, limited HUD's flexibility to add funding to an IT development contract and contributed to a stop-work order that significantly delayed the continued development of one of HUD's most important IT modernization efforts.

OIG has found instances of HUD's facing challenges in efficiently managing contractor performance in large programs that underpin how HUD preserves maximum value for HUD homes. HUD is one of the largest sellers of real estate in the country, as it sells homes conveyed to HUD following a claim paid to a mortgagee on an FHA-insured single-family home. HUD's regional Homeownership Centers contract with companies called Managers who market and process the sale of HUD Homes and Field Service Managers that provide property preservation and protection services, such as inspecting the property, securing the property, performing cosmetic repairs, and maintenance, which help preserve the value of the home until it can be sold by HUD. OIG found that HUD's Homeownership Centers did not effectively develop and implement a quality assurance surveillance plan for six field service managers' contracts and as a result, lacked the structure necessary to ensure that contractors were held accountable for their performance in accordance with contractual requirements. As HUD offices will continue to rely on contractor support to run core operations, contractor performance oversight will continue to play an important role in HUD's ability to achieve its mission.

Appendix I – Endnotes

1   24 CFR (Code of Federal Regulations) 50.3(i)(1) and 24 CFR 58.5(i)(2)(i))

2   HUD Lacked Adequate Oversight of Lead-Based Paint Hazard Remediation in Public Housing, October 11, 2022; available at: https://www.hudoig.gov/reports-publications/report/hud-lacked-adequate-oversight-lead-based-paint-hazard-remediation

3   HUD Congressional Budget Justification for FY 2025, available at: https://www.hud.gov/sites/dfiles/CFO/documents/FY_2025_Congressional_Justification_v3_E-File.pdf

4   Real Estate Assessment Center: HUD Should Improve Physical Inspection Process and Oversight of Inspectors | U.S. GAO (March 21, 2019).

5   HUD Can Improve Its Oversight of the Physical Condition of Public Housing Developments, May 30, 2023, available at: https://www.hudoig.gov/reports-publications/report/hud-can-improve-its-oversight-physical-condition-public-housing

6   HUD Could Improve Its Process for Evaluating the Performance of Public Housing Agencies' Housing Choice Voucher Programs, March 6, 2023; available at: https://www.hudoig.gov/reports-publications/report/hud-could-improve-its-process-evaluating-performance-public-housing

7   The Use of Housing Choice Vouchers in New York City – NYU Furman Center

8   Using HUD Administrative Data to Estimate Success Rates and Search Durations for New Voucher Recipients | HUD USER

9   See endnote 6.

10 For example, HUD's Housing Choice Voucher Data Dashboard shows budget and leasing trends, as well as financial information, for the program on a national scale and for individual PHAs. Available at: https://www.hud.gov/program_offices/public_indian_housing/programs/hcv/dashboard

11 Financial Stability Oversight Council Report on Nonbank Mortgage Servicing, 2024; available at: https://home.treasury.gov/system/files/261/FSOC-2024-Nonbank-Mortgage-Servicing-Report.pdf

12 In HECMs, the accrued interest is accumulated as part of the outstanding balance on the mortgage, decreasing the amount of mortgage proceeds available to the borrower.

13 https://www.hud.gov/fha

14 FHA Paid Claims for an Estimated 239,000 Properties That Servicers Did Not Foreclose Upon or Convey on Time, Oct. 14, 2016; available at: https://www.hudoig.gov/es/reports-publications/report/fha-paid-claims-estimated-239000-properties-servicers-did-not-foreclose

15 HUD Paid an Estimated $413 Million for Unnecessary Preforeclosure Claim Interest and Other Costs Due to Lender Servicing Delays, Sept. 27, 2018, available at: https://www.hudoig.gov/reports-publications/report/hud-paid-estimated-413-million-unnecessary-preforeclosure-claim

16 FHA Mortgagee Letter 2022-06, March 2022

17 U.S. Council of Chief Financial Officers, "Program Integrity: The Antifraud Playbook", available at: https://www.cfo.gov/wp-content/uploads/2018/10/Interactive-Treasury-Playbook.pdf

18 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.

19 OMB M-22-09 Federal Zero Trust Strategy

20 GAO report Disaster Recovery: Better Information Is Needed on the Progress of Block Grant Funds https://www.gao.gov/products/gao-23-105295, recommendation 1

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