U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

INSPECTOR GENERAL

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Memorandum

TO: Shaun Donovan, Secretary, S

FROM: David A. Montoya, Inspector General, G

SUBJECT: Management and Performance Challenges for Fiscal Year 2013 and Beyond

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is submitting its annual statement to you summarizing our current assessment of the most serious management and performance challenges facing the U.S. Department of Housing and Urban Development (HUD or Department) in fiscal year 2013. Through our audits, investigations, inspections, and evaluations, we work with departmental managers in recommending actions that best address these challenges. More details on our efforts in relation to these issues can be found in our Semiannual Reports to Congress.

The Department's primary mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD seeks to accomplish this mission through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. HUD relies upon many partners for the performance and integrity of a large number of diverse programs. Among these partners are cities that manage HUD's Community Development Block Grant funds, public housing agencies that manage assisted housing funds, HUD-approved lenders that originate and service FHA-insured loans, Government National Mortgage Association mortgage-backed security issuers that provide mortgage capital, and other Federal agencies with which HUD coordinates to accomplish its goals. HUD also has a substantial responsibility for administering disaster assistance programs. HUD is also administering new mortgage assistance and grant programs in response to the Nation's financial crisis, increase in foreclosures, and declining home values.

Achieving HUD's mission continues to be an ambitious challenge for its limited staff, given the agency's diverse programs, the thousands of intermediaries assisting the Department, and the millions of beneficiaries of its housing programs. The continuing national credit and financial crisis is having a profound impact on HUD. Proposed and new program changes have introduced new risks and enforcement challenges. HUD is also a key to the Nation's housing industry in that FHA-insured mortgages finance 15 percent of all home purchases in the United States. The attachment discusses these and other challenges facing HUD.

Attachment

HUD Management and Performance Challenges
Fiscal Year 2013 and Beyond

Single-family programs.

The Federal Housing Administration's (FHA) single-family mortgage insurance programs enable millions of first-time borrowers and minority, low-income, elderly, and other underserved households realize the benefits of homeownership. The U.S. Department of Housing and Urban Development (HUD or Department) manages a growing portfolio exceeding $1 trillion in single-family insured mortgages. Effective management of this portfolio represents a continuing challenge for the Department.

HUD has sustained significant losses in its single-family program and is taking on additional risk. The number of FHA mortgages has risen dramatically. The increased mortgage endorsement volume is accompanied by increases in defaults, claims, and loss mitigation. FHA's Mutual Mortgage Insurance (MMI) fund continues to not meet its statutory requirement for its reserves to be two percent or more of the amortized Single Family insurance-in-force. For the last two fiscal years FHA estimates it had about one-half of one percent in reserves. Preliminary indications are that at the end of fiscal year 2012, the MMI will have a similar estimate, despite FHA increasing mortgage insurance premiums, establishing minimum Fair Isaac Company (FICO) score standards, increasing the minimum down payment from 3 to 3.5 percent, reducing the amount of equity withdrawn on reverse mortgages, and modifying the role of former loan correspondents so they are responsible to direct lenders.

FHA plays a major role in supporting the housing market. The current degree of FHA predominance in the market is unparalleled. It is clear that the Department is committed to positioning FHA as rapidly as possible to deal with the changing dynamics. For the first time, FHA has imposed a minimum credit score to be eligible for FHA financing and set loan-to-value ceilings dependent on credit scoring. We have expressed concerns that the credit score threshold HUD uses is traditionally considered subprime territory in the conventional marketplace. HUD has also increased lenders' net worth requirements to a minimum of $1 million and ceased its approval of loan correspondents. Those entities, also referred to as sponsored third-party originators, must establish a sponsorship relationship with an FHA-approved mortgage lender to continue participating in FHA programs. FHA, in turn, intends to hold approved lenders responsible for ensuring that their third-party originators comply with FHA lending requirements.

By law, HUD has to pay the claim on a defaulted FHA-insured mortgage but can then go back to the lender that underwrote the loan to recover the losses incurred if it finds that the loan was ineligible for insurance. OIG has noted in past audits, HUD's unnecessary exposure when paying claims on loans that were not qualified for insurance. In addition, FHA has been slow to implement a rigorous claim review process and go back to the lenders to recover losses. This takes on even greater importance in light of the significant amount of claims projected to be filed by lenders in the coming months and HUD's current limited capacity for reviewing submitted claims. In the early part of 2011, the OIG, in partnership with HUD and U.S. Department of Justice (DOJ), initiated a number of mortgage lender reviews whereby, statistical samples were drawn of claims, defaults, and all other loans in order to determine the accuracy and due diligence of the underwriters of FHA loans by a number of the largest lenders nationwide. Our results to date have shown high percentages of loans reviewed with multiple significant deficiencies that should have not been underwritten. The reviews completed to date have resulted in a total of $926 million in civil settlements for alleged violations of False Claim Acts and failure to fully comply with FHA requirements on FHA loans.

Over the past several years, homeowners have experienced rapidly declining home values, loss home equity, and a sharp rise in home foreclosures. One of HUD's goals is to assist the mounting number of FHA borrowers at risk of losing their homes to foreclosure. The Department is committed to holding lenders and servicers accountable for actions that violate FHA requirements which subject the FHA fund to increased risk. Working closely with the Department and DOJ, OIG conducted a nationwide effort to review the foreclosure and claims process of the five largest FHA mortgage servicers. These reviews were performed as a result of reported allegations that national mortgage servicers were engaged in widespread questionable foreclosure practices involving the use of foreclosure "mills" and a practice known as "robosigning" of sworn documents in thousands of foreclosures throughout the United States.

During the period October 1, 2008, through September 30, 2010, the servicers collectively submitted 93,120 FHA insurance claims totaling more than $12.04 billion. Of the 93,120 claims, 34,357 conveyance claims totaling more than $4.1 billion were for foreclosed properties in 23 judicial foreclosure States and jurisdictions. DOJ used the OIG's reviews and analyses in negotiating a national mortgage settlement agreement with the servicers. On March 12, 2012, DOJ and the State attorneys general filed proposed consent judgments with the court to resolve violations of State and Federal law foreclosure requirements.

HUD also faces challenges in ensuring its programs benefit eligible participants and is not paying improper claims. In a recent review of FHA's Preforeclosure Sale Program, OIG identified that FHA did not always pay claims for only those preforeclosure transactions that met the criteria for participation in the program. This condition occurred because HUD did not have adequate controls to enforce the program requirements and requirements were not well written. As a result, the FHA insurance fund may have taken unnecessary losses while borrowers, who may otherwise have been able to sustain their obligations, were inappropriately relieved of their debt using FHA insurance fund reserves. FHA has agreed that existing program policy and lender execution against that policy is inconsistent. To improve alignment and ensure that the long term interest of the FHA Insurance Fund are met, FHA is working toward (1) introducing a streamline program approval policy based on loan characteristics and borrower credit profile, and (2) specifying income documentation requirements for the income deficit test that must be met for borrowers that do not meet the streamline requirements.

We remain concerned that increases in demand to the FHA program are having collateral implications for the integrity of the Government National Mortgage Association (Ginnie Mae) mortgage-backed securities (MBS) program including the potential for increases in fraud. HUD needs to consider the downstream risks to investors and financial institutions of Ginnie Mae's eventual securitization of a large portion of FHA's insured mortgages. Ginnie Mae securities are the only MBS to carry the full faith and credit guaranty of the United States. If an issuer fails to make the required pass-through payment of principal and interest to MBS investors, Ginnie Mae is required to assume responsibility for it. Typically, Ginnie Mae defaults the issuer and assumes control of the issuer's MBS pools. By the end of fiscal 2012, Ginnie Mae appears poised to exceed $ 1.3 trillion in issued government agency security guarantees. Among Ginnie Mae's key challenges is to enhance MBS issuer monitoring to effectively and timely assess the risk of the imminent default of a "top tier" (top ten ranked) lender. Historically, Ginnie Mae Issuer defaults have been infrequent involving small to moderate-size issuers. However, major unanticipated issuer defaults beginning in 2009 have led to a multi-billion dollar rise in nationwide mortgage servicing as well as the repurchase of multi-billion dollars of defaulted loans to meet their guarantees to MBS investors. In the near-term these changes have strained both operating and financial resources. With the approval of the Office of Management and Budget and the Congress, Ginnie Mae significantly increased their management capacity in fiscal year 2012. Nevertheless, Ginnie Mae continues to rely heavily on third-party contractors to perform almost all key operating functions.

Currently, another designated "top tier" lender and servicer is going through bankruptcy court supervision. Ginnie Mae is depending upon the apparent interest of both large investors as well as major financial investment by the U.S. Treasury in a corporate affiliate to achieve a successful outcome.

Oversight of American Recovery and Reinvestment Act funds.

Congress allocated $13.6 billion in funding to HUD programs under the American Recovery and Reinvestment Act of 2009. This allocation added significant funding to the Public Housing Capital Fund, Community Development Block Grants, the Neighborhood Stabilization Program, the Homelessness Prevention and Rapid Rehousing Program, and other HUD programs to modernize and "green" the public and assisted housing inventory, support the low-income housing tax credit market, stabilize neighborhoods hit by foreclosures, and prevent homelessness. Carrying out the goals of the Recovery Act, while dealing with increased mortgage activity and conducting normal operations, is a significant challenge for HUD.

In general, the Recovery Act directs HUD to ensure that the $13.6 billion is awarded and distributed in a prompt, fair, and reasonable manner; that the recipients' use of funds is transparent to the public; that the funds are used for only authorized activities; that recipients avoid unnecessary delays and cost overruns; and that program goals are achieved, including specific program outcomes and improved results on broader economic indicators. This oversight role is a challenge. Further, HUD must assist all of its recipients in reporting their use of funds on the Recovery Act Web site. HUD also has to ensure that the data the recipients report are accurate. This type of reporting is unprecedented.

During the last 4 fiscal years, we completed 212 audits and reviews of Recovery Act-related activities. These audits and reviews addressed the administrative capacity of selected Recovery Act grantees to meet their responsibility to properly administer these funds. We also assessed HUD's efforts to assess the risks associated with Recovery Act funding along with the Department's plans to mitigate those risks. Using risk assessments, we also identified grantees, performed audits of Recovery Act expenditures, and evaluated recipient reporting to ensure that the data the recipients report are accurate.

HUD will need to monitor Recovery Act participants until all funds are expended or rescinded and returned to the U.S. Treasury. The Pay It Back Act requires all funds that remain unobligated at December 31, 2012 be returned to the U.S. Treasury's general fund. As we near that deadline, we continue to monitor HUD's efforts to rescind, recapture and return funds. Past reviews of HUD and Recovery Act recipients revealed it remains a challenge to comply with this provision of the act in a timely manner. Our review last year found monitoring and oversight could be better documented in HUD's funds control plans. HUD has adopted our recommendation, however, HUD still struggles to identify and return all funds subject to the Pay It Back Act.

Human capital management.

For many years, one of the Department's major challenges has been to effectively manage its limited staff to accomplish its primary mission. HUD lacks a valid basis for assessing its human resource needs and allocating staff within program offices, as evidenced in OIG's September 2008 audit pertaining to HUD's management of human resources. More recently, we reported in January 2011 that HUD was making progress in addressing its hiring process and reduced the average cycle time for hiring employees by about 37 percent between 2008 and 2010. The Department was able to meet the staffing needs of its four Homeownership Centers within the confines of authorized staffing levels. Nevertheless, more needs to be done.

As noted in GAO's February 2011 High Risk series, the Federal Government has made substantial progress in addressing its human capital challenges. To address this challenge, HUD began a "Human Capital Transformation" initiative, which noted that the 2008 Federal Human Capital Survey ranked HUD 24th out of the 30 large agencies in the "Best Places to Work in the Federal Government" report. HUD ranked second from the bottom in 2011 after being tied for last in 2010. The Department contracted with the National Academy of Public Administration (NAPA) to consult on this problem. The Academy noted HUD did not engage in any short- or long-term planning to determine staffing needs. It noted the absence of a clear workforce planning strategy, which is impeding the Department's efforts to address its workforce needs in a strategic and organized manner.

NAPA recommended that the Department establish an intra-agency team of senior officials from the Chief Financial Officer, Chief Human Capital Officer, and administrative and budget officials from major program offices to assess the causes of its erratic resource management practices and develop a more timely and predictable staffing process. In addition, NAPA recommended that this team lay the groundwork for creating ongoing; agency wide workforce analysis and planning that is tied to HUD's strategic plan and enhances longer range capability to recruit and sustain a high quality workforce.

In response, HUD included a strategic goal in its Fiscal Year 2010 – 2015 Strategic Plan to transform the way HUD does business. This goal addresses HUD's history of being viewed by both its employees and external partners as lacking in its ability to provide the support needed to fully deliver on its mission. HUD has developed specific sub-goals to (1) build capacity, (2) focus on results, (3) reduce bureaucracy, and (4) change its culture.

The Secretary has committed much time and effort to address some of these areas as evidenced by his Town Hall meetings with staff to announce his Changemakers Campaign and Feedback Focus Days to look at ways to improve performance and culture. HUD will measure its progress on its sub-goals by its success in increasing satisfaction ratings from internal and external parties, increased delegation to field offices, reduced number of burdensome regulations and reports, and reduced end-to-end hiring time. HUD has also begun a workforce needs and allocation study to update its resource estimation and allocation process. The goal is to more effectively support the budget process and assess staffing needs.

Financial management systems.

Since fiscal year 1991, OIG has annually reported on the lack of an integrated financial management system, including the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems. During the past several years, HUD has made progress by partially implementing new core financial systems at FHA and Ginnie Mae and addressing most of the previous weaknesses that OIG identified. These improvements enabled OIG to reclassify the weakness in financial management system requirements from a material weakness to a significant deficiency.

The contract to modernize HUD's financial management systems, HUD Integrated Financial Management Improvement Project (HIFMIP), was awarded on September 23, 2010. The original scope of HIFMIP was to encompass all of HUD's financial systems, including those supporting FHA and Ginnie Mae. However, the inclusion of the FHA and Ginnie Mae portions has been put on hold as a result of review by Office Management and Budget (OMB). HIFMIP was launched in fiscal year 2003 and was to have begun implementation of HUD's core financial system in fiscal year 2006. With the award of the contract in September 2010, HUD anticipated implementation of phase one of the project in time to have all of the fiscal year 2012 financial data within the new system. However, this did not occur and we remain concerned about the successful execution and completion of HIFMIP.

In the summer of 2011, the HIFMIP contractor proposed changing the implementation date to May 2012. This new date was not formally approved. In March 2012, work on HIFMIP was stopped, and HUD began reevaluating its options for the project. Since March 2012, project sponsorship was transferred from the Office of the Chief Financial Officer (OCFO) to the Deputy Secretary. The Deputy Secretary and a working group comprised of the OCFO, Office of the Chief Information Officer, and the Office of the Chief Procurement Officer are reassessing HUD's options for HIFMIP. To date, HUD has spent more than $35 million on the HIFMIP but does not yet have an operational new core financial system. OMB has stopped funding this until HUD can provide a more detailed project management plan.

FHA's ability to respond to changes in the market and to its business processes is diminished by the shortcomings of the current information technology (IT) systems and the lack of systems capabilities and automation. HUD's 2010-2015 Strategic Plan and FHA established a goal to address the long-standing issue with major functional application systems that were designed decades ago with software products no longer supported by the software vendors. The FHA Information System Transformation was initiated to address this challenge. The objective was to integrate the individual application systems with Oracle PeopleSoft FHA Subsidiary Ledger implemented in 2003. However, FHA relies upon these applications to support major operational and financial functions such as (1) loan underwriting, (2) premium billing, (3) insurance endorsement recording, (4) claims payment processing, and (5) Real Estate Owned inventory and accounting, etc. The impetus for the Transformation Initiative was 2009-2010 rapid rises in FHA loan origination volume after the equally quick decline in the conventional subprime loan market in 2007 and 2008. FHA's national market share for loan origination rose from 5 percent to over 30 percent within less than two years.

FHA management identified application priorities. Lender application approval and annual recertification were the initial manual processes selected to convert to an automated system because of backlogs in processing new lender approvals. While the 2011 approval program has been designed and implemented, the recertification program remains to be developed and implemented. The next priority was to develop or implement an underwriting fraud detection or prevention tool into the Post Endorsement Technical Review process. To accomplish this a vendor was hired to manually review loan application and endorsement files to develop an algorithm for automated file selection for the review of high risk loans. At a September 2012 briefing, the IT Transformation team informed us the algorithm had been deployed to the Single Family Homeownership Centers however; the Transformation contractor was continuing to review files.

Overall, it appears that the lack of a funding commitment has reduced the FHA Information System Transformation project to just a continuation of high level planning without a defined timetable to complete the new application systems and to phase out and to deactivate the outdated systems in current usage. These delays bring about another IT concern: the ability to maintain the antiquated infrastructure on which some of the HUD and FHA applications reside while the transformation initiative is underway. Workloads have dramatically increased and are processing on systems that are 15 to 30 years old. These legacy systems must be maintained to effectively support the current market conditions and volume of workloads. However, the use of aging hardware and software can result in poor performance and high maintenance costs. If the IT infrastructure is not modernized in a timely manner, it will become increasingly difficult to maintain operations, make legislative system modifications, and maintain interfaces to other IT systems leaving the systems environment at risk.

As part of our annual IT security review mandated by the Federal Information Security Management Act, we found that HUD had made progress on improving its information security environment. The agency had an effective incident response and reporting program. Also, HUD maintained oversight of contractor systems and had a plan of action and milestones system that effectively tracked weaknesses. However, although HUD continued to make improvements to its security program, challenges remained. HUD did not (1) fully develop a compliant remote access management program, (2) consistently implement contingency planning policies and procedures, (3) establish a continuous monitoring program, (4) address risks based on the organization's goals and mission, and (5) have adequate policies and procedures that fully integrate capital planning and IT security processes.

As part of our annual review of information systems controls in support of the financial statements audit, we continue to report weaknesses in internal controls and security regarding HUD's general data processing operations and specific applications. The effect of these weaknesses is that HUD cannot be reasonably assured that system information will remain confidential, safeguarded, and available to those who need it without interruption. For instance, HUD did not ensure that (1) its financial management systems plan fully complied with the requirements of OMB Circular A-127; (2) application controls for a financial system were operating effectively; (3) controls over file management, personnel security, and physical security at the data center were effectively implemented; and (4) procedures for managing the configurations of systems in HUD's computing environment were followed. As a result, HUD's financial systems continue to be at risk of compromise.

Home Program.

The HOME program is the largest federal block grant to state and local governments, designed to create affordable housing for low-income households. Because HOME is a formula based grant, funds are awarded to the participating jurisdictions noncompetitively on an annual basis. The formula is based, in part, on factors including age of units, substandard occupied units, number of families below the poverty rate, and population in accordance with Census data.

HOME addresses an important need for affordable housing in our country, a need that is increasing in the wake of the economic downturn and high unemployment. However, HUD faces challenges over the controls, monitoring and information systems related to the HOME program.

Last year, OIG testified twice on oversight and fraud issues relating to the HOME program. Our audit work at the grantee level commonly found the lack of adequate controls. This included issues in subgrantee activities, resale and recapture provisions to enforce HUD's affordability requirements, incorrectly reporting program accomplishments, and incurring ineligible expenses. There is also a repetitive thread of not always meeting the objectives of the program to provide affordable housing or not always meeting local building code requirements. HUD focuses its monitoring activities at the grantee level through its field offices. Grantees, in turn, are responsible for monitoring their subgrantees. Our audits have found that, in some instances, little or no monitoring is occurring, particularly at the subgrantee level.

Another challenge we have is with HUD's Integrated Disbursement & Information System (IDIS), the system used to accumulate and provide data to monitor compliance with HOME requirements for committing and expending funds. HUD also uses IDIS to generate reports used within and outside HUD, including by the public, participating jurisdictions and the Congress. We believe that with a more robust, up-to-date information system, HUD would be able to better monitor the HOME program in a more timely and transparent way.

Our work in this program continues and we have been working with the Senate Appropriations Committee staff to help the Department strengthen controls. To its credit, HUD has proposed new rules which should strengthen HUD's future enforcement authority. The Department has taken steps to improve HOME program management and OIG continues with its oversight work in this area.

Public and assisted housing program administration.

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofit and for profit) and public housing agencies (PHAs). These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. The Office of Public and Indian Housing (PIH) and the Office of Multifamily Housing provide funding for rent subsidies through its public housing operating subsidies, the tenant-based Section 8 housing choice voucher tenant based and the Section 8 multifamily project based programs. These programs are administered by more than 4,058 intermediaries and provide affordable housing for 1.1 million households through the low-rent operating subsidy public housing program, 2.3 million households through the Housing Choice Voucher program and 1.1 million through the multifamily project based program.

HUD has a challenge in monitoring the Housing Choice Voucher program. The program is electronically monitored through PHA's self assessments and other self reported information collected in PIH's systems. Based on recent audits and HUD's on-site confirmatory reviews, it is clear the self assessments are not always accurate and there remains some question as to the reliability of the information contained in PIH systems. PIH management should be able to address these limitations with the Next Generation Management System, which is under development, and the Portfolio Management Tool, which is currently being implemented. Until the two systems are completely implemented, HUD will continue to face challenges monitoring this program.

HUD has made improvements in the area of erroneous payments, but more improvement is needed. Last year, we noted that the projected error rate in HUD's Agency Report did not comply with OMB requirements. HUD combined the projected dollar of gross improper payment from programs tested with other program components that were not tested, and consequently diluted the total gross error rate reported by a half percent. HUD agreed to review their methodology and to exclude amounts not tested from the calculations. HUD must ensure the improper payment error rate complies with valid statistical methodologies. To continue its efforts in the improvement, the following enhancements are needed (1) adequate disclosures of administrative errors made by intermediaries in performance reports; (2) improvement of methodology documentation; and (3) enhanced oversight of controls over monitoring of improper payments.

Additionally, HUD has not yet developed plans to perform audits on contracts exceeding $1 million dollars as required by the Improper Payments Elimination Recovery Act. According to the 2012 Accountable Official Report, HUD will develop a process to recover identified improper payments from PHAs and refer potential fraud cases to HUD-OIG. Lastly, HUD's Office of Multifamily Housing is developing system improvements that are also expected to make improvements in evaluating intermediaries' performance for eliminating improper payments.

HUD's monitoring and oversight of PHAs participating in the Moving to Work demonstration program (MTW) is particularly challenging. The MTW program provides PHAs the opportunity to design and test innovative, locally designed strategies that are designed to use Federal dollars more efficiently, help residents become self-sufficient, and increase housing choices for low-income families. Additionally, the MTW program gives PHAs exemptions from many existing public housing rules and more flexibility with how they use their Federal funds. Monitoring and oversight is complicated in that each PHA has a different MTW plan.

While participating PHAs report annually on their performance, a recent Government Accountability Office (GAO) report found that MTW guidance does not specify that PHA MTW plans provide that performance be quantifiable and outcome oriented. By not identifying the performance data needed to assess the results of the PHA's MTW program, HUD is unable to effectively evaluate the program. Additionally, HUD has not developed a systematic way to identify lessons learned to get the benefit intended from the MTW program. HUD has indicated that it intends to expand the number of MTW participants and believes that with additional participants they will be able to demonstrate the positive impacts of the program. However, we believe HUD first needs to develop a methodology to assess MTW program performance and evaluate the results prior to making a decision on expanding the number of MTW participants. In fiscal year 2012 OIG has reported significant departures from the MTW agreement by some of the participating PHAs. HUD needs to quantify a formal process for terminating participants from the demonstration program for failure to comply with their agreement.

Administering programs directed toward victims of natural disasters.

Over the past decade, HUD has developed an allocation process which focuses on unmet disaster recovery needs. The distribution of HUD's Community Development Block Grant Disaster Recovery (CDBG-DR) funds to meet community's needs is different from disaster recovery funds provided by other federal and state agencies. CDBG-DR funding supplements the Federal Government's standard recovery assistance programs administered by the Federal Emergency Management Agency, the Small Business Administration, and the United States Army Corps of Engineers. CDBG-DR funds must supplement, not replace, other sources of federal disaster recovery assistance.

As a result, the Department faces a significant management challenge in monitoring disaster program funds provided to various States, cities, and local governments under its purview. This challenge is particularly pressing for HUD because of limited resources to perform the oversight, the broad nature of HUD projects, the length of time needed to complete some of these projects, the ability to waive certain HUD program requirements, and the lack of understanding of CDBG-DR grants by the recipients. HUD must ensure that the grantees complete their projects in a timely manner and ensure the use of funds for intended purposes. Since HUD disaster assistance may fund a variety of recovery activities, HUD can help communities and neighborhoods that otherwise might not recover due to limited resources. However, oversight of these projects is made more difficult based on the broad nature of HUD projects and due to the fact that some construction projects may take between 5 and 10 years to complete. HUD must be diligent in its oversight duties to ensure that grantees have identified project timelines and are keeping up with them. HUD also must ensure that grantee goals are being met and that expectations are achieved.

In response to disasters, HUD provides grants to help cities, counties, and States recover from Presidentially-declared disasters. Unlike the CDBG grants awarded annually, CDBG-DR funds are appropriated by Congress only in extraordinary circumstances that have resulted in significant unmet needs for long-term recovery. In addition to any requirements cited in the appropriations statute, the traditional CDBG regulations in 24 CFR 570 applies to CDBG-DR funds. However CDBG-DR appropriations generally grant the Secretary broad authority to issue waivers and alternative requirements, which are identified in a Federal Register Notice issued by HUD shortly following the announcement of allocations. These communities must have significant unmet recovery needs and the capacity to carry out a disaster recovery program.

Keeping up with communities in the recovery process can be a challenging position for HUD. HUD CDBG-DR funding over the past several years has exceeded $29 billion. These active disaster grants nationwide have approximately $26 billion in obligations and $20 billion in disbursements. Although many years have passed since some of the specific disasters have occurred, significant disaster funds remain unexpended. HUD must continue to maintain its oversight efforts to ensure that funds are expended as intended.