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Committee on Financial Services
Subcommittee on Oversight and
Investigations

Reforming the Community Development Block Grant-Disaster Recovery Program

Testimony of
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Chairman Wagner, Vice Chairman Tipton, Ranking Member Green, and Members of the Subcommittee, I am Helen M. Albert, Acting Inspector General of the U.S. Department of Housing and Urban Development (HUD). Thank you for the opportunity to highlight our perspectives on HUD's oversight of disaster assistance funding, particularly in light of the unprecedented challenges faced by this Nation to respond to the destructive hurricanes and fires that recently hit the United States. The United States has never been hit by multiple hurricanes as strong as Harvey in Texas; Irma in Florida, Georgia, South Carolina, and the U.S. Virgin Islands; Maria in Puerto Rico and the Virgin Islands; and Hurricane Nate along the coast of Mississippi in the same season in modern times. These storms have been followed by devastating wildfires in northern and southern California, which have also, like the storms, caused extensive destruction and loss of human life.

Almost immediately after Hurricane Harvey, our Office of Inspector General (OIG) staff helped to locate unaccounted for HUD employees in the affected areas, as well as providing search and rescue and first responder assistance. In one case, special agents in the Houston area used boats to rescue people stranded in their homes by flood waters (one rescuing nearly 70 individuals over 3 days). Others came in from Baton Rouge to work midnight shifts in Pasadena to feed local law enforcement responders. In another example, under the Stafford Act (Emergency Support Function 13, Public Safety and Security), a team of our special agents went to Florida to assist in providing force protection for a Disaster Medical Assistance unit, being the first Federal law enforcement Quick Response Team into the Keys to assist with medical missions.

Between Hurricanes Irma and Maria, our special agents in Puerto Rico flew by military helicopter to the Virgin Islands to assess the destroyed public housing. In Puerto Rico, our agents located HUD staff disbursed after the storm and then escorted other HUD employees as they together delivered food, water, and supplies to staff so it could be operational. Other agents, accompanied by the Federal Bureau of Investigation and local Puerto Rican law enforcement, provided security for trucks and delivered provisions to the elderly and disabled and also assessed senior housing and nursing homes for the Department. We have also provided transportation and protection to HUD officials as they conducted initial damage assessments. Currently, our auditors and agents are quickly assessing the capacity of the Puerto Rican entities that will likely receive billions of dollars in Federal assistance shortly. We are also working on capacity reviews for other areas that will be receiving disaster recovery funding. I could not be more proud of the work our OIG staff has done in these disaster-affected areas.

As just one example of exposure to the hurricane devastation, an estimated 213,000 Federal Housing Administration (FHA)-insured single-family homes in the area affected by Hurricane Harvey lacked flood insurance, although not all were damaged. A media report puts the number of homes damaged or destroyed by Hurricane Harvey at 185,000, with at least 80 percent of those lacking flood insurance. All of the islands of Puerto Rico and the U.S. Virgin Islands and the States of Florida, Georgia, South Carolina, Mississippi, Texas, and California are in the process of fully assessing the massive destruction from the hurricanes and wildfires and the recovery efforts that will be needed there. The amount of HUD funding ultimately needed to assist with recovery for these most recent disasters will be enormous. HUD's efforts to provide assistance to affected families and communities after the storms and wildfires will be essential to that recovery. Indeed, if you look to the last big hurricane, Sandy, HUD was number one in terms of total funds disbursed. The Department will continue to have challenges for years to come in helping communities in their long-term recovery process.

Background

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. HUD also has responsibility for administering disaster assistance programs, a role that has expanded substantially over the years. Congress has provided supplemental appropriations through HUD's Community Development Block Grant (CDBG) program to help communities recover from both natural and man-made disasters. The CDBG program is flexible and allows CDBG Disaster Recovery (CDBG-DR) grants to address a wide range of challenges. Since 2001 (through 2016), Congress has appropriated more than $47 billion in supplemental funding to HUD to address long-term recovery in the wake of a wide range of disasters, including the terrorist attacks of September 11, 2001; Hurricanes Katrina, Rita, and Wilma in 2005; Hurricanes Ike and Gustav and Midwest flooding in 2008; Hurricane Sandy in 2012; and Hurricane Matthew in 2016. We note that 5 years after Hurricane Sandy, approximately 50 percent of the recovery funds have not yet been spent. From 1993 through 1999, HUD disaster funding totaled less than $1.7 billion. Historically, CDBG-DR funding was appropriated as "no year" funding and is available until spent with no time limit. This changed with Hurricane Sandy funding, which had to be obligated by the end of fiscal year 2017. However, funding for subsequent years' disasters was again appropriated as "no year" funding.

Management Challenges Faced by HUD in Administering Its Disaster Program

The Department faces significant challenges in monitoring disaster program funds provided to various grantees, including States, cities, and local governments under its purview. This challenge is particularly pressing for HUD because of the limited resources to directly perform oversight, the broad nature of HUD projects, the length of time needed to complete some of these projects, the ability of the Department to waive certain program requirements, and the lack of understanding of disaster assistance grants by the grantees. HUD must ensure that the grantees complete their projects in a timely manner and that they use the funds for their 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 due to the diverse nature of HUD projects and the fact that some construction projects may take between 5 and 10 years to complete. HUD must be diligent in its oversight 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.

HUD OIG has had extensive audit and investigative experience with the Department's CDBG-DR program, most notably with grants relating to recovery after Hurricane Sandy in 2012, Hurricane Katrina in 2005, and the terrorist attacks of September 11, 2001. Over the years, HUD has gained more experience and made progress in assisting communities recovering from disasters, but it continues to face the following challenges in administering these grants:

- Ensuring that expenditures are eligible and supported.
- Certifying that grantees are following Federal procurement regulations.
- Addressing concerns that citizens encounter when seeking disaster assistance.
- Conducting consistent and sufficient monitoring efforts on disaster grants.

OIG has completed 38 audits and 4 evaluations as well as extensive investigation-related actions relating to CDBG-DR funding for Hurricane Sandy and other eligible events occurring in calendar years 2011, 2012, and 2013. We have identified $119.6 million in ineligible or unnecessary costs, $465 million in unsupported costs, and $5.3 billion in funds put to better use. A number of other audits and evaluations, as well as investigative work, are currently underway. Before Hurricane Sandy, as mentioned above, OIG had extensive audit and investigative experience with the CDBG-DR program, most notably with grants relating to recovery after Hurricane Katrina, Hurricanes Ike and Gustav, and the terrorist attacks of September 11, 2001. While over the years, HUD has gained more experience and made progress in assisting communities recovering from disasters, it continues to face challenges in administering these grants.

Ensuring That Expenditures Are Eligible and Supported

HUD faces a significant management challenge to ensure that funds disbursed for disaster recovery programs are used for eligible and supported items. We have highlighted several of our reports that illustrate these challenges for HUD in administering disaster recovery programs.

- In our review of St. Tammany Parish's (Louisiana) Disaster Recovery grant program,[1] we determined that the Parish did not (1) support that it performed an independent cost estimate and adequate cost analyses or maintained complete procurement files; (2) maintain a complete monitoring policy and finalize and fully implement its policy to aid in detecting fraud, waste, and abuse or have an internal audit function; or (3) include all required information on its public website. As a result of these systemic deficiencies, the Parish could not provide reasonable assurance to HUD that it would properly administer, adequately safeguard, and spend its remaining $8.67 million allocated for CDBG DR funding in accordance with requirements and paid more than $400,000 in questioned costs.

- In our report on the City of Springfield, MA's management of its CDBG-DR grants,[2] we found that the City did not always properly procure vendors in accordance with Federal requirements and some payments to vendors were not adequately supported. The City also did not always properly document the duplication of benefits review in accordance with Federal requirements and City

[1] Audit Report 2017-FW-1004, St. Tammany Parish, Mandeville LA, Did Not Always Administer Its CDBG Disaster Recovery Grant in Accordance With HUD Requirements or as Certified, April 6, 2017
[2] Audit Report 2017-BO-1002, The City of Springfield, MA, Needs To Improve Its Compliance With Federal Regulations for Its Community Development Block Grant Disaster Recovery Assistance Grant, October 17, 2016

policies. As a result, HUD lacked assurance that $1.9 million in CDBG-DR funds was provided for supported, necessary, and reasonable costs.

- In our review of the City of New York's Build it Back Single Family program,[3] we determined that City officials did not establish adequate controls to ensure that CDBG-DR funds were disbursed in accordance with the HUD-approved action plan and to ensure compliance with HUD's Lead Safe Housing Rule requirements. As a result, the City could not ensure that all eligible homeowners received fair and equitable treatment, and it did not show that more than $1 million disbursed was for lead-safe homes.

- In our review of the State of Connecticut's management of its Sandy CDBG-DR grants,[4] we found that the State did not always comply with the requirements for its owner-occupied rehabilitation and reimbursement programs. Specific issues included that procurements were not always executed in accordance with HUD requirements, environmental reviews were not completed in accordance with requirements, and the State did not always support the low- and moderate-income national objective. As a result, more than $2.4 million in CDBG-DR funds was ineligible, and more than $13.5 million was unsupported.

We attributed these conditions to the grantees' weaknesses in maintaining supporting documentation, unfamiliarity with HUD rules and regulations, inadequate controls over its rehabilitation and reimbursement program, noncompliance with existing policies and procedures, and failure to follow State and Federal procurement regulations.

Certifying That Disaster Grantees Are Following Federal Procurement Regulations

We continue to have concerns about HUD's ability to ensure that disaster grantees are following Federal procurement regulations. Under Public Law 113-2, grant recipients of HUD CDBG-DR funds must provide a copy of their procurement standards and indicate the sections of their procurement standards that incorporate the Federal standards. States and their subgrantees may follow their own State and local laws, so long as their standards are "equivalent" to the applicable Federal law and standards. Further, a State is required to establish requirements for procurement policies and procedures based on full and open competition. In addition, all subgrantees of a State are subject to the procurement policies and procedures required by the State, so long as the procurements conform to applicable Federal laws and standards.

Our audits of disaster programs funded under Public Law 113-2 found CDBG procurement violations and other contracting problems. We issued 15 audit reports on disaster grantees with questioned costs totaling more than $391.6 million related to procurement. Ten of the reports and more than $371 million of the more than $391.6

[3] Audit Report 2017-NY-1001, The City of New York, NY, Implemented Policies That Did Not Always Ensure That Community Development Block Grant Disaster Recovery Funds Were Disbursed in Accordance With Its Action Plan and Federal Requirements, November 2, 2016
[4] Audit Report 2017-BO-1001, The State of Connecticut, Community Development Block Grant Disaster Recovery Assistance Funds, October 12, 2016

million involved State grantees. For example, in our audit of the State of New Jersey's CDBG-DR-funded Sandy Integrated Recovery Operations and Management System,[5] we found that the State did not procure services and products for its disaster management system in accordance with the Federal procurement requirements in 24 CFR (Code of Federal Regulations) 85.36 (b) through (i). Specifically, the State (1) had not prepared an independent cost estimate and analysis before awarding the system contract to the only responsive bidder, (2) did not ensure that option years were awarded competitively, (3) included provisions in its request for quotation that restricted competition, and (4) did not ensure that software was purchased competitively. The State did not adopt the Federal procurement standards but certified that its standards were equivalent to the Federal procurement standards. OIG concluded that the State's certification to HUD that it had proficient procurement processes was inaccurate. HUD disagreed. To resolve the recommendations from this audit, on January 10, 2017, 1 day before her departure, HUD's then Deputy Secretary issued a memorandum stating that a State grantee that followed its procurement policy was not required to follow the Federal requirements.

In another audit of HUD's controls over its certifications of State disaster recovery grantee procurement processes,[6] we found that HUD did not always provide accurate and supported certifications of State disaster grantee procurement processes. Specifically, HUD (1) allowed conflicting information on its certification checklists, (2) did not ensure that required supporting documentation was included with the certification checklists, and (3) did not adequately evaluate the supporting documentation submitted by the grantees. As a result, HUD did not have assurance that State grantees had proficient procurement processes in place, and the Secretary's certifications did not meet the intent of the Disaster Relief Appropriations Act of 2013. HUD again disagreed with the recommendations in this audit. It stated that our disagreement regarding the definition of a proficient procurement process as it related to State disaster grantees and the meaning of "equivalent" as it related to a State's procurement policies and procedures being "equivalent to" or "aligned with" the Federal procurement standards was closed by the former Deputy Secretary in her January 10, 2017, decision regarding the New Jersey audit. Based on that decision, HUD believed it was appropriate to close all of the recommendations. We disagreed and referred these recommendations to the then Acting Deputy Secretary on March 31, 2017.

Although our audit reports have continued to identify a number of significant procurement issues, HUD has failed to make the substantive changes necessary to address the concerns. In fact, while HUD has revised the procurement requirements for State grantees, these revisions simply endorsed what the State grantees were already doing. For example, under Public Law 113-2, HUD considered that State grantees had a proficient procurement process in place if the State's procurement standards were equivalent to the Federal procurement standards. However, in June 2016, under Public Law 114-113, HUD considered that State grantees had a proficient procurement process

[5] Audit Report 2015-PH-1003, The State of New Jersey, Trenton, NJ, Community Development Block Grant Disaster Recovery-Funded Sandy Integrated Recovery Operations and Management System, June 4, 2015
[6] Audit Report 2016-PH-0005, HUD Certifications of State Disaster Grantee Procurement Processes, September 29, 2016

in place if the effect of the State’s procurement standards was equivalent to the effect of the Federal procurement standards, meaning that the standards operate in a manner providing fair and open competition. Later, in November 2016 and January 2017, under Public Laws 114-223 and 114-245, respectively, HUD considered that State grantees had a proficient procurement process in place if the effect of the State’s procurement standards was equivalent to the effect of the Federal procurement standards, meaning that the standards, while not identical, operate in a manner that provides for full and open competition. OIG disagrees with the lower procurement standards and will continue to perform audits in this area due to the concerns that we and the Inspector General community have in this particular area. OIG believes that Federal procurement is more than ensuring full and open competition. It also involves the acquisition of products and services at fair and reasonable prices.

Addressing Concerns That Citizens Encounter When Seeking Disaster Assistance

In response to a request from HUD, we identified the path and process citizens, homeowners, and businesses navigate to obtain disaster recovery assistance and the challenges and barriers they may encounter. Citizens may encounter a variety of challenges throughout the disaster assistance navigation process. These challenges include potential duplication of benefits, slow disbursement of disaster-related funding, and delays in funding for low- and moderate-income citizens. Based on our evaluation,[7] we identified the following challenges citizens may encounter while obtaining such assistance:

- Duplication of benefits is an inherent risk to disaster recovery funding across the government. Benefits from multiple sources of Federal aid can result in citizens’ receiving funds that exceed the need for a particular recovery purpose. In these cases, citizens are responsible for repaying any duplicate benefits, which can be a burden to the citizen. A 2016 Congressional Research Service report noted duplication between the Small Business Administration (SBA) Disaster Loan Program and the CDBG-DR grant program. Another issue is that SBA disaster loans are dispersed more quickly than financial assistance from a CDBG-DR grant. As a result, it is possible for some homeowners to receive an SBA disaster loan, which would make them ineligible for a CDBG-DR grant. Therefore, homeowners who sought assistance early on are, in effect, disadvantaged because SBA loans must be repaid, while CDBG-DR grants do not have a repayment requirement.

- In some cases, the slow disbursement of funding created significant problems for citizens navigating the recovery process. For example, in October 2016, the State of New Jersey’s legislative committee held a hearing in which several citizens identified problems they encountered navigating the application process at both the Federal and State levels. Almost 4 years after Hurricane Sandy, citizens complained of difficulties in rebuilding their homes while fighting foreclosure actions, being short-changed by contractors, and receiving little or no help from

[7] Evaluation Report 2017-OE-0002S, Navigating the Disaster Assistance Process, April 10, 2017

the State or Federal agencies disbursing funds to help them recover from the storm.

- CBDG-DR spending rates, as well as how funds were disbursed, varied significantly from State to State, creating inconsistencies in recovery efforts. In general, at least half of CDBG-DR funding must benefit low- and moderate-income (LMI) individuals and areas. HUD OIG identified instances in which a significant portion of CDBG-DR funding was not provided to LMI individuals and areas. For example, in 2016, HUD OIG issued a report on the State of Connecticut's CDBG-DR funding for Hurricane Sandy, which found that the State did not always support the LMI national objective. Such instances put low-income citizens at risk of not being able to return to a permanent home.

Conducting Consistent and Sufficient Monitoring Efforts on Disaster Grants

Another area of concern is HUD's ability to properly monitor all disaster grant recipients. Based on our fiscal year 2015 financial statement audit, we communicated to HUD that it did not always monitor disaster grants in accordance with its policies and procedures. Specifically, monitoring reports were not issued in a timely manner, and followup on monitoring findings was not performed consistently or promptly. Because of limited resources, HUD faces difficulties in performing the oversight of an aggressive monitoring schedule for Hurricane Sandy grantees. The inconsistent nature of the disaster recovery programs and HUD's intense workload continued to beset its efforts to mitigate its challenges and conduct its work in a timely manner. Since HUD disaster assistance may fund a variety of recovery activities, HUD can help communities and neighborhoods that otherwise might not recover. However, HUD must be diligent in its oversight duties to ensure that grantees have completed their projects efficiently and used the funds for their intended purposes. Untimely resolution of grantee performance and financial management issues increases the programs' susceptibility to instances of fraud, waste, abuse, and mismanagement of funds.

Lessons Learned From HUD OIG Oversight

In March 2013, we issued a comprehensive audit assessing the disaster recovery programs for hurricanes that hit the Gulf Coast States from August 2005 through September 2008.[8] Our objectives were to (1) determine what had been accomplished using the funding and the funds remaining to be spent; (2) compare actual versus projected performance; and (3) identify best practices, issues, and lessons to be learned.

The Gulf Coast States had made progress in recovering from the presidentially declared disasters as a result of several hurricanes. As of August 2012, the States had spent more than 87.5 percent of the available Katrina, Rita, and Wilma funds and 27.2 percent of the available Gustav and Ike funds. Thus, States had received almost $24 billion and disbursed almost $18.4 billion, resulting in about $5.6 billion remaining to be spent. Further, of the total $24 billion, the States had not budgeted about $1.4 billion to specific programs or activities several years after receiving the

[8] Audit Report 2013-FW-0001, Generally, HUD's Hurricane Disaster Recovery Program Assisted the Gulf Coast States' Recovery; However, Some Program Improvements Are Needed, March 28, 2013

funds, making the need for those funds questionable. Some of the delay in budgeting funds could have been attributed to the States' revising their programs, State delays encountered due to lawsuits, or HUD's rejection of a State's action plan. The States used the funding primarily to assist communities in repairing and rebuilding housing, compensating homeowners, repairing infrastructure damage, and providing economic development. The States could improve on reporting their activities, as some of their activities had no or nominal progress reported because they did not generally report their progress until the projects were complete. In addition, while the States generally met the various statutory mandates, at the time of the audit, Texas and Louisiana had not yet met two mandates relating to (1) repairing, rehabilitating, and reconstructing affordable rental housing stock and (2) benefiting low- and moderate-income persons.

Although the States had made progress, based on our prior audits and a review of the program's data, there have been some lessons to be learned regarding deadlines, program guidance, information system technology acquisitions, procurements, and homeowners' insurance. While HUD was receptive to many of our recommendations and has made some changes, we continue to have concerns, most notably with the ability of grantees to spend funds in a timely manner. More than 4 years have passed since our report, and significant funds from these disasters remain unspent ($494.5 million in Katrina, Rita, and Wilma funds and $852.3 million of the available Gustav and Ike funds). Moreover, more than 10 percent, or $364 million, of HUD funding relating to the terrorist attacks of September 11, 2001, remains unspent 16 years after that disaster. While placing a time limit on the Hurricane Sandy funding, HUD intends to grant extensions that will extend the expenditure deadline to the end of fiscal year 2022.

Fraud Schemes Encountered by HUD OIG's Investigative Efforts Relating to Hurricanes Katrina and Sandy

In addition to our audits and evaluations as highlighted above, our office has devoted considerable resources to investigate criminal activity that ultimately occurs following disasters and the expenditure of funds. Following Hurricanes Katrina and Sandy, Congress recognized the need for dedicated oversight and investigative resources targeting HUD's postdisaster and reconstruction efforts. OIG investigations identified unscrupulous contractors and individuals preying on a public that was eager to rebuild, only to be taken advantage of and further traumatized. Other investigations show homeowners and landlords involved in problematic activities. The following is a compilation of the most prevalent fraud schemes identified by OIG criminal investigators during these two catastrophic events:

- Restoration contractors defrauding the public by not completing the work they were contracted to accomplish.
- Unscrupulous contractors defrauding homeowners out of disaster assistance targeted for rebuilding, resulting in the homeowners being victimized twice.
- Public corruption connected to State and local officials and contractors performing work.
- Homeowners fraudulently identifying vacation homes or investment properties as their primary residence and receiving individual disaster grants.
- Homeowners falsely reporting damage to properties that did not sustain damage and receiving individual disaster grants.

- Landlords collecting dual payments from HUD- and Federal Emergency Management Agency (FEMA)-subsidized rental assistance programs.
- Sale of the property before the receipt of the homeowner assistance grant.

Collaboration With Other OIGs

In view of the significance of funding to multiple agencies to address Hurricane Sandy, HUD OIG led a joint cross-cutting review with seven other OIGs[9] to assess participating Federal entities' funding, expenditures, and monitoring. Our objective was to identify common concerns and make recommendations to improve oversight, enhance collaboration, and report on best practices.

The Disaster Relief Appropriations Act, 2013, allocated $50.5 billion to 19 Federal agencies to aid in the recovery from Hurricane Sandy and other disasters. Of the 19 agencies, 8 OIGs participated in the Council of the Inspectors General on Integrity and Efficiency (CIGIE) cross-cutting disaster relief review. Congress allocated $46.5 billion of the $50.5 billion to these eight agencies.

We found that the eight agencies had made progress in budgeting, obligating, and spending their allocated funds. However, the agencies' progress varied as they had spent only $15 billion, as of the time of the review, of the $46.5 billion allocated. In addition, seven of the eight agencies requested and received waivers from the Office of Management and Budget for significant amounts of their funding, which extended their expenditure deadlines. The eight OIGs and agencies monitored their disaster relief funds and activities, but the extent and type of monitoring varied. The review also identified observations and common concerns regarding contracting issues, the significant risk of duplicate assistance, and OIG oversight funding. Further, the review made suggestions for and noted best practices concerning the need to increase coordination, data matching, and the use of analytical tools.

We recommended that CIGIE and the OIGs work with Congress and the agencies to ensure that the remaining funds are budgeted, obligated, and spent in a timely manner. We also recommended that CIGIE work with the agencies and Congress to ensure that the agencies, grantees, and contractors comply with Federal contracting requirements; the various OIGs continue to collaborate to identify and address areas of potential duplication; CIGIE and the OIGs work with Congress to ensure that each OIG receives oversight funding separate from its agency for future disaster relief allocations; and the OIGs' oversight funding does not expire before the agencies and their grantees spent all of their funds.

HUD OIG is partnering in two organizations with CIGIE as it reactivates the Disaster Assistance Working Group (DAWG). The DAWG is chaired by the U.S. Department of Homeland Security Inspector General, who has asked HUD OIG to chair the Investigations and Audit subcommittee groups. This working group, initially established after Hurricane Katrina, serves to coordinate

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[9] In addition to HUD OIG, OIGs from the following agencies are participating: U.S. Department of Homeland Security, U.S. Department of Health and Human Services, U.S. Department of Defense, U.S. Department of the Interior, U.S. Department of Transportation, Small Business Administration, and Environmental Protection Agency. Audit Report 2016-FW-1007, Disaster Relief Appropriations Act 2013, Financial Status, Observations and Concerns, September 12, 2016

and deconflict Inspector General audit, inspection, and investigative activities. Membership is composed of all those Inspectors General whose agencies will be involved in the response and recovery efforts. Given the size, magnitude, and geographical impact of Harvey, Irma, and Maria, coordination with Federal, State, local, and tribal audit activities will be critical in order to provide a broad, yet comprehensive, examination of all phases of response to these storms. The working group will give a forum to provide joint coordination of Inspectors General activities involved with the response and recovery work. It will also enable all OIGs to jointly develop strategies, coordinate efforts, and speak with a unified voice to our stakeholders.

The National Center for Disaster Fraud (NCDF) is the national coordinating body that has responsibility for the intake of disaster fraud complaints and seeks to improve and further the detection, prevention, investigation, and prosecution of fraud related to natural and man-made disasters and to advocate for the victims of such fraud. The NCDF, located in Baton Rouge, LA, reports to the Criminal Division within the U.S. Department of Justice and has been identified by the Deputy Attorney General as the entity and mechanism for receiving disaster-related allegations and complaints. HUD OIG has been involved with this group since its inception following Hurricane Katrina. HUD OIG has opted to have the NCDF refer possible cases involving HUD fraud to our HUD OIG hotline. The hotline will then be responsible for disseminating those referrals to the respective OIG components for further analysis and investigation.

Duplicate Assistance

Federal law requires that no person receiving Federal financial assistance receive funds for any part of a loss already paid for by insurance or any other source. FEMA regulations require Federal agencies to cooperate to prevent and rectify duplication of benefits. HUD's disaster recovery grants follow FEMA and SBA programs in the designated sequence of Federal disaster assistance. For example, if a homeowner takes out an SBA loan to rebuild after a disaster, that person cannot also receive a disaster recovery grant from HUD.

HUD OIG is now better positioned to assist the Department in looking for instances of duplicate disaster payments with the enactment of the Inspector General Empowerment Act. That recently passed legislation allows Federal OIGs to conduct data matching more quickly and with fewer restrictions to identify improper payments. OIG offers the following observations and recommendations, which can help HUD avoid duplication of benefits:

- HUD should develop guidance that helps the public understand its options for assistance between HUD grants and SBA loans and how to comply with Federal requirements.
- HUD needs to enhance its coordination with other agencies, such as FEMA and SBA, to avoid duplicating assistance.
- HUD should collect information on applicants for disaster recovery grants from grantees so it can check for duplication of assistance and fraudulent activities.
- HUD needs to ensure that its Disaster Information System can identify when duplicate assistance or ineligible assistance has been given, but HUD should be proactive to prevent such instances.
- If agencies give disaster assistance based on addresses, HUD should verify that only one grant is given per address.

Recommended Legislative or Regulatory Changes

Based upon our years of experience in auditing, investigating, and evaluating HUD disaster assistance programs and upon our many work products, we offer the following recommendations for consideration:

> HUD has become a primary provider of disaster assistance funding, but it has not formally codified its disaster recovery program since it has not been directed to do so. Instead, it currently uses more than 60 Federal Register notices to issue clarifying guidance, waivers, and alternative requirements to both its Entitlement and State CDBG programs to oversee 113 active disaster recovery grants that have totaled more than $47 billion. Codifying a single disaster recovery program would ensure that a permanent formal framework is in place for future disasters, reduce the volume of Federal Register notices used and other informal forms of guidance for each disaster, and mitigate time delays in implementing assistance for future disasters.
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> HUD should work with Congress to include Federal financial management and Federal procurement requirements in its disaster recovery grant requirements to help strengthen and standardize procurements for all recipients receiving disaster recovery funding.
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> HUD should work with Congress and SBA to ensure that there is a clear and established order of funding priority for recipients (such as where they should go first in order not to impact their ability to get other funding) to ensure that disaster assistance funds are distributed in a fair and equitable manner.
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> HUD needs to address the issue of casualty insurance for homes assisted with disaster recovery funds to ensure that the Federal funds invested are protected. The States' requirements for homeowner casualty insurance vary from no requirement to strong requirements (such as a transferrable covenant that requires insurance at all times or a requirement to sign an agreement that if the homeowner did not maintain insurance he or she would not be able to obtain future assistance).
>
> HUD should work with Congress and suggest reasonable deadlines for future disaster recovery funds. According to HUD, disaster recovery activities are largely completed after approximately 6 years, yet as noted previously, substantial funds have remained unspent for much longer periods. Alternatively, it may want to consider ways to potentially recover some of the funds, particularly those that have remained unspent for a significant time.
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> Consideration should be given to requiring grantees to adopt Federal procurement standards, as provided in 2 CFR 200.318 through 200.326,[10] and not "equivalent" standards.

[10] Before December 26, 2014, the relevant procurement requirements were in 24 CFR 85.36. HUD has since transitioned its uniform administrative requirements, cost principles, and audit requirements for Federal awards to 2 CFR Part 200.

> Grantees should ensure that all recipients of HUD disaster funds provide certifications acceptable to the Department that the recipients are eligible to receive the funds and will comply with Federal grant requirements.
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> Subgrantees administering HUD disaster funds should be required to certify that they participated in training related to HUD grant obligations when submitting applications for subgrants.

Timeliness of Expenditures

Below is a chart representing disaster recovery funding (as of September 2017), showing available funds still unspent from past disasters from 2001 post-9/11 funding through the 2016 hurricanes, tornados, and flooding:

Disaster Event	Years Occurred	Number of Grants	Total Amount of Grants	Unexpended Grant Amount
Terrorist Attacks of September 11, 2001	2001	3	$ 3,483,000,000	$ 364,710,339
Hurricanes Katrina, Rita, and Wilma	2005	6	$ 19,319,892,908	$ 494,549,886
Hurricanes Ike and Gustav, and Severe Storms and Flooding	2008	14	$ 6,108,258,785	$ 852,272,422
Severe Storms, Tornados, and Flooding	2008	6	$ 278,416,318	$ 12,513,160
Severe Storms and Flooding	2010	23	$ 474,020,676	$ 191,067,973
Hurricane Irene and Severe Storms, Tornados, and Flooding	2011	1	$ 24,697,966	$ 833,324
Hurricanes Irene, Isaac, and Sandy; and Severe Storms and Flooding	2011-2013	47	$ 15,180,999,750	$ 7,096,344,335
Hurricanes Joaquin and Patricia, and Severe Storms, Tornados, and Flooding	2015	7	$ 299,000,000	$ 278,704,651
Hurricanes Hermine and Matthew, and Severe Storms, Tornados, and Flooding	2016	6	$ 2,305,976,000	$ 2,275,436,313
Total		**113**	**$ 47,474,262,402**	**$ 11,566,432,402**

In our experience, the further out the funds are spent, the greater the potential for waivers and action plan revisions that may not meet the original intended goals of the program. One such example is the decision to provide a waiver to pay university professors stipends to stay in Louisiana post-Katrina, 2 years after the storm hit, and classifying it as an urgent need activity. Another example is in Harrison County, MS, where more than $9.6 million in disaster funds was approved for a sewer facility based on an emergency requirement, when the facility did not meet the definition of an emergency requirement. Essentially, a sewer system was built for an undeveloped area with the idea "if we build it they will come." Unfortunately, it did not succeed, and it was not an emergency requirement.

A key example of potential issues with HUD's use of waivers is found in our work reviewing the Louisiana Road Home Elevation Program. We performed two evaluations of the State of Louisiana's Road Home Elevation Incentive Program in 2010 and a followup review in 2012. This review showcased a situation in which HUD waived the program requirements and then retroactively approved the State's amended action plan after the fact when deficiencies were identified. The initial review's objective was to determine whether homeowners used funds to elevate their homes as set out in their grant agreements. The review found that 79 percent of the homes we inspected in our sample had not been elevated, strongly suggesting that the grant program was at risk and could fail to achieve its intended goal of reducing homeowner flood risks from future hurricanes. Our followup review 2 years later in 2012 found that the State did not have conclusive evidence that approximately $698.5 million in CDBG-DR funds provided to 24,000 homeowners had been used to elevate homes. As an example of a departmental practice to minimize or eliminate original program requirements, HUD approved the State's Amendment 60 on July 26, 2013, which retroactively allowed homeowners who received a grant under the Road Home program to prove that they used those funds to "either elevate or rehabilitate" their home, although the grant was specifically intended for elevation only. The amendment is contrary to the elevation incentive agreement, which stated that the funds were intended to assist homeowners only to elevate their homes. If the funds were not used for this sole purpose, they were to be repaid to the State.

In August 2015, HUD again unilaterally waived the Road Home program requirements. Specifically, HUD, after allowing rehabilitation or elevation, changed its 2013 documentation requirement for rehabilitation expenses to permit an affidavit by the homeowner and a "valuation inspection" by the State to determine the value of home repairs that were previously performed. This waiver of requirements was due to the fact that HUD was still having difficulty acquiring documentation from homeowners as proof of repair. This new approach did not consider whether recipients previously received grants or insurance funds for rehabilitation and could have resulted in a duplication of benefits. While Congress provided considerable flexibility in the use of CDBG-DR funds, it specifically required HUD to establish procedures that prevented duplication of benefits. HUD had not properly enforced the intent of the Road Home program, instead opting to change the rules ex post facto so that violations could potentially be excused and the necessity for recapturing the funds would be eliminated.

We have seen multiple examples in which grantees have made numerous action plan changes with HUD's approval. For example, the State of Louisiana has had 66 amendments to its action plan for Hurricanes Katrina and Rita, and New York has had 17 amendments for Hurricane Sandy. Our concern is that at the end of the grant, the results may not match the initial action plan and in some cases, may not match the purpose of the program. While flexibility is important to be able to address a large-scale problem, this flexibility can be particularly problematic as the funds age in the unspent category and ways are devised to spend the remaining funds.

The Department's actions and retreat from its position and the original intent of the approved State action plans diminishes its ability to properly administer grant agreements and provide proper oversight and enforcement when needed and lessens the affected homeowners' trust and confidence that the highest standards of efficiency and fairness are maintained in the grant award process.

OIG Collaboration With HUD's Office of Community Planning and Development

Recently, OIG and HUD's Office of Community Planning and Development began a joint collaboration to assist grantees and subgrantees in the areas in which OIG reported that they were most vulnerable. The work group determined that assistance should be provided in the following areas: procurement and contracting, subrecipient oversight, conflicts of interest, internal controls, documentation and reporting, and financial management. In addition, the former Inspector General last year coauthored a joint letter with the former Principal Assistant Secretary to State and local governments, communicating our effort to encourage efficient operations and effective accountability for the best use of limited resources. We also developed a series of "integrity bulletins" aimed at providing the grantees and subgrantees with information to help safeguard program funds and ensure that communities get the full benefit of awarded funding. The bulletins were sent to grantees and subgrantees during fiscal years 2016 and 2017 and are posted on our website at www.hudoig.gov/fraud-prevention.

In addition, we have recently posted to our website a fraud alert that we issued with the Department on ways to avoid disaster scams and fraud schemes for those homeowners affected by Hurricanes Harvey, Irma, and Maria (attached at the end of the testimony). This alert lists ways in which individuals can protect themselves from unscrupulous entities that prey on victims and where to go and whom to contact if a homeowner has questions or concerns.

Conclusion

The Department's role has greatly increased over the last 15 years as it has had to deal with unanticipated disasters and significant economic crises that, in addition to its other missions, have increased its visibility and reaffirmed its vital role in providing services that impact the lives of our citizens. Because of the limited capability of the Department to provide direct oversight and Federal budget limitations throughout the government, it is also critically important that program participants and beneficiaries take responsibility for the proper oversight of their programs. My office is strongly committed to working with the Department and Congress to ensure that the CDBG-DR program operates efficiently and effectively and as intended for the benefit of the American taxpayers now and into the future.

HUD OIG special agents joined other members of the law enforcement community in rescuing survivors of Hurricane Harvey in Texas.

HUD OIG special agents conducted a preliminary damage assessment of the Virgin Islands Housing Authority, Estate Tutu Apartments, St. Thomas, U.S. Virgin Islands. This image displays damage post-Hurricane Irma and pre Hurricane Maria.

HUD OIG special agents provided protection for trucks bound for the elderly and disabled in Puerto Rico and delivered food, water, and supplies to a nursing home in the aftermath of Hurricane Maria.

Integrity Bulletin

U.S. Department of Housing and Urban Development
Office of Inspector General

September 2017

FRAUD ALERT:
Harvey, Irma, and Maria Disaster Scams

The U.S. Department of Housing and Urban Development (HUD) and HUD Office of Inspector General (OIG) warns everyone affected by Hurricanes Harvey, Irma, and Maria to be alert for fraud schemes that commonly occur following a disaster. You need to protect yourself from fraudsters who will take advantage of the confusing nature of information after a major disaster.

Watch out for scam housing inspectors. Fraudsters may impersonate inspectors from the Federal Emergency Management Agency (FEMA) or the Small Business Administration. These imposters may ask for banking information, ask for money for fees, or attempt to steer you to a certain repair firm. Others may seek personal information they will use to steal your identity.

Protect yourself

- ✓ Real inspectors already have your nine digit registration number and other personal information and will not need to ask for it.
- ✓ Inspectors document the damage to your home; they do not arrange or suggest repairs.
- ✓ Always ask to see government identification before you share information.

Watch out for scam contractors. There will be scam contractors rushing to take advantage of homeowners. These scammers often ask for large upfront payments and then do shoddy work or disappear altogether. Because these fly-by-night contractors are not local, you will have no way to find them later if they do not perform the work promised. They have no permanent address, and they do not answer phone calls. Some scammers may low ball their bid and add charges once you have signed a contract.

Protect yourself:

- ✓ Only hire contractors for whom you can get references.
  - ✓ In Florida, a general contractor must be licensed to bid on a job, so you can search online https://www.myfloridalicense.com/wl11.asp?mode=1&SID=&brd=&typ= if they have a license.
  - ✓ Texas does not license general contractors, only some specialties like electrical, plumbing, and heating and air conditioning. Also, in Texas general contractors do not have to carry liability insurance or have worker's compensation. Ask to see their coverage. If they are not an established local contractor ask to take a photo of the contractor's driver's license, contractor's license, or other photo ID.

- ✓ Be very suspicious of contractors knocking on your door seeking work. This is a common approach used by unestablished companies. They often demand that you pay the entire amount upfront, saying they need to buy materials. Negotiate to buy the materials yourself. If they won't agree, walk away from the deal.

- ✓ Be suspicious if contractors won't provide a written contract and say they trust your handshake. Always have a written contract that spells out the exact work to be done and a payment schedule that isn't based on time but rather the percentage of work that is done satisfactorily.

- ✓ Get all job changes in writing. Usually job changes mean more cost to the homeowner, so be cautious before agreeing to any changes. If you accept the contractor's explanation of why the problem and cost were missed originally, make sure you receive an amended contract or a work order that you and the contractor sign. The work order should describe the problem, the solution, the cost of labor and materials, and a revised payment schedule.

- ✓ Be suspicious if a contractor tells you building permits are not needed or that the city has waived them for the disaster. Ensure that your contractor obtains needed building permits and that the city conducts any required interim and final inspections on the contractor's work. Call your local building department or planning office to verify what permits you need.

- ✓ Be suspicious if it is a one-time offer, available only today, or a special deal on materials leftover from another job. These are pressure tactics to get you into the deal.

- ✓ Be suspicious of very high bids. Scammers will claim that disaster-related costs are going to be high. Always get another bid or two to protect against overpricing. Although you are eager to get someone in to start repairs, taking the time to protect yourself may save you a lot of money and frustration in the long run.

Watch out for fake relief programs. Be suspicious of scammers claiming to be from the government or other relief agencies. Fake officials will ask for application payments or fees to release grants or loans to you. Be suspicious of online charities or door-to-door solicitations. *Hundreds of new websites added the week before Harvey struck are associated with potentially bogus relief efforts.* These sites are not regulated, and it's hard to know which are real and which may be scams.

Protect yourself

- ✓ Government agencies do not charge for applications.
- ✓ Knowing that Federal and State employees do not ask for or accept money.
- ✓ Always asking to see the identification cards of those claiming to be with government agencies.

- ✓ Check out charities before donating. If you are unsure of a charity's legitimacy check it out at **Charity Navigator**, **Charity Watch**, and **Give.org**.

Watch out for flooded cars for resale. If you or someone you know lost a car to flooding and are in a hurry to replace it, beware of scammers who may clean up previously flooded cars and try to resell them.

Protect yourself

- ✓ Enter the vehicle identification number at VINCheck. This a free service from the National Insurance Crime Bureau that could reveal a vehicle's flood damage and previous ownership from a flood location. Carfax and AutoCheck are also good sources.

- ✓ Do your own investigation!
  - ✓ Musty smells indicate mildew is still present.
  - ✓ Overpowering fragrances suggest that the seller may be hiding something suspicious.
  - ✓ Watch out for carpeting that looks too new, is discolored, or has water stains.
  - ✓ Test electrical systems, check for water in lamps and gauges, and look for silt in air vents and other hard to clean places in the car.

> *If you suspect any frauds mentioned above, call the FEMA Disaster Fraud Hotline at* ***866-720-5721****.*
> *If you are a victim, suspect a home repair scam, are contacted for unsolicited information, or believe a business is practicing price gouging, call*
>
> - *the Office of the Texas Attorney General at* ***800-252-8011*** *or*
> - *the Florida Attorney General Fraud Hotline:* ***866-966-7226.***

Watch out for mortgage rescue scams. Hundreds of thousands of federally-insured homes have been damaged and some may not have flood insurance. Because many homeowners may have a temporary or permanent loss of income due to the disasters, they may find it hard to make their mortgage payments. In efforts to avoid foreclosures on their homes, these survivors may be targeted for foreclosure or loan modification rescue scams.

Protect yourself

- ✓ Be aware that federally-insured mortgages in the disaster areas are subject to a 90-day foreclosure moratorium following a disaster.

- ✓ Be suspicious of companies claiming that they can help you avoid foreclosure or get you a loan modification. They usually charge you a large fee and disappear with your money.

- ✓ Contact your mortgage company to determine options if your home does not have flood insurance or if you are having problems keeping up with mortgage payments

- ✓ If you have a mortgage, talk with your loan servicer immediately. If you cannot reach a loan servicer, call a HUD counselor about your options. Click or use this link (https://www.hud.gov/offices/hsg/sfh/hcc/fc/). You may be eligible to have your mortgage payment suspended for 12 months with no penalty at the end of that time.
- ✓ Call your hazard or homeowners insurance company. It is important to start the paperwork for any coverage you may have.
- ✓ Finally, call FEMA and apply for disaster aid. They have several resources to help. Call 800-621-3362 or visit disasterassistance.gov.

Don't Be Persuaded to Commit Fraud Yourself. As government aid is released, you may have others tell you it is okay to misrepresent your eligibility or misuse the funds you receive.

Protect yourself

- ✓ Only apply for aid you are eligible to receive.
- ✓ Do not try to claim a vacation or rental home as a permanent residence.
- ✓ Do not claim damages that were preexisting.
- ✓ Do not apply for duplicate benefits (such as rental vouchers or repair funds) from different government agencies.
- ✓ Do not use repair or elevation funds received for other purposes.
- ✓ If you received federal assistance for previous disasters, and did not maintain flood insurance as required afterwards, you might not be eligible for additional relief

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Violators trying to defraud aid programs will face prison time and/or fines. Be a part of the solution: Don't defraud deserving people of their share, and if you see someone scheming on other people's misfortune, report it.

If you suspect fraud, call or write the HUD OIG hotline.

EMAIL:	hotline@hudoig.gov
CALL:	**1-800-347-3735**
FAX:	**202-708-4829**
WRITE:	**HUD Inspector General Hotline (GFI)** **451 7th Street SW** **Washington, DC 20410**