

Testimony before the U.S. House of Representatives  
Committee on Oversight and Government Reform  
Subcommittee on Government Operations

“Evaluating Public Housing in the U.S.: Reigning in Waste, Fraud, Abuse  
and Mismanagement at Public Housing Authorities”



Testimony of  
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Chairman Mica, Ranking Member Connolly, and Members of the Subcommittee, I am David A. Montoya, Inspector General of the U.S. Department of Housing and Urban Development (HUD). Thank you for the opportunity to highlight our perspectives on waste, fraud, abuse, and mismanagement in public housing agencies (PHA) and on related oversight issues in HUD's Public and Indian Housing (PIH) programs as well as to discuss our longstanding work in these areas.

Public housing was established to provide decent and secure housing for eligible low-income families, the elderly, and persons with disabilities. The role of PIH is to ensure safe, decent, and affordable housing; create opportunities for residents' self-sufficiency and economic independence; and assure fiscal integrity by all program participants. Public housing comes in all sizes and types, from scattered single family houses to high rise apartments for elderly families. There are approximately 1.1 million households living in public housing units managed by over 3,100 PHAs. HUD administers federal aid to local PHAs to manage housing for low-income residents at affordable rents. HUD furnishes technical and professional assistance in planning, developing and managing these local PHAs.

PHAs also administer HUD's Section 8 Housing Choice Voucher (HCV) program, which is the Department's principal program for assisting very low-income families, the elderly, and persons with disabilities enabling them to afford safe and sanitary housing in the private market. The HCV program provides rental assistance to about 2.2 million families and is administered locally by approximately 2,300 PHAs. Funding for the HCV program consists of housing assistance payments made to private owners to cover the difference between a tenant's rent contribution and the unit rent, and of administrative fees paid to PHAs to cover the cost of administering the program.

Oversight of PHAs continues to be a priority for HUD OIG. Since the beginning of fiscal year 2012, OIG has issued 75 audits related to PHAs reporting about \$225 million in questioned costs and about \$24 million in funds to be put to better use. Our investigative activity in this program area also continues to be significant. Since the beginning of fiscal year 2012, we have completed a total of 216 administrative or civil actions; 121 convictions, pleas or pretrial diversions; and produced financial recoveries exceeding \$8 million.

PIH programs have long been a source of concern for HUD OIG, particularly in regards to the overarching areas of financial management and governance. In order to better synthesize and highlight the continuing problems we have identified in our body of work in this area, OIG launched an initiative designed to assess our lengthy history of work products for continuing patterns of practice that negatively affect PHAs. The initiative is intended to focus the Department's attention on problem areas that we and others have reported on over many years and to set about to develop and recommend an array of strategies for consideration by the Department and Congress on ways to address and correct some of these long-standing problems. We have placed on our web site a list of focus areas emanating from this assessment of our PIH portfolio. These topics categorize where we have found, through the body of our work, areas that have continued to impede the overall effectiveness of the programs and where we intend to conduct special projects, audits, evaluations, or investigations into the future, and where the Department can concentrate its resources. These subject matters include:

- Ethics/Governance Structure
- Housing Quality Standards
- Improper Payments
- Movement of Poorly Performing Executive Directors (ED) from one PHA to Another
- Moving to Work Demonstration Program
- Program Oversight and Enforcement
- Procurement and Contracting
- Questionable/Ineffective Use of Administrative Funds
- PHAs under Receivership

### **Ethics/Governance Structure**

A PHA is a legal entity authorized by a state to develop or to administer low-rent public housing as defined in the U.S. Housing Act of 1937. PHAs are authorized by state law and created by cities or counties, which must adopt an activating resolution. Once authorized by a city or county and activated by resolution, a PHA is a separate public body, a special purpose district--similar to a school district, public utility district or port authority---providing public housing. Therefore, a PHA is responsible for the management and operation of its local public housing program and, by extension, cities and counties are responsible for the second level of oversight after the PHA's ED and the boards/commissions which are established to operate the PHA.

Over the course of our work, we have seen that PHAs often run with little oversight and are, in some instances, prone to ethical lapses that may attract media attention. PHAs operate under state law and, accordingly, ethics rules and requirements vary from state to state. The activities of EDs and other officials should be overseen by the PHA board/commission, but we have also seen in many situations where the board/commission exercises little or no oversight and the members themselves have few or no qualifications to effectively discharge their responsibilities. Our audit and investigative case work over the years has shown a propensity for some officials to improperly use the resources of the PHA for personal benefit or gain. Oversight of the ED and PHA is an inherent responsibility of the board/commission and, if executed properly, would mitigate much of the misconduct and mismanagement we eventually uncover. Finally, we believe that such responsibility extends to levels above the housing authority governance structure to city, county and state government authorities. These units of government must take a more active and aggressive role in their oversight obligations especially when one considers that these programs support and service their citizenry including those that may be vulnerable. Without such checks and balances in place at all levels, abuses will continue.

### **Housing Quality Standards**

Time and again we see violations of housing quality standards at individual PHAs. These standards are an integral part of HUD's commitment to safe, decent and sanitary housing. In particular, we have performed numerous audits of the administration of local Housing Choice Voucher (HCV) programs and whether the units located therein met applicable physical quality standards. In response to our audit work in this area, HUD has been working to revise its standards and to develop a uniform inspection protocol to provide for improved oversight of the physical condition of the rental units that are participating in the program.

One of our key positions from a May 2008 audit was a recommendation that the Department develop a physical inspection system for the HCV program within three years from the issuance of the report. HUD has been working on this system for approximately six years and has only recently tested protocols for conducting the inspections. Unfortunately, HUD does not expect to implement the inspection system until October 2014. In the meantime, our external audits of PHAs continue to report significant percentages of units that do not meet HUD's housing quality standards.

As a recent example, HUD OIG audited the New York City Housing Authority's (NYCHA) HCV program in a report dated May 1, 2014. NYCHA is the largest PHA in the United States and as of January 1, 2013, had 92,561 vouchers assisting 225,000 residents. Our findings revealed that the Authority did not always ensure that its units met HUD's housing quality standards. Of the 119 units HUD-OIG inspected in its sample, 99 did not meet standards at the time of inspection. Further, 24 of the 99 units were in material noncompliance. We concluded that a material deficiency existed if (1) the condition causing the deficiency created unsafe living conditions, (2) the deficiency was a preexisting condition, (3) the condition existed but was not noted in a prior inspection, or (4) the PHA allowed the owner to defer maintenance that was needed to bring the unit into compliance. We estimate that over the next year if the PHA does not implement our recommendations, HUD will potentially pay more than \$148 million in housing assistance for units that materially do not comply with HUD's standards.

HUD has challenges in monitoring the HCV program. The program is electronically monitored through PHAs' self-assessments and other self-reported information collected in HUD's information systems. Based on recent audits and HUD's on-site confirmatory reviews, it is clear that the self-assessments are not always accurate and that there remains some question as to the reliability of the information contained in PIH systems. PIH management expects that it should be able to address these limitations with the Next Generation Management System, which is under development but currently is not fully funded and is years away from completion. HUD has implemented the Portfolio Management Tool, which is a positive step, but that system lacks all the functionality of the Next Generation Management System. Also, its data accuracy and completeness are dependent on field offices that do not fully utilize the application. Therefore, until both systems are completely implemented and evaluated, HUD will continue to face challenges monitoring the HCV program.

### **Improper Payments**

Our latest review of HUD's Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) was issued on April 15, 2014. We reported that HUD did not comply with IPERA reporting requirements because it did not sufficiently and accurately report its (1) billing and program component improper payment rates; (2) actions to recover improper payments; (3) accountability; or (4) corrective actions, internal controls, human capital, and information systems as required by IPERA. In addition, we found that HUD's supplemental measures and associated corrective actions did not sufficiently target the root causes of its improper payments, as identified by HUD's contractor studies, because it did not track and monitor processing entities to ensure prevention, detection, and recovery of improper payments due to rent component and billing errors.

HUD's billing error estimates were based on fiscal year 2004 data for public housing. The study was conducted several years ago, and HUD had not reevaluated it to consider inflation, programmatic, or population changes. Therefore, HUD's estimate did not reflect HUD's true annual billing error. Additionally, HUD did not report a billing error for the tenant-based rental assistance program because PIH believed it had eliminated a billing error when the program became budget-based using predetermined payments. OIG believes, however, that while traditional billing errors may not exist, HUD is still at risk of paying PHAs improperly since the predetermination of payments was based on expenses that were self-reported by PHAs through HUD's Voucher Management System. An error could still occur if a PHA reported its expenses incorrectly and was given funding over the amount of its actual expenses.

One specific area we would note for improvement concerns the lack of use of background checks. Housing agencies are required to conduct criminal history checks on applicants using the Department of Justice' National Crime Information Center (NCIC) database. Our experience has been that many PHA's do not conduct these checks routinely because of the cost. Each inquiry costs the PHA \$24 dollars and that amount cannot be passed onto the applicant. Consequently, agencies have been forgoing these checks and using methods that are not as effective. Because of mobility in the Section 8 program, we are seeing problem tenants moving to new jurisdictions with past issues not being discovered because NCIC checks are not being conducted.

OIG believes there is potential solution to this problem. HUD permits housing agencies to retain the greater of 50 percent of collections of fraudulent housing assistance payments or actual costs incurred to collect such amounts. During the past two calendar years, PHAs recovered over \$122 million in fraudulent housing assistance payments. We suggest Congress allow an additional portion of the recoveries to be placed into a fund, and be dedicated to all PHAs to fund the background checks. This would not only prevent improper payments, but would also reduce the administrative burden of the current "pay and chase" approach for improper payments. In addition we recommend that Congress also authorize PHAs to conduct NCIC checks on all new employees. This would help prevent the movement of embezzlers and swindlers from one agency to another.

### **Movement of Poorly Performing Executive Directors from one PHA to Another**

Over the years we have anecdotally noted the movement of PHA officials from one PHA to another. In particular, situations were noted where a poorly performing individual, or individual who had even been caught engaging in questionable activity, emerged at a different PHA. This raises questions about the due diligence employed by the hiring PHAs to fully examine the skills, qualifications, and even the reputation of candidates for critical positions such as the ED. Except in the limited situation where HUD has taken over a PHA, HUD does not play a role in overseeing the hiring of a PHA's key officials, which is a function of the mayor or other local or county officials.

### **Moving to Work Demonstration Program**

The Moving to Work (MTW) program has been a demonstration program for a small group of PHAs for the last 15 years. The program was authorized in 1996 legislation and implemented in 1999. MTW had been originally designed to provide PHAs the opportunity to design and test

innovative, locally-designed strategies that use federal dollars more efficiently, to help residents find employment and become more self-sufficient, and to increase housing choices for low-income families. MTW provides exemptions from many existing public housing and voucher rules and gives PHAs more flexibility on how to use its federal funds.

An assessment of the body of HUD OIG work generates a level of concern over such an amplification of this program. Monitoring and oversight, at all levels, of those authorities participating in the MTW demonstration program continues to be particularly challenging as each PHA has a different MTW plan. If the program is expanded, HUD needs to ensure that the selection and approval process is objective and not questionable as we have reported in the past. The demonstration program was originally intended for high performing authorities yet HUD has admitted substandard performers into the program. HUD should require all current MTW PHAs, and those being considered for inclusion, to demonstrate their ability to properly administer HUD funds and to have a proven track record before inclusion in the program. Simply, HUD should not admit a PHA with a long history of poor or of questionable performance. It is counterintuitive and goes against the intent of the authorizing language.

While participating PHAs report annually on their performance, an April 2012 Government Accountability Office (GAO) report found that MTW guidance does not specify that the plans provide that performance be quantifiable and be 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. Evaluation of its success is a key component of a demonstration program and provides the basis for determining whether such program has proven its effectiveness in order to continue into the future. It was never intended to be a permanent program until such time as the data proves its benefits. A demonstration program that has been going on for 15 years should be adequately "demonstrated" by this juncture. More troubling is that HUD has not developed a systematic way to identify lessons learned to get the benefit intended from the MTW demonstration program.

Accordingly, there appears to be limited evaluative support that MTW has accomplished what HUD and Congress intended. HUD needs to "demonstrate" where a designated PHA has actually designed and tested innovative strategies that use federal dollars more efficiently, helped residents find employment and become self-sufficient, and increased housing choices for low-income families before expansion. Currently, there is a wide push for expansion of the program. HUD has indicated that it intends to increase the number of MTW participants and believes that with additional participants it will be able to demonstrate the positive impacts of the program. However, we stress that HUD needs first to develop a methodology to assess MTW program performance as recommended by GAO and to evaluate the results prior to making a decision on increasing the number of MTW participants.

Expanding the program would require HUD to fully implement recommendations contained in GAO's April 2012 report on the program. HUD disagreed with GAO's recommendation that it create overall performance indicators. OIG feels strongly that performance indicators are critical to demonstrating program results especially when one considers the amount of federal dollars going into a program that then allows for less oversight of those dollars. Increased scrutiny is needed not only to ensure that the program's statutory objectives are met, but to also prevent waste (or outright fraud) such as in the excessive use and expense of outside attorneys and

insurance carriers, as well as other inappropriate uses of HUD funds which HUD OIG has shown occurred in recent audits of participating PHAs particularly when there is less oversight.

In fiscal year 2012, we 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 established agreements especially because these PHAs are exempt from many existing public housing and voucher rules and therefore are subjected to less oversight by HUD.

### **Program Oversight and Enforcement**

HUD relies a great deal on electronic monitoring through PHAs' self-assessments and through other self-reported information collected in HUD's information systems as its primary form of oversight. Until HUD is able to modernize its outdated systems and more effectively target its resources, it will continue to be constrained. Any system of "self-reporting" should be met by the Department, we believe, with a response of trust but verify.

In addition, we have observed reluctance by HUD to take enforcement actions on its own and have primarily relied on HUD OIG to initiate such remedy. An attitude often displayed by the Department in response to problems that come to the fore emphasizes that public housing is a locally administered program and that such problems are not a federal issue for resolution. It takes this position despite the fact that it is regularly criticized for not having better control over the PHAs. While HUD is ultimately responsible for overseeing PHAs regardless of its posture, it should be noted that it has limited resources which are easily overwhelmed by the magnitude of the program participants and of requirements. It is HUD OIG's contention that oversight responsibility begins with the ED, followed by the board or commission and then should be further enhanced with oversight by city, county and state government authorities where a PHA is located. When things go wrong, we often find that such responsibility has been neglected by some, if not all, of these parties and yet HUD bears the brunt of the blame.

Both the OIG and the GAO have reported recurrent oversight weaknesses. For example, GAO reported in 2009 that HUD's oversight processes could be more focused on identifying potential inappropriate use or mismanagement of public housing funds. In addition, and as mentioned earlier, OIG has long been concerned about HUD's reliance on PHAs' self-reported information to monitor the program. The assessments are not always accurate and there remains some question as to the resulting reliability of the information contained in PIH systems. The OIG continues to focus significant audit and investigative resources on oversight and enforcement issues.

### **Procurement and Contracting**

Our external audits and investigations find repeated instances of PHAs violating HUD's and its own internal procurement requirements. For example, we routinely find that PHAs will bypass controls designed to ensure a fair and competitive procurement process, will award contracts to other than the lowest bidder with no justification, will pay for construction work that was not actually performed, or will even illegally accept bribes or kickbacks in exchange for contract awards. While it is difficult to quantify the extent to which procurement violations have

occurred, we nevertheless have seen enough blatant examples over time for this to be a cause for concern.

## **Questionable/Ineffective Use of Administrative Funds**

### **Asset Management**

PHAs of 250 or more units are required to operate their public housing programs under “asset management,” consistent with the broader multifamily management industry. Under asset management, a Central Office Cost Center (COCC) is established to manage all the centralized activities of a PHA. The COCC charges each project a reasonable management fee consistent with fees paid in the local market. These fees are in lieu of overhead allocations. The fees that a project or program pays the COCC are an eligible program expense and the earned fees are considered local income and thus are construed as nonfederal funds.

Under asset management, HUD made a policy decision to give a blanket approval for PHAs to use up to ten percent of their Capital Fund, without support, for administrative costs. Once this fee is “earned” by the PHA, any amounts in excess of the PHA’s costs become available for whatever purpose the PHA desires. We have found instances in our external audits of extravagant spending from these funds that did not appear to be within the statutory mission of PHAs. Due to this policy decision, our audit findings were disputed during the audit resolution process with the Department and were not ultimately sustained by the Department. We expect to issue an audit in the near future relating to HUD’s oversight of PHAs’ asset management fees and central office cost centers and the continuing concerns we have regarding abuses occurring when such funds are de-federalized.

### **Executive Director Compensation**

The fiscal year 2012 appropriations bill established a cap of \$155,500 on the use of federal funds for PHA salaries. This legislation was in response to media reports and to congressional outrage over revelations about excessive annual compensation for some PHA EDs, which in one case exceeded \$600,000 and in other cases exceeded the salary paid to a governor of a state or a mayor of a city.

In 2013, HUD published a notice in the *Federal Register* asking public housing authorities for more comprehensive data on how they pay their EDs, including information with a breakdown of base salary, bonus and incentive compensation, and which payments are made with federal funds. Last week, May 16, 2014, the Department published the results outlining 2013 executive compensation information on its website.

Despite its intention, a significant concern still exists that without capping the entire compensation package of the employee, this requirement can be easily bypassed. The legislation does not preclude the use of non-Federal funds to exceed the cap. Also, there may be ways to use federal funds if they are not within the strict definition of the term “salary,” such as using federal funds for a “bonus,” or to use federal funds if they cross fiscal years and split the amounts. Moreover, even with a total compensation package



cap, cars and other benefits can be made part of the PHA's inventory but then be made available for the personal use of the employee. Also, other perks can be written off as PHA expenses and, therefore, not appear as part of a compensation package. Moreover, those under the cap are not required to publish their salaries and therefore transparency is not achieved if there is non-reporting.

### **Use of Outside Attorneys**

We have been concerned for some time about the extent to which some PHAs use outside legal counsel. This issue was particularly egregious at the Philadelphia Housing Authority which paid \$30.5 million for outside legal services provided by 15 law firms during the period April 2007 through August 2010. Alarming, the PHA could not adequately support \$4.5 million that it paid to outside attorneys during that period, virtually the entire limited amount we reviewed, raising questions about the propriety of the remaining \$26 million in payments that we did not review.

In addition, the PHA made unreasonable and unnecessary payments of \$1.1 million to outside attorneys to obstruct the progress of HUD OIG audits. The PHA also did not obtain required HUD written concurrence before accepting all settlement offers arising out of its litigations and allowed an apparent conflict of interest situation to exist when it entered into a contract with a law firm that employed the son of its board chairman.

### **PHAs Under Receivership**

There are two basic types of receiverships: administrative and judicial. Administrative receivership is a process whereby HUD declares a PHA in substantial default of its Annual Contributions Contract and takes control of the PHA. In such a situation, HUD appoints one or more of its departmental staff to work on-site at the PHA to manage housing operations and conduct the affairs of the authority. Judicial receiverships are established, monitored and supervised by federal courts. HUD currently reports seven administrative and two judicial receiverships as outlined below:

<b>Name</b>	<b>Locale</b>	<b>Start Date</b>
<b>Administrative</b>		
East St. Louis Housing Authority	East St. Louis, IL	October 1985
Wellston Housing Authority	Wellston, MO	July 1996
Housing Authority of New Orleans	New Orleans, LA	February 2002
Virgin Islands Housing Authority	St. Thomas, VI	August 2003
Detroit Housing Commission	Detroit, MI	July 2005
Housing Authority of the City of Lafayette	Lafayette, LA	March 2011
Gary Housing Authority	Gary, IN	July 2013
<b>Judicial</b>		
Housing Authority of Kansas City	Kansas City, MO	July 1993
Chester Housing Authority	Chester, PA	August 1994

A September 2012 OIG audit relating to the East St. Louis receivership found that HUD did not effectively oversee and manage the receivership of that PHA. Specifically, it did not have an adequate structure in place for its staff and did not develop a receivership plan specific to the PHA.

As the above list indicates, some PHAs have remained under receivership for long periods of time. An August 2011 OIG evaluation report noted that since 1979, there have been 22 PHAs placed under receivership, either by HUD or by the Federal courts. As of February 2011, 7 PHAs had been under receivership between 6 and 26 years with an average of 14 years. PHAs under judicial receiverships have remained in that status for an average of 17 years. We have found instances where problems continued for years after the PHAs were under HUD control, notably at the East St. Louis and New Orleans PHAs. Particularly troubling were two major investigative cases at the New Orleans PHA (see below), where the frauds occurred while HUD was acting as receiver for the PHA.

### **Fraud in PHAs and by PHA Officials**

HUD OIG's Office of Investigation conducts investigations involving allegations of fraud by PHA employees. Many of its cases highlight similar findings found in OIG audits in the areas of inadequate financial management and governance. Our analysis of our investigative casework for fiscal years 2010 through 2014 indicated there were 47 suspensions and 42 debarments,

which precluded discredited PHA employees from participating in federal programs for a specified period of time or indefinitely.

Historically, PHA fraud investigations involve the misuse of HUD funding. Some examples include: inappropriately using a PHA credit card for personal use; embezzling capital funds by over-paying relatives for maintenance/rehabilitation work that in some instances was never performed; soliciting/accepting bribes for resident waiting list priority; and embezzling receivables from tenant rent payments. Investigated PHA employees typically include EDs, accountants, contractors, maintenance personnel, inspectors, attorneys, and board members. In some instances, ED's were not criminally charged but were terminated under suspicion of illegal or unethical behavior. We have seen occurrences where an ED who was under investigation or suspicion had been rehired at another PHA despite their questionable prior conduct.

The PIH program represents approximately 37 percent of HUD OIG's total open investigations. Currently, OIG has 105 ongoing investigations involving allegations of fraud, waste, and abuse by PHA employees. Additionally, 47 of these open investigations are on current or former EDs of PHAs around the country. The level of public corruption exhibited by some local government officials entrusted to administer PHA programs is disconcerting. Below is a selection of recent cases investigated by OIG in which EDs or senior Housing PHA personnel were charged criminally:

- **Chelsea Housing Authority, Massachusetts**

A former ED pled guilty and was sentenced to 36 months in prison, followed by two years of supervised release, for falsely reporting his salary in annual budgets required by HUD and by the Massachusetts Department of Housing and Community Development.

- **Philadelphia Housing Authority, Pennsylvania**

A former maintenance worker was sentenced on conspiracy charges. Between September 2002 and July 2011, he and others conspired to purchase building materials with PHA funds, sell those materials at a discount, and conceal those fraudulent sales. He was sentenced to 13 months incarceration followed by a term of 3 years' probation and ordered to pay restitution of nearly \$350,000.

While not charged criminally, it is important to note that in March of 2014, HUD debarred the former ED from participation in federal programs for three years based on evidence of false certifications and improper use of federal funds for lobbying identified and reported on by HUD-OIG's Office of Audit.

- **Bessemer Housing Authority, Alabama**

A former accountant for the PHA was sentenced to 30 months incarceration, 36 months supervised release and ordered to pay nearly \$200,000 in restitution for her earlier guilty plea to embezzlement and aggravated identity theft. She embezzled the funds for her personal use.

- **Maywood Housing Authority, Illinois**

A former ED pled guilty to one count of felony theft and one count of official misconduct and was sentenced to 6 years imprisonment for diverting over \$400,000 in portable housing assistance voucher payments from several PHAs across the country. Although these funds were “earmarked” for Maywood, they were ultimately diverted to a hidden personal account. Those funds were later traced to the purchase and to subsequent monthly principal and interest payments on a personal residence, which was valued at more than \$500,000.

- **Housing Authority of New Orleans (HANO), Louisiana**

The former contract Chief Financial Officer was sentenced to 46 months incarceration, 36 months of supervised release, and ordered to pay a \$75,000 criminal penalty and approximately \$226,000 in restitution to HUD. From 2006 through 2009 the CFO was contracted to perform CFO services while the PHA was under HUD receivership. The CFO then submitted false timesheets for himself and his wife for hours which were never worked, overbilling the contract by over \$900,000. The CFO was also debarred from participation in federal programs for an indefinite period of time.

In another HANO case, a former employee was sentenced to 5 years’ probation, and ordered to pay approximately \$660,000 in restitution. Between April 2007 and May 2009, he and a former procurement officer carried out a scheme to steal more than \$600,000 from the agency when they created 135 fraudulent purchase orders, all payable to one of the employees who then deposited the checks and made cash payments back to the former procurement officer.

- **Taos County Housing Authority, New Mexico**

A former ED was sentenced to 30 months in prison and was ordered to pay restitution of nearly \$800,000, jointly and severally with her husband. In addition to the restitution, her husband was sentenced to 24 months in prison. Their respective sentences were a result of their individual guilty plea in August 2013 to one count of conspiracy. Between 2003 and 2011, the former ED conspired with her husband to embezzle about \$815,000 in HUD Section 8 funds.

- **Deerfield Beach Housing Authority, Florida**

A former executive assistant embezzled nearly \$350,000 from the PHA’s Housing Choice Voucher program. She was responsible for making payments to landlords but instead made changes to the PHA’s internal payment system and re-routed rental payments into her personal bank account. The scheme was detected when she forgot to pay a landlord and the bank noted that the payment in question had been paid but to another account. She was convicted of theft of government funds, sentenced to 18 months incarceration, and ordered to pay HUD nearly \$330,000 in restitution.

Addressing fraud at PHAs has long been a difficult challenge because agencies, or their Inspectors General, were not required to report suspected fraud to our office. However, this may be changing because the Office of Management and Budget issued a new uniform rule regarding recipients of federal awards. HUD has until December 26, 2014 to issue implementing regulations. Among the provisions is one that would require housing agencies, among other federal award recipients, to report in writing to the awarding agency all violations of federal criminal law involving fraud, bribery, or gratuity potentially affecting the federal award. My office will work with the Department to develop policies and procedures to make this an effective requirement.

## **Prevention Initiatives**

In order to address some of the systemic causes of waste, fraud, abuse and mismanagement in public housing, the HUD OIG has issued several fraud prevention materials including integrity bulletins. These resources are designed to highlight abuses and red flags as well as to educate public housing officials on better ways to avoid poor management or operational decisions that may lead to fraud particularly in the areas of financial management and governance. HUD OIG has previously provided presentations to various national housing associations such as the Public Housing Authorities Directors Association (PHADA).

In order to educate PHAs, boards/commissions, city, county and state agencies and the public, we have posted on our web site prevention related materials that have covered best practices for:

- Avoiding embezzlements
- Hiring using good screening procedures
- Adopting enforceable fraud policies
- Alerting PHA commissioners to integrity risks
- Cautioning applicants and tenants on subsidy fraud

We believe these materials can play a role in assisting PHAs. Nevertheless, we also realize that pervasive institutional attitudes and behavior affect the way in which PHAs perceive HUD's oversight role and the way in which the Department views its responsibility. In our interaction over the years, we see that PIH at times seems to support an attitude of mission above management. As a reaction to some of the pervasive issues that appear in audits and investigations, we believe that rather than accepting them as a cost of doing business, the industry needs to step up to the plate to provide real enforcement and self-policing. This is necessary particularly in light of what we view as an erosion of HUD authority, ability, and sometimes willingness to hold PHAs accountable for the federal funds they receive. Programs like MTW and policies designed to loosen federal oversight of funding and reporting are, we believe, counterintuitive to the many problems we and GAO have highlighted over the years.

Both PIH and Congress have given PHAs more and more independence on how they operate so as to help them stretch limited funds. However, while some authority officials may be using those initiatives in productive ways to improve operations, others have used such separation to abuse the programs and to enrich themselves because HUD has ceded control. A manifestation of this scenario plays out in some states where lawmakers are increasingly calling for the consolidation of regional or state PHAs so that more accountability can be put into management

particularly at those that are small in size. Associations like PHADA would like to see strengthened ethics and accountability requirements but do not have the ability to impose corrective action because they are voluntary organizations and lack any real authority over their membership to impose standards.

All this discussion must be understood in light of the fact that neither the Department nor OIG will ever have enough resources to conduct comprehensive oversight of the thousands of PHAs. Consequently, some alternative is needed that gives HUD the ability to assert control when necessary but is not so restrictive in its administration of compliance with regulations and rules that it may not take into account differences in size, location, or capabilities at individual PHAs.

While housing authorities want the autonomy to run their own programs with little interference, history has shown that there needs to be support to make sure they have the skills, knowledge, and willingness to address integrity issues. Our current and future fraud awareness bulletins are aimed at providing that help but more needs to be done. Certification and accreditation of key personnel associated with the running of PHAs are a missing link in mitigating opportunities for mismanagement and poor governance. Integrity programs to reduce the rising costs of improper payments for rental assistance are another area needing attention. Finally, a clearinghouse to scrutinize employment of EDs and others in positions of trust is potentially a solution to the issue of bad actors landing employment in other PHAs. While many EDs are running their authorities well, the extent of damage inflicted by an incompetent ED and/or board or commission can be financially devastating to a community and to a PHA with limited resources and its impact can be widespread particularly to a population that is in great need of the services it provides.

## **Recommendations**

The following are recommendations culled from a wide variety of work produced by this office over an extensive period of time and are offered to try to address some of the problems highlighted in this testimony. These include:

- Require a complete background check on EDs and on other positions of trust before employment and require applicants to sign a consent form to disclose publically available records including previous audits or investigations where the applicant had been employed.
- Require the implementation of a regulation that mandates EDs to have some combination of specific education, or direct and relevant experience, to manage a PHA before they can be hired.
- Require the Department establish a certification and accreditation system for key personnel in PHAs.
- Require PHA boards and EDs to meet minimum training requirements in the area of contracting and procurement.
- Require all PHA employees provide a signed statement on employment applications under penalty of perjury that they are not under investigation and have not been involved in financial crimes or crimes of moral turpitude prior to being hired. Require PHAs to have policies that allow them to deny or terminate employment if these conditions are disclosed or discovered later.

- Require all PHA employees sign a code of conduct/ethics agreement that specifically describes prohibited conduct such as the following: misuse of the credit card; misuse of the PHA's vehicles; leasing of luxury vehicles; unauthorized travel without justification; use of PHA's funds to pay personal bills, mortgages, or student loans; etc.
- Require PHAs to have in place anti-fraud policies and programs designed to address improper payments in order to mitigate abuse and to reduce the occurrence of tenant fraud.
- Enforce restrictions regarding the hiring or awarding of contracts to relatives.

## **Conclusion**

The Department's role has greatly increased over the last decade as it has had to deal with unanticipated disasters and 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 of budget cuts throughout the federal government it is critically important more than ever that program participants and beneficiaries take responsibility for their proper administration and participation in these programs. My office is strongly committed to working with the Department and the Congress to ensure that these important programs operate efficiently and effectively and as intended for the benefit of the American taxpayers now and into the future.

Our goal is to foster positive change that will improve the management of the nation's public and assisted housing and ultimately the lives of the people who benefit from these programs. This will be a continuing process that will require city, county and state authorities and the Department to put forth innovative solutions and the OIG stands ready to assist where needed. In addition, the PHAs themselves and the organizations that represent them must also play a critical and more active role in addressing many of these concerns. Working together, we can all help to solve many of these recurring and seemingly intractable problems.

## DAVID A. MONTOYA

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Mr. David A. Montoya was sworn in as Inspector General for the U.S. Department of Housing and Urban Development (HUD) on December 1, 2011. The Department's mission "is to create strong, sustainable, inclusive communities and quality, affordable homes for all." The mission of the Office of Inspector General is to promote the integrity, efficiency, and effectiveness of HUD programs to assist the Department in meeting its mission. As Inspector General, Mr. Montoya is the senior official responsible for audits, evaluations, investigations, and oversight efforts relating to HUD's programs and operations.

Mr. Montoya's 27-year career has been dedicated to public service focused on law enforcement, with more than 16 years of oversight, supervisory, and executive leadership positions, including more than 10 years' experience in the Federal Senior Executive Service. His professional career has demonstrated a rigorous focus on accountability, high ethical standards, and integrity.

Before Mr. Montoya's appointment to HUD, he served in senior-level positions for the Offices of Inspector General at the U.S. Postal Service and the U.S. Department of the Interior and as Deputy Director of the Environmental Protection Agency's Criminal Investigation Division.

Mr. Montoya is a member of the Financial Fraud Enforcement Task Force, established by President Obama in November 2009, and is a co-chair of the Mortgage Fraud Working Group, which is charged with addressing a wide range of fraud in the mortgage, finance, and housing markets. He is also a member of the Council of Inspectors General on Financial Oversight, established by the Dodd-Frank Wall Street Reform and Consumer Protection Act, which assists in improving financial oversight and evaluating the effectiveness and internal operations of the Financial Stability Oversight Council. In addition, Mr. Montoya is a member of the Investigations Committee of the Council of Inspectors General on Integrity and Efficiency, which is charged with advising the Inspector General community on issues involving criminal investigations, criminal investigations personnel, and criminal investigative guidelines. He is also a member of the International Association of



Financial Crimes Investigators, a member of its Advisory Council, and a co-chair of its Law Enforcement Committee.

Mr. Montoya is strongly committed to collaboration with HUD staff and national stakeholders to ensure that the Department's vital programs are effectively and efficiently implemented. In addition, he is focused on developing analytics for early detection of waste, fraud, and mismanagement through the strategic application of OIG's audits, evaluations, reviews, and investigations. Mr. Montoya believes fraud prevention is imperative at the front end and consistently conveys this message to every OIG employee.

Mr. Montoya has received many Executive Performance Awards, including a Certificate of Commendation from the U.S. Department of Justice. He is a native of El Paso, TX, and a 1986 graduate of the University of Texas at El Paso.