

**TRANSPORTATION AND HOUSING AND URBAN
DEVELOPMENT, AND RELATED AGENCIES
APPROPRIATIONS FOR FISCAL YEAR 2017**

THURSDAY, MARCH 10, 2016

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:30 p.m., in room SD-192, Dirksen Senate Office Building, Hon. Susan M. Collins (chairman) presiding.

Present: Senators Collins, Boozman, Capito, Daines, Reed, Murray, Schatz, and Murphy.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF HON. JULIÁN CASTRO, SECRETARY

OPENING STATEMENT OF SENATOR SUSAN M. COLLINS

Senator COLLINS. The subcommittee will come to order.

Today we welcome both Secretary Castro, who will testify on the President's fiscal year 2017 budget request for the Department of Housing and Urban Development (HUD), as well as Inspector General Montoya, who will discuss not only his office's budget request but also the oversight and other work the Office of Inspector General (OIG) has conducted at HUD. I look forward to hearing from both of you.

I am pleased to be joined today by our ranking member, Senator Jack Reed, a fellow New Englander, as we begin our subcommittee's work on the fiscal year 2017 appropriation. When offsetting receipts from the Federal Housing Administration (FHA) and Ginnie Mae are excluded, the President's request is nearly \$49 billion, an increase of nearly \$2 billion and 4 percent above the fiscal year 2016 enacted level. It's important for us to remember that this request does not exist in a vacuum. It must be considered in the broader context of an unsustainable \$19 trillion debt.

The budget cap for non-defense discretionary spending government-wide is essentially the same for fiscal year 2017 as it was for 2016. This subcommittee in particular has to cope with the central truths about HUD's budget that are present every year.

The cost of simply renewing existing rental assistance, which consumes 84 percent of HUD's overall budget, will increase, and,

as FHA returns to its countercyclical role, offsetting receipts will decline.

In addition to the constraint of needing an additional \$1.4 billion just to renew existing rental assistance, the subcommittee again must deal with the uncertainty of how much on offsetting receipts will be credited from FHA's mortgage insurance premiums.

The Office of Management and Budget's (OMB's) score of receipts is \$2.8 billion above fiscal year 2016. Good news to be sure, however, we must keep in mind that the Congressional Budget Office's (CBO's) baseline score for fiscal year 2017 is more than \$400 million below current levels and \$2.7 billion below the OMB's assumptions, an enormous discrepancy. Until the CBO finishes scoring the President's budget, prudence dictates that we assume the lower level as we review HUD's request.

In an environment where the top line remains flat, the increase of 4 percent over current levels proposed in the President's budget would be extremely challenging.

Yet rather than submit a budget request that seeks to bend the cost curve of rental assistance without doing so on the backs of low-income families and seniors, the Administration proposes new spending of \$750 million above what is needed to maintain existing rental assistance, plus an additional \$11.3 billion in new mandatory spending that lacks an offset and, frankly, is simply a gimmick to evade the current budget agreement.

Yet despite all of the additional spending requested, the Administration inexplicably once again proposes a \$200 million cut to the Community Development Block Grant (CDBG) program.

Well, just this week, mayors and other community officials were in town, and I can tell you that one of their top priorities is the CDBG program, because it remains one of the most adaptable and welcomed community and economic development and job creation programs, because it can be tailored to meet the unique need in each State.

In addition to my concerns regarding the proposed funding levels, I believe that it is critical that HUD continue to invest in the effective oversight of the management and physical condition of its assisted housing stock. It must provide technical assistance where needed, and it must take action implementing sanctions where appropriate.

Neither residents nor taxpayers are well served when poor conditions are allowed to continue. I am troubled to read about egregious examples of poor housing quality in States such as Tennessee and Florida, and I'm aware of similar problems in my home State of Maine.

But I am even more troubled to learn that some of these properties initially received passing inspection scores from HUD before public outcry compelled a second look. It is inexcusable that vulnerable residents are ever placed into substandard housing with serious violations, but it is doubly offensive when the taxpayers are subsidizing these unfit units.

This is the final budget request of this Administration, and is a good opportunity to reflect not only on the disappointments or shortcomings but also on what we have been able to accomplish

working together. I am particularly proud of what we have been able to do to reduce the number of people who are homeless.

Since 2010, investments made by this Committee have led to a 36-percent reduction in the number of homeless veterans, chronic homelessness has declined by 22 percent, and homeless families by 19 percent.

While we cannot yet point to meaningful reductions in youth homelessness, I believe that the targeted funding we just approved in December will bear fruit. We can point to improved communication among Federal agencies and targeted funding to better assess the number and needs of homeless youth as well as the effectiveness of current programs targeted to these vulnerable people.

Improved coordination among agencies and at the local level, especially in the context of coordination with the child welfare system, is still needed, and that's why I've joined several of my Senate colleagues in leading the effort to reauthorize the Runaway and Homeless Youth and Trafficking Prevention Act, as well as to introduce the Family Unification, Preservation, and Modernization Act.

I will continue to work with Senator Reed and others on this subcommittee to ensure that we respond to the housing needs of these vulnerable children and teenagers.

Finally, Senator Reed and I will be introducing a bill this afternoon to reform the Housing Opportunities for Persons with AIDS Program so that the formula no longer counts deceased individuals.

And yes, you did hear me correctly. The current formula actually counts people who are no longer living. Currently, 55 percent of the HIV and AIDS cases used in the formula represent people who have passed on. A formula change is very much needed to ensure that the scarce resources available are directed to communities most in need of assistance today.

[The statement follows:]

PREPARED STATEMENT OF SENATOR SUSAN M. COLLINS

The subcommittee will come to order. Today we welcome both Secretary Castro, who will testify on the President's fiscal year 2017 budget request for the Department of Housing and Urban Development, as well as Inspector General Montoya who will discuss not only his office's budget request but also the oversight and other work the OIG conducted at HUD. I look forward to hearing from each of you.

I am pleased to be joined today by our Ranking Member, Senator Jack Reed, as we begin the subcommittee's work on the fiscal year 2017 appropriation for the Department of Housing and Urban Development. When offsetting receipts from F.H.A. and Ginnie Mae are excluded, the President's request is \$49 billion, an increase of nearly \$2 billion and 4 percent above the fiscal year 2016 enacted level. This request does not exist in a vacuum and must be considered in the broader context of an unsustainable \$19 trillion debt.

The budget cap for non-defense discretionary spending government-wide is essentially the same as fiscal year 2016. This subcommittee, in particular, has to cope with the central truths about HUD's budget that are present every year: the cost of renewing existing rental assistance, which consumes 84 percent of HUD's overall budget, will increase, and as F.H.A. returns to its countercyclical role, offsetting receipts will decline.

In addition to the constraint of needing an additional \$1.4 billion just to renew existing rental assistance, the subcommittee again must deal with the uncertainty of how much offsetting receipts will be credited from F.H.A.'s mortgage insurance premiums. OMB's score of receipts is \$2.8 billion above fiscal year 2016. Good news to be sure, however, we must keep in mind that CBO's baseline score for fiscal year 2017 is more than \$400 million below current levels and \$2.7 billion below the OMB's assumption, an enormous discrepancy. Until CBO finishes scoring the Presi-

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Yet, despite all of the additional spending requested, the Administration once again proposes a \$200 million cut to the Community Development Block Grant program. The CDBG program remains one of the most adaptable and welcomed community and economic development and job creation programs that can be tailored to meet unique needs within each State.

In addition to my concerns regarding the proposed funding levels, I believe it is critical that HUD continue to invest in the effective oversight of the management and physical condition of its assisted housing stock. It must provide technical assistance when needed, and it must take action implementing sanctions when appropriate.

Neither residents nor taxpayers are well served when poor conditions are allowed to continue. I am troubled to read about egregious examples of poor housing quality in places such as Tennessee and Florida and am aware of similar problems in my home State of Maine. But I am even more troubled to learn that some of these properties initially received passing inspection scores from HUD before public outcry compelled a second look. It is inexcusable that residents are ever placed into substandard housing with serious violations, but it is doubly offensive when the taxpayers are subsidizing these unfit units.

This is the final budget request of this Administration and is a good opportunity to reflect not only on the shortcomings but also on what we have accomplished together. I am particularly proud of what we have been able to achieve in reducing the number of people who are homeless. Since 2010, investments made by this Committee have led to a 36 percent reduction in the number of homeless veterans; chronic homelessness has declined by 22 percent; and homeless families by 19 percent.

While we cannot yet point to meaningful reductions in youth homelessness, I believe the targeted funding we just approved in December will bear fruit. We can point to improved communication among Federal agencies and targeted funding to better assess the number and needs of homeless youth as well as the effectiveness of current programs targeted to these vulnerable young people. Improved coordination among agencies and at the local level, especially in the context of coordination with the child welfare system, is still needed. That is why I joined my Senate colleagues to lead the effort to reauthorize the Runaway and Homeless Youth and Trafficking Prevention Act, as well as to introduce The Family Unification, Preservation, and Modernization Act of 2015. I will continue to work to ensure that this Subcommittee responds to the housing needs of these children and teenagers.

Finally, Senator Reed and I will be introducing a bill this afternoon to reform the Housing Opportunities for Persons with AIDS program, otherwise known as HOPWA, so that the formula no longer counts deceased individuals. Currently, 55 percent of the HIV and AIDS cases used in the formula represents deceased individuals. A formula change is very much needed to ensure the scarce resources available are directed to communities most in need of assistance today.

Mr. Secretary, I hope you will commit to working with us on this important bill, and I look forward to hearing from you and Inspector General Montoya. I now turn to Senator Reed for his opening statement.

Senator COLLINS. Mr. Secretary, I look forward to working with you on this important bill, and to hearing from you and the inspector general. It now gives me great pleasure to turn to the ranking member, Senator Reed, for his opening statement.

STATEMENT OF SENATOR JACK REED

Senator REED. Thank you very much, Madam Chairman. It has been a pleasure working with you as the ranking member and in so many other ways.

And we've worked together for many years, even before our assignment together on this subcommittee, and I'm pleased and delighted that today we're joining to introduce the Housing for Persons with AIDS Program. As you pointed out, the formula must be corrected, and your leadership is going to make that change effective.

We've also worked for many years together on lead-based paint in our housing stock, and that's another critical issue that effects our constituents, not just ours, but across the Nation. And Mr. Secretary, I know you share many of our concerns, and we look forward to working with you on these issues and many others.

Welcome to the subcommittee. Thank you for your years of service. And you have shown a great deal of leadership advocating for families in need and the importance of ending homelessness. Thank you for that.

Let me also welcome David Montoya, who will be joining us for the second panel. David, you have served as HUD's inspector general since 2011. You bring a great wealth of knowledge in HUD's financial management performance, and we look forward to your testimony.

Today, as the chairman pointed out, we are here to discuss the fiscal year 2017 budget request for the Department of Housing and Urban Development. The Administration's discretionary budget request for HUD is \$49 billion, nearly \$2 billion more than fiscal year 2016. But this increase in spending is based on very optimistic Federal Housing Administration receipts, as the chairman pointed out.

As you are aware, these receipts are fundamental to HUD's budget request, and changes to these receipt levels in a year of tight budget constraints can mean the difference between maintaining current programs and literally cutting services.

I am concerned that the request assumes \$2.3 billion more in FHA receipts than in 2016, however, as again, the chairman intimated, CBO indicates that we could be looking at \$400 million less in receipts than in 2016, leaving your budget request with a \$2.7 billion gap.

As we all know too well, just last year we were faced with another threat of cuts to every budget through sequestration. We avoided that through great leadership, and particularly, Senator Collins and others.

But we have a responsibility to not only maintain our rental assistance programs, our home programs, but as you suggested, budget to expand programs that are necessary to the quality of life for many, many Americans.

Your proposal purports to do both, maintain our equities with respect to rental housing and other programs that are existing and also to provide enhanced choices, particularly for low-income Americans, in their housing. But if we're faced with cuts to the FHA receipts and do not have an increase in budgetary resources, it'll be very challenging to meet these dual objectives.

I support many of the proposals which you're advancing today. They include more than \$40 billion to maintain HUD's rental assistance program to continue the support for nearly 500 million households, it's absolutely essential; combined \$112 million in new vouchers and rapid re-housing assistance for families with children,

again, a very critical program; \$15 million to assist families who want to move to high opportunity areas, this is an issue that I think is one we have to address; and \$200 million to revitalize HUD-assisted housing through the Choice Neighborhoods initiative.

This program has been very effective in my home State you've been kind to visit, both in Woonsocket, Rhode Island, and Olneyville, a part of Providence. You want to address in the budget homelessness, and this is one of the areas where Senator Collins has taken a tremendous leadership role, increasing the Continuum of Care Program by \$414 million, as you want to do in your budget.

These projects, all of them, are extremely important, and we want to work with you to find a way to get them done. And while the request includes new targeted investment in homelessness on the discretionary side, it also assumes significant investment on the mandatory side.

Nearly \$11 billion in mandatory budget authority is requested over 10 years to end homelessness with children by, we hope, 2020. And while this mandatory request to fulfill the Administration's homeless goals is unlikely to be enacted given the present climate, I applaud the vision.

But I'm concerned that these broad investments do not include funding for a program that has proved essential, that's the HUD-Veterans Affairs Supportive Housing (HUD-VASH) vouchers.

Mr. Secretary, there are still veterans experiencing homelessness in this country, and I'd like to understand why the Administration did not include HUD-VASH in its request for the second year in a row.

Overall, what we have in front of us today is a budget request that emphasizes housing choice and opportunity for the many American families that struggle to meet their day to day needs. Our elderly, our disabled, working poor, they all deserve a fair chance at affordable and decent housing.

There are more than 400 parents and children in Rhode Island who remain homeless and deserve a place to call home. Our veterans also, as I point out, have fought to protect this country, they, too, deserve this opportunity. We're obligated to figure out the best and most cost-effective ways to address these needs, and Mr. Secretary, that is why you're here today to explain the budget and to work with us going forward so that we can achieve these objectives.

And thank you, again, Madam Chairman.

Senator COLLINS. Thank you very much, Senator Reed.

I want to give, since we don't have a huge number of members with us today, I want to just check to see if either Senator Daines or Senator Boozman have any opening comments, or whether you're content to wait. Thank you.

Secretary Castro, the floor is yours.

SUMMARY STATEMENT OF HON. JULIÁN CASTRO

Secretary CASTRO. Thank you very much, Chairman Collins, to Ranking Member Reed, and the members of the subcommittee. It really is an honor to appear before you today to discuss with you HUD's proposed budget for fiscal year 2017.

The President understands that expanding access to quality and affordable housing will put more Americans on a path to prosperity, and our budget honors his commitment to promote inclusive opportunity for all Americans.

This proposal comes at a time of great momentum for our Nation's economy. Over the past 6 years, businesses have added 14.3 million new jobs, the longest streak of private sector job growth on record. And now, our challenge is to provide every person with the chance to share in this promise. And at HUD, that starts with helping more folks to secure a safe and affordable place to call home.

Today, a quarter of American renters spend more than half of their incomes on housing. And too many families are forced to cut back on food, on health care, and other basic necessities just to put a roof over their heads. That's why the President's budget proposes to increase HUD's funding to \$48.9 billion, \$1.9 billion over the enacted level for fiscal year 2016.

As you noted, Chairman, between 84 and 85 percent of our budget would go solely toward renewing rental assistance for nearly 5.5 million households. But we've also taken strong steps that maximize our remaining resources to achieve bold goals, such as ending homelessness in America. We've made great strides in the 6 years since President Obama introduced his Opening Doors initiative, and the best example of this, a 36-percent decline in veteran homelessness between 2010 and 2015.

I want to thank you, Chairman, and Ranking Member, and all of the members of this committee for your continued support of HUD-VASH. The success proves that, by working together, we can fully fulfill the President's vision, and we can help the next generation to escape the cycle of homelessness.

HUD's Family Options Study shows that rapid rehousing and housing choice vouchers are the most effective solutions for families with children experiencing homelessness, so we've asked for a historic \$11 billion investment in mandatory spending over the next 10 years that will use these tools to assist approximately 550,000 families.

HUD is also committed to empowering Americans through housing mobility. We've requested \$20.9 billion for our housing choice voucher program, an increase of \$1.2 billion from the enacted level for fiscal year 2016. This would provide 2.2 million families with the chance to move into neighborhoods with better schools, safer streets, and more jobs, and to stay there for the long term.

But HUD's mission extends beyond housing mobility. Too many communities remain segregated by race and by income, and too many Americans see their futures limited by the ZIP Code where they were born. So HUD's proposed budget makes vital investments in underserved communities.

It contains \$200 million for Choice Neighborhoods, which helps transform areas of concentrated poverty by creating quality mixed income housing, improving public safety, and sparking growth for local small businesses. And \$50 million is requested for our rental assistance demonstration program to help make crucial repairs in 25,000 units of HUD-assisted housing.

We're also taking decisive action to protect children from the dangers of lead-based paint. We've requested \$110 million for our Office of Lead Hazard Control and Healthy Homes and \$2.07 billion for public housing administrative fees, which can be used by PHAs to, among other things, increase inspections and ensure property owners control lead hazards. And we're improving our policies to mirror the CDC's lead safety guidelines.

Finally, the President knows that many Native communities face significant barriers to opportunity, so this budget asks for \$780 million to improve housing and development on Native American lands, including \$20 million for youth programs like community centers and Head Start facilities. And we continue our commitment to providing safe, affordable homes through our Native Hawaiian Housing Block Grant Program.

The President's budget advances a fundamental belief, that all Americans deserve a fair shot at achieving their dreams. I look forward to working with this committee to fulfill this mission and to use housing as a powerful platform to spark greater opportunity for the American people. Thank you.

[The statement follows:]

PREPARED STATEMENT OF HON. JULIÁN CASTRO

Thank you, Chairman Collins and Ranking Member Reed, for this opportunity to discuss how HUD's fiscal year 2017 budget proposal follows the roadmap the President has laid out for jumpstarting our economy through educating, innovating, and building. This Budget targets our investments to the families and geographies that need them the most, and puts more Americans back to work.

HUD's Budget is an essential component of the President's vision of investing in the things we need to grow our economy, create jobs, increase skills training and improve education, while continuing long term deficit reduction. Our request maintains assistance to low-income families currently served by HUD programs, expands assistance to targeted vulnerable populations, including the homeless and Native Americans, and revitalizes neighborhoods with distressed HUD-assisted housing and concentrated poverty. HUD's work is critical to the Administration's efforts to strengthen communities, bolster the economy, and improve the quality of life of the American people.

Overall, the President's Budget provides \$48.9 billion for HUD programs, an increase of \$1.9 billion above the 2016 enacted level. This spending is offset by projected receipts of \$10.9 billion. Increases are provided to protect vulnerable families, make significant progress toward the goal of ending homelessness, and support community-centered investments, including funding to revitalize neighborhoods with distressed HUD-assisted housing and concentrated poverty. This budget is built on rigorous research and evidence of what works, providing flexibility and investing in strategies that have been proven to pay dividends for families and communities.

THE FISCAL YEAR 2017 HUD BUDGET

Provides Opportunities for America's Most Distressed Neighborhoods to Revitalize and Increase Economic Growth.—The Budget provides \$200 million for Choice Neighborhoods to continue to transform neighborhoods of concentrated poverty into opportunity-rich, mixed-income neighborhoods. This funding level will be used to revitalize HUD-assisted housing and surrounding neighborhoods through partnerships between local governments, housing authorities, nonprofits, and for-profit developers. Preference for these funds will be given to designated Promise Zones—high-poverty communities where the Federal Government is working with local leadership to invest and engage more intensely to create jobs, leverage private investment, increase economic activity, reduce violence and expand educational opportunities. To further support Promise Zones, the Budget includes companion investments of \$128 million in the Department of Education's Promise Neighborhoods program and \$24 million in the Department of Justice's Byrne Criminal Justice Innovation Grants program, as well as tax incentives to promote investment, jobs and economic growth.

The Budget proposes \$300 million in mandatory funds for a new Local Housing Policy Grants program. This program will provide grants to localities and regional

coalitions to support new policies, programs or regulatory initiatives that create a more elastic and diverse housing supply, and in turn, increase economic growth, access to jobs and improve housing affordability. These funds will support a range of transformative activities in communities across the Nation that reduce barriers to housing development, increase housing supply elasticity and affordability, and demonstrate strong connections between housing, transportation, and workforce planning.

Supports Strategic Infrastructure Planning and Investments To Help Make America a Magnet for Jobs.—HUD is committed to ensuring that its core community and housing development work contributes to more and better transportation choices; promotes equitable, affordable housing; helps communities address the lingering neighborhood impacts of the foreclosure crisis; and aligns Federal policies and funding to remove barriers to local collaboration. The Budget provides \$2.8 billion for the Community Development Block Grant (CDBG) formula program, and proposes reforms to better target CDBG investments to address local community development goals. The budget also provides \$950 million for the HOME Investment Partnerships Program to help State and local governments increase the supply of affordable housing and expand homeownership opportunities for low-income families.

Protects the Vulnerable Recipients of HUD Rental Assistance and Makes Progress on the Federal Strategic Plan to End Homelessness.—The Budget includes \$20.9 billion for the Housing Choice Voucher program to help about 2.2 million low-income families afford decent housing in neighborhoods of their choice. This funding level supports all existing vouchers and adds 10,000 new vouchers to the program, targeted to families with children experiencing homelessness. The Budget also includes \$10.8 billion for the Project-Based Rental Assistance program to maintain affordable rental housing for 1.2 million families, and provides \$6.4 billion in operating and capital subsidies to preserve affordable public housing for an additional 1.1 million families.

The Budget provides \$2.7 billion for Homeless Assistance Grants, \$414 million above the 2016 enacted level. The increased funding will enable HUD to maintain existing projects, fund the increased competitive renewal demand for Continuums of Care in fiscal year 2016, and create 25,500 beds of permanent supportive housing for chronically homeless persons to reach the goal of ending chronic homelessness in 2017. In addition, the Budget includes 8,000 rapid rehousing interventions for households with children, which will support the goal of ending child, family and youth homelessness by 2020, and \$25 million in new projects targeted to homeless youth.

In addition to the targeted requests for homeless families with children above, the Budget requests \$11 billion in mandatory funds for vouchers and rapid rehousing to end family homelessness. Approximately 550,000 families will be supported over 10 years to stabilize their housing and assist them to become more self-sufficient. This proposal is based on rigorous research and will give families the right support at the right time to promote better outcomes.

Improves Mobility Through the Housing Choice Voucher Program.—The Budget provides \$2.1 billion in Public Housing Authority (PHAs) administrative fees using a new evidence-based formula that not only more accurately reflects the actual cost of running the program, but ensures that PHAs have sufficient resources to provide low-income families greater access to opportunity areas. In addition, the Budget requests \$15 million for a new mobility counseling demonstration that is designed to help HUD-assisted families move and stay in higher-opportunity neighborhoods. A portion of the funding will also support an evaluation to measure the impact of the counseling pilot to further inform the policy process and design.

Puts HUD-Subsidized Public and Assisted Housing on a Financially Sustainable Path.—Public housing authorities (PHAs) house over three million families. To bring our rental housing system into the 21st century and continue to address the \$26 billion in public housing capital needs, the Budget includes proposals that would facilitate the conversion and preservation of additional Public Housing and other HUD-assisted properties under the Rental Assistance Demonstration (RAD). At the same time, the Budget provides \$50 million for a targeted expansion of RAD to Public Housing properties in high-poverty neighborhoods and requests authority to convert Section 202 Housing for the Elderly Project Rental Assistance Contract properties to Section 8 platforms.

Improves the Way Federal Dollars are Spent.—The Administration supports legislation to modernize the Housing for Persons With AIDS (HOPWA) program to better reflect the current case concentration and understanding of HIV/AIDS and ensure that funds are directed in a more equitable and effective manner. The Budget's \$335 million investment in HOPWA, in combination with the proposed modernization, will assist local communities in keeping individuals with HIV/AIDS housed, making

it easier for them to stay connected to treatment, and therefore improving health outcomes for this vulnerable population.

The Budget also provides \$35 million for the evidence-based Jobs-Plus program, a proven model for increasing public housing residents' employment and earnings. Through Jobs-Plus, public housing residents will receive on-site employment and training services, financial incentives that encourage work and "neighbor-to-neighbor" information-sharing about job openings, training, and other employment-related opportunities.

Invests in Research and Support to Make HUD and its Grantees More Effective.—The American economy of the future requires a Federal Government that is efficient, streamlined, and transparent. This Budget once again calls for the flexible use of resources through HUD's Office of Policy Development and Research, which the Department will use to invest in technical assistance to build local capacity to safeguard and effectively invest taxpayer dollars; conduct innovative research; and evaluate program initiatives and demonstration programs so we can fund what works and stop funding what doesn't.

The Budget also continues to invest in focused upgrades to the IT infrastructure to improve service delivery and to better track and monitor our programs.

Consistent with the previous 3 years, HUD's fiscal year 2017 Budget is structured around the five overarching goals the Department adopted in its new Strategic Plan 2014-2018. These goals reflect the Department's—and my—commitment to 'moving the needle' on some of the most fundamental challenges facing America. Indeed, every month, I hold HUDStat meetings on one or more of these goals, to assess progress and troubleshoot problems in order to: 1) ensure that HUD is as streamlined and effective as possible in the way that we administer our own programs and partner with other Federal agencies; and 2) hold our grantees accountable for their expenditure of taxpayers' hard-earned dollars.

GOAL 1: STRENGTHEN THE NATION'S HOUSING MARKET TO BOLSTER THE ECONOMY AND PROTECT CONSUMERS

This Administration entered office confronting the worst economic crisis since the Great Depression. And while the largest factors contributing to this crisis were market driven, the American people have turned to Congress and the administration for leadership and action in righting our Nation's housing market. HUD remains firmly committed to working together with communities and individuals to cope with these unprecedented challenges. This Budget drives economic growth by increasing access to credit and strengthening the FHA.

In fiscal year 2017, HUD is requesting \$400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund, and \$30 billion in loan guarantee authority for the General and Special Risk Insurance Fund. The need for FHA is clear as it stepped up in recent years to address the unprecedented challenges wrought by the housing crisis, playing an important countercyclical role that has offered stability and liquidity throughout the recession. While a recovery of the housing market is currently underway, FHA continues to act as a crucial stabilizing element in the market, and to assure ongoing access to credit for qualified first-time, low-wealth or otherwise underserved borrowers.

The Budget also includes a request for the FHA Administrative Fee that will assist FHA in performing critical Quality Assurance work by funding important Information Technology investments as well as administrative investments to maintain FHA as an effective partner with borrowers and lenders. This modest fee on lenders will be applied only prospectively, and these funds will make it possible for FHA to continue to increase access, helping to place homeownership within the reach of more Americans.

GOAL 2: MEET THE NEED FOR QUALITY, AFFORDABLE RENTAL HOMES

In an era when more than one-third of all American families rent their homes and over 7.7 million unassisted families with very low incomes spend more than 50 percent of their income on rent and/or live in substandard housing, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families—particularly since, in many communities affordable rental housing does not exist without public support. HUD's 2017 Budget maintains HUD's core commitments to providing rental assistance to some of our country's most vulnerable households as well as distributing housing, infrastructure, and economic development funding to States and communities to address their unique needs. Overall, 85 percent of HUD's total 2017 budget authority requested goes toward renewing rental assistance for current residents of HUD-subsidized housing, including public

housing and HUD grants to homeless assistance programs, and to some limited, strategic expansion of rental assistance to specific vulnerable households.

HUD's core rental assistance programs serve some of the most economically vulnerable families in the country. In these programs, including Housing Choice Vouchers, Public Housing and Project Based Rental Assistance (PBRA): almost 75 percent of families are extremely low-income (below 30 percent of area median income) and an additional 20 percent are very low-income (below 50 percent of area median income). Although worst case housing needs decreased to 7.7 million in 2013 from the record high of 8.5 million in 2011, these needs are still a national problem. Housing needs have expanded dramatically during the past decade and were exacerbated by the economic recession and associated collapse of the housing market, which reduced homeownership through foreclosures and increased demand for renting."

Preserving Affordable Housing Opportunities in HUD's Largest Programs

This Budget provides \$20.9 billion for HUD's Housing Choice Vouchers program, which is the Nation's largest and preeminent rental assistance program for low-income families. For over 35 years it has served as a cost-effective means for delivering safe and affordable housing in the private market. This 2017 funding level is expected to assist approximately 2.2 million families and support new incremental vouchers for areas of high need, for targeted populations. This Budget adds voucher leasing opportunities through funding for approximately 10,000 new units of housing for homeless families with children.

The Budget also provides a total of \$6.4 billion to operate public housing and modernize its aging physical assets through the Public Housing Operating (\$4.6 billion) and Capital (\$1.9 billion) funds, a critical investment that will help over 1.1 million extremely low- to low-income households obtain or retain housing. Similarly, through a \$10.8 billion request in funding for the PBRA program, the Department will provide rental assistance funding to privately-owned multifamily rental housing projects to serve over 1.2 million families nationwide.

Rebuilding our Nation's Affordable Housing Stock

Over the last 75 years, the Federal Government has invested billions of dollars in the development and maintenance of public and multifamily housing, which serve as crucial resources for some of our country's most vulnerable families. Despite this sizable Federal investment and the great demand for deeply affordable rental housing, we continue to see a decline in the number of available affordable housing units. Unlike other forms of assisted housing that serve very similar populations, the public housing stock is nearly fully reliant on Federal appropriations from the Capital Fund to make capital repairs. Funding and regulatory constraints have impaired the ability for these local and State entities to keep up with needed life-cycle improvements. The most recent capital needs study of the public housing stock, completed in 2010, estimated the backlog of unmet need at approximately \$26 billion, or \$23,365 per unit. Funding for the Capital Fund has been insufficient to meaningfully reduce public housing's backlog of repair and replacement needs or even meet the estimated \$3 billion in annual accrual needs. Under the strain of this backlog, and without financing tools commonly available to other forms of affordable housing, the public housing inventory has lost an average of 10,000 units annually through demolitions and dispositions.

—*Rental Assistance Demonstration.* To help address the backlog of unmet capital needs and to preserve this critical source of affordable housing, HUD is continuing to implement the Rental Assistance Demonstration (RAD), a program which enables PHAs to convert public housing to the Section 8 platform. In addition to the public housing stock, the RAD program targets certain "at-risk" HUD legacy programs. Prior to RAD, units assisted under Section 8 Moderate Rehabilitation (MR) and Section 8 Moderate Rehabilitation Single-Room Occupancy (MR SRO) were limited to short-term renewals and constrained rent levels that inhibit the recapitalization of the properties, and units assisted under Rent Supplement (RS) and Rental Assistance Program (RAP) had no ability to retain long-term project-based assistance beyond the current contract term. As a result, as their contracts expired, these projects would no longer be available as affordable housing assets.

Conversion to Section 8 rental assistance, as permitted under RAD, is essential to preserving these scarce affordable housing assets and protecting the investment of taxpayer dollars these programs represent. Long-term Section 8 rental assistance allows for State and local entities to leverage sources of private and public capital to rehabilitate their properties. While the Department expects and continues to process Public Housing conversions of assistance without additional subsidy, HUD requests \$50 million in 2017 for the incremental subsidy

costs of converting assistance under RAD for properties that cannot feasibly convert to Section 8 at existing funding levels. This funding would also support a requested expansion of the RAD authority to include Section 202 Housing for the Elderly Project Rental Assistance Contracts (PRACs). Overall, the requested funding will be targeted to: 1) Public Housing properties located in high-poverty neighborhoods, including designated Promise Zones, and in areas where the Administration is supporting comprehensive revitalization efforts as well as transfer of assistance to high opportunity locations where there is a limited supply of affordable housing, and 2) Section 202 PRACs with significant recapitalization needs, including those properties with service coordinators for frail and elderly residents. The Department estimates that the \$50 million in incremental subsidies will support the conversion and redevelopment of approximately 25,000 Public Housing and Section 202 PRACs, while helping to increase private investment in the targeted projects.

In addition to the funding request, the proposed legislative changes to RAD are designed to allow for maximum participation by those PHAs and private owners whose current funding levels are sufficient for conversion. This includes, for example, elimination of the 185,000 unit cap, which will allow for a greater portion of the Public Housing stock that can convert at no cost to the Federal Government to participate in the demonstration.

GOAL 3: USE HOUSING AS A PLATFORM FOR IMPROVING QUALITY OF LIFE

Stable housing provides an ideal platform for delivering a wide variety of health and social services to improve economic, health, and broad-based societal outcomes. For some, housing alone is sufficient to ensure healthy outcomes, while others require housing with supportive services to assist with activities of daily living or longterm self-sufficiency, as well as proximity to crucial services. HUD's fiscal year 2017 Budget acknowledges this reality by making critical investments in housing and supportive services, and partnering with other Federal agencies to maximize resources and best practices. Moreover, these investments will save money in the long term, by avoiding overuse of expensive emergency and institutional interventions.

Preventing and Ending Homelessness

Nowhere is the relationship between housing and supportive services clearer than in the successful efforts in communities around the country to address homelessness, which have led to a 36 percent reduction in veterans' homelessness and a 22 percent reduction in chronic homelessness, and a 19 percent in family homelessness since 2010. Additionally, this work has yielded a substantial body of research, which demonstrates that providing permanent supportive housing to chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost saving in public health, criminal justice, and other systems. This year's Budget once again invests in this critical effort, by providing \$2.7 billion in Homeless Assistance Grants. This funding level will support competitive programs that annually serve over 800,000 homeless families and individuals, and create 25,500 beds of permanent supportive housing for chronically homeless persons to reach the goal of ending chronic homelessness in 2017. The Budget also includes 8,000 rapid rehousing interventions for households with children. In addition, the Budget includes \$88 million for housing vouchers for homeless families with children and also proposes another \$11 billion in new mandatory spending to reach and maintain the goal of ending family homelessness by 2020.

Leveraging Capital Resources and Serving our Most Vulnerable

This Budget provides a total of \$659 million for the Housing for the Elderly and Housing for Persons with Disabilities programs. Doing more with less, the Budget proposes reforms to the Housing for the Elderly program to target resources to help those most in need, reduce the up-front cost of new awards, and better connect residents with the supportive services they need to age in place and live independently.

Historically, HUD has provided both capital advances and operating subsidies to non-profit sponsors to construct and manage multifamily housing for low-income people with disabilities. In an effort to maximize the creation of new affordable units in a time of funding restraints, in fiscal year 2012 HUD began providing operating assistance to State housing agencies that formed partnerships with State healthcare agencies for service provision to low-income persons with disabilities. These funds are used to set aside supportive units for this target population in affordable housing complexes whose capital costs are funded through Low-Income Housing Tax Credits, HOME funds, or other sources. Investing Section 811 funds under this authority allows HUD to rely on the expertise of the State housing agencies to administer the award and on the State healthcare agency to identify the

most critical population to be served and guarantee the delivery of appropriate services. In fiscal year 2014, HUD requested, and received, similar authority for the Section 202 program. Drawing on lessons learned from implementation in the Section 811 program, HUD will take advantage of efficiencies inherent in these same agencies' oversight responsibilities for tax credits, HOME funds or similar housing funding.

GOAL 4: BUILD STRONG, RESILIENT AND INCLUSIVE COMMUNITIES

No longer can the American economy tolerate the marginalization from the labor force of significant numbers of people because of individualized or systemic discrimination, or because they live in isolated neighborhoods of concentrated poverty. An American economy built to last requires an increased supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, high-quality services, and, most importantly, economic self-sufficiency. As such, HUD's fiscal year 2017 Budget puts communities in a position to plan for the future and draws fully upon their resources, most importantly their people.

Each year HUD dedicates approximately 16 percent of its funds to the capital costs of housing and economic development projects throughout the country. Through this investment, HUD and its partners are able to provide better opportunities for people living in neighborhoods of concentrated poverty and segregation, offer choices that help families live closer to jobs and schools, and support locally driven solutions to overarching economic development challenges. HUD's capital grants—including the Public Housing Capital Fund, Choice Neighborhoods, CDBG, and HOME—are focused on assisting areas of great need, including communities with high unemployment.

Preserving HUD's Major Block Grant Programs for Community Development and Housing

Through both formula and competitive grants, HUD has partnered with local organizations and State and local governments to fund innovative solutions to community development challenges. Underpinning these partnerships is the fundamental philosophy that local decision-makers are best poised to drive a cohesive development strategy. In 2017, HUD is requesting a total of \$2.9 billion in funding for the Community Development Fund to support economic development initiatives and projects that demonstrate the ability to connect private sector growth to some of our country's most distressed citizens and communities, and \$950 million for the HOME program.

The Budget requests \$2.8 billion for the Community Development Block Grant (CDBG), which remains the largest and most adaptable community and economic development program in the Federal portfolio for meeting the unique needs of States and local governments. Since its inception in 1974, CDBG has invested in economic development at the local level, investing in infrastructure, providing essential public services and housing rehabilitation, and creating jobs primarily for low- and moderate-income families. Altogether, CDBG funding annually reaches an estimated 7,000 local governments across the country, in communities of all shapes and sizes. However, to ensure that CDBG funds effectively provide targeted benefits to these communities, especially to low- and moderate-income populations, HUD proposes a suite of reforms to strengthen the program; help grantees target funding to areas of greatest need; enhance program accountability; synchronize critical program cycles with the consolidated plan; and reduce the number of small grantees while providing more options for regional coordination, administration and planning.

Often, CDBG dollars alone are insufficient to complete crucial economic development projects that communities desperately need. In those instances, HUD offers another potent public investment tool in the form of the Section 108 Loan Guarantee program. Section 108 allows States and local governments to leverage their CDBG grants and other local funds into federally guaranteed loans in order to pursue large-scale physical and economic investment projects that can revitalize entire neighborhoods or provide affordable housing to low- and moderate-income persons. In 2017, HUD is requesting Section 108 loan guarantee authority of \$300 million, and the continuation of a fee-based structure will eliminate the need for budget authority to cover the program's credit subsidy.

In addition, the HOME program is proposed at \$950 million and the Budget proposes legislative changes to better target the assistance provided with this funding. HOME is the primary Federal tool of State and local governments for the production of affordable rental and for-sale housing for low-income families. In the past 21 years, HOME has completed 1.22 million affordable units. The Budget also proposes statutory changes that would eliminate the 24-month commitment requirement,

eliminate the 15 percent Community Housing Development Organization (CHDO) set-aside, establish a single qualification threshold, revise “grandfathering” provisions so that HOME participating jurisdictions that fall below the threshold three out of the 5 years would be ineligible for direct grants, and provide for reallocation of recaptured CHDO technical assistance funds.

Notably in 2017, CDBG and HOME are part of the proposed Upward Mobility Project, a new initiative to allow States, localities or consortia of the two to blend their CDBG and HOME allocations with funding from the Department of Health and Human Services’ Social Services Block Grant and Community Services Block Grant in a flexible way to achieve local goals. Communities would design Upward Mobility Projects around achieving a specific outcome—like increasing families’ earnings, improving children’s outcomes, expanding employment opportunities, or increasing housing stability—then employ the most promising evidence-based methods to achieve that goal. To support the Upward Mobility Projects, Federal agencies will partner with applicants to blend the identified funds and provide the appropriate waivers needed for required flexibilities, including but not limited to aligning household eligibility criteria, aligning and streamlining reporting requirements, and coordinating and sustaining service delivery.

In addition, the new Local Housing Policy Grants program would complement and leverage communities’ CDBG and HOME activities by providing a total of \$300 million in mandatory funding for competitive grants to increase economic growth, access to jobs and improve housing affordability by supporting new policies, programs or regulatory initiatives to create a more elastic and diverse housing supply. To that end, the funding would allow localities to make investments in areas like infrastructure expansion or improvement, housing market evaluations, code writing or design assistance, and stakeholder outreach and education.

Assisting Native Americans

Through innovative programming, HUD has found new ways to partner with American Indian and Alaska Native tribal governments to help these communities craft and implement sustainable, locally-driven solutions to economic development challenges. HUD recognizes the right of Indian self-determination and tribal self-governance, and has fostered partnerships that allow tribal recipients the flexibility to design and implement appropriate, place-based housing programs according to local needs and customs. In most of these communities, housing and infrastructure needs are severe and widespread, disconnected from transportation networks and isolated from key community assets including jobs, schools and healthcare facilities. In fiscal year 2017, HUD is requesting a total of \$786 million to fund programs that will directly support housing and economic development in American Indian, Alaskan Native, and Native Hawaiian communities nationwide, including:

- \$700 million for the Indian Housing Block Grant (IHBG) program, which is the single largest source of Federal funding for housing on Indian tribal lands today.
- \$80 million for Indian Community Development Block Grants, a flexible source of grant funds for federally-recognized tribes or eligible Indian entities, requested within the Community Development Fund. Of this funding, \$20 million is set aside for projects to improve outcomes for Native Youth, such as the development, rehabilitation or acquisition of community centers and health clinics.
- \$5.5 million for the Indian Housing Loan Guarantee Fund, which provides loan guarantees to increase the availability of mortgage lending on Indian reservations and other Indian areas.
- Increases the set-aside for colonias investment in communities along the U.S.-Mexico border from 10 percent to 15 percent, to address problems with lack of infrastructure, including adequate water, sewer facilities and decent housing.

In addition, up to \$5 million in funding requested for Jobs-Plus would be used to implement a demonstration of the successful Jobs-Plus model in Indian Country.

Transforming Neighborhoods of Poverty

The President has made it clear that we cannot create an economy built from the middle class out if: a fifth of America’s children live in poverty, at a cost of \$500 billion per year—fully 4 percent of GDP—due to reduced skills development and economic productivity, increased later life crime, and poor health; a growing population lives with the problems of concentrated neighborhood poverty—high unemployment rates, rampant crime, health disparities, inadequate early care and education, struggling schools, and disinvestment—all of which isolate them from the global economy.

That’s why HUD’s fiscal year 2017 Budget provides \$200 million for Choice Neighborhoods to continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located.

Choice Neighborhoods—along with RAD—is an essential element of the President’s Promise Zones initiative, which is designed to support revitalization in some of America’s highest-poverty communities by creating jobs, attracting private investment, increasing economic activity, expanding educational opportunity, and reducing violent crime.

The President announced the first five Promise Zones in January 2014 and will designate an additional 15 Zones by the end of calendar year 2016. Communities compete to earn a Promise Zone designation by identifying a set of positive outcomes, developing a strategy, encouraging private investment and realigning Federal, State, and local resources to support achievement of those outcomes. The Promise Zone designation process ensures rural and Native American representation. Promise Zones will receive tax incentives, if approved by Congress, to stimulate hiring and business investment along with intensive Federal support and technical assistance aimed at breaking down regulatory barriers and using Federal funds available to them at the local level more effectively. Applicants from Promise Zones will also receive points for competitive Federal grants that will increase the odds of qualifying for support and assistance to help them achieve their goals.

Promise Zones are aligning the work of multiple Federal programs in communities that have both substantial needs and a strong plan to address them. The Promise Zones initiative builds on the lessons learned from existing place-based programs like the Department of Education’s Promise Neighborhoods and the Department of Justice’s Byrne Criminal Justice Innovation program, both of which receive substantial increases in the Budget. Other Federal agencies that will be aligning their work with that of local Promise Zone partners include the Departments of Commerce, Health and Human Services, and Agriculture.

The Choice Neighborhoods initiative is a central element of the Administration’s inter-agency, place-based strategy to support local communities in developing the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. The Department’s administration of the first rounds of funding for Choice Neighborhoods grants exemplify how our practices generate effective partnerships with local housing and community development efforts. In the past, many Federal grant programs followed a rigid, top-down, ‘one-size fits all’ approach that dictated what local policymakers could and could not do rather than listening to them and providing the tools they needed to meet local needs. Having served in local government myself, I am committed to a collaborative approach responsive to local needs—and believe the results thus far demonstrate that we are making good on that commitment.

Ensuring Inclusive Housing Nationwide

An inclusive community is one in which all people—regardless of race, ethnicity, religion, sex, disability, or familial status—have equal access to housing and economic opportunities. Throughout its portfolio of programs, HUD is committed to maintaining that inclusivity and providing accountability in housing and lending practices nationwide. Through inclusive development, education, enforcement of fair housing laws, expanded training and language assistance, HUD will affirmatively further fair housing and the ideals of an open society.

The Fair Housing Initiatives Program (FHIP) is critical to building and sustaining inclusive communities. FHIP is the only grant program within the Federal Government whose primary purpose is to support private efforts to educate the public about fair housing rights and conduct private enforcement of the Fair Housing Act. In fiscal year 2017, HUD is requesting \$46 million in FHIP funds, representing the Department’s strong commitment to fair housing. The requested amount will continue funding to support fair housing enforcement by all statutorily eligible private fair housing organizations. In addition, it will fund fair housing education at the local, regional and national levels.

The Fair Housing Assistance Program (FHAP) is a critical component of HUD’s effort to ensure the public’s right to housing free from discrimination. FHAP multiplies HUD’s enforcement capabilities, allowing the Department to protect fair housing rights in an efficient and effective manner. In fact, FHAP agencies investigate the majority of housing discrimination complaints filed in the United States. In fiscal year 2017, the Budget provides \$21.9 million in FHAP grants to nearly 90 government agencies to enforce laws that prohibit housing discrimination that have been reviewed and deemed substantially equivalent to Federal law.

Ensuring that an Economy Built from the Middle Class Out Includes Opportunities for Rural Americans

The Administration has placed a significant emphasis on ensuring that America’s rural communities are competitive in the global economy—particularly given the re-

ality that rural communities generally have less access to public transportation, along with higher poverty rates and inadequate housing. HUD serves families in small towns and rural communities through almost every major program it funds.

As the single largest sources of funding for housing on Indian tribal lands today, HUD initiatives in Indian country continue to have some of the Department's most successful track records. Programs like Indian Housing Block Grants, Indian Housing Loan Guarantees, and Indian Community Development Block Grants support development in remote areas where safe, affordable housing is desperately needed. HUD recognizes the right of Indian self-determination and tribal self-governance by allowing the recipients the flexibility to design and implement appropriate, place-based housing programs according to local needs and customs. Taken together, in fiscal year 2017 HUD is requesting \$786 million to fund programs that will support housing and development in American Indian, Alaska Native, and Native Hawaiian communities.

In addition, HUD and the Departments of Treasury and Agriculture meet regularly through the interagency Rental Housing Policy Working Group to better align and coordinate affordable rental housing programs. For homeowners, the FHA helps first-time homebuyers and other qualified families all over the country purchase their own homes. HUD has also entered into a Memorandum of Understanding with the Department of Treasury's Community Development Financial Institutions Fund and the Department of Agriculture—Rural Development, to expand the capacity of organizations providing loans and investment capital in underserved rural regions. The initiative, which is being piloted in colonias along the U.S.-Mexico border, will improve the delivery of funding from Federal agencies and private sources supporting small business, affordable housing and community facilities.

GOAL 5: ACHIEVING OPERATIONAL EXCELLENCE

A 21st century American economy that is a magnet for jobs and equips its residents with the skills they need for those jobs demands a government that's leaner, smarter, and more transparent. The current economic and housing crisis; the structural affordability challenges facing low-income homeowners and renters; and the new, multidimensional challenges facing our urban, suburban, and rural communities all require an agency in which the fundamentals matter and the basics function. As such, HUD remains committed to transforming the way it does business. This transformation is more crucial now than perhaps ever before—HUD remains at the forefront of the Federal response to the national mortgage crisis, economic recovery, Hurricane Sandy recovery, and the structural gap between household incomes and national housing prices—roles that require an agency that is nimble and market-savvy, with the capacity and expertise necessary to galvanize HUD's vast network of partners. HUD's 2016 Budget reflects these critical roles, by investing in transformation, research, and development that will be implemented strategically.

Investing In Our Staff

HUD's greatest resource is its dedicated staff. When employees attain skills and are motivated to use those skills to help their organization reach goals, the capacity of the organization grows and employees in the organization grow as well; which is why HUD is creating training and leadership development opportunities for employees at all levels. Over time, the rules and regulations that develop within an organization become hurdles instead of the helpful pathways they were intended to be. HUD is in the process of simplifying and combining programs, streamlining regulations, and eliminating rules and constraints. In addition, the Department is in the middle of a major reform of its information technology, human resources, procurement, and other internal support functions to give more authority to managers and provide better service to HUD customers.

In 2016, HUD is requesting \$1.365 billion in salaries and expenses, in addition to \$23 million for Ginnie Mae and \$129 million for HUD's Office of Inspector General (OIG). The HUD request includes several initiatives to streamline the HUD organization, consolidate functions for increased efficiency, and increase training for our staff. HUD is making specific investments of more staff to manage major rental assistance programs, increasing our ability to enforce new fair housing rules and provide more oversight to our community grant programs. The Department will continue to improve operations and create a dynamic organization capable of addressing some of our Nation's most difficult challenges.

Carrying Out Critical Program Demonstrations and Research

HUD's ongoing transformation is a multiyear effort that can only be achieved through the relentless focus of agency leadership, full transparency and account-

ability for real results, and sustained and flexible budget resources. The Department has taken an enterprise-wide approach to both technical assistance and research that has bolstered these efforts and increased the efficiency and effectiveness of the Department's programs. Further, this shared approach has provided a mechanism for innovative, cross-cutting technical assistance that goes beyond program compliance to improve grantee capacity, performance and outcomes.

While the Department's transformation is a crucial long-term commitment, HUD continues to prioritize these efforts in a responsible manner that ensures HUD's constituent services don't suffer at the hands of internal transformation. This year's Budget proposes to again fund research and demonstrations by transfers from program accounts. In fiscal year 2017, HUD's request includes transfer authority of up to \$120 million into the Office of Policy Development and Research, up to \$35 million of which will be for research, evaluations and program demonstrations, and at least \$85 million of which will be for cross-cutting technical assistance, including place-based technical assistance. This includes training, education, support and advice to help community development corporations and community housing redevelopment organizations carry out community development and provide affordable housing activities for low- and moderate-income persons, as previously funded through the Self-Help and Assisted Homeownership Opportunity Program (SHOP) account. This modified approach will enable HUD to better integrate technical assistance and capacity building.

Upgrading the Department's Information Technology Infrastructure

In 2017, HUD is requesting \$286 million for the Information Technology Fund. HUD will continue development efforts and will focus on delivery of discrete capabilities in our FHA and voucher management systems, as well as exploring consolidation of several grant management applications. In fiscal years 2015 and 2016, HUD deployed three successful releases of the New Core project, which transitioned key administrative and financial management functions to the Treasury Department in the largest financial management shared service arrangement established to date. HUD also implemented an enterprise-wide financial system that allows the Department to resolve material weakness and audit findings through a consolidated shared services infrastructure platform. These changes are allowing HUD to deliver services and manage these multi-billion dollar programs faster, more accurately and using better information for analysis.

CONCLUSION

Chairman Collins, this Budget reflects the Administration's recognition of the critical role the housing sector must play to ensure that America becomes a magnet for jobs that strengthen the Nation's middle class, including providing economic opportunity for all Americans, whatever their circumstances. Equally important, it expresses the confidence of the President in the capacity of HUD to meet a high standard of performance.

It's about making hard choices to reduce the deficit—and putting in place much-needed reforms to hold ourselves to a high standard of performance. But most of all, it's about the results we deliver for the vulnerable people and places who depend on us most.

FUNDING FOR VASH VOUCHERS

Senator COLLINS. Thank you very much, Mr. Secretary. I want to pick up where the ranking member, Senator Reed, left off, the issue of the budget containing no new money for VASH vouchers which go to our homeless veterans. The same was the case in last year's budget, and we remedied that by putting in funding for the VASH program.

As I indicated in my statement, we have made some significant progress, in large measure due to the VASH program as well as additional programs for homelessness prevention among our veterans in reducing the number of veterans who are homeless.

It's down by 36 percent by 2010. But I very much remember the Administration having a goal of ending homelessness among our veterans by the end of last year, and clearly, that didn't happen. We're not even close to that, even though we're continuing to make

progress, and there are some cities around the country that have achieved that goal.

So my first question is, why is the Administration proposing to zero out the VASH account in terms of new vouchers? And related to that, has the Administration changed its mind about reaching the goal of no homeless veterans?

Secretary CASTRO. I definitely appreciate the opportunity to answer that question. Let me answer your second question first. The Administration is firmly committed to effectively ending veteran homelessness, and so that goal remains.

I want to commend you and the committee again, Chairman Collins, for the investment that you all have made over the years in HUD-VASH. It has been, I think, absolutely key to the 36-percent reduction that we've seen. You're right that we did not request additional or new HUD-VASH vouchers, because we believe that the resources are there for HUD-VASH for who it includes to serve.

We think that the communities are making tremendous progress with those HUD-VASH vouchers. Last year, the committee did grant us additional HUD-VASH vouchers, and we are utilizing those, and we're going to utilize them in effective ways.

But through the combination of agencies that dedicate resources to homeless veterans and other mainstream resources at HUD, we believe that we can continue to drive down the number of homeless veterans.

I would also note, and I know that we had this conversation last year, that there are some veterans who did not fit into the HUD-VASH program, were not able to be served by the HUD-VASH resources, that we believe that, through use of mainstream resources, that we can serve. One good example that I cited last year was veterans that were other than honorably discharged because of the don't ask, don't tell policy.

And so we think that we have the HUD-VASH vouchers that we need, and I commend the committee for the investment that it's made, and we can combine that with other mainstream resources and vouchers to get to functional zero on veteran homelessness.

PHYSICAL INSPECTIONS OF HUD ASSISTED PROPERTIES

Senator COLLINS. Mr. Secretary, as I mentioned in my opening statement, I'm deeply troubled by reports of deplorable living conditions in subsidized properties in Memphis, Tennessee, and Jacksonville, Florida. Last month, a judge in Cincinnati placed five HUD-assisted properties in judicial receivership after the city sued the owners regarding more than 1,800 health and safety violations.

The scale and the longevity of these problems highlight systemic concerns about the effectiveness of HUD's oversight, and those concerns are underscored by the fact that contractors hired by HUD to inspect the Florida property gave it a passing score just weeks before the city inspectors found hundreds of code violations, and indeed, the press mentions toilets leaking into bathtubs, roaches, raw sewage backing up into a bathtub, water leaking into apartments, trash, debris, sick children, a really appalling circumstance, which I know must trouble you gravely as well.

So what's wrong with HUD's system for inspection that properties could receive passing grades from HUD and then be cited by local inspectors with literally hundreds of serious code violations?

Secretary CASTRO. Yes, let me just begin by saying that, of course, I share your deep concern with the specific instances that you've cited that were mentioned in Florida and Tennessee and one in Maine recently.

And number one, I think that the vast majority of properties out there are being inspected and inspected well. And when there are issues, they're responded to in a responsible way by owners.

But there are instances that I don't think anybody can be proud of and that HUD is committed to improving our processes to better respond in a shorter timeframe to ensure that residents are not living in the kind of conditions that we've seen described in media reports and that we have received internal reports about.

So you asked what are we doing to improve this process. We have created an internal working group to look at our inspections process, to understand how we can strengthen it, to make sure that we're getting to properties like those troubled assets that have been noted in a quicker time, that we're ensuring compliance by the owners more quickly, and ultimately providing a better quality of life to residents.

Another component of this is making sure that residents get tenant protection vouchers more quickly so that they have a choice and, for the long-term, working with Congress to ensure that we can strengthen our enforcement capabilities.

So for instance, our fiscal year 2017 budget requests authority for HUD to issue double damages to owners that violate their Section 8 contract with HUD, a penalty that's less burdensome on tenants than abatement, and the same enforcement capabilities for the 202 project rental assistance contract properties for the elderly and disabled as for other Section 8 project based rental assistance properties.

So we want to make sure that we have all the tools that we can to effectively enforce, and that includes improving our own processes and working with Congress where we need that help.

Senator COLLINS. Thank you.

Senator Reed.

FEDERAL PROGRAMS FOR HOMELESS VETERANS

Senator REED. Well, thank you very much, Madam Chairman.

Again, Mr. Secretary, Senator Collins and I share this concern about the HUD-VASH vouchers, the fact that progress has been made, but there's no request this year for additional vouchers, even though roughly 48,000 veterans are still in the United States looking for homes.

Are there any other Federal partnerships or programs in place to provide housing and service to these veterans who are experiencing homelessness that could sort of soften the blow, if you will, or help you?

Secretary CASTRO. Well, there absolutely are, Ranking Member Reed, both within HUD and also in other agencies. And the U.S. Interagency Council on Homelessness (USICH) has been fantastic at coordinating the focus on veterans, but just to give you a good

example of that, the VA is continuing to fully fund the Supportive Services for Veteran Families, or SFVS, at \$300 million. They've committed to fully staffing all of the homelessness programs under their auspices. The Department of Labor has its Homeless Veterans Reintegration Program.

And we found that one of the most effective ways of driving down veteran homelessness, in addition to HUD-VASH, was to use mainstream resources, the prioritization of mainstream resources that go into the hands of veterans. And we are absolutely committed to continuing to do that.

UPDATING STANDARDS FOR LEAD PAINT

Senator REED. Thank you, Mr. Secretary. There's another area that the chairman and I share, and that is the lead exposure. And we've all been galvanized by the incident in Flint from water pipes, but roughly 70 percent of exposure comes from lead paint, which is ubiquitous. It's all over the place, particularly in older neighborhoods like Bangor and Portland and Providence.

And as you mentioned in your testimony, the CDC recently has strengthened the lead standard, because they found that minute quantities of lead are toxic, very toxic to children, and cause long-term damage. And you suggested that HUD is going to modify your stand to reflect this. Can you give us an idea when that will happen?

Secretary CASTRO. Yes. Well, we just submitted, on March 8, the proposed new rule to the OMB, and so this will go through the rulemaking process. One of the components of this is to bring our standard in conformity with the CDC standard.

I will note that, since 2013, we actually have strongly recommended that our grantees conform to that standard, but I also understand that strongly encouraging is not the same thing as requiring, so it will require that. It will also make more robust responsibilities that folks who come into knowledge about elevated blood levels in children have in terms of notification.

I also applaud—I know Senator Durbin is working on and other have proposed a lead-based paint legislation. We look forward to doing what we can with this new rule and also working with Congress to improve enforcement and inspections and so forth.

LEAD PAINT INSPECTIONS

Senator REED. And you've sort of led me to my next question, which is the issue of inspection. The chairman pointed out the broad based issues in terms of how do these properties slip through. When it comes to lead, information we have is it's sort of a variable standard, and it's not consistently enforced. And as you increase and strengthen the regulation, you literally will have more units that fall outside the standard.

Can you talk about how you're going to ensure that there's a consistent standard for lead inspections, it's enforced consistently, particularly in an additional group of units?

And the other issue I would just point out, and you suggested, too, is many times the only way you find out about this, not by a proactive inspection, but the child shows up in an emergency room, they draw blood, and they found they've been exposed, and then

suddenly, they go to the unit and start inspecting and saying, "Boy, this is terrible." I think we've both like to see that reversed. Your comments?

Secretary CASTRO. I believe we're in agreement here, and we're committed on our end actually to working toward a common inspection standard, and we're committed basically to improving this process fully within what is in our authority, including on the inspection standard.

You're correct that right now, based on whether it's multifamily housing or Section 8 housing, there are different categories of requirements and inspection standards, and we would like to work to bring those into harmony. And some of that, we can do on our own. Other pieces of that, we're definitely going to need congressional help.

I met with Senator Durbin just a couple of days ago on this issue, and so look forward to working on it.

Senator REED. Thank you.

Senator COLLINS.

Senator COLLINS. Thank you very much, Senator Reed.

Senator Schatz.

HOUSING VOUCHERS FOR THE HOMELESS

Senator SCHATZ. Thank you, Chairwoman Collins and Ranking Member Reed. And I want to thank Secretary Castro for the help that HUD has provided to Hawaii. And I had the opportunity yesterday to meet with Jennifer Ho and talk about our partnership with the PHAs and service providers in the State, and I just wanted to say thank you to you and your excellent staff.

And I also want to request that you stay engaged and make sure that, as we transition to a new administration, that we retain the commitment at the career professional level to maintain continuity. Whatever happens in city, State, and Federal administrations, this is a partnership that I think has to continue.

With respect to homelessness, I support the request for additional housing vouchers, but I want to understand how these vouchers are going to be allocated if funded.

And specifically, I want to make sure that places like Hawaii, that have the need certainly to justify more resources but are smaller than some of the big urban areas with needs that could frankly swallow up whatever else we're able to appropriate, how do we make sure these dollars are spent throughout the country wherever there are needs, including Hawaii, but also other rural areas?

Secretary CASTRO. And thank you, Senator, for your engagement with our staff. I know you and I have had the opportunity to sit down and speak to these issues, and I know how engaged you are on this and what a pressing challenge it is in Hawaii. I also just recently met, visited with the governor, and have, on a couple of occasions, visited with Mayor Caldwell of Honolulu.

Your question relates to essentially making sure that communities like those in Hawaii get their fair share, I imagine, of resources. And I want to assure you that, as we allocate these vouchers, that we do so in a way that ensures that it's not just the biggest of cities or the usual suspects, so to speak, that get these resources.

They're allocated, in fact, based on relative need, and that need is not determined just based on population, but instead, it considers other factors, such as the rate of homelessness in the area, availability of existing resources, the geographic concentration, housing market conditions, and other pertinent factors.

And so it is a multidimensional analysis that goes into the allocation of these vouchers. I'm very well aware of the challenge there in Honolulu particularly and on the West Coast more broadly.

I had a chance to sit down with several mayors in a West Coast mayor's summit to tackle some of these issues of growing street homelessness, unsheltered homelessness, and we look forward to continuing to work with you and the folks in Hawaii on this challenge.

Senator SCHATZ. Thank you. And thanks to Senator Reed and Chairwoman Collins' leadership.

NATIONAL HOUSING TRUST FUND

As you know, 2016 will be the first year that the States receive an allocation from the National Housing Trust Fund to focus on creating affordable housing options for people earning 30 percent of area median income (AMI). When do you expect to be able to push these dollars out?

Secretary CASTRO. Yes, we expect that the first allocations of the Housing Trust Fund, the HTF, will be made this summer.

There's a timeline here that will kick off basically in April, where States will have to submit to us a State allocation plan, and then we'll have 45 days to respond to that. So we think that the timeline, we're confident that the timeline now for the States that most timely submit their plan is going to be in the summer.

And we look forward to that, because, as you mentioned, this HTF is important, because it's serving extremely low-income individuals which suffer from the biggest gap in affordability for housing that is out there. So it's a unique tool that we can use to fill that gap.

FAIR MARKET RENT CALCULATIONS

Senator SCHATZ. Thank you. And in my limited time left, I'd like to just flag an issue for you, which I'm sure you're aware of, but especially in the State of Hawaii, this fair market rent (FMR), the level that is set in terms of FMR, is just totally unrealistic.

For instance, on Kauai, HUD set FMR for a two bedroom unit at \$1,238. It's actually \$1,800 throughout the island of Kauai. And so that's too big of a delta for people living on fixed income. It's too big of a delta in a place where we pay three to four times the national average in terms of electricity.

And so we're going to need your help to kind of remedy this, first of all in terms of the way you set FMR, but second of all, then you ask the county to conduct a study at its own expense, \$50,000 or so, and then I think that, you know, at both of those steps, we're not doing this right. Thank you.

Secretary CASTRO. Thank you.

Senator COLLINS. Thank you very much, Senator.

Senator Daines.

Senator DAINES. Thank you, Madam Chair. Secretary Castro, welcome to the committee.

I grew up in the housing business. My dad's a home builder, so I spent most of my summers working on construction crews there putting myself through college. And this is such an important issue for me personally, certainly housing, difference between a house and a home, right, such an important part of America, the American dream and so forth.

But this hearing does come in the wake of a long trail of instances, established a pattern within HUD of waste and abuse of taxpayer funds. I want to probe that a bit here with you, if I could, Secretary Castro.

Certainly, the mission of HUD is very laudable. The fact is, is repeatedly misallocated resources, that are meant to really help low-income households in the ordinary course of operations, and I'm concerned about accountability.

HIGH INCOME HOUSEHOLDS IN PUBLIC HOUSING

You've seen the July 21, 2015 inspector general report, which revealed that HUD provided housing assistance to over 25,000 households that exceeded the income limit, some earning incomes over \$90,000. These misallocated funds total over \$100 million.

At the same time, there were 600,000 low-income families were left waiting in public housing backlog. Let me put that in perspective. That's more families than in my entire State. These numbers aren't small.

The first question is, does HUD accept the responsibility for the over \$100 million that OIG estimated was misallocated away from low-income households?

Secretary CASTRO. Thank you for bringing this up, Senator. We share the concern here, of course. And the report from the inspector general did identify those 25,000 units out of about 1.1 million units.

We share the concern. We agree with the inspector general that, particularly in these egregious cases, some of which were pointed out in that report, these egregious cases of over-income tenants that they ought not to be living in public housing. So we, in short order, sent out a letter to public housing authorities strongly encouraging them to address these cases.

We also have put out an advanced notice of proposed rulemaking that would actually allow us to change the way that we handle these cases.

Senator DAINES. Yes, Secretary Castro, on that point, and I appreciate that rulemaking, that was result of what was required and prompted by the fiscal year 2016 appropriations bill.

Secretary CASTRO. Well, I think it's consistent with what the direction that HUD wants to go in as well. It's also true, though, that this issue has come up before. It came up a few years ago and was in the hands of Congress. And I think what it boils down to is that there needs to be some nuance in how this is approached.

For instance, if somebody is, you know, literally making \$20 more than the income cutoff, are we going to summarily put them on the street because they're \$20 off? It requires, I think, a recognition that we do want folks who live in public housing to work and

try and earn more income, so that they can better themselves and become upwardly mobile.

I think the challenge is, how much of a grace period do we give folks, recognized that we want them to be able to be more self-sufficient.

Senator DAINES. Yes, and I'd agree that the \$20 probably gives us less heartburn than those who were found making in excess of \$90,000 a year, which I think is a real concern.

Secretary CASTRO. I agree. Yes, I agree.

OFFICE OF INSPECTOR GENERAL—SEMI-ANNUAL REPORT TO CONGRESS

Senator DAINES. I want to pivot over and talk a bit now about another issue which the HUD inspector general semi-annual report to Congress published just this last September, September 30, 2015. The audit results revealed \$1.9 billion, with a B, of funds that could have been put to better use, according to the report, and \$2.1 billion in questioned costs. And again, I'm quoting the inspector general. I believe Congress must ensure that HUD is a good steward of taxpayer funding, and I'm sure you'd agree with that.

My question is, the inspector general just published its report here end of last fiscal, what can we expect the next semi-annual report that will be issued March 31, which is coming up here in a few weeks? What number can we expect to come out of that report, and what's your goal?

Secretary CASTRO. Well, our goal is that all funds are used exactly as they should be and that we improve our performance on this score. And so let me assure you that—and I know that the inspector general is going to testify in just a little while—

Senator DAINES. Well, let me say this. I spent 28 years in business. I understand aspirational targets, and certainly, we should aspiring to zero. But there's an old saying, at least coming from business, if you aim at nothing, you'll hit it.

I mean, is there a goal set here? If the inspector general said there's \$1.9 billion of funds that could be put to better use and \$2.1 billion questioned costs, did anybody sit down and say, okay, we're not going to get that overnight, we better set a target here, try to hit here in the next report?

Secretary CASTRO. Yes, the way that we approach that is to work with the inspector general and say these are the recommendations that the inspector general made so that we can cut down on those instances, and our goal is to implement those recommendations. And so across the board—

Senator DAINES. Well, let me say, a goal of implementing is an activity. I'm looking for the results. What result do you expect we'll see here? The activity produces—ultimately, it's a mean to an end. What's the end going to be do you think?

Secretary CASTRO. So I'd be glad to follow up with you on the ones that can implemented within this fiscal year, because you asked about the fiscal year, and so it depends on which ones can be implemented during the fiscal year and what their budgetary impact would be.

Senator DAINES. That would be helpful, because I think it's important that we all hold ourselves accountable with something that's quantitative. And so this will be a mid-fiscal report, then I'd

like to see a glide path March 16—or excuse me, March 31 will be a number followed by a September 30 number here as we’re trying to make that number lower.

It’s not going to get to zero, I think we all agree. We’d like to see it at zero. I think it’s important we have some glide path metrics here, so we can make sure we’re making progress here, reduce the waste and abuse of the program.

Thank you, Secretary Castro.

Secretary CASTRO. Thank you.

Senator COLLINS. Thank you, Senator Daines. I want you to know that one reason I’m inviting the inspector general to testify both at both HUD and Transportation at our hearings is precisely because of the issues you’ve just raised, so that we can make sure we hear from the inspector generals on the areas that deserve our further attention as well as the Secretary’s. So thank you for raising that issue.

Senator Murphy.

Senator MURPHY. Thank you, Madam Chairman. Good afternoon, Mr. Secretary. Good to see you again. Thank you very much for your visit to Connecticut about a month ago. You were very generous to spend a day with us, and we’re busy at work on many of the initiatives that you helped us launch and accentuate while you were there.

CHURCH STREET SOUTH PROJECT

I wanted to cover two topics with you this morning, one related to your visit, talk a little bit about HUD’s work with the city of New Haven to address the Church Street South project that you remarked on when you were there, and second, talk a little bit about the 811 Supportive Housing program moving forward.

But first, I think this is your last appearance before the Appropriations Committee. I just want to thank you personally for your work, for your focus on many of our shared priorities, and we really have noticed how attentive and the Administration has been to many members of this committee. So I thank you for that.

So maybe I’ll start with our situation in New Haven. You know the details. This is a HUD-funded project, Church Street South, that is really in absolutely decrepit condition, to the point where we’ve had to move many of the residents out. Black mold, bedbugs, really bad crumbling lead infrastructure are the main causes.

And I guess my question to you is two-fold. I just want to get your continued assurance that HUD is going to continue to work with us, not just to move the residents out of that facility but to then rebuild that affordable housing capacity, but second, what we’ve learned is that the Real Estate Assessment Center (REAC) doesn’t really look at some of the conditions that were the root cause of the problem in Church Street South. So for instance, black mold, bedbugs, and lead don’t seem to be part of that assessment.

And so I know you’ve got a short amount of time left between now and the end of the President’s term, but are you thinking about ways to make these REAC assessments maybe mirror some of the real threats that a lot of families are dealing with, mold and bedbugs at the top of the list, which are becoming, you know, real epidemic problems in places like Connecticut?

So one, do we have your continued commitment to help solve this particular problem? And then is there a reform of REAC that you'll be working on?

Secretary CASTRO. Yes, and let me just briefly say thank you, and I enjoyed the visit to Connecticut and having the opportunity to hear some of the concerns of folks throughout the State. And of course, we have been working on Church Street. We'll look forward to making sure that those residents have what they need in terms of tenant protection vouchers.

REAC INSPECTION PROCESS

To answer your question just directly, the answer is that we do need to improve our REAC inspections process. And I believe we can make some of those improvements internally, on others that we may need legislative help.

You brought up mold, for instance. It's my understanding that one of the challenges that we have is that right now, the detection of mold does not trigger a negation or subtraction of points to the degree that it probably should and that we need to adjust the scoring system there, and that in this case and in some other cases that we've seen, that that would help us be able to get to intervention or enforcement quicker.

So we would like to work with you. You absolutely do have my commitment to continue to work with you, both in ways that that can be improved, that that process can be improved, and that we ensure we're taking care of those residents.

SECTION 811 SUPPORTIVE HOUSING

Senator MURPHY. I appreciate both of those commitments.

In the time that I have remaining, just wanted to talk to you about the Section 811 Supportive Housing program, what a tremendous success that program has been over the course of the last 3 years. We were building about 500 new units out of 811 with Federal dollars when I came to Congress, in part because of legislation that I helped write, where now, over the last 3 years, we built 7,500 units with Federal dollars, great credit to the folks who have administered the changes that the law included in your Department.

But this year's budget, I think, flat funds 811. After 2 years of requests of about \$25 million in increases, there's not any new money in 811 this year. I just wanted to sort of ask you about the decision to flat fund 811 and ask you to give an update on the continued reforms that are really leveraging massive private sector and State level and local level dollars.

Big success story, but I don't want our successes to abate and us to maybe think that we don't need to allocate as much Federal money because of our success in getting other partners to put money into these projects.

Secretary CASTRO. And certainly, we're proud of those partnerships, and as you know, in 2012 and 2014, we completed two NOFA competitions that resulted in the award of \$218 million to 28 States and the District of Columbia.

You're right that we did request last year, I believe, funds for 700 new units. That request is not in the budget. I do put this into

the category of very tough choices that we made in this budget, but that's not because we're not committed to the 811 program. We see the value of it. We see the housing opportunity that it is creating out there for a needy population and look forward to continuing to work with you on it.

Senator MURPHY. States like ours are just in tremendous budget crunches, in part because, when you don't properly house these individuals, the cost of inappropriate care, where it—be in emergency rooms or prisons, gets passed largely down to State governments.

And so, coming from a State that has pretty regular budget deficits these days, this small investment that we make at the Federal level saves an awful lot of money to the taxpayer at the State level.

I know I'm preaching to the converted here, and I thank you for your commitment to the 811 program. Thank you, Madam Chair.

Senator COLLINS. Thank you. Senator Murray, welcome back to your old subcommittee.

Senator MURRAY. Great to be here. Thank you for the great job that you're doing, both of you. I really appreciate it.

HOMELESSNESS

Mr. Secretary, good to see you again. Let me start with an increasingly urgent issue in my State, that's homelessness, which I know is a struggle for many States, but it's gotten so bad now that the mayor of Seattle and the King County executive have both declared states of emergency. And I believe this issue really demands a coordinated and robust response from local, State, and, of course, the Federal Government.

The numbers actually really tell the story here. In the early hours of January 29, hundreds of volunteers walked through Seattle and King County neighborhoods, as they do everywhere, to count the number of people sleeping outside in doorways, cars, beneath overpasses, or just on the ground.

The preliminary results show a 19-percent increase in the number of unsheltered men, women, and children, and some parts of our county experienced increases of over 50 percent over last year, and that's, of course, on top of double digit increases the year before.

These are really heartbreaking situations for everyone, especially tragic when more and more children are involved. But it's not just happening in our most populated areas. It's happening in our suburbs, it's happening in smaller cities, Longview and Vancouver in my State, where families are actually being priced out of their homes.

And I really think it's important that the Federal Government does all it can to help provide the resources in coordination with State and local authorities. I was really encouraged to see the President's commitment to addressing this crisis reflected in your Department's budget request with targeted investments in rapid rehousing, permanent supportive housing, and new vouchers.

Many organizations in my State, from our housing authorities to groups like Seattle's Downtown Emergency Service Center, are really providing some excellent examples of how these investments can change lives for the better.

I wanted you to talk for a few minutes about HUD's strategy for addressing homelessness. And is there sufficient coordination between the different levels of government here?

Secretary CASTRO. Thank you, Senator Murray, for your leadership. I know that you and I have had a chance to speak on some of these issues, as well as Moving to Work (MTW), which I know is important to you.

Senator MURRAY. Right. Which thank you very much for your staff for working on that.

Secretary CASTRO. So we have had a lot of success over the last several years in reducing not just veteran homelessness but family homelessness, chronic homelessness. But it's also true that in the last year to 18 months, we've seen a spike in unsheltered homelessness in some communities, and particularly along the West Coast.

A few months ago in Portland, I joined the mayors of Seattle, Portland, San Francisco, and Los Angeles at this West Coast mayor's summit to address these very issues.

And so, number one, I want to assure you that our staff is working hand in hand with the Seattle mayor to see how we can provide technical assistance. We spoke at that meeting about waivers that might be offered to ensure that they could be as effective as possible with their resources. We spoke about the need for continuing to invest in housing first, because that is the most effective way to end homelessness, but recognizing that we need a successful street strategy as well for the unsheltered population.

And we see a similar thing in Los Angeles, that it's not just on skid row, it's out there in the suburbs and the other parts of LA that people don't normally think of as having homeless people.

So that's why I'm very proud of the proposal that's in this budget, both on the mandatory side and on the discretionary side, and particularly with regard to the population that we're talking about, the rapid rehousing intervention as well as the 25,500 units of permanent supportive housing to deal with chronic homelessness, these are the, I think, strategic investments that we can make to deal with the challenge.

Senator MURRAY. And I want to thank our chair, Senator Collins, and our ranking member, Senator Reed, for the commitment they have continually shown to make sure that no family who relies on a voucher to stay in a safe home loses that support. Even when this subcommittee had a really tough allocation last year, you made a commitment to that, and I really appreciate it.

LOCAL RENT COSTS

I'm going to work to continue to protect those existing vouchers and, of course, work for more. But a major challenge for HUD is proper allocation of the resources it has given for the voucher program. This is a really difficult task, given the complexity of local housing trends across the country, and I really do want to applaud you and your Department for working hard to continue to refine the formula used to accurately capture local rent inflation.

Seattle and King County in particular have experienced huge year-over-year rent increases that couldn't have been predicted. When HUD last fully revised its inflation formula, it was back in 2012. I was glad to hear that, when this year's inflation factor was

announced recently, HUD was better able to capture that drastic increase.

But this is an issue that requires continued analysis, and I just want to ask for your commitment to continue to examine that renewal funding inflation factor, to make sure it's working for what we need to today.

Secretary CASTRO. We absolutely will. And, you know, we were pleased to work in forecasting as we set those levels, and I think that's important, particularly for communities like Seattle, which ranks at the top in terms of the increase in rent. So we absolutely can make that commitment.

MOVING TO WORK

Senator MURRAY. Okay. And I did want to thank you, again, for your staff's hard work on the Moving to Work. It was really essential. And separately, if you can give us an update on how that's working, I'd appreciate it.

And I just wanted to mention to you, we have a vacancy in our regional HUD administrator office, and I've heard from many that the acting regional administrator, Donna Batch, has been just providing excellent reliable leadership, and I hope we can get that filled soon.

Secretary CASTRO. I'm glad to hear that. Thank you.

Senator MURRAY. Great. Thank you.

Senator COLLINS. Thank you, Senator. We will do one more round of questions for the Secretary before we turn to the inspector general. I know he's very much looking forward to another round of questions, and I didn't want to disappoint him in any way.

COMMUNITY DEVELOPMENT BLOCK GRANTS

Mr. Secretary, I mentioned how disappointed I am that the budget, once again, proposes a \$200 million reduction, that's nearly 7 percent, in the Community Development Block Grant program. Last year, the justification was that there were going to be legislative changes submitted to the Congress that would somehow justify the funding cut. We never received those legislative proposals.

Once again, in this year's budget request, the same funding reduction exists and the same promise of a legislative proposal that would justify the funding reduction is made. What are those legislative reforms, and when will we receive them?

Secretary CASTRO. Yes, thank you very much for the question. And I will say that I am a big fan of CDBG. As a former mayor, that was my favorite program.

Senator COLLINS. You're a mayor, right.

Secretary CASTRO. And I know how flexible it is. The mayors were in town last week, and of course, every time I see them, they mention how much they appreciate CDBG. So I am very much aware of how important this program, this particular program, is to America's local communities, and we do want to preserve it.

We do intend—we would like to submit legislation to create more flexibility and also to help communities maximize the resources that they have now. One example of that was for smaller communities, allowing them to share in terms of overhead cost or pool

their overhead costs, their administrative costs, so that they can use more of that money in an impactful way.

Something else that we're proposing here is this upward mobility initiative, and that's an initiative that would allow 10 communities, in a demonstration way, to pool their Community Development Block Grant, their home money, their Social Service Block Grant, and Community Service Block Grant funds between HUD and the Department of Health and Human Services (HHS), pool those together and get a bigger bang for their buck on local projects. We think that that's one way of making that money go further, by enhancing flexibility.

The other part of it, I would say, just candidly, chairman, is, you know, that we do see this extreme challenge with the housing need. And right now, our best estimate is that 25 percent of CDBG is actually used directly on housing.

And so what we have are—it's a great program, and I know that it's not only meant for housing, that it's meant for other infrastructure investments in local communities, and I know when I was mayor, we used it for that as well.

But in these difficult choices that we're making in the budget, also, we've chosen to focus a little bit more on, okay, how can we get that direct housing money to communities, and that's another reason.

Senator COLLINS. Well, we look forward to getting the specifics. I'm glad that you talked with your fellow mayors, and that they reminded you of the value of this program. It's been absolutely critical as the lynchpin of many economic development projects in my State, whether it's revitalizing downtowns or cleaning up waterfront areas. And it has produced investment, jobs, and better housing as well.

YOUTH EXITING FOSTER CARE

As you know, based on your visit to Maine, and I very much appreciated that visit where we went to the New Beginnings Youth Homeless Shelter in Lewiston, the issue of reducing the homelessness among our youth is one that is a passion of mine. And last year, Senator Reed and I worked very closely together to provide some new funding, despite the budget constraints.

But one area where there's clearly a breakdown among the supporting agencies at all levels of government is in the context of youth who are aging out of the foster care program. Youth that are exiting foster care are at a significantly higher risk of falling into homelessness, yet HUD's budget materials are silent, not only on coordination with the child welfare system, but also on how to better leverage these significant funding resources.

What is HUD doing to better coordinate with State and local facilities to help those young people who may, in some States, still be in high school, and yet are aging out of the foster care program and literally have nowhere to go?

Secretary CASTRO. Yes, thank you so much for that question. Number one, we do coordinate with child welfare agencies. And you're right that this is a particular challenge for young people who are aging out of that foster care system. And so we believe that, and we have proposed that, we be able to extend the time that a

person can avail himself or herself of that voucher from 18 months to 5 years, and that that is just so important to ensure stability in the person's life.

In the demonstration project that we've undertaken, we've combined it with family self-sufficiency. So we believe that the combination of these two, going up to 5 years and participation in the family self-sufficiency program, will set that young person on a more stable course to be able to, you know, get a job, be gainfully employed, provide for themselves, and become self-sufficient, because you're correct that all of the data shows that this is a particularly vulnerable population.

And we would be glad to follow up with you. If there are other ways that you think we ought to be working with child welfare agencies, we're glad to do it.

Senator COLLINS. Thank you very much.

Senator REED.

UNITED STATES INTERAGENCY COUNCIL ON HOMELESSNESS

Senator REED. Well, thank you, Madam Chairman, again.

One of the issues that's come up persistently is most of these programs, if not all of them, require interagency coordination. And when you responded to my question about VASH, you mentioned the Interagency Council on Homelessness, and that was formed in the 80s. It's scheduled to expire in October 2017. Actually, about ten times, it's been scheduled to expire. But it raises the issue of how you're going to do the coordination with veterans, for example, with the Department of Veterans Affairs (VA), with Department of Defense.

When it comes to the youth homelessness program, which Senator Collins led on, really, that's going to—engagement with Department of Education, engagement with local education authorities, Department of Labor. Will the demise or the projected demise of this Interagency Council impede your efforts in any way, or how are you going to plan to compensate for this?

Secretary CASTRO. Yes, and I'm glad to get to address this, Senator. USICH has just been tremendously important to achieving the reductions in homelessness that we have seen across the board. And the best example of that has been on veteran homelessness.

USICH coordinates the activities, as you know, of 19 different Federal agencies. Earlier in my remarks I mentioned, in responding to a question about HUD-VASH, about SSVF, about the Department of Labor's programs. Of course, there's HHS and so forth.

USICH has very effectively taken those different pieces and helped the agencies break through silos to work together effectively to reduce veteran homelessness. And it's doing the same thing this year on youth homelessness and other types of homelessness.

So I just want to note that I strongly support the President's call for extending the agency's authorization, at least until 2020. I believe that we would not nearly be where we are on veteran homelessness had it not been for the leadership at USICH. We just can't accomplish it in the same way without that coordination.

YOUTH HOMELESSNESS

Senator REED. Let me focus more specifically on youth homelessness. Again, last year, the subcommittee included \$33 million for demonstration to test and target intervention for youth. You're requesting this year \$25 million for a continuing care project that targeted youth. Does this \$25 million build on, complement? How is it related to the existing \$33 million program?

Secretary CASTRO. Yes, the way we see it—of course, what we see out there is tremendous need. And so we were very, very pleased with the \$33 million that was dedicated last year. We're in the process of making that real for communities out there, and we look forward to a competitive process and then an implementation where communities across the United States, who are being innovative and creative, will be able to drive down their numbers of youth homelessness.

This \$25 million request is meant to build on that, to further drive down those numbers on youth homelessness. And we think that the experience that we've had working in a cross-agency way on veteran homelessness will be very helpful as we address youth homelessness and family homelessness as well.

Senator REED. And you're confident that you can get the grants out under the existing \$33 million in such a way that they're ready to accommodate additional grants under your proposal this year?

Secretary CASTRO. I am confident.

Senator REED. Because one thing, frankly, we don't want to be in a situation where you're still really honestly trying to work out a grant program, and then you ask for sort of an additional add-on, but that, I think has—

Secretary CASTRO. Yes, I know, and I should have been more precise, perhaps, to say that I am confident in that, that we have a very dedicated team, and that we would ensure that that's done so that these two can work together.

FAMILY SELF-SUFFICIENCY PROGRAM

Senator REED. Let me ask a final question about the family self-sufficiency program. In 2015, we gave the Department authority to expand the program to project-based Section 8 households, and since then, you have started to pilot this at several sites. Can you give us the status of the pilot and when you think you'll be prepared to issue guidance so that all project-based property owners can apply or have access to it?

Secretary CASTRO. Yes, you know, we do believe that it makes sense for PBRA, or project-based rental assistance, to be able to participate in family self-sufficiency (FSS). And so right now, to give you an update, we're finalizing the implementing notice for FSS in multifamily properties. And we're looking forward to getting stakeholder feedback, and we're going to post the draft notice to the HUD Web site by March 15 to see comments from stakeholders.

Senator REED. Thank you. Thank you, Madam Chairman.

Senator COLLINS. Thank you very much, Mr. Secretary. I know that many of the members as well as Senator Reed and I have ad-

ditional questions, but we will submit them to you for the record, and we will keep that record open until Friday, March 18.

Senator COLLINS. We will now go to our second witness, Inspector General Montoya.

Secretary CASTRO. Thank you all very much.

Senator COLLINS. Thank you very much, Mr. Secretary. Mr. Inspector General, please proceed.

STATEMENT OF HON. DAVID A. MONTOYA, INSPECTOR GENERAL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. MONTOYA. Chairman Collins, Ranking Member Reed, and members of the subcommittee, thank you for the opportunity to discuss the Office of Inspector General fiscal 2017 budget request, the Department's top management and performance challenges, and our oversight of HUD's programs and operations.

I'm pleased to highlight the results from fiscal year 2015 semi-annual reports to the Congress and how our budget request supports and advances our efforts.

In 2015, our audits and other reviews resulted in nearly \$2 billion in recommendations that funds be put to better use, over \$2 billion in questioned costs, and nearly \$500 million in collections. Our investigative efforts also led to nearly \$670 million in restitution, judgments, recoveries, and receivables. When you add in our civil recoveries and receivables, our total results are close to \$6 billion.

According to an April 2015 report by Brookings, my office ranked third of all Office of Inspectors General for a high return on investment, meaning that for every dollar my office spent, we brought in approximately \$30 in savings or recovered funds between 2010 and 2014. Our overall return on investment for fiscal year 2015 is over 46-to-1.

Our request of \$129 million in fiscal year 2017 includes additional funds to hire specialized skills and resources to fund cost of living adjustments, increased benefit costs, and within grade increases. Our request is a modest one that will assist us not only to continue but to enhance our efforts and oversight of two very large financial institutions which are vital to the U.S. economy.

We will continue to build on the successes of the last number of years and ensure our work provides the means to keep the Secretary and the Congress fully and currently informed about the Department's problems and deficiencies while also highlighting best practices. I note that we have seen efforts by the Department to address their challenges.

Our mission is to also promote economy efficiency and effectiveness in the Department's programs and operations. In doing so, we have determined that achieving HUD's mission continues to be an ambitious challenge for its limited staff, given its diverse programs, the thousands of intermediaries assisting the Department, and the millions of beneficiaries of its housing and development programs.

Proposed and new program changes have introduced new risks, oversight, and enforcement challenges. For example, the national credit and financial crisis continues to have a profound impact on departmental operations. HUD is an important component of the Nation's housing industry, and in that, FHA-insured mortgages fi-

nanced approximately one-fourth of all home purchases in the United States. FHA's portfolio now exceeds \$1 trillion.

Over the past 5 years, Ginnie Mae has seen its outstanding mortgage-backed securities increase by more than 50 percent and has experienced its fastest growth in the last 6 years. As of August 2015, Ginnie Mae's mortgage-backed securities portfolio exceeded \$1.6 trillion and is estimated to reach the \$2 trillion mark in a little over a year.

We remain concerned that increases in demand on the FHA program are having collateral implications on the integrity of Ginnie Mae's mortgage-backed securities program, including the potential for increases in fraud.

Finally, in October 2016, my office reported on nine management and performance challenges facing HUD in 2016 and beyond. Our work has noted that these challenges are so interrelated and interconnected that one impacts another to such a degree that, in many cases, the Department will not be able to remedy one without first correcting another. This becomes a taxing challenge to determine which needs to come first or whether several need to be accomplished simultaneously.

A common thread underlying many of these management and performance challenges is the lack of a cohesive department-wide approach to enforcement, risk management, monitoring, and following through on our findings.

While HUD is starting to make some changes in certain programs to correct this, we will continue to stress a department-wide risk monitoring approach that is data driven and supports taking appropriate actions when warranted.

I want to acknowledge that I have regular meetings with Secretary Castro and Deputy Secretary Coloretti on HUD's management and performance challenges, and their continued interest and focus is paramount to ensuring HUD can address and correct these longstanding issues.

My office is strongly committed to working with the Department and the Congress to ensure that these important programs operate efficiently and effectively as intended for the benefit of those most in need now and into the future.

Again, thank you for the opportunity. I'm looking forward to the questions that you may have of me.

[The statement follows:]

PREPARED STATEMENT OF HON. DAVID A. MONTOYA

Chairman Collins, Ranking Member Reed, and Members of the Subcommittee, I am David Montoya, Inspector General of the U.S. Department of Housing and Urban Development (HUD). Thank you for the opportunity to discuss the Office of Inspector General's (OIG) fiscal year 2017 budget request. The committee also asked that I address the Department's top management and performance challenges and my Office's oversight of HUD's programs and operations.

The Department's primary mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD seeks to accomplish this mission through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. It relies upon many partners for the performance and integrity of a large number of diverse programs. Among these partners are cities that manage HUD's Community Development Block Grant funds, public housing agencies that manage assisted housing funds, HUD-approved lenders that originate

and service FHA-insured loans, Government National Mortgage Association (Ginnie Mae) mortgage-backed security issuers that provide mortgage capital, and other Federal agencies with which HUD coordinates to accomplish its goals. HUD also has responsibility for administering disaster assistance programs which has evolved substantially over the years. It also has assumed a prominent role in administering new mortgage assistance and grant programs in response to the Nation's financial crisis, to increases in foreclosures, and to declining home values.

I want to acknowledge that I have continuing open dialogues with Secretary Castro and Deputy Secretary Coloretti on the management and performance challenges that the Department faces and on the work my office does to bring these matters to their attention. I meet regularly with them and their key staff on areas of concern.

I am pleased to highlight the results from our last two Semiannual Reports to the Congress which showcase key results for fiscal year 2015. The Inspector General Act requires each inspector general to report on its results every 6 months. My office is charged with eliminating and preventing fraud, waste, abuse and mismanagement in HUD programs and operations, and the audits, evaluations and investigations conducted by my office have had a significant impact on safeguarding Federal funds. My office takes the approach that early detection and prevention are key to ensuring taxpayer funds are not lost. During the last two 6-month cycles, we issued 148 audits and other reviews, which resulted in nearly \$2.0 billion in recommendations that funds be put to better use, over \$2.1 billion in questioned costs, and nearly \$500 million in collections from audits. Our investigations led to nearly \$670 million in restitution, judgments, recoveries and receivables. Our audits, evaluations and investigations assist HUD in identifying program vulnerabilities and the rest of my testimony will focus on the management and performance challenges faced by HUD as well as the OIG's budget request for the upcoming fiscal year 2017.

OVERVIEW

The mission of the Office of Inspector General is not only to prevent and detect fraud, waste, and abuse in the programs and operations of the Department but to promote economy, efficiency and effectiveness as well. We accomplish this by conducting independent audits, evaluations, and investigations. The work performed by our auditors, evaluators, and investigators provides the means to keep the Secretary and the Congress fully and currently informed about the Department's problems and deficiencies while also highlighting best practices. After identifying problems and deficiencies, we make recommendations to improve operations and follow-up with departmental officials on corrective actions. We are committed to reducing fraud at the outset or at least halting it at the earliest opportunity. Protecting taxpayer dollars is one of the Inspector General's highest priorities in order to account for money going to the right place, doing what it was supposed to do, and having the results it was intended to have. We actively pursue financial and other fraud schemes in all of HUD's programs that can have a significant economic impact often at the expense of the American taxpayer.

FISCAL YEAR 2017 REQUEST

OIG requests \$129 million and 655 Full Time Equivalents (FTE) in fiscal year 2017. This includes additional funds for the cost of new hires and resources to fund cost-of-living adjustments, promotions, increased benefit costs, and within grade increases. Despite some struggles to replace lost staff previously due in part to budget interruptions, in fiscal year 2015 the OIG was able to make gains in total FTE as part of the overall goal of building the organization back to pre-sequestration levels. The OIG is continuing to build on this success into fiscal year 2016. Utilizing this active workforce management should allow the OIG to maintain a staffing base that is moving closer to historical norms and what is needed based on workload facing the organization. Twelve new FTEs are requested for fiscal year 2017 representing a small increase over fiscal year 2016. Approximately seven FTE will operate within the Office of Audit, where the skill sets needed will mostly concentrate on the increased workload as a result of bringing the HUD consolidated financial statement audits in-house which requires highly specialized skills in Federal financial auditing, actuarial modeling, and information technology (IT) skills. The remaining five new FTEs will bolster the Office of Evaluations multidisciplinary teams that work on overseeing, testing, and improving the information security systems and protocols in place within HUD, which require highly technical skills in IT security and penetration testing, especially in light of breaches to Federal IT systems.

OIG PROGRAM DIVISIONS

Office of Audit

The Office of Audit (OA) is responsible for conducting audits to identify, evaluate, and report on the Department's activities and programs so corrective actions can be taken and future problems can be prevented. Auditors assigned to headquarters and to seven regional offices initiate audits based on information obtained from program officials, program research, complaints, congressional requests, and risk assessments.

OA provides oversight across a wide array of responsibilities. The funding requested for the mission of OA allows the organization to expand and concentrate its expert oversight in several areas:

- Financial audits consisting of the HUD Consolidated Financial Statement including the audit of FHA (\$1.2 trillion mortgage insurance program) and Ginnie Mae (\$1.6 trillion in mortgage-backed securities) which determine whether financial statements are fairly presented, internal controls are adequate, and regulations have been followed. Because of the critical impact these agencies have had to the financial stability of the national economy particularly during the last downturn, the OIG began performing FHA's and Ginnie Mae's financial audits in-house in fiscal year 2014. This was done to ensure the highest level of accuracy and due diligence.
- Information system audits determine, among other things, the adequacy of general and application controls, and whether security over information resources is adequate, and in compliance with system development requirements. Ensuring taxpayer and HUD client information is stored with the guarantee that it will be safe and private is something system audits seeks to scrutinize and work to correct when vulnerabilities are found. In addition, OA has been involved with assessing new information system deployments within HUD, an especially large task with HUD's transition to a shared services system with the Department of Treasury.
- The Joint Civil Fraud Division is a multidiscipline team that audits and reviews, working with investigators, attorneys, and other support staff, any suspected financial fraud against HUD and makes referrals for civil actions and administrative sanctions. This group provides case support to the Department of Justice, Civil Division; United States Attorney's Offices nationwide; and HUD's Office of General Counsel to investigate and bring civil fraud cases. As a result, since this initiative began, the Government has reached civil settlements regarding FHA deficient loan underwriting totaling \$3.5 billion for alleged violations of the False Claims Act; the Financial Institutions Reform, Recovery, and Enforcement Act; and the Program Fraud Civil Remedies Act. Nearly \$2.4 billion of the \$3.5 billion in settlements is of direct benefit to the FHA insurance fund and I am proud that the HUD OIG staff from different components played a prominent role in these efforts.

Moreover, the OA has been incredibly successful in rooting out and exposing waste, fraud, abuse of taxpayer funds. In fiscal year 2015, the HUD-wide impact of the audit findings and reports totaled \$4.1 billion. This amount compared with the OIG's appropriated dollars means that for every appropriated dollar received, \$36 are returned to taxpayers or reallocated to other valued mission objectives. When combined with other OIG units (investigations, evaluations, and other support divisions) the overall return on investment rises to even more returned per dollar spent.

Office of Evaluation

The Office of Evaluation (OE) provides a flexible and effective mechanism for oversight and review of HUD's operations, programs and policies by using a multidisciplinary staff and multiple methods for gathering and analyzing data. OE is comprised of integrative teams, concentrating on areas of risk and multiple methods for analyzing data providing a flexible and effective process to produce impartial and reliable results. In an effort to concentrate resources where they can be most effective, and where the greatest institutional risk is present, several priorities have been identified:

- HUD maintains a tremendous amount of data in many diverse systems and databases. The ability for OE to leverage the information from those systems into products that can be used to identify fraud and wasteful tendencies before they occur, or early on so that they do not have the chance to grow into a larger problem, is a central goal and tenet of the OE mission. Using the data available to recognize patterns from historical events and to learn how those patterns can be used to prevent future incidents is a powerful tool that OE is trying to enhance in strength and deploy in larger scale. In addition to directly identifying

weaknesses in the administration of HUD funds and programs, the task of improving data analysis and predictive analytics will provide OIG with the best information when communicating with constituents, directing enforcement strategies, and allocating limited resources.

- Cybersecurity and insuring the protection of IT systems has become a mission of the utmost importance for the Federal Government as a whole. HUD is at a critical crossroads with the aging of the Department's IT infrastructure and the need to modernize these systems. In this environment, the opportunities for assessing cybersecurity are heightened. In addition many HUD systems are supported by outside vendors. While this model of IT acquisition and maintenance is sometimes necessary, it also creates additional IT security vulnerabilities or risk. OE contributes to the OIG's IT security mission by conducting necessary oversight and by monitoring these systems.
- OE is responsible for conducting the Federal Information Security Modernization Act of 2014 (FISMA) reviews and other IT operational evaluations. One of the best tools that the OIG has to measure this security effectiveness is technical testing to include "penetration testing." Penetration testing can be conducted in different ways and on multiple levels to technically test mandated IT security controls. Recently we conducted testing which greatly assisted in finding vulnerabilities within the HUD network and provided the OIG with additional key information and recommendations for FISMA reporting. Into the future, follow-up technical testing will be required by the OIG to validate corrective action of previously found vulnerabilities are being implemented by HUD, to assess other areas of the HUD network, FISMA assessment topics, or any future Federal cybersecurity guidance.

The Office of Evaluation is maturing and becoming fully staffed and operational with the heightened mission; the key to completing this process is ensuring the timely and consistent availability of budgetary resources and critical technical skills.

Office of Investigation

The Office of Investigation (OI) is responsible for the development and implementation of the OIG's investigative activities and is comprised of criminal investigators, investigative analysts, and administrative personnel. OI initiates and conducts criminal, civil and administrative investigations of possible violations of laws and regulations relating to the administration of HUD programs and HUD-funded activities as well as employee misconduct.

- The Office of Investigation has recently produced significant criminal and civil findings relating to HUD program fraud, including participation in large-scale settlements that have returned money to the FHA fund. OI has made it a priority to root out fraud involving the origination of FHA mortgages, multifamily equity skimming schemes at housing developments receiving HUD subsidized rental assistance for tenants, and at nursing homes. These efforts have produced noteworthy results in the past and this trend is expected to continue into the future. The OIG is a full-time participant in the Department of Justice's Financial Fraud Enforcement Task Force where the Inspector General is the Co-Chair of the Mortgage Fraud Working Group. This focus on finding and identifying fraudulent activity will continue to protect taxpayers from those who look to defraud the government, negatively impact the financial health of our economy, and undermine the true mission of HUD programs.

- OI also works to reduce fraud, waste, and abuse in the Public and Indian Housing arena, with a focus on Public Housing Authorities (PHAs). Ensuring that public housing dollars are being administered properly and utilized by the intended recipients is a challenge the Office of Investigation emphasizes every day. This work with the PHAs takes on many different forms: identifying public corruption, management and administration deficiencies, contract fraud, embezzlement, bribery, and rental assistance fraud. The fight against corruption also takes place in the management of Community, Planning and Development grant programs.

- OI continues to dedicate time and resources to the work in communities affected by previous disasters, such as the Gulf Coast area after Hurricane Katrina and, more recently, Hurricane Sandy. Designated disaster sites are provided large amounts of grant and emergency funding in the wake of these disasters. OI conducts investigations of fraud and abuse of disaster recovery funds efforts, assists to ensure that these resources are utilized properly, and leads the effort to prevent disaster fraud schemes. It also provides training to those entities tasked at the State and local level on how to detect and deter fraud and abuse.

Over the last 4 years the Office of Investigation has produced over \$4.3 billion in criminal judgments and nearly \$2.2 billion in recoveries. The reach of this office

is extended by resources that keep investigators in the field working with the tools they need to root out the waste, fraud, and abuse they are tasked with exposing.

HUD'S PERFORMANCE AND MANAGEMENT CHALLENGES

Achieving HUD's mission continues to be an ambitious challenge for its limited staff given the agency's diverse programs, the thousands of intermediaries assisting the Department, and the millions of beneficiaries of its housing and development programs. The national credit and financial crisis continues to have a profound impact on departmental operations. Proposed and new program changes have introduced new risks, oversight and enforcement challenges. HUD is an important spoke to the Nation's housing industry in that FHA-insured mortgages finance approximately one-fourth of all home purchases in the United States and in that it has stepped in to bolster the marketplace during economic challenges.

In October 2016, OIG reported on nine key management and performance challenges facing HUD for fiscal year 2016 and beyond. They are so interrelated and interconnected that our reviews suggest one impacts another to such a degree that, in many cases, the Department will not be able remedy one without first correcting another. This becomes a taxing challenge to determine which needs to come first or whether several be accomplished simultaneously. These challenges are in the following areas:

1. Human capital management,
2. Financial management governance of HUD,
3. Financial management systems,
4. Information security,
5. Single-family programs,
6. Public and assisted housing program administration,
7. Administering programs directed toward victims of natural disasters,
8. Office of Community Planning and Development programs, and
9. Compliance with the Improper Payments Elimination and Recovery Act of 2010.

Since our October 2016 report, my office has completed an additional evaluation relating to HUD's acquisition management and its efforts to address long-standing concerns in this area. I have added a discussion to summarize the results of that review.

Human Capital Management and Financial Management Governance

For many years HUD has struggled and been challenged to effectively manage its limited staff to accomplish its primary mission. HUD continues to lack a valid basis for assessing its human resource needs and allocating staff within program offices. Several studies have been completed in recent years by the Office of Personnel Management and the Government Accountability Office that point to a lack of human capital accountability and insufficient strategic management of human capital as pervasive problems at HUD. To some extent, these human capital challenges have contributed to HUD's inability to maintain an effective financial management governance structure which we have been reporting for the past 3 years as part of our annual audits of HUD's financial statements.

In our most recent report on HUD's fiscal year 2015 financial statements, we continued to report that HUD's financial management governance remained ineffective. While HUD and its components took steps to address some of the weaknesses in its financial management governance structure and internal controls over financial reporting, deficiencies continued to exist. Specifically, HUD needs to recruit and hire a Chief Financial Officer and Deputy Chief Financial Officer (CFO) with the requisite accounting and technical financial management skills to provide stronger direction to program office accounting so as to improve financial management and governance issues throughout the Department and specifically at Ginnie Mae. Additionally, HUD needs to be more consistent in its control and monitoring activities, including front-end risk assessments, management control reviews and reconciliation activities.

These conditions stemmed from the lack of a senior management council which limits the CFO's ability to stress the importance of financial management and to facilitate internal control over financial reporting throughout HUD. Additionally, as we have reported in prior year audits, HUD did not have reliable financial information for reporting and has been slow in replacing its outdated legacy financial systems. Weaknesses in program and component internal control that impacted financial reporting were caused in part by a lack of financial management governance processes. Entity-level controls could improve HUD's governance and enable the prevention, detection, and mitigation of significant program and component-level internal control weaknesses. As a result, there were multiple deficiencies in HUD's inter-

nal controls over financial reporting, resulting in misstatements on the financial statements and noncompliance with laws and regulations.

A 2015 report from the National Academy of Public Administration (NAPA) also recognized the need for an internal management council to strengthen HUD's financial governance structure and enhance its monitoring of financial activity and controls. Such a council would:

- Assess and monitor deficiencies in internal control resulting from HUD's assessment process.
- Advise the HUD Secretary of the status of corrections to existing material weaknesses.
- Inform the Secretary of any new material weaknesses that may need to be reported to the President and Congress through the annual financial report.

We believe that these are critical steps towards establishing effective internal controls. In addition to its concerns and recommendations regarding HUD's impending transition to a shared service provider for financial management functions, NAPA found that HUD should strengthen its finance workforce. As we have previously reported, HUD's ability to monitor and perform routine financial management activities has been hampered by both turnover and reductions in staff. Between 2009 and 2014, there was a 40 percent turnover in CFO staff and an 11 percent reduction in full-time permanent CFO employees. Between 2014 and 2015 there was a 15 percent turnover and a 9 percent reduction in full-time employees. The turnover and reductions have placed additional burdens on CFO staff and limited its ability to perform its duties in a timely and efficient manner.

In addition to issues at the Departmental level, we have identified significant financial governance issues within Ginnie Mae. In fiscal year 2015, Ginnie Mae failed to maintain a governance framework to ensure the reliability and integrity of Ginnie Mae's financial and accounting information. This failure in governance was the underlying cause of the problems cited in the Ginnie Mae financial statement audit report. Specifically, Ginnie Mae failed to adequately:

- Identify, analyze, and respond to changes in the control environment and risk associated with the acquisition of a multi-billion-dollar servicing portfolio.
- Establish accounting policies, procedures, and systems to manage and control the loan accounting and processing of the activities related to its defaulted issuers' portfolio.
- Oversee the implementation of the budgetary accounting module in its financial system to ensure accurate reporting of budgetary activity.

This condition occurred because of finance staff turnover and insufficient internal controls to manage the risks associated with business decisions and changes in its business environment. Additionally, Ginnie Mae's executive leadership failed to backfill a number of critical financial management positions, including the deputy chief financial officer, controller, and the economic modeling director, all of which have significant financial reporting roles. These positions had been vacant for an extended period, and Ginnie Mae relied heavily on contractors to compensate for finance staffing deficiencies. As a result, serious financial reporting deficiencies occurred at Ginnie Mae, the most recent of which required \$1.9 billion of restatement adjustments to HUD's fiscal year 2014 consolidated financial statements. Compounding the problem was Ginnie Mae's late notification, inadequate communication, and lack of transparency, resulting in difficulties for HUD's CFO to preparing consolidated financial statements within the required timeframes and ultimately inhibiting our ability to validate the accuracy of the accounting adjustments. Time will tell whether a recent leadership change within Ginnie Mae will ameliorate some of these conditions.

Ginnie Mae's management of risks associated with (1) handling complex and changing financial management operations without the appropriate accounting policies and procedures in place and (2) monitoring the work performed by third-party service providers on Ginnie Mae's multi-billion-dollar servicing portfolio have challenged Ginnie Mae's inadequate financial management staff. These governance weaknesses contributed to Ginnie Mae's inability to produce auditable financial statements.

Financial Management Systems

Annually since 1991, OIG has reported on the lack of an integrated financial management system, including the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems. HUD has been working to replace its current core financial management system since fiscal year 2003. The previous project, the HUD Integrated Financial Management Improvement Project (HIFMIP), was based on plans to implement a solution that replaced two of the applications currently used for core processing. In March 2012, work on HIFMIP was

stopped and the project was later canceled. This previous attempt to use a commercial shared service provider to start a new financial management system failed after more than \$35 million was spent. Our review of the project determined that OCFO did not properly plan and manage its implementation of the project.

In the fall of 2012, the New Core Project was created to move HUD to a new core financial system that would be maintained by a shared service provider, the U.S. Department of the Treasury's Bureau of Fiscal Services (BFS). We have completed two audits of HUD's implementation of the New Core Project. In the first audit, published in June 2015, we found that weaknesses in the planned implementation of release 3 of phase 1 in the New Core Project were not adequately addressed. We determined that HUD did not follow its own agency policies and procedures, the policies established for the New Core Project, or best practices. HUD will become the first cabinet-level agency to use a Federal shared service provider. The transfer of its financial management to a shared service provider has been widely publicized. If HUD is not successful in this implementation, it could reflect negatively on OMB's mandate to use Federal shared service providers. The weaknesses identified in this report relate to requirements and schedule and risk management. These areas are significant to the project plan, and the effectiveness with which HUD manages them is critical to the project's success.

Our second review, published in September 2015, found that HUD's implementation of release 1 of phase 1 was not completely successful. Due to missed requirements and ineffective controls, interface processing of travel and relocation transactions resulted in inaccurate financial data in HUD's general ledger and BFS' financial system. As a result, processing continued for more than 6 months with unresolved errors, leaving HUD's general ledger and BFS' financial system with inaccurate financial data and discrepancies in the balances between HUD's general ledger and Treasury's Government Wide Accounting System. We concluded that the implementation of release 1 confirmed the concerns we cited in our initial review. Although HUD had taken action to mitigate some of the problems that occurred with release 1 and address some of the issues we highlighted, we are concerned that HUD could be moving too fast with its implementation plans and may repeat these weaknesses.

We are also concerned about the current state of FHA's IT systems and the lack of systems capabilities and automation to respond to changes in business processes and the IT operating environment. In August 2009, FHA completed the Information Technology Strategy and Improvement Plan to address these challenges, which identified FHA's priorities for IT transformation. The plan identified 25 initiatives to address specific FHA lines of business needs. Initiatives were prioritized with the top five related to FHA's Single-family program. The FHA transformation initiative was intended to improve the Department's management of its mortgage insurance programs through the development and implementation of a modern financial services IT environment. The modern environment was expected to improve loan endorsement processes, collateral risk capabilities, and fraud prevention. However, to date, few initiatives have been completed because of a lack of funding. The transformation team is in operations and maintenance mode for the few initiatives that have been implemented, and has limited capability to advance with the project due to the continued lack of funding.

Overall, funding constraints diminished HUD's ability to complete the new application systems and phase out and deactivate the outdated systems. Some progress has been made by creating new systems with modernized capabilities that replaced manual processes. However, many legacy systems remain in use. Another concern is the ability to maintain the antiquated infrastructure on which some of the HUD and FHA applications reside. As workloads continue to gain complexity, it becomes more difficult to maintain these legacy systems, which are 15 to 30 years old, and ensure that they can support the current market conditions and volume of activity. The use of aging systems has resulted in poor performance and high maintenance costs. As part of our annual review of information systems controls in support of the financial statements audit, we continue to report weaknesses in internal controls and security regarding HUD's general data processing operations and specific applications. The effect of these weaknesses is that the completeness, accuracy, and security of HUD information is at risk of unauthorized access and modification.

Information Systems Security Controls

HUD information systems have extensive amounts of sensitive data, with thousands of entities in the private sector and program officials directly accessing and using HUD applications daily. However, HUD has not adequately planned for its future IT and IT security needs. The primary HUD infrastructure services contract is in a period of transition and the agency has been forced to issue short-term sole-

source contracts with the previous vendors to ensure continuation of service. Further, a significant number of critical HUD applications are legacy systems that are increasingly difficult to maintain and present security risks that HUD will be challenged to mitigate without modernization. Legacy systems are difficult or unable to migrate to cloud technology, further complicating the agency's long-term efforts to modernize and secure its systems and data while creating efficiencies and cost savings.

HUD has taken some initial steps to address these long-term challenges. The agency has finally filled and stabilized several key positions including the Chief Information Officer, Chief Information Security Officer, Chief Technology Officer, and Enterprise Architect. Strategic longterm planning documents have been developed, including an Enterprise Architect Roadmap aimed in part at guiding modernization efforts, and a Cybersecurity Framework to address IT security program deficiencies and prioritize initiatives to correct deficiencies. Notable change and implementation from these initiatives is not anticipated to be realized until later this year. Further, successful implementation of these plans will be directly dependent upon the agency's ability to obtain adequate resources including technical expertise. In the process of outsourcing infrastructure and application maintenance and support, HUD has divested itself of much of its technical expertise and continues to face significant staffing challenges. For example, an organizational chart provided to OIG during its fiscal year 2015 FISMA assessment reflected that 17 of the 35 key managerial/supervisory positions stationed at headquarters were either vacant (13) or filled by temporary "acting" personnel (4) during fiscal year 2015. This presents significant challenges to HUD's ability to conduct technical security reviews of its infrastructure (e.g., penetration testing, network assessments) or adequately oversee the technical security provided by vendors.

Meanwhile, our annual evaluation of HUD's IT security program, as mandated by Federal Information Security Management Act (FISMA), has revealed continued and extensive noncompliance with Federal IT guidance. As depicted in OIG's fiscal year 2015 FISMA report, HUD has extensive deficiencies in five of the ten program areas which OIG reports to OMB. HUD is showing progress in remediating these deficiencies; examples include significant upgrades in its security awareness training program, account access management, and issuance of proper guidance for managing Plans of Action and Milestones (POA&Ms). However, the agency has not adequately addressed many long-standing security weaknesses identified in prior OIG evaluations.

Procurement and Contract Management

In prior years, we have reported on various concerns relating to HUD's procurement and contract management including HUD's information technology infrastructure contracts and HUD's transition to the third generation of its management and marketing contracts that are used to manage and dispose of its extensive inventory of foreclosed Single-family properties. HUD continues to be challenged by its overreliance on contractors in general and its ability to allocate sufficient resources to adequately oversee its contractor work force.

HUD has developed several acquisition improvement initiatives to address the long-standing concerns in this area. We recently completed an evaluation to assess the status of these efforts and whether practices used by other agencies would enhance the quality and effectiveness of HUD acquisitions.¹ HUD had made progress in several areas, including revising and updating its procurement handbook and redesigning its web site. However, some initiatives had not been fully implemented or completed on schedule. HUD officials said that additional resources would be needed to effectively implement ongoing and planned improvement efforts. HUD had not developed a sound, cohesive strategy to address its improvement initiatives, and program offices did not all agree on resource requirements and respective responsibilities for their acquisitions staff.

Some of HUD's improvement initiatives did not follow successful program management practices or meet the U.S. Government Accountability Office's criteria for achieving an efficient, effective, and accountable acquisition function. We identified several successful practices of other Federal agencies that would improve HUD's acquisition function by using measurable objectives and goals, building partnerships, engaging stakeholders, managing change, streamlining functions, and training staff.

HUD procurement officials and the program offices did not always collaborate or communicate effectively and did not agree on the best way to address acquisition problems. HUD had also not maintained cost and performance metrics to determine

¹ Evaluation Report 2015-OE-0004, Comprehensive Strategy Needed To Address HUD Acquisition Challenges, February 2, 2016.

where inefficiencies existed. Program offices continued to experience challenges, and some sought alternatives in shared services arrangements with Federal agencies to accomplish their acquisition objectives because the Department could not do it for them. HUD leadership needs to address these issues, or its acquisition function will remain at risk.

Single-Family Programs

FHA's Single-family mortgage insurance programs enable millions of first-time borrowers and minority, low-income, elderly, or other underserved households to benefit from home ownership. HUD manages a sizable portfolio of Single-family insured mortgages exceeding \$1.2 trillion. Effective management of this portfolio represents a continuing challenge for the Department.

For the 6 years following the financial crisis of 2008, the FHA fund had failed to meet its legislatively mandated 2 percent capital ratio. From a low following the financial crisis, the fund has shown gradual improvement and, at the end of fiscal year 2015, the capital ratio stood at 2.07 percent. Much of this success is heavily dependent on a strong Home Equity Conversion Mortgage insurance program (HECM), a program we have reported on several times. The HECM program is sensitive to a number of factors that can influence its financial stability which then, in turn, can have a significant impact on the achievement of an adequate capital ratio as mandated by statute. While barely above the mandated level, this improvement is a positive development and occurred a year earlier than predicted at the end of 2014. Restoring the fund's reserves and finances has been a priority for HUD, and it has increased premiums, reduced the amount of equity that may be withdrawn on reverse mortgages, and taken other steps to restore the financial health of the fund.

It is incumbent upon the Department to make every effort to prevent or mitigate fraud, waste, and abuse in FHA loan programs. OIG continues to take steps to help preserve the FHA insurance fund and improve FHA loan underwriting by partnering with the Department, the U.S. Department of Justice, and multiple U.S. Attorney's offices nationwide in a number of FHA lender civil investigations. In some instances, these investigations involve not only the loan underwriting of FHA loans but also the underwriting of conventional loans and government-insured loans related to Federal programs other than FHA. For those investigations that involved OIG's assistance on the FHA-related part of the cases, the Government has reached overall civil settlements yielding nearly \$13.2 billion in damages and penalties in the last 4 fiscal years.

For the FHA-insured loans, results in the last 4 fiscal years have shown that a high percentage of loans reviewed should not have been insured because of significant deficiencies in the underwriting. As a result and as pointed out in the beginning of the testimony, the Government has reached civil settlements regarding FHA loan underwriting totaling \$3.5 billion for alleged violations of the False Claims Act; the Financial Institutions Reform, Recovery, and Enforcement Act; and Program Fraud Civil Remedies Act. Nearly \$2.4 billion of the \$3.5 billion is of direct benefit to the FHA insurance fund. Ongoing investigations are expected to lead to additional settlements that will further strengthen the health of the fund.

In spite of these positive steps, we remain concerned about HUD's resolve to take the necessary actions going forward to protect the fund. HUD is often hesitant to take strong enforcement actions against lenders because of its competing mandate to continue FHA's role in restoring the housing market and ensure the availability of mortgage credit and continued lender participation in the FHA program. For example, FHA has been slow to start a rigorous and timely claims review process. OIG has repeatedly noted in past audits and other types of lender underwriting reviews HUD's financial exposure when paying claims on loans that were not qualified for insurance, most recently last year. Adding to this concern, HUD increased its financial exposure by not recovering indemnification losses.

The Reverse Mortgage Stabilization Act of 2013 gave FHA the tools to improve the fiscal safety and soundness of the HECM program in a timelier manner. Despite the ability to quickly make needed changes as appropriate to the program, FHA faces challenges in ensuring that homeowners comply with the principal occupancy requirements (though not all dual HECM's are considered improper). For example, borrowers are not required to repay the loan as long as they continue to occupy the insured property as its principal residence. To date, OIG has completed four audits on the HECM program and compliance with principal occupancy requirements. Our initial audit identified borrowers with more than one HECM loan despite the principal occupancy requirement. Borrowers were able to obtain more than one HECM loan because of a lack of controls in place to identify this noncompliance. The De-

partment has been receptive to our findings and has implemented controls to address this problem.

Departmental clearance is a necessary and important process to ensure requisite agreement by applicable HUD leadership on the subject matter and content of a directive or policy change. This action requires a review by HUD offices that have expertise, policy or legal, with the subject matter of the change and that there is no conflict with other HUD or administration policies.

At a time when FHA is working to restore confidence in the housing market, OIG has concerns that when the Department is making program, policy or procedural changes, it is (1) not identifying the significant changes in its notice, (2) not following the formal clearance process and instead opting for a more informal method, or (3) avoiding the process altogether and making changes unilaterally. For example, in May 2015, HUD issued a notice in the Federal Register seeking OMB approval for information collection. However, OIG believes that the notice did not adequately describe the changes to be made. The Notice proposed to make changes to the loan-level certifications that lenders must make to obtain insurance from FHA. As a result, the certification process became ineffective and allowed loan originators, firms, or principals that have been convicted of certain violations to do business with FHA. However, this detail was not provided in the notice. Another example is FHA's Single-Family Housing Loan Quality Assessment Methodology (Defect Taxonomy). The goal of this methodology is to give lenders better clarity on the quality assurance reviews of their FHA loans. Although HUD stated that the draft Taxonomy documents had been published on FHA's Drafting Table web site, FHA did not follow the proper protocol for issuing a new directive. These changes fit the description of a directive change and should have been announced through the proper steps and clearance process as outlined in its own Handbook.

FHA also remains vulnerable to criminal activity and single-family criminal investigations continue to be a priority of my office. We recently concluded an investigation of Great Country Mortgage Bankers, a former FHA mortgage lender in Miami, FL. The owner of the company was sentenced in U.S. District Court to 135 months incarceration and 60 months supervised release and agreed to forfeit \$8 million following his conviction of conspiracy to commit wire fraud affecting a financial institution. From at least 2006 through September 2008, the owner and other conspirators specialized in approving FHA loans primarily for buyers of condominiums at complexes where he had an ownership interest. As part of the scheme, the conspirators provided false information on loan documents to qualify borrowers and in some cases, also paid inducements to borrowers to purchase the condominium units. Many of the loans defaulted, causing losses to FHA and financial institutions. To date, 25 individuals have been charged in this investigation, including the owner, 3 partner developers, and 20 former employees of the mortgage lender. Of those charged, 14 individuals have pled guilty, and 1 has signed a plea agreement. Losses to FHA exceeded \$64 million. This case, and others, highlight why the HUD OIG believes that FHA needs to remain diligent in its efforts, including keeping or enhancing practices that oversee and monitor abusive or wasteful behavior, aimed at those who seek to harm the viability of the program and ultimately the public.

Over the past 5 years, Ginnie Mae has seen its outstanding mortgage-backed securities increase by more than 50 percent and has experienced its fastest growth in the last 6 years. As of August 2015, Ginnie Mae's mortgage-backed securities (MBS) portfolio exceeded \$1.6 trillion and is estimated to reach the \$2 trillion mark in a little over a year and a half. We remain concerned that increases in demand on the FHA program are having collateral implications for the integrity of Ginnie Mae's MBS program, including the potential for increases in fraud. Ginnie Mae securities are the only mortgage-backed securities to carry the full faith and credit guaranty of the United States. If an issuer fails to make the required pass-through payment of principal and interest to MBS investors, Ginnie Mae is required to assume responsibility for it. Typically, Ginnie Mae defaults the issuer and assumes control of the issuer's government or agency MBS pools. Historically, Ginnie Mae issuer defaults have been infrequent, involving small to moderate-size issuers. However, major unanticipated issuer defaults beginning in 2009 have led to a multi-billion-dollar rise in Ginnie Mae's nationwide mortgage servicing as well as its repurchase of billions of dollars in defaulted whole loans to meet its guarantee commitments to MBS investors. In the near term, these changes have strained both its operating and financial resources.

Another key challenge facing Ginnie Mae is the risk posed by the growing number of Ginnie Mae issuers that are institutions other than banks. In June 2011, 7 of the top 10 servicers were banks, but by September 2015, only 4 of the top 10 servicers were banks. Ginnie Mae's potential for losses occurs when an issuer fails to fulfill its responsibilities. With the significant shift of its business going to

nonbanks, Ginnie Mae can no longer rely on the Office of the Comptroller of the Currency and other bank regulators to ensure that its servicers can meet their financial obligations. To mitigate the risks, Ginnie Mae will need to be more involved with nonbanks to adequately monitor them, which would require Ginnie Mae to increase its current staffing level and expertise.

With the approval of OMB and Congress, Ginnie Mae has significantly increased its management capacity. The total number of Ginnie Mae full-time employees increased from 89 in fiscal year 2012 to 130 at the end of fiscal year 2015. However, Ginnie Mae continues to rely heavily on third-party contractors to perform almost all key operating loan servicing, pool processing, and other functions. It is imperative to the country's larger financial health that Ginnie Mae be able to increase staffing with the needed skills, knowledge, and abilities to manage a \$1.6 trillion program.

Ginnie Mae could benefit from an estimated 30 positions with a higher salary level than what the general schedule allows in order to attract the needed and specialized skill sets to operate in the U.S. financial market. HUD's lack of human capital management support and a weak procurement process have contributed to Ginnie Mae's inability to promptly recruit and hire needed skills as well as hampered its ability to operate swiftly and timely in the marketplace.

Public and Assisted Housing Program Administration

HUD provides housing assistance funds under various grant and subsidy programs to public housing agencies (PHA) and multifamily project owners. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. The Office of Public and Indian Housing (PIH) and the Office of Multifamily Housing Programs provide funding for rent subsidies through public housing operating subsidies and the tenant-based Section 8 Housing Choice Voucher and Section 8 multifamily project-based programs. More than 4,000 intermediaries provide affordable housing for 1.2 million households through the low-rent operating subsidy public housing program and for 2.2 million households through the Housing Choice Voucher program. Multifamily project owners assist more than 1.5 million households.

Housing Choice Voucher Monitoring

HUD has a challenge in monitoring the Housing Choice Voucher program. The program is electronically monitored through PHAs' self-assessments and other self-reported information collected in PIH's systems. Based on recent audits and HUD's on-site confirmatory reviews, the self-assessments are not always accurate and the reliability of the information contained in PIH systems is questionable. PIH targets PHAs for various types of on-site reviews using its Utilization Tool and National Risk Assessment Tool. It also states that it will further address limitations with the Next Generation Management System, which continues to be delayed due to a shortage in IT funding. HUD will continue to face challenges in monitoring this program until it has fully implemented a reliable, real-time, and all-inclusive monitoring tool.

Central Office Cost Centers

We are concerned that HUD may not be ensuring that deFederalized administrative fees paid to PHAs for their public housing program are reasonable. We found that HUD could not adequately support the reasonableness of operating fund management, book-keeping, and asset management fees and Public Housing Capital Fund management fee limits. In addition, HUD lacked adequate justification for allowing PHAs to charge an asset management fee, resulting in more than \$81 million in operating funds being unnecessarily deFederalized annually. Our concern continues to be that the fee amounts implemented are not supported and may not be reasonable. Excess administrative fees, if deFederalized, are not required to be used for the public housing program. Ensuring that only the funds that are needed are transferred to the COCC will allow more funds to be used directly for the public housing program. After input from OMB, HUD and OIG have reached an agreement to implement the recommendations as stated in our audit report. HUD has agreed to reFederalize the fees and will be reevaluating the fee amounts. HUD will need to go through the rulemaking process to fully implement the changes, so it may take some time.

Cash Management Requirements

In fiscal year 2012, PIH implemented procedures to reduce the amount of excess funds accumulating in PHAs' net restricted asset accounts in accordance with Treasury's cash management requirements as directed by a congressional conference report. By that point, a significant amount of reserves had accumulated with the PHAs. As of 2015, most of the funds had been transitioned back to HUD. However,

PIH has not transitioned any of the excess funding from its Moving to Work (MTW) program PHAs. Through PIH's confirmation process, MTW PHAs reported holding \$556 million and \$514 million, as of September 30, 2014, and March 31, 2015, respectively. PIH must now validate these balances before it transitions the funds back. This process may take some time because the composition of these balances is complex and HUD was not tracking the funds for these agencies. Until HUD validates and collects the funds, MTW PHAs will continue to hold hundreds of millions of dollars in excess of their immediate disbursement needs, making the funds susceptible to fraud, waste, and abuse. Further, this is a continued departure from Treasury's cash management requirements.

Adding to this challenge, HUD continues to lack an automated process to complete the reconciliations required to monitor all of its PHAs and to ensure that Federal cash is not maintained in excess of immediate need. Reconciliations are prepared manually on unprotected Excel spreadsheets for more than 2,200 PHAs receiving approximately \$17 billion annually. This process is time consuming, antiquated and labor intensive, and does not allow for accurate financial reporting at the transaction level as required by FFMIA. This process also increases the risk of error and causes significant delays in the identification and offset of excess funding. We recommended that HUD automate this process during our 2013 financial statement audit, and the matter has been elevated to the Deputy Secretary for a decision.

Monitoring of Moving to Work Agencies

HUD's monitoring and oversight of the 39 PHAs participating in the MTW demonstration program is particularly challenging. The MTW program provides PHAs the opportunity to develop and test innovative, locally-designed strategies that use Federal dollars more efficiently, help residents become self-sufficient, and increase housing choices for low-income families. However, in the more than 15 years since the demonstration program began, HUD has not reported on whether the program is meeting its objectives which such a long-standing demonstration should assert. This is particularly important as under the MTW program participants receive less oversight from the Department. HUD has requested and Congress is considering expanding the program to include more participants without knowing whether participating PHAs are reducing costs to gain increased housing choices and incentives for families to work. HUD is experiencing challenges in developing program-wide performance indicators that will not inhibit the participants' abilities to creatively impact the program. It is developing renewal contracts to replace contracts expiring in 2018. HUD management developed new metrics to help measure program performance and states that the new contracts will allow it to better evaluate each PHA's performance. We continue to believe that this is essential before new agencies are allowed into the program. Moreover, HUD could benefit from a formalized process for terminating participants from the demonstration program for failure to comply with their agreement.

Overincome Families in Public Housing

HUD's challenge in addressing overincome families living in public housing units is exacerbated by public housing agencies' lack of desire to address these issues themselves. HUD's December 2004 final rule gave public housing authorities discretion to establish and implement policies that would require families with incomes above the eligibility income limits to find housing in the unassisted market. HUD regulations require families to meet eligibility income limits only when they are admitted to the public housing program. Neither public law nor regulations limit the length of time that families may reside in public housing. Our recent audit² showed that as many as 25,226 families, whose income exceeded HUD's 2014 eligibility income limits, lived in public housing. The PHAs that we contacted during the audit chose not to impose limits based on the notice. In response to our audit, PIH initially disagreed. After some public discourse, HUD issued a letter to PHA executive directors, strongly encouraging them to use the discretion available to them to remove extremely overincome families from public housing. However, HUD does not have the authority to require PHAs to implement limits. Consequently, to comply with our recommendation, HUD initiated the rulemaking process through an advanced notice of proposed rulemaking. Through this process, HUD will collect public comments from stakeholders and determine how to proceed with rulemaking. We will be part of this process. Our concern is that a nationwide policy may limit flexi-

² Audit Report 2015-PH-0002, Overincome Families Resided in Public Housing Units, July 21, 2015.

bility to protect tenants. Until a new final rule is established, PIH will need to find a way to encourage PHA participation and ensure the effectiveness of its policies.

Environmental Review Requirements

In recent reports,³ we demonstrated that PIH did not adequately implement environmental requirements or provide adequate oversight to ensure compliance with these requirements. The Offices of Housing and Public Housing did not adequately monitor or provide training to their staff, grantees, or responsible entities on how to comply with environmental requirements. Also, HUD did not have an adequate reporting process for the program areas to ensure that the appropriate headquarters programs were informed of field offices' environmental concerns. Further, our review of five Office of Public Housing field offices found that none of them followed environmental compliance requirements. HUD relied heavily on its Office of Environment and Energy to ensure compliance with environmental requirements. HUD stated that cross-office collaboration should be encouraged as a sensible and efficient way to achieve oversight and compliance objectives. While HUD shares OIG's concerns regarding responsible entities' compliance with environmental requirements and agreed with our recommendations, HUD believes that the program offices do not always have the authority to impose corrective actions or sanctions. We provided several examples in which environmental issues, if not detected, can severely impact the residents and communities as well as consume significant resources.

As a result, HUD began providing more training to staff and grantees and implemented processes to improve its training program and curriculum to better support all program areas. Also, HUD was piloting a recently developed electronic data system, HUD's Environmental Review Online System (HEROS), which is part of HUD's transformation of IT systems. HEROS will convert HUD's paper-based environmental review process to a comprehensive online system that shows the user the entire environmental process, including compliance with related laws and authorities. It will allow HUD to collect data on environmental reviews performed by all program areas for compliance. HUD's Office of Environment and Energy had also implemented an internal process within HEROS to track findings, which will allow the program areas to focus training on recurring issues.

While HUD has made improvements, it faces several challenges, including lack of resources, unclear guidance, and a perceived lack of authority to impose corrective actions or sanctions on responsible entities. Until HUD fully addresses these needed improvements, it faces an increased risk of creating a potential human health and safety concern as well as possible damage to the environment. For the five Office of Public Housing field offices we visited, PHAs spent almost \$405 million for activities that either did not have required environmental reviews or had reviews that were not adequately supported.

Physical Condition of the Housing Choice Voucher Units

In response to a 2008 audit report,⁴ HUD developed a plan to monitor the physical condition of its Housing Choice Voucher program units. HUD is testing a system of inspections similar to the model used for its public housing units and multi-family projects. However, this testing with an initial target completion date of September 30, 2014, is taking considerably longer than expected. HUD has performed initial inspections of a sample of its voucher units. However, it needs resources to continue developing the new protocol and related software for its comprehensive monitoring system. Meanwhile, we continue to identify PHAs with inspection programs which do not ensure that voucher program units comply with standards.

OIG's Fraud Prevention Program

To assist the department in addressing these various issues, my office has initiated a fraud prevention program. A key component of this is a series of Integrity

³ Audit Report 2015-FW-0001, HUD Did Not Adequately Implement or Provide Oversight To Ensure Compliance With Environmental Requirements, June 16, 2015; Audit Report 2014-FW-0005, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Detroit Office, September 24, 2014; Audit Report 2014-FW-0004, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Greensboro Office, July 14, 2014; Audit Report 2014-FW-0003, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Columbia Office, June 19, 2014; Audit Report 2014-FW-0002, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Kansas City Office, May 12, 2014; and Audit Report 2014-FW-0001, The Boston Office of Public Housing Did Not Provide Adequate Oversight of Environmental Reviews of Three Housing Agencies, Including Reviews Involving Recovery Act Funds, February 7, 2014.

⁴ Audit Report 2008-AT-0003, HUD Lacked Adequate Controls Over the Physical Condition of Section 8 Voucher Program Housing Stock, May 14, 2008.

Bulletins to aid commissioners and public housing executives to identify red flags of fraud and mismanagement. The series includes topics such as Procurement and Contracting, Embezzlement, Charge Cards, Fraud Policy, Hiring, and a Primer for Commissioners. These bulletins are available on the OIG public web site. To further alert public housing boards and directors of these bulletins, a direct emailing went out July 2015 that was signed jointly by Principal Deputy Assistant Secretary Lourdes M. Castro Ramirez and me. The letter emphasized that public trust and integrity is a collective responsibility, and encourages recipients to read and share the Integrity Bulletins.

The fiscal year 2014 appropriation language required HUD to work jointly with the OIG "...to determine the critical skills that PHA boards should have to effectively oversee PHA operations, as well as the actions HUD will take to ensure that PHAs possess them...." HUD has since developed a web-based training program for boards of commissioners. The training, named "Lead the Way" includes the basic skills and knowledge commissioners need to understand their roles and responsibilities. HUD is now in a second phase working with our office to update the training to add skills and knowledge for identifying risks and responding to them. The training will also cover identifying common fraud and mismanagement issues and how to report cases to OIG. The target for completion of the training is mid-summer 2016.

One challenge that has not been resolved is how to get commissioners to complete this training. HUD has no authority to require completion of the training of the boards (or PHA executive staff either). HUD reports that about 500 commissioners have completed the training. Industry group training for commissioners appears to have the same problem in getting commissioners to attend training with 300 commissioners being certified by the National Association of Housing and Redevelopment Officials, and a similar number being certified through the Public Housing Authority Directors Association. All these together have trained and certified about 7 percent of commissioners.

Professional certification for public housing commissioners and executive directors exists in a conflicting array of certificates offered by public housing industry groups. While these certification programs are available, completion of the training is not a requirement to serve as a commissioner or executive director.

We believe it would take congressional action to require boards and key executive staff to be certified. A certification body needs to be designated, with HUD approval of a curriculum, and timeframes established for phasing in the requirement. A requirement would also be useful that would establish a deadline for successfully completing the training. Certification of executive directors should likewise be mandated for at least medium and larger size agencies.

ADMINISTERING PROGRAMS DIRECTED TOWARD VICTIMS OF DISASTERS

The Department faces significant challenges in monitoring disaster program funds provided to various States, cities, and local governments under its purview. This challenge is particularly pressing for HUD because of 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 HUD program requirements, and the lack of understanding of disaster assistance grants by the recipients. HUD must ensure that the grantees complete their projects in a timely manner and that they use the funds for intended purposes. Since HUD disaster assistance may fund a variety of recovery activities, HUD can help communities and neighborhoods that otherwise might not recover due to limited resources. However, oversight of these projects is made more difficult due to the diverse nature of HUD projects and the fact that some construction projects may take between five 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.

My office has completed 16 audits and 1 evaluation relating to CDBG-DR funding for Hurricane Sandy and other eligible events occurring in calendar years 2011, 2012, and 2013. There are a number of other audits and evaluations, as well as investigative work, that are currently underway. Prior to Hurricane Sandy, HUD-OIG had extensive audit and investigative experience with HUD's CDBG-DR program, most notably, with grants relating to recovery after Hurricane Katrina and the terrorist attacks of September 11, 2001. Over the years, HUD has gained more experience and has made progress with assisting communities recovering from disasters, but it continues to face the following challenges in administering these grants:

- Ensuring that expenditures are eligible and supported;
- Approving the program waiver process;

- Certifying that grantees are following Federal procurement regulations;
- Conducting consistent and sufficient monitoring efforts on disaster grants;
- Promoting disaster resiliency within communities trying to recover; and
- Keeping up with communities in the recovery process.

I will elaborate on the first two areas above as they represent the most serious challenges faced by HUD.

Ensuring That Expenditures Are Eligible and Supported

In overseeing the CDBG–DR program, HUD must ensure that funds disbursed for disaster recovery programs are used for eligible and supported items. Our audits relating to Hurricane Sandy funding have identified \$3.5 million in ineligible costs, \$458 million in unsupported costs, and \$360 million relating to recommendations that funds be put to better use. We have highlighted three audit reports that demonstrate these challenges for HUD in administering grants made under this program:

- In our review of New York City’s Health and Hospitals Corporation,⁵ we determined that City officials disbursed \$183 million to the City’s subrecipient for unsupported salary and fringe benefits and unreasonable and unnecessary expenses and did not adequately monitor its subrecipient and sufficiently document national objectives. As a result, City officials could not assure HUD that (1) \$183 million in CDBG–DR funds was disbursed for eligible, reasonable, and necessary program expenses and (2) going forward the City will have adequate accounting and financial controls in place to ensure the remaining allocation of \$40 million will be properly spent for the purposes intended.
- In our review of New Jersey’s Sandy Integrated Recovery Operations and Management System, we found that the State did not procure services and products for its system in accordance with Federal procurement and cost principle requirements. The State’s procurement process was not equivalent to Federal procurement standards. As a result, it disbursed \$38.5 million for unsupported costs. It was also planning to disburse another \$21.7 million to extend the initial period of the related contract for 3 additional options years including \$9.1 million for costs that it had not shown were fair and reasonable.
- In our review of New York State’s buyout program,⁶ we determined that officials did not always administer the program in accordance with program procedures. As a result, officials disbursed \$6.6 million for properties that did not conform to published requirements. This amount included \$672,000 and \$598,300 for ineligible incentives and purchase prices in excess of authorized limits, respectively. In addition, documentation was inadequate to support that \$1.7 million was disbursed for eligible purchases and that \$8.7 million spent for contracts complied with Federal or State requirements.
- In our review of the New York Rising Housing Recovery Program,⁷ we found that officials did not establish adequate controls to ensure that CDBG–DR funds were awarded and disbursed for eligible costs. As a result, more than \$2.2 million in CDBG–DR funds was disbursed for ineligible costs and \$119,124 for unsupported costs. Additionally, the use of a statewide cost figure, by which more than \$87.5 million was awarded, was unsupported. Also, State officials needed to ensure that receipts were available to support work completed, or request that more than \$241.2 million be repaid.

We attributed these conditions to the grantees’ weaknesses in maintaining file documentation, unfamiliarity with HUD rules and regulations, and failure to follow State and Federal procurement regulations.

Approving the Program Waiver Process

We performed two reviews of the State of Louisiana’s Road Home Elevation Incentive (RHEI) Program, in 2010⁸ and a follow-up review in 2012.⁹ Based on these re-

⁵ Audit Report 2015–NY–1001, The City of New York, NY, Did Not Always Disburse Community Development Block Grant Disaster Recovery Assistance Funds to Its Subrecipient in Accordance With Federal Regulations, November 24, 2014.

⁶ Audit Report 2015–NY–1010, New York State Did Not Always Administer Its Rising Home Enhanced Buyout Program in Accordance with Federal and State Regulations, September 17, 2015.

⁷ Audit Report 2015–NY–1011, Program Control Weaknesses Lessened Assurance That New York Rising Housing Recovery Program Funds Were Always Disbursed for Eligible Costs, September 17, 2015.

⁸ Inspections and Evaluations Report IED–09–002, Inspection of the State of Louisiana’s Road Home Elevation Incentive Program Homeowner Compliance, March 2010.

⁹ Audit Report 2013–IE–0803, Follow-up of the Inspections and Evaluations Division on Its Inspection of the State of Louisiana’s Road Home Elevation Incentive Program Homeowner Compliance (IED–09–002 March 2010), March 29, 2013.

views, it appears that HUD has established a pattern and practice to either waive the program requirements, or retroactively approve the State's amended action plan after the fact, when deficiencies are identified with this program. 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 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 follow-up review found that as of August 31, 2012, 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 HUD's 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 Road Home 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 to only 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 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 it was still having difficulty acquiring documentation from homeowners as proof of repair. This new approach does not consider whether recipients previously received grants or insurance funds for rehabilitation and could result 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 prevent duplication of benefits.

HUD has not properly enforced the intent of the Road Home program, instead opting to change the rules *ex post facto* so that violations can potentially be excused. If HUD wishes to implement proper risk management in its programs, this most recent action seems to defeat the purpose as it announces to all recipients of HUD funds that noncompliance may be pardoned because the Department will allow it in the end with no consequences for divergent actions.

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

Government-wide Concerns

In view of the significance of funding to multiple agencies to address Hurricane Sandy, my office is leading a joint cross-cutting review with seven other OIGs¹⁰ to assess participating Federal entities' funding, expenditures, and monitoring. Our objective is to identify common concerns and make recommendations to improve oversight, enhance collaboration, and report on best practices.

As noted earlier, Congress imposed time limits with respect to the funding it provided to HUD in the Disaster Relief Appropriations Act, 2013. Funding for other agencies either included varying time limits or, in some cases, imposed no time limit and will remain available until spent. Based upon our audits of funds relating to prior disasters, we believe that imposing statutory deadlines will help to ensure that funds are promptly spent. HUD is not alone in facing challenges with timely expenditure of funding. A representative from the Department of Homeland Security's OIG told us that FEMA disaster funds remained unspent for extended periods and FEMA still had unspent funding relating to the Northridge earthquake (more than 21 years ago) and Hurricane Katrina (more than 10 years ago).

Funding for oversight activities also varied. Separate funding was provided to both HUD and HUD-OIG for oversight. The Department of Health and Human Services, which received more than \$500 million in funding, also received funding for its OIG but not for the agency to conduct administrative oversight. OIGs from the Department of the Interior, Environmental Protection Agency and the Department of Defense did not receive separate funding to provide for oversight of their respective agencies' funding that ranged from \$577 million to more than \$5 billion.

¹⁰ In addition to HUD-OIG, OIGs from the following agencies are participating: Department of Homeland Security, Department of Health and Human Services, Department of Defense, Department of the Interior, Department of Transportation, Small Business Administration, and Environmental Protection Agency.

Our collaboration with other OIGs has noted a common concern with respect to time limits being placed on oversight funding relating to Hurricane Sandy. As is the case with HUD CDBG-DR funds, HUD-OIG's funding must be obligated by the end of fiscal year 2017. This presents a challenge for HUD-OIG because much of the expenditure activity under the CDBG-DR program will occur well after that date, as late as the end of fiscal year 2022. In addition, a waiver was obtained that allows the Department to extend program funds beyond the original deadline. It is unclear from the current statutory language whether HUD-OIG will be able to use its Sandy funding beyond the obligation deadline. HUD-OIG is planning to seek an opinion on the specific appropriation issue from the GAO.

As of the end of fiscal year 2015, over 70 percent of HUD's Hurricane Sandy funding remains unspent and until the bulk of that funding is spent, our ability to conduct effective oversight is limited. This is a concern with at least two other OIGs who have expressed similar concerns with the slow rate at which their respective agencies are using their disaster assistance funding. I urge the Congress to recognize that oversight activities conducted by the various agencies and their OIGs need to occur well beyond the obligation deadline and to consider providing relief to the affected organizations to extend the date at which these oversight funds will expire.

COMMUNITY PLANNING AND DEVELOPMENT PROGRAMS

Due to the use of what the Department calls the FIFO method (first-in, first-out as an accounting methodology of appropriated funds)¹¹ for committing and disbursing obligations, HUD's accounting for its Community Planning and Development formula grant programs' accounting does not comply with accounting standards resulting in material misstatement of HUD's financial statements. Since 2013, we have also reported that the information system used, the Integrated Disbursement Information System (IDIS) Online, a grants management system, was not designed to comply with Federal financial management system requirements. Further, HUD's plan to eliminate FIFO from IDIS Online was applied to fiscal year 2015 and future grants and not to fiscal years 2014 and earlier. Moreover, because of funding problems, completion of the elimination plan will be delayed until December 2016.

As a result, budget year grant obligation balances continued to be misstated and disbursements made using an incorrect U.S. Standard General Ledger (USSGL) attribute resulted in additional misstatements. Although FIFO has been removed from fiscal year 2015 and forward grants, modifications to IDIS were necessary for the system to comply with the Federal Financial Management Improvement Act (FFMIA) and USSGL transaction records.

The inability of IDIS Online to provide an audit trail of all financial events affected by the FIFO method made it impossible to quantify the financial effects of FIFO on HUD's consolidated financial statements. Further, because of the amount and pervasiveness of the funds susceptible to the FIFO method and the noncompliant internal control structure in IDIS Online, the obligated and unobligated balance brought forward and obligated and unobligated balances reported in HUD's combined statement of budgetary resources for fiscal year 2015 and in prior years were materially misstated. The effects of not removing the FIFO method retroactively will continue to have implications on future years' financial statement audit opinions until the impact is assessed to be immaterial.

HUD's continued inability to provide data to monitor compliance with the HOME Investment Partnership Act (HOME statute) requirements for committing and spending funds continues to remain a concern until appropriate system changes in IDIS Online are implemented and regulatory changes are fully implemented. The HOME Investment Partnerships Program is the largest Federal block grant to State and local governments designed to create affordable housing for low-income households. Because HOME is a formula-based grant, funds are awarded to the participating jurisdictions noncompetitively on an annual basis.

In 2009, OIG challenged HUD's cumulative method¹² for determining compliance with section 218(g) of the HOME statute, which requires that any uncommitted

¹¹The FIFO method is a way in which CPD disburses its obligations to grantees. Disbursements are not matched to the original obligation authorizing the disbursement, allowing obligations to be liquidated from the oldest available budget fiscal year appropriation source. This method allows disbursements to be recorded under obligations tied to soon-to-be-canceled appropriations.

¹²HUD implemented a process, called the cumulative method, to determine a grantee's compliance with the requirements of section 218(g) of the Statute and determine the amount to be recaptured and reallocated with section 217(d). HUD measured compliance with the commitment requirement cumulatively, disregarding the allocation year used to make the commitments.

funds be reallocated or recaptured after the expiration of the 24-month commitment deadline. After a continuous impasse with HUD, OIG contacted GAO in 2011 and requested a formal legal opinion on this matter. In July 2013, GAO issued its legal opinion affirming OIG's position and citing HUD for noncompliance. In its decision, GAO repeated that the language in the statute was clear and that HUD's cumulative method did not comply with the statute. Accordingly, GAO told HUD to stop using the cumulative method and identify and recapture funds that remain uncommitted after the statutory commitment deadline.

The effects of the GAO legal opinion require extensive reprogramming and modification to IDIS Online in addition to regulatory changes. However, these system and regulatory changes, which are already underway, will apply only to new grants awarded going forward and will not be changed retrospectively. Therefore, HUD's plan does not comply with the GAO legal opinion and allows grantees to spend HOME program funding that would normally be recaptured if the 24-month commitment timeframe was not met.

Compliance with GAO's opinion would enable HUD to better monitor grantee performance in a more timely, efficient, and transparent way. It also would strengthen internal controls, bring HUD into compliance with HOME statutory requirements, and accurately and reliably report financial transactions.

On June 16, 2015, we issued a memorandum to HUD regarding potential Anti-Deficiency Act (ADA) violations due to the noncompliance issues noted above. In the memorandum, we requested that the Chief Financial Officer (1) open an investigation and determine the impact of FIFO and the cumulative method for commitments for the HOME program on HUD's risk of an ADA violation; (2) as part of the violation, obtain a legal opinion from GAO and OMB to determine whether maintaining the cumulative method for determining compliance with the HOME statute results in noncompliance with the Statute and potential ADA violations; and (3) if HUD incurred an ADA violation, comply with the reporting requirements at 31 U.S.C. (United States Code) 1351 and 1517(b) and OMB Circular No. A-11, Preparation, Submission, and Execution of the Budget, section 145, (June 21, 2005). We determined that HUD has opened an ADA investigation in response to our memorandum.

We will continue to report that HUD is not in compliance with laws and regulations until the cumulative method is no longer used to determine whether commitment deadlines required by the HOME Investment Partnership Act are met by the grantees.

Subgrantee Monitoring

In fiscal years 2014 and 2015, at least seven of our audits have found that in some instances, little or no monitoring occurred, particularly at the subgrantee level. HUD focuses its monitoring activities at the grantee level through its field offices. Grantees, in turn, are responsible for monitoring their subgrantees. HUD should continue to stress the importance of subgrantee monitoring to its grantees. OIG has concerns regarding the capacity of subgrantees receiving funding from HUD programs, including grantees receiving CDBG Disaster Recovery (CDBG-DR) funds. Therefore, audits of grantees and their subgrantee activities will continue to be given emphasis this fiscal year as this continues to be a challenge for HUD and its grantees.

OIG Prevention Activities

To assist the Department with these and other Community Planning and Development Program concerns, we are currently working with HUD staff to issue a series of bulletins similar to the topics we have issued for public housing but adapting them to Community Planning and Development program grantees. The first of the series is scheduled for issuance in May. These will also be announced through a joint communique, signed by Principal Deputy Assistant Secretary Harriet Tregoning and me, to encourage public official to read and share the bulletins.

COMPLIANCE WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010

For the second year in a row, we determined that HUD did not comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). Specifically, our fiscal year 2015 audit¹³ found that HUD did not adequately report on its supplemental measures and its risk assessment did not include a review of all relevant audit reports. Additionally, we found that HUD's estimate of improper payments

¹³ Audit Report 2015-FO-0005, Compliance With the Improper Payments Elimination and Recovery Act of 2010, issued May 15, 2015.

due to billing errors was based on out-of-date information, a finding that was repeated from the prior-year audit.

After exceeding the targeted improper payment rate of 3.8 percent in fiscal year 2012, HUD's goal for the targeted improper payment rate was increased to 4.2 percent for fiscal year 2013. While HUD met its fiscal year 2013 goal with an improper payment rate of 3.2 percent, with estimated improper payments of \$1.03 billion, it continues to face significant challenges to comply with the requirements of IPERA and further reduce its improper payments.

For example, without sufficient funding, it will be difficult for HUD to perform the studies needed to update its estimates of improper payments due to billing errors. Additionally, there were several recommendations from our fiscal year 2014 audit report¹⁴ without agreed-upon management decisions that had to be referred to the Deputy Secretary. During fiscal year 2015, HUD increased its efforts to address these recommendations, as well as current-year recommendations, and develop corrective action plans. HUD needs to continue its efforts to address our recommendations and improve its processes for reporting on its improper payments to become compliant with IPERA in the future.

DEPARTMENTAL ENFORCEMENT

A common thread underlying several of the issues discussed earlier is the lack of a cohesive departmental approach on monitoring and follow-through on findings. In an evaluation we conducted on the effectiveness of the Departmental Enforcement Center (DEC), we found that the Department does not have an enterprise risk management approach to monitoring. Its monitoring is for the most part siloed in each program office and the approaches and results differ greatly. While there were some successes, there is a much greater task that lies ahead. The DEC, working with the Office of Multifamily Housing Programs and the Real Estate Assessment Center, improved housing physical conditions and financial management of troubled multifamily properties. Although some other program offices had taken steps toward risk-based enforcement, they had not taken full advantage of the benefits demonstrated when programs allow the DEC to assess compliance and enforce program requirements. The DEC proved that it can remedy poor performance and noncompliance when programs are willing to participate in enforcing program requirements.

The DEC was established in part to overcome a built in conflict of roles. The HUD management reform plan stated that program offices had a conflicting role in getting funds to and spent by participants versus holding them accountable when fraud or mismanagement of the funds occurs. However, memoranda of understanding between the DEC and the program offices, for the most part, limit the DEC's ability to monitor, report, and take action to end noncompliance.

HUD is starting to make some changes. Recent attention has emphasized the point that improvements are necessary for the DEC, REAC and Office of Multifamily Housing to effectively oversee its aging portfolio. PIH is working with the DEC to identify risk-based triggers to target monitoring, and the Chief Financial Officer is leading a Departmental task force looking at enterprise risk management. The Department should strive for a Department-wide risk monitoring approach that is data driven and supports taking actions that will end noncompliance or will seek the return of funds or other enforcement steps when corrective actions are ignored.

CONCLUSION

The Department's role has greatly increased over the last decade as it has had to deal with unanticipated disasters and intervening economic crises, in addition to its other missions, that have increased its visibility and reaffirmed its vital role in providing services that impact the lives of our citizens. 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.

HIGH INCOME HOUSEHOLDS IN PUBLIC HOUSING

Senator COLLINS. Thank you very much. My first question for you follows up on the issue that Senator Daines mentioned, and that is, in your July 2015 report, you found that more than 25,000 families with household incomes exceeding HUD's program eligi-

¹⁴ Audit Report 2014-FO-0004, Compliance With the Improper Payments Elimination and Recovery Act of 2010, issued April 15, 2014.

bility income limits were receiving public housing rental assistance. This is disturbing for many reasons.

Your estimate was that HUD would pay over \$104 million over the next year for public housing units occupied by families that were over the income limits. That means that there are lower income families that aren't receiving assistance, and that clearly needs to be remedied.

I was also concerned that, of those 25,000-plus families, that nearly 18,000 of them had exceeded the qualifying amount for more than 1 year, so this wasn't a case where there was a temporary blip, if you will.

I'm also not talking about a hard-working individual who gets a pay raise at work and thus, is over the limit by a few hundred dollars for the year. What you found was that there were some individuals who owned assets and properties that were worth literally hundreds of thousands of dollars.

My question is, what has HUD done in response to your recommendation for better internal controls, and are you satisfied with the progress that HUD is making?

Mr. MONTROYA. Yes, ma'am. Thank you for the question. It is an important issue, as I said in my opening statement, that we address those most in need in our communities.

I want to make clear that our audit focused on two categories of over income. One was those numbers of family below a \$10,000 mark and then those that were above a \$10,000 mark for a given years. For those over \$10,000, I want to note that that was 47 percent of that 25,000 number that were over a \$10,000 amount per year income, and again, over a year. It wasn't just a blip on the radar.

I want to make clear also that these public housing authorities, since 2004, have had the authority to remove over income, or at least extremely over income families, as we noted, and have failed to do so. So while I know HUD took a lot of heat for its oversight, and certainly, it has some responsibility, proper oversight, I do want to note that housing authorities currently have that authority to do this.

I would recognize that HUD has sent a letter to these public housing authority directors, encouraging to follow that 2004 rule, and I know HUD is working with the Congress to implement some new legislation that would make this more mandatory.

The question for me is going to become what is going to be defined as extremely or significantly over income, and of course, what timeline will HUD put on that, how long do you have to be over income. I do want to make clear that we certainly recognize that people's incomes will ebb and flow, and we were looking for those extreme circumstances.

Senator COLLINS. But that's what you found, were some extreme circumstances.

Mr. MONTROYA. Yes, ma'am.

Senator COLLINS. Correct?

Mr. MONTROYA. Correct.

Senator COLLINS. Because none of us, I don't believe, would want to put someone out of public housing because of the ebb and flow,

as you say, and also, we don't want to discourage people from doing better at work.

Mr. MONTROYA. Right.

Senator COLLINS. But clearly, there were egregious examples, as I read your report, that are very troubling, because it's taking away from scarce resources. Does HUD have the sufficient statutory authority that it needs to require the public housing authorities to implement and enforce limits?

Mr. MONTROYA. No, ma'am. They currently do not have a regulation or a statute that will have them require the housing authorities to do this sort of thing, which is what they're seeking through Congress now.

Senator COLLINS. I know that they're also engaged in a notice of proposed rulemaking to try to address this. What was HUD's initial reaction to your report?

Mr. MONTROYA. Well, unfortunately, what we've seen too often with some of my reports is the knee jerk reaction to say the inspector general is wrong as opposed to stopping to take a look at what it is regarding and having a conversation with us.

Very shortly after that position was taken by a lower level employee, I think the Secretary and the Deputy Secretary very quickly turned that around and were very much in agreement with what our position was, I think, once they understood what our report really was meant, designed to do, and that was identify those egregious examples, and of course to assist them to put these limited dollars that we're all talking about here to use for those that are most in need.

Senator COLLINS. Thank you.

Senator REED.

Senator REED. Well, thank you very much, Madam Chairman. And I, too, want to second your point, which is, I think, entirely pertinent.

This is not about a temporary spike in income, up or down. This is not about essentially some year where you do well, and the next year, you might do much worse. This is consistent and substantial.

Mr. MONTROYA. We would agree with you, certainly, sir.

Senator REED. And thank you. One aspect of this issue is you mentioned, you know, that they certainly have the authority to remove these people from the property. Do they have the authority to raise the rent, so that they capture this extra income?

Mr. MONTROYA. I believe that's what happened in some of these cases, they just allowed them to do the market rent. The problem is, when you do that in some of these situations, it takes that particular unit away from, you know, somebody who's on the waiting list.

Senator REED. Indeed. But I just want to be clear that one remedy, it's maybe not the best remedy, is that they can, in fact, and do, in fact, raise—

Mr. MONTROYA. That is my understanding, sir, yes.

Senator REED. Right. But again, I think your point's well-taken. These units are very scarce.

Mr. MONTROYA. That's correct.

Senator REED. And intended for people who otherwise would be literally homeless.

Mr. MONTTOYA. That's correct.

Senator REED. There's another aspect of this, too, and I think I just want to make sure we cover the whole area, and that is we have been very aggressive in pushing family self-sufficiency programs, job plus programs.

In your analysis, have you made any correlation between these people who are making more money and participating in these programs? Because if we move sort of aggressively, and it turns out that the message we send is, if you get into a family self-sufficiency program to raise your wages or a jobs program, you're going to lose your housing, that's not the right message either.

Mr. MONTTOYA. I would agree. And I don't think that we made the specific correlation, although we didn't find any of these extreme examples of somebody who was in the self-sufficiency type of program, and that's how they got to where they were. Certainly, that is a consideration.

But the idea of the self-sufficiency program is, of course, you'll, at some point, get to a point where you can move out of housing. So at some point, where is that deadline, and what is that amount, and I think that's what we're going to be anxious to see when—

Senator REED. No. I think you have raised some very serious issues and very important issues, and the Department must respond, and that is your function as the inspector general. So thank you for doing your job.

Mr. MONTTOYA. Yes, sir. Thank you, sir.

HOUSING INSPECTIONS OF SECTION 8 VOUCHERS

Senator REED. One area that has been woven throughout the Secretary's testimony, your discussions, has been the consistency of inspections of the Section 8 voucher units. Your 2008 audit suggests that it was wildly inconsistent, etc. What progress has HUD made to ensure Section 8 voucher units are in compliance with current housing quality standards? That's come up repeatedly in both our questioning.

Mr. MONTTOYA. I tell you, we struggle with that almost in every audit we do, finding that these units are just not very livable. I think the Secretary addressed that at some point these reviews didn't even really include mold or bedbugs. It was so lowly ranked in the scheme of things that inspectors could've cared less, even if they saw it, quite frankly.

And I think it boils down to some of these inspections are only as good as the inspector. Too often, from our investigative side of the house, we've seen unscrupulous inspectors who are going to go in, just give it a clean bill of health as quickly as they can, so they can make the amount of money they've charged to do this inspection and move onto the next thing. So we've seen a number of those kinds of issues.

We've also seen that in the lead-based paint sort of issue that you addressed earlier, where, you know, these communities and HUD is trying to do the right thing, but you have unscrupulous inspectors who will come in just give them a good, clean bill of health and move on, having made their income for the day.

So I think HUD is on the right track. We're certainly anxious to see them do a little bit more. I think REAC and the Department,

the real estate section that does these inspections has done well. I think, like anything, there's always more room for oversight. I would like to see more oversight, though, at the local level.

LOCAL BUILDING CODES

Senator REED. That raises an interesting question, because as the Secretary was discussing this issue, it struck me there are local building codes, there are local health and safety codes, and frankly, those are probably being violated, too, which municipality has full authority to go in and order—in fact, probably more authority to order correction, to place liens on the property, to go in and do the correction itself.

To what extent are you urging or the Department is contemplating a more significant role for local housing officials?

Mr. MONTROYA. Well, myself and the Principal Deputy Assistant at the Office of Public and Indian Housing (PIH), Ms. Lourdes Castro, we've joined together to do a number of different things, primarily driven on awareness.

We called them, as we started, fraud awareness bulletins, but it's migrated to a joint effort with her office to do more of an educational thing, sort of a technical educational thing. And of course, what we, as the inspector general, see as problems with regards to the inspectors, you know, it's a collective responsibility, so we all hold some level of that.

And you couldn't be more right with regards to the State and local ordinances that these inspectors have to live by, and often, they're only given a license to perform this if they follow State and local regulations. We've seen incidents where people are coming in as inspectors, and they're not even licensed.

So what we would look to see to do, and certainly what we try to do in our investigations, is when we find that unscrupulous licensed individual, we'd like to report them to the State and local. They lose their license. They lose their livelihood. So just how important is it to you to lie about a number of these things?

So those are the different kinds of enforcement things that I think we can all sort of fall in behind.

Senator REED. And those could be implemented immediately without legislation?

Mr. MONTROYA. I certainly think they could. I think certainly housing authorities, with advice from us, there's nothing wrong with picking up the phone and reaching to your local ordinance and saying, I just had Mr. John Doe, an inspector come in, and here's what happened, and I hear he's licensed by the city or by the State, and we'd like to report him.

Senator REED. Well, thank you very much, Mr. Montoya.

Mr. MONTROYA. Thank you, sir.

Senator REED. Thank you.

COMPLIANCE WITH FHA UNDERWRITING STANDARDS

Senator COLLINS. Mr. Inspector General, in your testimony, you highlighted the fact that, for the last four fiscal years, the results of audits and evaluations of the FHA fund revealed a disturbing percentage of loans that were reviewed that should not have been insured due to significant deficiencies in underwriting.

What actions do you believe are necessary on the part of the Department to ensure that lenders are in compliance with FHA's underwriting standards?

Mr. MONTROYA. Yes, ma'am. Thank you for the question. It's an extremely important question, as we've been struggling with this certainly since my tenure.

We often find that FHA, it struggles with its role to enhance and advance the market for home ownership for those low to moderate income individuals while at the same time playing the enforcement role, and often, those two don't seem to meet.

So certainly with regards to, I think, stronger enforcement on the behalf of FHA is an important issue, we have made recommendations for a number of years about these underwriting deficiencies and the fact that HUD should actually do more random sampling of these loans so that they can determine early on whether these loans are going to be viable in the long run or not. They're doing a better job at that, certainly not as fast as we'd like to see it.

We also think that, with regards to the claim process, HUD doesn't do a very good job often at reviewing these claims to ensure that they're not paying claims that are far more than they need to be paying. That's another area that impacts the fund, certainly with regards to their loss mitigation issues and whether, again, these claims should be paid. These are all enforcement issues that we think they should be taking a serious look at.

We are certainly doing our part. We are continuously finding lenders, and again, unscrupulous people out there who are trying to defraud the Department. We just did a large case in the Florida area. It amounted to about a \$65 million loss to the Department. It was a criminal investigation where we rounded up probably 25 people, a lot of folks, unfortunately, going to jail.

But there's so many different avenues of that that we're certainly trying to do our part to assist the Department in that role.

Senator COLLINS. Sounds to me like it's fortunate rather than unfortunate that they're going to jail, if they're defrauding the Department.

WASTE, FRAUD AND ABUSE IN HUD PROGRAMS

My final question to you is, as you survey the landscape of programs at the Department, are there any that particularly stick out in terms of being particularly vulnerable to waste, fraud, and abuse that you would like to bring to our attention.

Mr. MONTROYA. I don't know that I would single out any one program. I think they are all vulnerable in some way, shape, or form. I do want to acknowledge that, not only with PIH, but more recently with the Office of Community Planning and Development (CPD), we're working at the highest levels to do joint things, to go out there and train the communities and these professionals who are running these programs to understand where the red flags are, to understand where the hiccups and the roadblocks might be, so they don't get into that trouble.

Our motto is prevention first, because once we lose those funds, then we can't get them back. So we're doing as much as we can to assist them. I think if there was a program, albeit not a program that it would raise some real concerns, is HUD's information tech-

nology, because these programs, whether it's PIH or CPD, are so heavily wedded to these IT programs, that if you have a failure in one particular case, you know, a catastrophic failure, there is no other way to get the monies out to these individuals who are going to need it.

And constantly, in our IT security reviews, we are finding aging systems that are incapable of really patching from a security standpoint. HUD maintains millions of records of personally identifiable information that becomes susceptible in those kind of arenas. And really, what happens if these systems fail, and how do we get this money out to all these communities and all these recipients is sort of what's keeping us awake at night at this point.

Senator COLLINS. Thank you. I think that's a statement you could make about every single department in the Federal Government.

Mr. MONTOYA. It's unfortunate.

Senator COLLINS. And it is very worrisome. Thank you very much for your testimony. Senator Reed, do you have anything further?

HUD INFORMATION TECHNOLOGY SYSTEMS

Senator REED. I just want to thank you, Madam Chairman, for the hearing. And I think the point that the inspector general just made about the IT systems, as you point out, could be made, many Federal agencies.

And one of the dilemmas is that I would suspect that their system are probably already out of date by many years, and there's nothing in this budget really that would be a total recapitalization of their IT enterprise so that they'd be ahead of the curve.

Mr. MONTOYA. That's correct.

Senator REED. Yes.

Mr. MONTOYA. That's correct. They're basically in operation and maintenance mode. There is no advancement of these programs.

Senator REED. Yes, and again, that's something we could sort of find in probably every Federal agency, and that is a real, real problem. But I think you focused on something which is absolutely critical, so thank you, again.

Mr. MONTOYA. Thank you, sir. Thank you, ma'am.

Senator COLLINS. Thank you, Senator Reed.

Thank you very much, Mr. Inspector General, for being here with us. As we proceed with putting together this bill and getting more input, I'm sure we will have additional questions for you as well and hope that you won't hesitate to contact us with your recommendations and suggestions.

We are going to have a real challenge, as we always do, in writing this bill, given the fact that 84 to 85 percent of the budget is, if you will, spoken for, given that that's necessary for the renewal of vital rental assistance, and we need your help in finding efficiencies where they may exist.

So thank you very much for testifying today and for your assistance to the committee.

Mr. MONTOYA. Thank you.

ADDITIONAL COMMITTEE QUESTIONS

Senator COLLINS. The hearing record, as I mentioned, will remain open until next Friday, March 18.

[The following questions were not asked at the hearing, but were submitted to the Department subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR SUSAN M. COLLINS

RENTAL ASSISTANCE DEMONSTRATION

Question. The budget request proposes additional funding and authority for the Rental Assistance Demonstration in order to preserve affordable housing. However, the Department's implementation of the project-based rental assistance option for owners of properties eligible under the second component of RAD appears contrary to the goal of preservation. By arbitrarily limiting initial rents to 110 percent of the Section 8 Fair Market Rent, HUD discourages owners from participating in RAD and preserving scarce affordable housing options in high cost areas.

Why hasn't the Department fully utilized the flexibility and discretion to establish appropriate rent levels to preserve this housing stock that the RAD statute provides?

Answer. Section 8 (c)(1) of the U.S. Housing Act of 1937 allows the Secretary to set rents for new Section 8 contracts up to 120 percent of the Fair Market Rent (FMR). For properties assisted under Moderate Rehabilitation (Mod Rehab) contracts, HUD permits conversions at current contract levels, not to exceed this statutory cap. For properties assisted under the Rent Supplement/Rental Assistance Program (Rent Supp/RAP) programs, the rationale for limiting rents to 110 percent of the FMR is as follows:

First, the vast majority of Rent Supp/RAP projects—103 of 109 projects that are currently eligible under this conversion option, or 95 percent—have current rent levels below 110 percent of the FMR. Accordingly, a rental price set at 110 percent of the FMR would be a significant increase for the majority of our Rent Supp/RAP contracts.

Second, HUD's decision to set a rent limit of 110 percent of the FMR was also informed by the desire to maintain a financially consistent conversion option between project-based voucher (PBV) and project-based rental assistance (PBRA). PBV rents are statutorily limited to 110 percent of the FMR. Further, RAD conversions rely in part on transfers from the tenant-based rental assistance (TBRA) account to the PBRA account.

Finally, HUD has the statutory flexibility to allow owners to request a waiver of the RAD Implementation Notice (PIH 2012-32 Rev 2) to seek an alternative rent limit of up to 120 percent of the FMR. HUD is currently entertaining such waivers on a case-by-case basis.

Question. If an owner of a second component RAD property will get an enhanced voucher set at comparable market rent why would they participate in a preservation program that arbitrarily limits rents to a lower level?

Answer. Owners may receive an enhanced payment standard from an enhanced voucher being issued to a tenant, at the expiration of their Rental Supplement or Rental Assistance Payment (RAP) contract or when prepayment of an underlying Section 236 mortgage takes place. However, not all vouchers triggered through these events will yield an enhanced voucher. In order for a voucher to become an enhanced voucher, the market rents of the property would need to exceed 110 percent of the FMR. Further, since many of these projects are still encumbered by 236(e)(2) use agreements at the time of their conversion, the rent increase is not automatic. Rather, the owner would have to request a budget-based rent increase process with HUD or with their State housing finance agency. While it is entirely possible that the voucher will carry with it an enhanced payment standard, it is not a guarantee.

Further, the value of a long-term project-based subsidy contract cannot be discounted since the tenant-based subsidy is contingent on the tenant staying at the property. Many owners are only able to access debt and equity financing in conjunction with the execution of a long-term project-based subsidy contract. Since an enhanced voucher is mobile and a tenant can take it with them at any time, the Project-Based Rental Assistance (PBRA) or project-based voucher (PBV) contract that an owner receives as a result of a RAD conversion is the only way an owner can receive a long-term subsidy contract in place of the Rent Supplement, RAP, or Mod Rehab contract.

Question. Isn't it better to encourage preservation of these affordable housing resources by providing the owner with at least the same rent that they would get under another HUD program but which does not preserve the property as affordable?

Answer. As noted above, the rent paid to the owner using an enhanced voucher is not guaranteed—neither the rent level itself nor the ongoing payment of the rent if the voucher holder chooses to leave the property. In contrast, through RAD, the property owners receive a multiyear contract with adjustments to contract rents at regular intervals to ensure the long-term viability and affordability of the property.

FHA

Question. FHA's primary purpose is to act as a countercyclical balance during economic downturns, not to compete with the private market. Such a role was critical during the recession of 2008 to mitigate even further economic uncertainty and the loss of trillions of dollars in household wealth. But there comes a time when FHA should return to its traditional role. Through fiscal year 2015, FHA accounted for 19 percent of the total purchase mortgage market while its historical market share averages 13 percent. FHA's current market share is artificially maintained in part due to last year's decision to reduce single-family mortgage insurance premiums.

As we begin our work writing the fiscal year 2017 appropriations bills, does the Department plan to make further reductions to single-family mortgage insurance premiums, placing it in further competition with the private sector rather than returning to its countercyclical role?

Answer. FHA's mission is to ensure the availability of credit in the mortgage market while protecting the health of the Fund. With a constantly changing housing market and other economic forces, FHA must continually evaluate that balance, and when necessary make appropriate changes in pricing.

In regards to market share, FHA has a mission mandate to improve access to credit, not a market share or revenue mandate such as a private firm faces. The size and shape of overlap between FHA and others will continue to vary with changes in economic conditions, industry practices, and public policy objectives. Consequently, the Department cannot predict how the market will shift.

GAO

Question. According to GAO's review of the U.S. Government's fiscal year 2015 and 2014 consolidated financial statements, HUD was one of three agencies to receive a disclaimer on the audit of its financial statements. GAO also reported that HUD started fiscal year 2015 with eight material weaknesses, adding three new ones, and resolving two, to end up at the end of the fiscal year with nine material weaknesses. The Inspector General separately audited HUD and in addition to these material weaknesses, also identified eight significant deficiencies in internal controls, and six instances of noncompliance with applicable laws and regulations. According to the audit, these weaknesses were due to an inability to establish a compliant control environment, implement adequate financial accounting systems, retain key financial management staff, and identify appropriate accounting principles and policies.

What steps has HUD taken to improve on this situation and at least end fiscal year 2016 with fewer material weaknesses than it started with?

Answer. Improving HUD's longstanding financial management challenges has been a top priority. Between fiscal year 2014 and fiscal year 2015, by working closely with OIG, GAO and OMB, HUD has been able to drop its number of material weaknesses from 11 to 9 and anticipates improving upon those numbers in fiscal year 2016. This effort will not and has not been easy, but HUD is changing financial management across the Department to address the OIG's findings by investing in its people and our systems, re-engineering outdated processes, engaging with stakeholders, and implementing a financial shared-service provider.

—HUD is making progress in establishing a sound, resilient financial governance structure that is flexible enough to adapt to the changing landscape and complex program structure. HUD is tackling challenges by investing in its people and our systems, re-engineering outdated processes, engaging with stakeholders, and leveraging implementation of a financial shared-service provider to improve our financial reporting.

—*Public Housing Authority (PHA) Assets:* In 2015, HUD enhanced its capabilities for making timely reclassification of PHA data to address the material weakness regarding non-GAAP accounting for PIH assets and liabilities. We are continuing to make a concerted effort to obtain data from grantees which will allow

- for validation of the grant accruals and obtain data from PHAs to properly account for advance payments.
- Office of Community Planning and Development (CPD) Grant Accrual: In 2016, HUD's Office of the Chief Financial Officer and Office of Community Planning and Development made progress in addressing the non-GAAP validation of CPD's grant accruals by initiating a process to obtain data from the grantees, which will allow validation of the accruals.
 - CPD First In-First Out (FIFO) Formula Grant Payment Method and HOME Cumulative Method for Assessing Grantee 24-Month Commitment Requirement*: CPD formula grant programs used the FIFO accounting disbursement method for fiscal year 2014 and prior grants; and a cumulative method was used to determine whether HOME grantees met their 24-month commitment requirement. After considerable work with OIG, OMB, and GAO, HUD has changed its accounting to be grant specific instead of FIFO, and is in the process of amending the HOME regulation to change its method for assessing grantee compliance with the HOME commitment requirement from cumulative to fiscal year specific. The grant administration and financial systems have been modified to capture the level of detail to record the financial transactions and allow such grant-specific and fiscal-year specific reporting for disbursements and commitments for grants awarded for fiscal year 2015 and thereafter.
 - Ginnie Mae Financial Statements*: Ginnie Mae has also made significant progress on each of the material weaknesses identified by the OIG. Ginnie Mae has been overhauling legacy processes, and has filled three key leadership positions—including hiring a CFO, Controller, and a new Accounting Policy and Financial Reporting Advisor. Ginnie Mae continues to invest in accounting for non-pooled loans and properties at the loan level. As with FIFO, this will take time to resolve, but GNMA is making progress.
 - Finally, HUD is revamping the audit coordination and remediation process to more quickly identify, engage, and resolve potential issues and improve timeliness of resolutions, which will help to overcome our material weaknesses. As part of the process, we briefed the Office of the Inspector General on annual financial statement process based on implementation of shared-service provider (Treasury ARC).

HOUSING TRUST FUND

Question. The Housing and Economic Recovery Act of 2008 authorized the deposit of receipts from Fannie Mae and Freddie Mac into a new Housing Trust Fund in order to finance the development, rehabilitation, and preservation of affordable housing for extremely low-income residents. Along with the HOME program and the Low-Income Housing Tax Credit, the Housing Trust Fund is an important tool in the goal of eliminating homelessness and reducing the rent burden on the most vulnerable.

How much funding will be available for the Housing Trust Fund and when will HUD release this funding to the States?

Answer. Collections of assessments from Fannie Mae and Freddie Mac in the amount of \$186,256,610 were made available for the Housing Trust Fund (HTF) in fiscal year 2016. Of this amount, \$12,665,449 is temporarily unavailable due to the sequestration of 6.8 percent of the funds. After adjusting for sequestration, HUD will make \$173,591,160 available to HTF grantees, which HUD expects to announce individual allocations to States later this spring and execute this summer/fall.

Question. Last month your office issued a report on HUD's Departmental Enforcement Center (DEC). That report indicates that the DEC can improve the physical condition of housing stock and improve the financial management of troubled multi-family properties. However the report also indicates that the DEC has very limited authority to monitor failing participants or require enforcement in any program offices, and that in cases where program offices chose to disregard DEC's recommended enforcement actions, it could not appeal these decisions. The report concludes that HUD should provide the DEC with the authority, independence, and resources to address HUD-wide enforcement risks. Do you believe that the DEC should be moved out of the Office of General Counsel in order to address these concerns?

Answer. HUD's own management reform plan known as "HUD 2020" recognized the conflicting role program offices face in getting funds to and spent by participants while also holding them accountable. We think the Office of General Counsel may have a similar conflict as it protects HUD's program clients when the DEC recommends enforcement against those clients. The DEC could increase its effectiveness with broader enforcement authority that looks at HUD programs from an en-

terprise wide view. Independence for the DEC is also critical, which would allow it to take enforcement action when necessary to bring about program compliance. While the DEC would likely be effective regardless of its organizational placement, placement outside the Office of General Counsel may present the best resolution to independence concerns that arise when the enforcement program is part of the legal team that will defend the Department's position on enforcement.

QUESTIONS SUBMITTED BY SENATOR SHELLEY MOORE CAPITO

COMMUNITY DEVELOPMENT BLOCK GRANT

Question. CDBG provides many benefits, but I'd like to ask about an area that seems to be a natural fit under the scope of this program. West Virginians are unfortunately well below the national standard for broadband adoption.

Do you feel that CDBG grants could be a means for communities to invest in this vital capability in the 21st century?

Answer. Community Development Block Grant (CDBG) funding can be used by grantees in a variety of ways to promote broadband access and adoption.

- Installation of broadband infrastructure in particular neighborhoods or, in some cases, community-wide, can be carried out as an eligible public facility activity.
- Likewise, installation of broadband infrastructure to schools, libraries, hospitals, and similar community facilities can be eligible as a public facility activity.
- Installation of wiring in housing to support broadband service can be considered as a housing rehabilitation activity.
- Educational and training programs with respect to broadband usage could be qualified as eligible public service activities.

In each case, the activity would need to meet a national objective of the CDBG program and usually the national objective will be benefit to low- and moderate-income persons. The Department recently posted several questions and answers on use of CDBG in support of broadband on its website at: <https://www.hudexchange.info/resource/4891/cdbg-broadband-infrastructure-faqs/>. Further, HUD is proposing regulatory revisions that would require CDBG grantees to consider broadband access and adoption issues in preparing consolidated plans governing annual funding for the Office of Community Planning and Development's four formula funding programs (CDBG, HOME, Emergency Solutions Grants (ESG) and Housing Opportunities for Persons With AIDS (HOPWA)).

CONNECTHOME

Question. Could you share with us what HUD has learned so far from your ConnectHome pilot initiative to accelerate broadband adoption by children and families in HUD-assisted housing?

Answer. HUD's ConnectHome was officially launched less than a year ago, in July 2015. A total of 27 Public Housing Authorities and cities (a few are city/county consolidated metro governments) and one Tribal Nation received the ConnectHome pilot community designation. Almost all of the sites are currently working with Internet Service Providers (ISP) in their area to connect public housing families with school-age children to the Internet.

We have learned a lot about connectivity among public housing residents since this program was launched, including the following:

- Connecting public housing residents to the Internet requires the involvement of other key stakeholders in addition to the Public Housing Authority, the City and the ISP. To be successful, the collaboration should also include local schools and colleges, digital literacy groups and other organizations that serve young children, as well as foundations, businesses and other private partners.
- Local staff working on the ConnectHome initiative typically perform many other duties, which makes it difficult to dedicate the time necessary for the initiative to succeed.
- Once connectivity has been established, a second hurdle exists: securing laptops and computers for the families. While many public housing residents have smartphones that allow them to access the Internet, a significant number of residents may not have access to the Internet through devices such as laptops or computers. For school-aged children, a lack of appropriate hardware and software can pose a critical problem, as it is extremely difficult to complete homework assignments using a smartphone. At least one ConnectHome community has a relationship with its local college that donates used computers to ConnectHome residents. HUD is encouraging PHAs to connect with city govern-

ments and local colleges, non-profits, and businesses willing to donate used computers.

We are also pursuing research in conjunction with the ConnectHome initiative that will help to inform both ongoing and future broadband connectivity efforts in HUD-assisted housing. HUD's Office of Policy Development and Research is currently surveying residents across ConnectHome communities to estimate Internet connection rates, as well as to assess the types of devices commonly used by these residents to access the Internet. This will be HUD's first-ever nationwide look at Internet use among residents of public housing. Most research on the digital divide defines low income families as having incomes of \$25,000 per year or less, a range which encompasses incomes much higher than those of the average family in public housing. The results will be released in late spring of this year.

In addition, HUD plans to conduct a series of focus group discussions in several ConnectHome communities with an emphasis on understanding whether and how new subscribers experience the benefits of Internet connectivity in their homes, as well as what factors are keeping families from subscribing and lessons learned from the implementation of the ConnectHome initiative. HUD also plans to conduct a telephone survey of ConnectHome subscribers with a focus on understanding families' digital literacy and training needs.

QUESTIONS SUBMITTED BY SENATOR BRAIN SCHATZ

FAIR MARKET RENT

Question. I have heard from public housing authorities (PHAs) and a number of voucher holders on each of Hawaii's four counties who are frustrated that fair market rents are unrealistically low. This difference makes it hard for a person or a family to use a voucher especially in a neighborhood that may be near better schools and employment centers. And the only way for a county to meaningfully challenge the FMR is to pay for a rent study which can run \$50,000.

I have no doubt that intentions are good and HUD wants a successful program but the methodology appears systemically flawed, so what are we going to do? We need some combination of a better methodology or more administrative fees to PHAs if we expect them to pay for rent studies as the way to right size FMRs. I do understand HUD is pursuing the Small Area FMR but initial feedback from PHAs in Hawaii is that the result of that may not result in more accurate FMRs but will add to the administrative costs to administer vouchers across the State.

Answer. HUD does not believe that the Fair Market Rent (FMR) estimation methods are "systemically flawed." While there may be certain cases where HUD's FMR estimates are not in line with the local rental market, the overwhelming majority are sufficiently accurate to use in operating voucher programs. Out of the approximately 2,400 jurisdictions for which HUD estimates FMRs each year, generally less than a dozen areas request, and fewer still conduct, rent surveys because they feel the FMRs are not accurate. FMRs are, however, most likely to be out-of-line in markets that have had recent spikes in demand and where housing supply is slow to respond.

Hawaii's unique natural beauty creates demand for housing there beyond what purely local economic activity can support. This results in high, and potentially volatile, rents, and a serious shortage of housing affordable to low-income residents. That said, of the PHAs operating in Hawaii, only Kauai County appears to be at the limits of local flexibility to set payment standards around the fiscal year 2016 FMRs according to HUD's voucher tenant data. The remaining PHAs should explore further use of their payment standard-setting authority before conducting a survey. The Kauai County PHA should consult with HUD staff to see what options are available, aside from a rent survey, to make the voucher program work better there.

In terms of methodological improvements that might better capture recent, large changes in rent, HUD is assessing forecasting approaches that might better capture such local variation going forward.

FAMILY UNIFICATION PROGRAM-FAMILY SELF SUFFICIENCY DEMONSTRATION

Question. HUD recently released its FUP-FSS demonstration program to better improve system coordination between housing providers and child welfare agencies to improve outcomes for at-risk youth. I hope this demonstration will increase the utilization of FUP vouchers for transition age youth.

What other recommendations does HUD have to improve utilization of these vouchers and ensure that they are effective tools to assist transitioning these young people to adulthood?

Answer. HUD has begun working with the Children's Bureau at the U.S. Department of Health and Human Services (HHS) this year to provide joint guidance to PHA and Public Child Welfare Agencies (PCWA) on strategies for better collaboration in order to help increase referrals of youth to Family Unification Program (FUP) and improve coordination of housing and supportive services. There are, however, still several major barriers to youth accessing and successfully utilizing FUP vouchers.

One of the main barriers is the 18-month time limit on the FUP voucher for eligible youth. This time limit is one of the main reasons HUD pursued the FUP/FSS Demonstration Project, as well as proposed a statutory change in the fiscal year 2017 Budget. The demonstration project allows for an extension of voucher assistance for FUP youth from 18 months to up to 60 months (or 5 years). The 18-month time limit is often too short of an amount of time for youth to obtain stable housing and transition to adulthood and self-sufficiency, and the short timeframe of the voucher presents significant costs to the PCWA and PHA due to the necessarily frequent turnover. HUD continues to support the Budget proposal to extend the FUP youth time limit from 18 months to 60 months.

Even with extended timeframes, FUP youth will need critical supportive services from the PCWA. There is a need for critical new investments in PCWA in order to provide supportive services to former foster youth transitioning to adulthood. In a 2014 report on FUP for youth conducted by HUD, 40 percent of PCWA surveyed reported that funding for the supportive services for youth is either somewhat a challenge or a major challenge in some cases.

ASSISTED HOUSING AND CRIMINAL JUSTICE REFORM

Question. HUD recently published Notice PIH 2015-19, "Guidance for Public Housing Agencies (PHAs) and Owners of federally-Assisted Housing on Excluding the Use of Arrest Records in Housing Decisions" stating arrest records cannot be the basis for denying admission, terminating assistance or evicting tenants of federally assisted housing.

What are the methods HUD will use to determine compliance with this guidance, and how will requirements of this guidance take into account the balance between access to housing and the safety of all residents?

Answer. HUD's plans to enforce the guidance are consistent with its approach to enforcing other requirements related to admission or eviction. HUD Field Offices are preparing to conduct a compliance monitoring assessment, during which they will review PHAs' Admissions and Continued Occupancy Policies. Field Office staff will monitor whether a PHA's policies treat an individual's arrest as a reason to deny admission, terminate assistance, or evict that individual. Where policies are non-compliant, PHAs will be required to change them. On an ongoing basis, HUD Field Offices will monitor compliance via targeted reviews, with special emphasis on PHAs who are determined to be at a higher risk of non-compliance according to HUD's National Risk Assessment Tool (updated quarterly). Further, residents have the option of reporting any violation of any guidance and/or regulation in writing or by telephone. All complaints are investigated by the Field Office and the person is notified of the outcome. Finally, HUD will remind all PHAs that they must comply with the published guidance on an annual basis.

PHAs have an obligation to ensure the safety and security of their residents. While the guidance makes clear that an individual's arrest cannot be used to prove disqualifying criminal activity, it also states that a record of an arrest might properly "trigger" an inquiry into whether a person actually engaged in disqualifying criminal activity. As part of such an inquiry, the guidance allows a PHA or owner to continue to obtain and review the police report, record of disposition of any criminal charges, and other evidence associated with the arrest to inform its eligibility determination, and thereby make an informed assessment.

Question. What are the fair housing implications of screening out applicants with criminal records?

Answer. The Fair Housing Act (Act) prohibits both intentional housing discrimination and housing practices that have an unjustified discriminatory effect because of race, national origin, or other protected characteristics. While the Act does not prohibit housing providers from appropriately considering criminal history information when making housing decisions, selective use of criminal history as a pretext for unequal treatment of individuals based on race, national origin, or other protected characteristics violates the Act.

Additionally, criminal history-based restrictions on housing opportunities violate the Act if such restrictions have an unjustified and disproportionate impact on individuals of one race or national origin versus another. Under the standard for prov-

ing discriminatory effects claims set out in HUD regulations, a criminal history policy that causes a disparate impact lacks a legally sufficient justification, and therefore violates the Act, if either the housing provider cannot prove that the policy is necessary to serve a substantial, legitimate, nondiscriminatory interest, or a plaintiff can prove that the housing provider's interest could be served by another practice that has a less discriminatory effect.

In the context of criminal history-based housing restrictions, whether a particular policy that causes a disparate impact violates the Act will generally depend on whether, or to what extent, the policy takes into account such factors as the nature of a prior conviction and the length of time since the conviction. Discriminatory effects liability is always assessed on a case-by-case basis.

For more information, please consult the Office of General Counsel's Guidance on Application of Fair Housing Act Standards to the Use of Criminal Records by Providers of Housing and Real Estate-Related Transactions, issued on April 4, 2016.

LOCAL HOUSING POLICY GRANTS-AFFORDABLE HOUSING

Question. The lack of housing inventory is a major cause of the affordability crisis that cities are currently facing. In Hawaii, one-third of families pay more than half of their income on rent. While housing vouchers are an important tool, they cannot solve this challenge alone. Creating more units of housing will reduce the rent increases for those in market-rate housing, allow government assistance to stretch further, and keep our communities more affordable. HUD's budget includes \$300 million in mandatory funding to provide localities with resources to engage in comprehensive planning to solve this systemic problem.

How would this program work and how will HUD partner with localities to tackle these challenges if these additional funds do not materialize?

Answer. The initiative would fund competitive grants to be awarded to localities and regional coalitions of localities that demonstrate an ability to execute and carry out policy, program and regulatory streamlining initiatives that serve to create a more elastic and diverse housing supply. The funding would allow localities to address any needs that arise from the new policy, program or regulatory initiatives, e.g., infrastructure expansion and/or improvements, as well as support market evaluations, code writing assistance, design options, stakeholder outreach and education, and implementation. Funds would also establish a learning network that would provide ongoing capacity building to the organizations and entities, facilitate shared learning opportunities among similar cohorts, and share or disseminate the results of learning and resulting effective best practices.

In order to encourage innovation, learn from local experience, and better align multiple HUD and other Federal programs and reduce Federal barriers, local governments, with support from HUD and other Federal agencies would develop plans to realize their own visions for building more prosperous, affordable and economically vital regions.

Without these funds, HUD will look to use a portion of its technical assistance (TA) resources to support local efforts to increase housing supply, but TA funds are in high demand. HUD would also still try to create knowledge sharing among localities that have developed innovative, local solutions to housing supply challenges, which can be shared and possibly replicated. Unfortunately, these alternatives would not completely mitigate the time and cost that many localities need in developing and implementing these types of policy reforms.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER MURPHY

FHA

Question. After FHA reduced the Mortgage Insurance Premium, the agency's total number of loans endorsed increased by 73 percent in the third quarter of fiscal year 2015 (April-June) as compared to the year before, including a 34 percent increase in purchase-loan endorsements.

Can you differentiate between FHA's current market share of the low- to moderate-income single family borrower cohort as compared to Fannie Mae and Freddie Mac?

Answer. At this time, the Department cannot differentiate between FHA's current market share of the low- to moderate-income single-family borrower cohort as compared to those of Fannie Mae and Freddie Mac; but, FHA can demonstrate that the median FICO score of an FHA borrower, even post MIP reduction, is in the 680's and in line with FHA's mission to serve low- and moderate-income households. We would note though that this median is affected by our countercyclical role in the

market—and in times of market expansion and contraction, that the median FHA FICO score will ebb and flow accordingly as FHA serves the market for credit access in underserved households at all income ranges. Generally, as private capital comes back to the market—FHA median FICO decreases and rises when it leaves the market and more households need FHA insured financing.

Question. Following FHA's Mortgage Insurance Premium reduction last year, can you confirm that FHA loans are currently priced appropriately for their risk?

Answer. The estimated fiscal year 2016 and 2017 credit subsidy rates for those budget cohorts of -3.70 and -4.42 percent, respectively, indicate that FHA single-family forward loans are priced appropriately. Negative subsidy estimates mean that the cohorts' activity are estimated to result in savings to the government on a net present value basis.

Question. Do you believe that the GSEs are overpricing for their risk?

Answer. The Department is not in a position to evaluate the Government Sponsored Enterprises (GSE's) pricing since the GSEs use a different methodology, have different risk exposure, and charge different fees in their role as guarantors of mortgages on the secondary market.

SUBCOMMITTEE RECESS

Senator COLLINS. The hearing is now adjourned.

[Whereupon, at 4:04 p.m., Thursday, March 10, the subcommittee was recessed, to reconvene at a date and time subject to the call of the Chair.]