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FRAUD IN THE HUD HOME PROGRAM

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

AND THE

SUBCOMMITTEE ON
INSURANCE, HOUSING AND
COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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FRAUD IN THE HUD HOME PROGRAM

Wednesday, November 2, 2011

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS, AND
SUBCOMMITTEE ON INSURANCE, HOUSING
AND COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittees met, pursuant to notice, at 2:38 p.m., in room 2128, Rayburn House Office Building, Hon. Randy Neugebauer [chairman of the Subcommittee on Oversight and Investigations] presiding.

Members present from the Subcommittee on Oversight and Investigations: Representatives Neugebauer, Fitzpatrick, Posey, Renacci, Canseco; Capuano, Waters, Baca, and Miller of North Carolina.

Members present from the Subcommittee on Insurance, Housing and Community Opportunity: Representatives Biggert, Hurt, Capito, Garrett, McHenry, Westmoreland, Dold, Stivers; Gutierrez, Waters, Cleaver, Velazquez, Watt, and Sherman.

Also present: Representatives Royce, Huizenga, and Green.

Chairman NEUGEBAUER. Good afternoon. This joint hearing of the Subcommittee on Oversight and Investigations and the Subcommittee on Insurance, Housing and Community Opportunity of the Committee on Financial Services will come to order.

I would let all of of the Members know that all Members' opening statements will be made a part of the record. Each side has agreed to limit themselves to 10 minutes. And with that, I will yield to myself for an opening statement.

We had a hearing on the HOME Program in the past, back in the summer. I think from the conversations I have had with a number of Members, it left more questions than answers because it still appears to us as, we have done more investigation, that there is not a sufficient amount of oversight going on for this particular program. And hopefully, this is not indicative of what is going on with other programs.

Now let me be clear, because I think there has been some confusion about the purpose of these hearings. These hearings are not about the worthiness of the HOME Program. These hearings are about oversight, and accountability. When we take American taxpayers' money, they expect us to spend it in an appropriate way.

They also expect us to guard and make sure that those funds are expended in the appropriate way, and more importantly, that none of that money is lost to fraud.

What we are going to hear today—we have two witnesses who have actually been convicted of fraud in these programs. And unfortunately, that is a crime, and they are going to pay the price for that.

But the other issue is, is they are going to detail how easy it was for these particular programs to be defrauded, and they are also going to detail that very little oversight about HUD was made for these programs. For me, personally, and I think for members of this committee, we find that troubling.

And so our purpose today for this hearing is to ascertain what happened and hopefully stop it from happening in the future, but also, I think, more importantly, to send a message to the Administration that when you are spending American taxpayers' money, there is accountability that goes with that, and if the procedures are not in place, they need to be put in place to prevent this kind of behavior in the future.

I think one of the other things we are going to ascertain is that very little due diligence has been performed when these monies are granted to certain entities. We are going to hear that people who got some of this money were probably as surprised as anybody that their grant was actually awarded, because they didn't have the background or the experience to, in many cases, execute these programs.

So I look forward to the hearing today, and to our witnesses. And with that, I yield to the distinguished ranking member of the Subcommittee on Oversight and Investigations, Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman. Mr. Chairman, I would like to start out by saying that I have not been happy with what has led up to this hearing. Up until now, I think that the Democratic side of this subcommittee has been incredibly cooperative on every hearing thus far. I have shared your general goals and your general approach to various issues, including this one.

I totally agree that oversight is an important thing, and that we want to make sure that every tax dollar is well accounted for, to the best of our ability.

Nonetheless, I believe that our side has been treated unfairly, and I think especially, up until this point, to my knowledge, we have not done anything to deserve it. And I kind of hope that this is the last time that this happens.

As far as the witnesses go, my hope is that we will be swearing in these witnesses. Even though there is a law on the books that says you cannot lie to Congress, I think it is appropriate when we have people who have been convicted of serious crimes, that they understand very clearly and unequivocally that they can't lie in court. I know they know that. They can't lie here either.

And the other aspect of it, I would like to make sure that the witnesses know that if they intend to use this as some sort of attempt or forum to say, I didn't do it, the dog ate my lunch, or I was forced to do it or whatever their other reason was, this is not the place and that is not why we are here.

First of all, it is the wrong forum. Second of all, we are the wrong people. They need to understand very clearly that they are here for the specific purposes that the chairman has outlined, which I agree with. And that is it. If they intend to use any other names, our own rules call for those names to be subjected in public. They need to be done in executive session. So I am hoping that we can avoid all that.

As far as the substance of the hearing goes, again, I think everyone here—you won't find anybody who thinks oversight is not an important thing, and that we don't need to protect our tax dollars. We all want that, particularly those of us who actually think that these programs are important.

The worst possible thing that can happen to people like me is to have these programs abused by anyone, for any reason, because it then empowers people who don't like the programs in the first place to say, let us shut down the program or let us dramatically reduce the program.

So, in fact, I have always been the person who wants more oversight and more accountability, and I welcome this hearing, and I thank the chairman for calling it.

Chairman NEUGEBAUER. And I thank the gentleman. Now, I would like to yield to the chairman of the Subcommittee on Insurance, Housing and Community Opportunity, the gentlewoman from Illinois, Mrs. Biggert.

Chairwoman BIGGERT. Thank you, Mr. Chairman, and good afternoon.

I would like to welcome today's witnesses. Today's hearing is a continuation of the committee's work to examine HUD's oversight of the HOME Program. HOME is the government's largest affordable housing construction program. HUD is in charge of the program, and ultimately accountable to the Congress and taxpayers for the program's outcome.

In June, the full Financial Services Committee held the first hearing on HUD's HOME oversight. During that hearing, what we learned was extremely troubling: inaccurate and incomplete information in HUD's database, as well as insufficient monitoring of participating jurisdictions, projects and individuals in charge of HOME funds which allow waste, fraud, and abuse.

Millions and possibly billions of taxpayer dollars intended to fund affordable housing for people in need may have been loosely expended, or worse, swindled by criminals. We have uncovered that, in some cases, individuals and organizations readily took taxpayer-funded HOME dollars, but never actually built a unit of housing, or only built a few units where many units had been pledged.

For example, my staff recently took pictures of a Chicago property that was funded with HOME dollars. HUD's database reported that 65 units of housing were built with the funds of this project. The pictures clearly indicate that there are not even close to 65 units of housing at this location. In fact, it looked more like four units.

So that begs the questions: who has the money; where are the units that were promised; has HUD demanded repayment for the units that were not built; and has the developer been cited or sanctioned by HUD for not completing the job?

Today, we will examine what steps HUD must take to close the door on any further abuse of taxpayer dollars. HUD's current "Trust but don't verify" approach to oversight is unacceptable. Taxpayers who are paying for this program deserve better. And families in need of housing, whom the program was intended to help, deserve better too.

With that, I look forward to hearing from today's witnesses, and to holding future hearings on this and other HUD programs as we do the oversight. I yield back.

Chairman NEUGEBAUER. I thank the gentlewoman.

Mr. Gutierrez is recognized.

Mr. GUTIERREZ. Thank you, Chairman Neugebauer, Chairwoman Biggert, and Ranking Member Capuano for working to organize this joint hearing today. This is indeed a very unusual hearing, because, in my 20 years in Congress, I have never had the primary first witnesses who come before the committee be two convicted felons.

I have certainly never had testimony from a felon, who donated more than $5,000 to the National Republican Congressional Campaign Committee during the height of the embezzlement and the fraud that she committed to the Federal program.

I am going to ask the witness about that donation. I am going to ask her if embezzling from the HOME Program helped to free up extra cash to help Republicans in Congress. And I am going to ask whether my Republican colleagues have looked into this, and made sure those funds have been returned to the proper source.

I think the absurdity of this hearing speaks to the difficulty the Majority is having in making the points they seem determined to make about the HUD HOME Program, whether the facts support those points or not. The embezzlement that we are going to hear about from the convicted felons began under George Bush's Administration, while he was President of the United States, and when my colleagues who are in the Majority, were in the Majority.

It is highly irregular to send and to need convicted felons to explain how the HOME Program is susceptible to fraud. Usually, we have experts or law enforcement come to speak before us.

I have seen whistleblowers testify, honest Americans who are concerned about potential abuse, who risk their well-being to help us fix programs. I have listened intently to community organizers, advocates, consumers, academics—these are credible witnesses who help us to improve our programs.

I have 11 letters in support of the HOME Program, and I ask unanimous consent to submit them for the record, Mr. Chairman.

Chairman NEUGEBAUER. Without objection, it is so ordered.

Mr. GUTIERREZ. One of the letters is signed by 23 different organizations, including Habitat for Humanity, the National Association of REALTORS®, the U.S. Conference of Mayors, and even the YMCA. These groups have experience implementing HOME honestly.

Why didn't we ask any of them to come and testify before us? I am really not here today to blame the witnesses. That is up to the legal system. And while I am sure that both of these individuals are very knowledgeable regarding the crimes they have committed,

I can't help but wonder what the Majority hopes we will learn from them.

It seems to me that a logical explanation of their presence is that the witnesses are here as examples of how our system works. Two people broke the law, violated the rules of the HOME Program for personal gain, and they got caught.

They were prosecuted. One has been sent to jail. The other one will certainly soon go to jail. It seems to me the system worked. We can and should make sure every Federal program is run well, and that anyone who abuses the system or breaks the law is caught and punished.

However, we can't hope to stop people from attempting to break the law. We can strengthen and improve our efforts to catch people who break the law. If that were the purpose of today's hearing, then I would happily and willingly participate.

Any weaknesses or vulnerabilities in the HOME Program should be addressed. But let us not be fooled. One way to judge the strength of the accusations against the HOME Program is to judge the quality of the witnesses.

I believe the way this hearing is being conducted makes clear that the purpose today is to score political points and generate exciting headlines. I hope in the future we can do better. Now, let us talk about what the HOME Program really is. In my district in Chicago, the HOME Program has created 15,000 new housing units for low-income households. It has helped low-income families stay in their homes and preserved the only real financial asset that many of them have, and I certainly hope that we will delve into those issues.

Chairman NEUGEBAUER. I thank the gentleman.

Mr. Fitzpatrick is recognized for 1 minute.

Mr. FITZPATRICK. Thank you, Mr. Chairman, for reconvening on this important issue of taxpayer protection and congressional oversight.

In my county, Bucks County, Pennsylvania, HOME funds have been used to complete worthy projects. The local Department of Community Development has leveraged the funds with other private and public resources to provide needed affordable housing. This is how the system is supposed to work, and it is probably the rule and not the exception.

However, in this environment, with the deficit crisis and the kinds of fiscal restraints that we are under, no program can be immune from examination, especially where there are reports of waste and examples of fraud.

In this day and age, with the technological capabilities becoming more user-friendly and more adaptive, there is no excuse for a lack of monitoring and reporting with these projects. We saw examples during the last hearing of other Departments that have managed to develop a way of tracking their projects, so I think it is a reasonable expectation that HUD can figure it out as well.

We should be able to track the actual progress of HOME projects and not simply the money that is being spent. Part of our job as Representatives is to ensure that every dollar that is sent down here—that constituents are receiving value.

We are not here today to debate the merits of the HOME Program, but rather we are here to make sure that the necessary internal controls are in place and that they guarantee a good return on the investments.

Thank you, Mr. Chairman.

Chairman NEUGEBAUER. I thank the gentleman.

The gentleman from Virginia, Mr. Hurt, is recognized for 1 minute.

Mr. HURT. Thank you, Mr. Chairman. I want to thank Chairwoman Biggert and you, Mr. Chairman, for holding today's hearing and for your continued commitment to conducting rigorous oversight of the programs within the committee's jurisdiction.

Today's hearing is a continuation of this committee's effort to improve the management of HUD's HOME Program. As we learned at our last hearing on this subject in June, HUD is not taking the steps necessary to hold HOME grantees sufficiently accountable for the funds that they receive.

We also discovered that HUD is not utilizing the best available management practices and that the agency lacks sufficient internal controls to stop fraud and abuse in the HOME Program.

Today, we will hear from witnesses who understand how flawed this program is and have exploited the Program's weaknesses at the expense of the American taxpayer. With our Nation over $14 trillion in debt, the citizens of my district, Virginia's 5th district, will not accept mismanagement of taxpayer resources. My constituents expect Congress to closely scrutinize Federal programs to identify and eliminate waste, fraud, and abuse.

Again, I want to thank Chairwoman Biggert and Chairman Neugebauer for holding this hearing today, and I look forward to the testimony from our witnesses. And I yield back the balance of my time.

Chairman NEUGEBAUER. I thank the gentleman.

And now the gentleman, Mr. Westmoreland, is recognized for 1 minute.

Mr. WESTMORELAND. Thank you, Mr. Chairman, and I, too, want to thank you and Chairwoman Biggert for having the hearing. And I want to compliment you on the witnesses, because I don't think there is any better way to find out the holes in a program than to have people who have found those holes, and know how the system works, give us a better idea of what we can do to prevent this type of fraud.

There are instances where HUD does not even have the complete addresses for some of the HOME projects. Even if it is new construction projects and they haven't even been assigned an address, completed projects should have an address. We should know where these projects are located so we can at least have the ability to ride by and to see the progress of it rather than having the supervisor give us all the files. I hope the committee will continue this tough oversight into this and all the HUD programs and continue to bring about the best witnesses possible who can testify as to where these holes are. I yield back.

Chairman NEUGEBAUER. I thank the gentleman.

And now the gentleman, Mr. Dold, is recognized for 1 minute.

Mr. DOLD. Thank you, Mr. Chairman.

Clearly, this hearing is not about terminating or defunding HUD's HOME Program. As my colleague from Illinois aptly pointed out, the HOME Program does actually fund some very important projects. And I would just simply say that if we are able to root out some of the waste and the fraud, think about how many more programs we would actually be able to fund, to the benefit of the taxpayers.

When I look at—as a small business owner, one thing I do know is that those who manage an organization, those who spend other's money must create and maintain adequate systems and controls, checks and balances if we are going to have these types of programs succeed.

The witnesses that we have today—Congressman Westmoreland noted that one of the best ways to do it is to identify the holes. These witnesses have identified the holes.

If we look at our credit cards, we look at our checks, the people who helped devise these security systems that we have in place today were not law enforcement; in fact, they averted law enforcement for years and years. They were the criminals who actually got around those systems.

So I think we, as Congress, need to use this oversight authority to be able to find out how we can strengthen this program for the taxpayers, because surely the American people, the taxpayers and Congress will demand no less. I yield back.

Chairman NEUGEBAUER. I thank the gentleman.

And now the gentleman from Texas, Mr. Canseco, for 1 minute.

Mr. CANSECO. Thank you, Mr. Chairman.

Our Nation has a debt of just over $14.9 trillion; over $126,700 per American household on average. This is a spending-driven debt crisis that has us borrowing approximately 40 cents of every dollar. And every time the Federal Government spends a dollar on its priorities, that is a dollar that could have been spent on priorities of the American people, such as purchasing a home, starting a small business, or sending a kid to college.

When we are deficit spending, we are borrowing it from the future opportunities of our children and our grandchildren, thus we must ensure that each and every dollar that the Federal Government spends is not needlessly spent. The purpose of today's hearing is as a follow-up on an earlier hearing that we had with the full committee, and it is to look at whether or not HUD has in place policies and procedures to ensure that precious taxpayer dollars are not being wasted on the HOME Program.

Serious allegations of waste, fraud, and abuse have been leveled against the HOME Program, and given our Nation's serious fiscal challenges, we cannot afford to allow wasteful spending to occur. I look forward to hearing from our witnesses today, as we attempt to discover answers to the serious questions that have been raised by the HOME Program. Thank you.

Chairman NEUGEBAUER. I thank the gentleman.

Chairwoman BIGGERT. Mr. Chairman?

Chairman NEUGEBAUER. The gentlewoman is recognized.

Chairwoman BIGGERT. Mr. Chairman, I ask unanimous consent to insert the following material into the record: a November 1, 2001, letter from SWJ Housing Development and Consulting; a No-

vember 1st letter from a coalition of housing industries, a November 1st letter from the LINC Housing Corporation; a November 1st letter from MidPen Housing; an October 31, 2011, letter from the National Housing Conference; a November 1st letter from Daniel Solomon Design Partners; a November 1st letter from Enterprise Community Partners; a November 1st letter—a second letter from Enterprise Community Partners; a November 1st letter from the Housing Trust of Santa Clara County; written testimony of Deborah DeSantis, president and CEO, Corporation for Supportive Housing; and a November 1st letter from Resources for Community Development.

Chairman NEUGEBAUER. Without objection, it is so ordered.

We will now go to our first panel. The first witness will be "Ms. Smith." She will be joining us remotely, and I don't know if she is—or do we have her—"Ms. Smith", are you there? We will see if we can fix that.

The second witness will be Mr. Truax.

And, Mr. Truax, I would ask you a question. Were you promised anything in order to induce you to testify today and are you here of your own free will and volition?

Mr. TRUAX. I am here of my own free will.

Chairman NEUGEBAUER. Yes. But you were not promised anything in return for your testimony, is that correct?

Mr. TRUAX. No.

Chairman NEUGEBAUER. Thank you.

Do we know if we have "Ms. Smith?" Okay, I think we have "Ms. Smith."

Can you hear me, "Ms. Smith?" "Ms. Smith", can you hear me?

Ms. SMITH. Yes, sir, I can hear you.

Chairman NEUGEBAUER. Thank you very much for being here.

"Ms. Smith", I need to ask you a few questions before you give your testimony.

Are you voluntarily testifying today?

Ms. SMITH. Yes, sir, I am.

Chairman NEUGEBAUER. Can you tell us why you are testifying today?

Ms. SMITH. Yes, sir. One of the things that you experience, especially from—I hear a little feedback.

Chairman NEUGEBAUER. And were you promised anything to induce you to testify to this committee today?

Ms. SMITH. No, I was not.

Chairman NEUGEBAUER. Thank you for making yourself available. "Ms. Smith", your written testimony will be made a part of the record.

At this time, the committee will recognize you to give your oral testimony. And you may begin now. You have 5 minutes.

STATEMENT OF "JANE SMITH", CONVICTED OF DEFRAUDING ORGANIZATIONS THAT RECEIVED FUNDS FROM THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S HOME INVESTMENT PARTNERSHIPS PROGRAM

Ms. SMITH. Thank you, sir.

Thank you, everyone on the committee for allowing me the opportunity to speak to you today.

As I said in my written testimony, I started working for a nonprofit not because I sought out the work. It was actually something that I kind of tripped into, and was actually promoted to the executive director position about a year, maybe 2½ years after getting there.

I was not necessarily formally trained on how to do it, but the organization was—

Chairman NEUGEBAUER. "Ms. Smith", I am going to ask you to suspend just for a minute. We are going to work on a little technical detail here.

Ms. SMITH. Yes, sir.

Chairman NEUGEBAUER. "Ms. Smith", this is the first time we have done this, and so I am kind of winging this a little bit. But I need to swear you in as a witness.

Do you mind me doing that?

Ms. SMITH. No, sir.

[Witness sworn.]

Chairman NEUGEBAUER. Thank you very much.

And Mr. Truax, let's go ahead and get this out of the way with you as well.

[Witness sworn.]

Chairman NEUGEBAUER. Thank you.

"Ms. Smith", I apologize for that. You can now resume your testimony. Thank you.

Ms. SMITH. Okay. As I was saying, I started working for a nonprofit. I definitely was not necessarily equipped to run a nonprofit. I didn't have a lot of knowledge on what it was a nonprofit was to do.

I was afforded to go to a couple of conferences there in Washington, D.C., for community development work, and actually got a chance to see what nonprofits were doing in terms of workforce development and community development work. I then went back to my respective community and started working on that.

Our board at the time was not equipped either to understand what it was that community development was all about. But we started doing some really good work in terms of workforce development, and then we kind of moved into housing. And, again, we were not equipped at all to be in housing, but we got started. And we actually rehabbed a lot of houses, and we also had an opportunity to develop a residential property from the ground up of affordable housing.

But there are a lot of things that did not happen well on our part in making that a reality. One of the things that did happen well was that we were able to help a lot of young people get job training and actually get work in the construction field. Some of the things that I encountered were a lot of bumps and holes in the road as it relates to doing development in a community and a lot of political things that kind of hindered the process from going the way it should have.

[The prepared statement of "Ms. Smith" can be found on page 87 of the appendix.]

Chairman NEUGEBAUER. I thank you, "Ms. Smith." And we will come back to you in just a few minutes with some questions.

We are now going to recognize Mr. Truax for 5 minutes for your summary of your testimony.

Mr. TRUAX. Chairwoman Biggert, Chairman Neugebauer—

Mr. CAPUANO. Mr. Chairman, could we swear Mr. Truax in first?

Chairman NEUGEBAUER. We already did.

Mr. CAPUANO. He has been sworn in, as well?

Chairman NEUGEBAUER. Yes.

Mr. CAPUANO. All right.

Mr. Chairman, I would like to make a motion that we strike 15 different paragraphs of the 30 paragraphs Mr. Truax submitted in his written testimony. I did not do this with the other witness because the other witness only had a few things.

Of the 30 paragraphs of testimony, 15 of them have no pertinence whatsoever to this. It is a litany of: "I am sorry I did this; I didn't mean it; I won't do it again; I didn't have any intent to do any wrongdoing," which is all well and good, but my fear is that this gentleman has not yet been sentenced, to my knowledge.

My fear is that if this goes into the hearing record as written, the next thing that will happen is we will see this at a sentencing hearing that somehow Congress approved that he didn't mean it, he—and I am not saying whether he did or he didn't. I have no opinion on the matter. I just don't think that this hearing record should be used by anyone to build their record relative to whatever sentence they may or may not get out of the prisons.

It has nothing to do with the pertinent information that Mr. Truax may or may not be able to give us. But 15 of these written paragraphs have nothing to do with the items that you personally stated—and I agree with—are the purpose of this hearing.

I am not here to determine whether Mr. Truax did or did not commit a crime. I am not here to determine whether he meant to, what his intent was, whether he is sorry, or any of those other items. That is for the courts; that is for the people who are going to sentence him; and that is the appropriate place.

So I would make a motion that we strike these 15 irrelevant paragraphs. And I have a list here if you would like to see it.

Chairman NEUGEBAUER. There was a unanimous consent request?

Mr. CAPUANO. That is fine by me.

Chairman NEUGEBAUER. I am going to object. I hear what the gentleman is saying, but I think it is a dangerous precedent for this committee to start determining what parts that they like about witnesses' testimony and what they don't like about witnesses' testimony.

We ask witnesses to submit their testimony, and then they will have a chance to summarize it.

The gentleman will have an opportunity to question Mr. Truax. If he wants to question his motives for being here, that is certainly his prerogative.

But I find it definitely a dangerous precedent for us to start ascertaining what parts of someone's testimony we are going to make a part of the record and what we are not going to make a part of the record.

Mr. CAPUANO. Mr. Chairman, I respect that. That is why I did not make the same motion, though I thought there were parts of the previous witness's testimony.

But on this particular case of the entire 30 paragraphs: "I felt I wasn't doing anything really wrong"; "It was never my intent to defraud or steal from anyone"; "I was hoping that contractor number two would honor the arrangement"; "I repeatedly told them both that I had realized what I was doing in the terms was wrong"; "I was sincerely sorry for getting involved"; "I am truly sorry for what I did"; "I truly and sincerely regret my"—all of which may be true, and I don't suggest that they are not. But I don't see how they shed an ounce of light onto this or relate to his testimony on the relevant matter.

And the only thing I am asking is that this Congress not be used as a tool for someone else to, at a later time, use the testimony that they submitted that suggests that somehow Congress thinks that they were right. That is all I am suggesting.

It has nothing to do with the substance of what we will hear. It has simply to do with, that is not what the Congress does. We don't determine intent by someone who is about to be sentenced. That is not our role. That is not our purpose here today, at least not as I understand it.

Chairman NEUGEBAUER. No, the purpose here of this hearing is to ascertain where the holes are in the system; that appear to continue to be in this program—

Mr. CAPUANO. I agree.

Chairman NEUGEBAUER. —and it is not to ascertain the motives of why the witnesses are coming. These witnesses have both stated they came here freely, of their own will. They were promised nothing in return.

We asked them to come and share with this committee how easy it was for them to game this system, which I find troubling, and I know the gentleman finds troubling. It is much like the counterfeit—when the FBI wants to figure out who is producing the best counterfeit bills, they go to the people who have produced counterfeit money.

And when you go—we have gone to the crime scene here, and we found that there was a crime being committed—

Mr. CAPUANO. Mr. Chairman, that has nothing to do with my motion. My motion is simply to strike impertinent, irrelevant testimony.

Chairman NEUGEBAUER. And the Chair rules that we will not accept the gentleman's—

Mr. WESTMORELAND. Would the Chair yield?

Chairman NEUGEBAUER. Gentleman?

Mr. WESTMORELAND. Mr. Chairman, I think that when somebody goes through—and I have read the testimony—goes through it, I think the good point is to be made—

Chairman NEUGEBAUER. Does the gentleman have a point of order?

Mr. WESTMORELAND. No—I just had a comment.

Mr. GUTIERREZ. Mr. Chairman?

Chairman NEUGEBAUER. Yes.

Mr. GUTIERREZ. Continuing with the point of order, on page 4, the second paragraph—or the first paragraph at the beginning of—"Before I continue, I would like to state in my"—I am listening to the chairman what the purpose of the hearing is, and then I am reading the testimony.

And it says, "Before I continue, I would like to state in my defense"—it is not for them to come and state what their defense is. This is to come and learn about the program. He is going to have a chance as a convicted felon to go before a judge and to plead clemency or in his defense. We are not a jury here. We are not judges. We are just a congressional hearing.

It says, "My original intent through all my criminal activity was to simply get a few dollars as compensation for helping them get work. It was my intent to manage the individual—but finally the payment would come to me and would absorb that during a later time. The concept was at the time that we would have enough work to be"—in other words, he is excusing himself. I just think this should be stricken from the record. It is not pertinent.

Ms. WATERS. Will the gentleman yield?

Mr. GUTIERREZ. Surely.

Ms. WATERS. Has this witness been convicted already?

Mr. GUTIERREZ. Yes.

Ms. WATERS. Did he need the permission—is he on bail? Is this witness out on bail?

Chairman NEUGEBAUER. I think what we need to do is, the gentleman made a point of order. I ruled on the point of order. If you want to ask the gentleman—you are going to have an opportunity to ask the gentleman questions about where he is in his legal issues. But what we really need to do is—I have ruled on the point of order, so we really need to proceed with the hearing, and the gentlewoman will have an opportunity—

Ms. WATERS. Will the gentleman yield?

What is being requested is prior to the gentleman's testimony that we find out—

Chairman NEUGEBAUER. And the Chair has ruled on the issue. And so, we need to proceed with the hearing.

Mr. Truax, you are recognized for 5 minutes.

STATEMENT OF TIMOTHY TRUAX, CONVICTED OF DEFRAUDING ORGANIZATIONS THAT RECEIVED FUNDS FROM THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S HOME INVESTMENT PARTNERSHIPS PROGRAM

Mr. TRUAX. I first want to thank you for the opportunity to come before you today and assist in your awareness of the potential for fraud within the HUD program. Let me state at the outset that I know the program has its flaws. It can be defrauded, as I possess this knowledge because I sit before you as a man convicted in front of the Federal middle district court and who awaits his trial, but I also believe the program has its merits.

It is not easy to admit that I have engaged in a criminal act and it is a fact of no particular pride in presenting to you today. And I can say with a certainty that is imputed to a person such as myself, who has defrauded the HOME Program, that I am willing to

bet that such fraud continues at the hands of others who hold the position I once held.

In appearing before you today, I am a man who engaged in a criminal act, was caught, and awaits his payment to society. However, through my testimony before you, I would like to find a way to improve the system, to close the loopholes that I exploited, so that the program will be much better, much stronger and more effective in its achievements.

My experience in the construction industry began in 1994 as a heavy-equipment operator; 10 years later, I became employed by Dolphin County in facility maintenance, where I engaged in all aspects of construction and remodeling.

When the position of HOME rehabilitation opened, I applied for the position, and was employed until my resignation in 2010. My duties as a HOME rehab specialist included: soliciting applications from homeowners who qualified for government assistance in repairing their residences; soliciting the contractors for work to be completed; awarding the contracts; and verifying that the work had been completed before the contractor was paid.

Essentially, I was the master of my own domain in that I rarely was supervised, and I was inspected by HUD only once every 3 years. When HUD had determined it wanted to audit the HOME Program, a representative from the Philadelphia office would contact me to request that I select files and homes for inspection when the representative visited.

Being the primary person in charge of the entire process, it was my sole decision what homes or related files would be selected. The examiner would review the files and only sometimes complete a home visit.

Whenever an applicant submitted an application for HOME rehabilitation, I would review it. And as the process should work, the application would be publicized for bids and submitted by contractors interested in completing the work. In the early portion of my employment, that is how it was done.

However, when I began abusing the system, I would forward the homeowner's applications to certain selected contractors and keep them informed of the lowest bids I received at any one point, ultimately providing the chosen contractor with the lowest external bid information so that he could submit an even lower bid and thereby be awarded the work.

Many times, because I had no oversight, I would simply provide the selected contractor with the application and take the bid he submitted as being the lowest, ultimately awarding the work to the contractor. Given that the Philadelphia examiner would only visit once every 3 years, and review only the files that I selected for the review, the process was virtually foolproof, or so I thought.

As to how I selected contractors in my particular activity, I met one of the three individuals with whom I took the money in the course of my work. Because I have not received their permission to represent the contractors' individual names, I will refer to them as contractors one, two, and three.

Contractor one was referred to me by way of a third party as a contractor who might be interested in getting involved with the Program. I contacted him to come to the office, fill out an applica-

tion for the Program, which he did and for which he was approved as a contractor.

Contractor one completed roughly four to five jobs and appeared to do more than acceptable work. Throughout that time, and because of my ongoing contact, we developed a relationship. On one occasion, when contractor one and I were socializing after work, he turned the conversation to the state of his financial situation.

I know I am running out of time. I am going to conclude here.

Unfortunately, the process was entirely too simple to defraud merely by way of its own setup. With examination by the supervising Philadelphia HUD representative taking place only once every 3 years, and relying upon me to choose the files for review, I knew my wrongdoings might never be revealed. Obviously, I never considered getting caught, and I took advantage of the Program's total lack of proper oversight.

When the investigating officer came to me to ask questions about the situation, I realized at that point that I was caught, and I completely agreed with everything and completely cooperated.

[The prepared statement of Mr. Truax can be found on page 92 of the appendix.]

Chairman NEUGEBAUER. I thank the gentleman for his testimony—and we will have an opportunity for some Q&A here in a minute.

"Ms. Smith", we are now going to go to you for questions. And I will be asking you the first question.

We may not have the video, but "Ms. Smith", can you hear me?

Ms. SMITH. Yes, sir, I can.

Chairman NEUGEBAUER. Okay. "Ms. Smith", after reading your testimony, I was struck how quickly you went from a temporary receptionist in your organization to the executive director who managed affordable housing projects overseeing millions of dollars of Federal funds.

I was further intrigued that you said you had no idea what it meant to operate a nonprofit and that your board of directors was, in many cases, just as clueless, that there was really nobody within the organization who understood how to develop affordable housing.

You went on to say that even the contractors you worked with did not have the capacity to carry out the work.

Did HUD ever raise any concerns about your organization and the fact that it had no experience in doing building and development prior to committing these millions of dollars to these projects?

Ms. SMITH. One of the things that is very easy—

Mr. GUTIERREZ. Mr. Chairman? Before the witness continues, I thought the agreement was that we were going to see her, that this was going to be a video conference. Is it only an audio conference?

Chairman NEUGEBAUER. We are having video technical difficulties, and so we are only able to get audio at this time.

Mr. GUTIERREZ. It is very difficult, and very unusual to have this kind of hearing. And it says the committee is, "To the maximum extent feasible, the committee shall make its publications available in electronic form"—okay?—"Audio and visual coverage of the committee hearing—to the maximum extent feasible, the committee shall provide audio and video coverage of each hearing or meeting

for the transaction of business in a manner that allows the public to easily listen and view the proceedings."

We can't view these proceedings. It is impossible to view these proceedings.

Chairman NEUGEBAUER. I appreciate the gentleman. Due to the fact that we are having technical difficulties, this is the maximum that we can provide. This hearing is being covered by audio and video. We are just unable to get the video—

Ms. WATERS. Will the gentleman yield?

Chairman NEUGEBAUER. Certainly.

Ms. WATERS. How do we know who is talking?

Chairman NEUGEBAUER. The gentlewoman did see "Ms. Smith" a while ago, and so—

Ms. WATERS. I didn't see her and she didn't answer the questions that you asked. You asked her if she had been induced in some way—

Chairman NEUGEBAUER. And the answer was no.

Ms. WATERS. No, there was noise on the audio, and we did not hear her answer those questions, and we can't see her now. What are we listening to? Who is this?

Chairman NEUGEBAUER. I respect the gentlewoman, but we are going to proceed with the hearing with the technology that we have available.

And so, "Ms. Smith", if you would go ahead and answer the question. Did you have any interface with HUD and did they ever question the ability of you or your board to be able to take on a fairly complex housing project?

Ms. SMITH. As I was saying before, Mr. Chairman, when we started doing affordable housing, we were not asked by HUD about our capacity.

One of the reasons we weren't asked is because we hired the expertise, if you will. We brought in a consultant who could lend us the understanding that we needed. And we included that in all of our applications. But HUD never came and had a face-to-face interview with any of us to verify that what we put in that application was in fact accurate.

If you read the application, we looked like we knew what we were doing, but in fact, again, nobody knew. We just hired a consultant who understood the process to actually do the application for us.

Chairman NEUGEBAUER. And so in the 3-year history of that project, from when you started that project until you were caught in this situation, did HUD ever visit this site?

Ms. SMITH. I was out there on the site quite often, and we never got any visitations from HUD.

Quarterly, we were asked to do reports, and, again, we did not do the reports. We had the consultant come in and do the reports for us, and they were sent, and everything was fine as far as HUD was concerned.

Chairman NEUGEBAUER. Mr. Truax, in the last HOME hearing we had, there was a number of projects that were identified, records that were opened and some of them were closed. Some of them were dropped from the books. That would indicate that some of those projects were closed out.

But when people made site inspections, they found vacant lots there.

Can you explain how in the system, projects that hadn't been completed, maybe haven't even been started, were actually put on the books or then closed out? Did you have the ability to go to the Web site or to the database and mark projects closed-out?

Mr. TRUAX. In the IDA system?

Chairman NEUGEBAUER. Yes.

Mr. TRUAX. Yes, I had the ability to do that.

Chairman NEUGEBAUER. Could you hold the microphone just a little bit closer to you?

Mr. TRUAX. Yes, I had the ability to do that.

Chairman NEUGEBAUER. Can you just walk us through that process a little bit?

Mr. TRUAX. I am not quite sure the question and the process of—

Chairman NEUGEBAUER. If you were trying to hide that a project wasn't completed, but the time was running out on when you should have finished that project, could you just go to the system and say that project is closed out?

Mr. TRUAX. Yes.

Chairman NEUGEBAUER. And did you do that?

Mr. TRUAX. Yes, because I knew that it was usually a 3-year period before I would be audited. Like I said in my statement, they would ask me to select the files.

Chairman NEUGEBAUER. So they would call up and say, "Hey, we are going to come out and look at some of your projects." And, obviously, you didn't pick the ones that you were shuffling around.

Mr. TRUAX. Correct.

Chairman NEUGEBAUER. And how long would that visit typically last?

Mr. TRUAX. They were usually there for a week, because they would actually audit the CDBG program as well as the HOME Program and first-time homebuyers.

Chairman NEUGEBAUER. How long would they spend with you particularly?

Mr. TRUAX. It would be just a couple of days.

Chairman NEUGEBAUER. How many visits while you were in that capacity did you actually have?

Mr. TRUAX. We only had one visit from HUD while I was there. It was after the first year I was there.

Chairman NEUGEBAUER. And what would be that time period that you only had one visit?

Mr. TRUAX. It would have been in 2008.

Chairman NEUGEBAUER. But when did you start—

Mr. TRUAX. Oh, I am sorry. What was—

Chairman NEUGEBAUER. Was that a 10-year period—you had one visit in 10 years, 5 years?

Mr. TRUAX. My length of employment was only for 3 years.

Chairman NEUGEBAUER. Okay. And so you had one visit in a 3-year period?

Mr. TRUAX. Yes.

Chairman NEUGEBAUER. All right. I am going to yield 5 minutes to Mr. Capuano.

We will say that you can continue to ask questions of "Ms. Smith." We tried everything possible to get her video back up. Her audio is still working. So if you choose to direct questions to her, you may, but we still can't get—now, we have the video up.

I yield to the gentleman for 5 minutes.

Mr. CAPUANO. Thank you, Mr. Chairman

First of all, I would like to point out for the audience that "Ms. Smith"—that is not her real name. We have agreed to withhold her name because the Bureau of Prisons has asked us to do so. That is why I agreed, and because the chairman asked, and I thought it was the respectful thing to do.

But I want people to know that "Ms. Smith" is not her real name. "Ms. Smith", did you work for HUD?

We lost the—

Ms. SMITH. No, sir, I did not.

Mr. CAPUANO. As I understand it, you worked for a nonprofit organization, is that correct?

Ms. SMITH. Yes, sir, that is correct.

Mr. CAPUANO. And did you have any other funds other than HOME funds that flowed through that organization?

Ms. SMITH. Yes, sir, we did.

Mr. CAPUANO. Did you steal those too?

Ms. SMITH. I am sorry?

Mr. CAPUANO. Did you steal that money too?

Ms. SMITH. There were funds that were mismanaged, yes, sir.

Mr. CAPUANO. So you stole that money too. So you stole anything you could get your hands on, I respect that.

At one point in your testimony, you stated—I think it was testimony or maybe the news reports—that you were pressured by politicians. And I do not want you to name those here today, because that is not the purpose of this hearing. But I would like to know, did you pass those names along to the Justice Department?

Ms. SMITH. Yes, sir.

Mr. CAPUANO. And have there been any prosecutions as a result of that?

Ms. SMITH. There were some.

Mr. CAPUANO. And were they convicted?

Ms. SMITH. There were a couple who were, sir.

Mr. CAPUANO. That is good to hear. I am glad to hear that.

As I understand it—again, I think this was news reports—your activity was basically from, give or take, the year 2000 and give or take the year 2005, is that correct?

Ms. SMITH. No. It was prior to then, sir.

Mr. CAPUANO. Say it again, I am sorry?

Ms. SMITH. It was prior to 2005.

Mr. CAPUANO. But between the years 2000 and 2005, is that right?

Ms. SMITH. Yes, sir.

Mr. CAPUANO. And do you know who the President of the United States was then?

Ms. SMITH. It would have been George Bush.

Mr. CAPUANO. That is what I thought.

And do you know who the Secretary of HUD would have been at that time?

Ms. SMITH. No, sir, I don't know—

Mr. CAPUANO. It was Mr. Martinez and Mr. Jackson.

Do you know who the Speaker of the House was at that time?

Ms. SMITH. I don't recall.

Mr. CAPUANO. That would be Mr. Hastert.

Mr. Truax, were you hired at any time by HUD? Were you paid or employed by HUD at any time?

Mr. TRUAX. No.

Mr. CAPUANO. You worked for another governmental entity, is that correct?

Mr. TRUAX. Correct.

Mr. CAPUANO. And did that governmental entity provide any oversight whatsoever to you?

Mr. TRUAX. Just a supervisor.

Mr. CAPUANO. Did that supervisor oversee you?

Mr. TRUAX. Yes.

Mr. CAPUANO. I guess, as I read your testimony, honestly, it sounds like old-fashioned bid-rigging and kick-back scheme, if you want the truth.

Was there anything special about what you were doing other than the fact that you were stealing money?

Mr. TRUAX. No.

Mr. CAPUANO. And "Ms. Smith", it strikes me that what I saw of yours, it was just old-fashioned taking anything that was on the table.

Is there any special, secret thing that you can enlighten us with as to what kind of crime that we could be able to stop in the future?

Ms. SMITH. I am not sure that I understand your question.

Mr. CAPUANO. Because when we went through the Wall Street thing, a lot of us—I don't know about anybody else—but I learned a lot about some of the ways that Wall Street operated because we didn't know it. But the truth is here in these testimonies—I am not suggesting it is good, but what I have read is just pretty much plain, old-fashioned, straight-up crime that could happen and does happen anywhere.

Now, I am more than happy to find ways—and I actually appreciate that there is no way in the world that any auditor at any level should allow the person being audited to pick the projects that they get audited on. That is a very substantive commentary that should not happen, and I would hope that we would be able to address that issue.

But, nonetheless, bid-rigging, kickbacks—I don't know how we will ever stop those. It is not just the HOME Program. Every single program in the history of mankind has been subject to that type of fraud.

And I am really interested in some insight as to what we can do. Do either of the witnesses suggest somehow that we should have a HUD auditor at all of the 15,000 people who utilize HOME Programs? Is that your suggestion, Mr. Truax?

Mr. TRUAX. No.

Mr. CAPUANO. "Ms. Smith", do you suggest that we have a HUD auditor sitting at the shoulder of each of the 15,000 people who receive HOME money?

Ms. SMITH. I am not suggesting that you have an auditor, but I am suggesting that there should be more hands-on interaction.

As it stands today, HUD only requires applications. Anybody can put anything on paper and make it look good.

Mr. CAPUANO. I am having a hard time hearing you. I did read at some point, "Ms. Smith", that you said that if you had more training, that would have been good.

Is that something that you said at one point?

Ms. SMITH. Sir, if HUD had provided more training to the organizations that it selects to fund—because every organization that comes to the table, they are not thinking, "Oh, let me just go to HUD and get a couple of dollars." They start off with good intentions, but if the organization that is giving them the funds takes for granted that this organization knows what it is doing—

Mr. CAPUANO. No, and I respect the fact that HUD should have more of a—I have no problem with that concept. I don't think you will find anybody who disagrees with that. But at some point, I am just wondering if you had received more training, would that have stopped your criminal activity? Or would that just made you better at it?

Ms. SMITH. I don't know that I necessarily understand the way you are wording your question. If there was more training, maybe there would be better understanding of how things should have been done, especially for an organization that didn't have any clue whatsoever.

Mr. CAPUANO. My time has run out and I appreciate—

Mr. GUTIERREZ. Point of parliamentary inquiry, Mr. Chairman?

Chairman NEUGEBAUER. The gentleman will state his inquiry.

Mr. GUTIERREZ. Thank you.

Is it appropriate to ask the witness who the two elected officials who were indicted and convicted were?

Chairman NEUGEBAUER. We don't think that is—

Mr. GUTIERREZ. No, I am just—I am just going to see what the chairman—are we keeping that a secret?

Chairman NEUGEBAUER. Yes, I think—

Mr. GUTIERREZ. It seems to me if we want to know, we should find out who they were and call them and they can tell us—

Chairman NEUGEBAUER. The gentleman certainly is welcome to do that—

Mr. GUTIERREZ. And is it appropriate to ask who the consultant was that "Ms. Smith" says was hired and was the primary reason, according to her testimony, in getting these HUD contractors? Is it appropriate to ask who that consultant was?

Chairman NEUGEBAUER. I think what we have asked the witnesses to do is not to recount the acts themselves, but to focus on the purpose of this hearing, and that purpose is to identify that it is—it seems to be fairly easy to game the HOME Program. And that when there is a situation where the program is defrauded, there are two losers: the American taxpayers; and the intended beneficiaries.

And as the gentleman outlined, in his district they have had a number of projects that were beneficial to his district. But when someone takes an opportunity to defraud the system, then the system suffers from that and the taxpayers. So what we are trying to

focus on, in order to get back to this hearing, is not to defend the HOME Program, not to tear down the HOME Program—

Mr. GUTIERREZ. Mr. Chairman, if I might—

Chairman NEUGEBAUER. But—

Mr. GUTIERREZ. —just continue, it is just that I understand that to be the goal and it just seems to me since "Ms. Smith" stated that she—the organization would not—that they didn't fill out anything; that the only reason they got the money—I am paraphrasing what she says—they got the money was because they hired the right—

So it seems to me if you are going to find out, we should find out what consultants do so that we can intervene at that level.

Chairman NEUGEBAUER. The gentleman made a point of order—was it appropriate? The Chair rules that it is not appropriate to ask for the specific names.

I now recognize Mrs. Biggert for 5 minutes.

Ms. WATERS. Will the chairman yield?

Chairwoman BIGGERT. Thank you, Mr. Chairman.

I would first ask "Ms. Smith"—did HUD officials physically inspect the projects or conduct on-site visits?

Ms. SMITH. No, ma'am, they did not. We provided reports and pictures to them.

Chairwoman BIGGERT. Did they review the paperwork?

Ms. SMITH. I was not present when they received the paperwork. I assume that they did.

Chairwoman BIGGERT. Did they ever come back and say to you, "This doesn't seem to be complete. Do you have more information?"

Ms. SMITH. Never.

Chairwoman BIGGERT. Okay. You testified that there was a large HUD HOME project, Emerson, that had many cost overruns.

Ms. SMITH. Yes, ma'am.

Chairwoman BIGGERT. Do you recall that?

Ms. SMITH. Yes.

Chairwoman BIGGERT. How many of the units was the project supposed to deliver?

Ms. SMITH. We delivered the final application, and what we—the first application had about nine more units, but because of the cost, we cut nine out and that was approved. But we delivered what we said we were going to deliver.

Chairwoman BIGGERT. Okay. So there was no problem with that project?

Ms. SMITH. There was no problem with the amount of units that we said that we would deliver. We did deliver those. But there was an enormous amount of cost overruns. We could not take it out of the actual project budget because that was pretty much set in stone. What we did was we had to take it from other funds from within the organization.

Chairwoman BIGGERT. All right. Should that project have been stopped due to budget overruns?

Ms. SMITH. Oh, absolutely, without question, it should have been stopped.

Chairwoman BIGGERT. But you didn't propose that.

Ms. SMITH. Actually, politically, it was not suitable to propose doing that.

Chairwoman BIGGERT. Okay. Mr. Truax, did HUD ever physically inspect the projects or conduct on-site visits?

Mr. TRUAX. Yes, but only at the direction of myself as far as the units—on what units to see.

Chairwoman BIGGERT. Okay. And that was with the 3 years, did it—

Mr. TRUAX. Yes.

Chairwoman BIGGERT. Only once—

Mr. TRUAX. Only one time.

Chairwoman BIGGERT. —in 3 years.

Did they review the paperwork?

Mr. TRUAX. Yes.

Chairwoman BIGGERT. And did they ever come back and say that it wasn't complete enough?

Mr. TRUAX. No.

Chairwoman BIGGERT. All right. Did you have incomplete projects?

Mr. TRUAX. When I left, yes.

Chairwoman BIGGERT. Do you think that HUD would have flagged your incomplete projects if they had had more random and frequent inspections?

Mr. TRUAX. Absolutely.

Chairwoman BIGGERT. But you still would have just told them which ones to go to?

Mr. TRUAX. Yes, if they gave me that opportunity.

Chairwoman BIGGERT. And did they ever say, "I want to see something else?"

Mr. TRUAX. No.

Chairwoman BIGGERT. Okay. Did anyone from HUD ever question the information that you included in the HUD database about completed projects?

Mr. TRUAX. No.

Chairwoman BIGGERT. Did anyone ever question the accuracy of the information?

Mr. TRUAX. No.

Chairwoman BIGGERT. Okay.

"Ms. Smith", same question to you. Did anyone from HUD ever question the information that you included in the HUD database about completed projects?

Ms. SMITH. No, never.

Chairwoman BIGGERT. Did anyone question the accuracy of the information?

Ms. SMITH. Absolutely not.

Chairwoman BIGGERT. Mr. Truax, I think that law enforcement uncovered this scheme?

Mr. TRUAX. Yes.

Chairwoman BIGGERT. And was HUD involved in that, too?

Mr. TRUAX. No.

Chairwoman BIGGERT. So did HUD ever uncover your fraud?

Mr. TRUAX. No.

Chairwoman BIGGERT. But law enforcement did?

Mr. TRUAX. Yes.

Chairwoman BIGGERT. Could you tell us how?

Mr. TRUAX. Somebody in the county did ask the investigating officers of our Criminal Investigation Department to look into me receiving kickbacks. Upon that time, the U.S. investigating office came in. They went over a few files, and saw that I did do that. I admitted it openly, and I helped them throughout the entire investigation on everyone involved.

Chairwoman BIGGERT. Okay. Thank you.

"Ms. Smith", what happened? Did HUD discover your fraud scheme?

Ms. SMITH. No, ma'am. There was an investigation that took place with a couple of my board members, and it was sort of a snowball effect, but HUD was never involved in any of the investigations.

Chairwoman BIGGERT. Thank you. My time is up. I yield back.

Chairman NEUGEBAUER. I thank the gentlewoman.

And now, Mr. Gutierrez is recognized for 5 minutes.

Mr. GUTIERREZ. Thank you so much.

Let me first of all, "Ms. Smith", so you defrauded the HOME Program and embezzled the HOME Program between 2000 and 2005. Is that correct?

Ms. SMITH. We had HOME Program dollars, but—

Mr. GUTIERREZ. When did you steal the money—in 2000 and 2005?

Ms. SMITH. Yes, but the actual—

Mr. GUTIERREZ. Okay.

Ms. SMITH. —had nothing to do with HUD funds.

Mr. GUTIERREZ. It had nothing to do—no HOME funds?

Ms. SMITH. No.

Mr. GUTIERREZ. So, but this is a HOME fund hearing. You are here to tell us about the HOME fund, aren't you?

Ms. SMITH. Absolutely.

Mr. GUTIERREZ. So you didn't take steal any money from the HOME Program?

Ms. SMITH. No.

Mr. GUTIERREZ. Okay. What program did you steal the money and embezzle it from?

Ms. SMITH. We mismanaged funds from the actual organization.

Mr. GUTIERREZ. From the actual organization. Okay.

So, let me ask you something. You worked at the Urban Enterprise Association as an executive?

Ms. SMITH. Yes, sir, I did.

Mr. GUTIERREZ. Okay. And that is in Gary, Indiana?

Ms. SMITH. Yes, sir.

Mr. GUTIERREZ. Okay. Are you the same person from the Gary Urban Enterprise Association who made a $300 contribution on 3/10/2003 and a $5,000 contribution on 3/14/2003 to the National Republican Congressional Campaign Committee?

Ms. SMITH. Yes, sir, I am.

Mr. GUTIERREZ. And did those funds that you gave come from the money that you embezzled from the organization that you worked at?

Ms. SMITH. It came from my salary, sir.

Mr. GUTIERREZ. It came from your salary?

Ms. SMITH. Yes.

Mr. GUTIERREZ. You kept two separate accounts—the money you stole and the money you earned?

Ms. SMITH. It came from my personal account.

Mr. GUTIERREZ. So while you were embezzling money, you were being charitable to the Congressional Republican Campaign Committee, you thought that would be your largess, to give them $5,000. So you are a thief on the one hand but you are very generous with the National Republican Congressional Campaign Committee. Is that what we are to believe?

Ms. SMITH. If those are the words that you want to use, sir.

Mr. GUTIERREZ. No. Okay. Who asked you and who invited you to contribute? Because this is pretty extraordinary, for somebody who is stealing money, $5,000 is a pretty extraordinary amount of money. Who asked you to contribute and invited you to contribute to the National Republican Congressional Campaign Committee?

Ms. SMITH. I don't actually recall how I—

Mr. GUTIERREZ. You know you are under oath, right?

Ms. SMITH. I do realize that I am under oath, sir. I remember everything—

Mr. GUTIERREZ. And you don't remember who asked you to give $5,000?

Ms. SMITH. No, sir. It was maybe 10 years ago. So—

Mr. GUTIERREZ. 10 years ago? I mean, 20 years ago, if somebody asked me if I could contribute $5,000 to something, I think I would remember, so let me ask you something. How much were you earning in salary in 2003?

Ms. SMITH. In 2003?

Mr. GUTIERREZ. And you are under oath.

Ms. SMITH. I understand that, sir—probably $65,000.

Mr. GUTIERREZ. Excuse me?

Ms. SMITH. I am sorry?

Mr. GUTIERREZ. How much was your salary?

Ms. SMITH. I am sorry, I guess I got cut off, because I said $65,000.

Mr. GUTIERREZ. So, $65,000. And as the Republicans keep telling us all the time, there is a lot of taxes on all that money, so you were probably getting about $45,000.

So you just had an—at a $45,000 salary, and I am being a little generous, take-home pay, you just had an extra $5,000 lying around to give to the National Republican Congressional Campaign Committee, but you don't remember who asked you for it. Is that right?

Ms. SMITH. I don't really remember who actually asked.

Mr. GUTIERREZ. Let me ask you something. Since you used the money—and I know you are trying to—you are telling me that your salary had nothing to do with HUD or Federal Government programs; that your salary had nothing to do with governmental programs at this not-for-profit institution, and that your salary—not a penny of that salary, came from governmental funds.

Ms. SMITH. No, sir, it did not.

Mr. GUTIERREZ. It didn't? All right, we will check into that real shortly.

Let me ask you something: Have they sent you the money back now that they know you are a convicted felon and a fraud and you

were stealing money at the very same time from the Federal Government that you gave this money, did they give the money back to you, send you back a check?

Ms. SMITH. No, sir, they didn't.

Mr. GUTIERREZ. Thank you. That is all the questions I have.

Chairman NEUGEBAUER. I thank the gentleman. And now the gentleman, Mr. Fitzpatrick, is recognized for 5 minutes.

Mr. FITZPATRICK. Thank you, Mr. Chairman.

"Ms. Smith", the purpose of this hearing is to do some oversight with HUD and specifically in the HOME Program, to make certain that every dollar that the taxpayers send to HUD, send to Washington, are dollars that are well spent and that the taxpayers get value for every dollar.

At your organization, "Ms. Smith", were HOME Program funds through HUD sent to your nonprofit?

Ms. SMITH. Actually, when we did the project, we set up an additional organization, because the HOME funds were not the only funds that made that project a reality. We also used the low-income housing tax credit funds as well.

The HUD HOME funds were—was sort of like mezzanine financing. So there was a separate entity away from my organization that received those funds.

Mr. FITZPATRICK. Did you oversee that separate organization?

Ms. SMITH. Yes, sir, I did.

Mr. FITZPATRICK. And so, between your nonprofit and the separate organization that you oversaw, there were HOME Program funds and other low-income housing tax credit funds, also Federal funds?

Ms. SMITH. Yes, sir, there were.

Mr. FITZPATRICK. And you oversaw the management of all those funds?

Ms. SMITH. Yes, sir, I did.

Mr. FITZPATRICK. And were the HOME funds, in your opinion, mismanaged or stolen from the program and away from the intended recipients, the beneficiaries?

Ms. SMITH. Mismanaged, yes, in terms of the construction overruns, yes, it was completely mismanaged.

Mr. FITZPATRICK. So were HUD HOME Program dollars lost?

Ms. SMITH. Yes, sir. We probably could have built—if we didn't run into the cost overruns that we experienced, we probably could have built more. We could have built more units.

Mr. FITZPATRICK. "Ms. Smith", you indicated in your testimony that you started out with good intentions, but as a result of your lack of any experience and lack of any training, things went awry, correct? "Ms. Smith?"

Ms. SMITH. Yes, sir. I am sorry. I don't know if my microphone has given out or what, but yes, sir, I did—

Mr. FITZPATRICK. "Ms. Smith", did you indicate that your board also lacked any direction or training or any real experience in the area of community and housing development?

Ms. SMITH. I am sorry, did you hear me? I said, "yes, sir."

Mr. FITZPATRICK. Okay. So you indicated that you were able to hire consultants to provide the experience that both you and your board lacked. Is that correct?

Ms. SMITH. Yes, sir, that is correct.

Mr. FITZPATRICK. Did the consultants deal directly with HUD or was that you, ma'am?

Ms. SMITH. No one actually dealt directly with HUD. We went through the application process, and once the award came through, we didn't have any contact with HUD at all. We just submitted the reports as we were asked to.

Mr. FITZPATRICK. "Ms. Smith", do you believe as a result of your lack of experience and training and your board's lack of experience and management training in community and housing development that HUD should have been more skeptical of you and your nonprofit?

Ms. SMITH. From my personal experience, because I learned a lot during the process of getting that project done and afterwards, I think that HUD should have looked into the fact that we, at the time of the application, we could not speak of any historical work that we had done.

Hindsight is 20/20—that should have raised a red flag for HUD to say, "Okay, what makes you think that—or what would lead us to believe that you have the capacity to do a project when you have no experience to speak of? And not only do you, yourself, as the executive director, not have experience, but there is absolutely no experience on your board either."

Because I do realize that sometimes nonprofits, the director may not have experience, but there could be members of the board who do actually have some experience to speak of. When they saw that there was nothing there, it should have raised a red flag to HUD to, not to discourage this organization from doing the work, but maybe we should be marrying this organization up with someone that we know has the track record to do the work that HUD loves to have done.

Mr. FITZPATRICK. So, "Ms. Smith", you are saying that HUD never raised a red flag on your lack of experience?

Ms. SMITH. No, sir.

Mr. FITZPATRICK. Did HUD ever ask any tough questions?

Ms. SMITH. There were no questions at all. Sometimes, these things are more politicized than we probably care to talk about. When you are in certain communities and you can put together a great application and you have some political support behind you, it doesn't lead to any questioning at all.

Chairman NEUGEBAUER. I thank the gentleman.

And now the gentleman—

Mr. GUTIERREZ. Mr. Chairman?

Chairman NEUGEBAUER. Yes?

Mr. GUTIERREZ. I have a question. It seems to me that we might want to go into executive session, because the witness just answered my question saying she got no money from HUD, she got no Federal money when I asked her directly that question. Now, she is testifying that she didn't have any supervision from HUD, that they never asked her. Well, why would they?

Chairman NEUGEBAUER. Does the—

Mr. GUTIERREZ. Either she was or she wasn't. Where is the truth here?

Chairman NEUGEBAUER. Does the gentleman have a point of order?

Mr. GUTIERREZ. Yes, I would like to go into executive session, because I would like to ask this witness questions, and specific questions, about what she is telling the truth about and who was telling her about these truths. Because it is confounding to me. I have to be very honest. She lied. She has lied. She is a convicted felon, so she lied already. She has already agreed that she lied on forms. But—

Chairman NEUGEBAUER. The gentleman has not made a point of order.

The gentlewoman from California, Ms. Waters, is recognized for 5 minutes.

Ms. WATERS. Is there a motion before us for executive session?

Mr. GUTIERREZ. Yes, I would like to go into executive session. I would like to ask her about the other elected officials. I would like to ask her who these consultants were. Questions that the chairman has already ruled she could not relate to us in direct evidence, but she can in executive session.

Chairman NEUGEBAUER. We have a motion to go into executive session. Is there a second?

VOICES. Second.

Chairman NEUGEBAUER. All right. The Chair will pose the question. All in favor of going into executive session, say "aye."

[A chorus of ayes.]

Chairman NEUGEBAUER. All opposed, say "nay."

[A chorus of noes.]

Chairman NEUGEBAUER. The "nays" have it, and the motion is denied.

Mr. GUTIERREZ. I ask for a recorded vote.

Chairman NEUGEBAUER. Would the gentleman agree to a show of hands, since we don't have the clerk here to read the roll?

Mr. GUTIERREZ. No, I asked for a recorded vote to see if there is a quorum present.

Chairman NEUGEBAUER. Stand by. We will get that done. We will make it happen.

The clerk will call the roll.

The CLERK. Mrs. Biggert?

Chairwoman BIGGERT. No.

The CLERK. Mrs. Biggert votes no.

Mr. Fitzpatrick?

Mr. FITZPATRICK. No.

The CLERK. Mr. Fitzpatrick votes no.

Mr. Hurt?

[No response.]

Mr. King?

[No response.]

Mr. Miller?

[No response.]

Mrs. Capito?

[No response.]

Mr. Garrett?

[No response.]

Mr. McHenry?

Mr. MCHENRY. No.
The CLERK. Mr. McHenry votes no.
Mrs. Bachmann?
[No response.]
Mr. Pierce?
[No response.]
Mr. Posey?
[No response.]
Mr. Westmoreland?
[No response.]
Mr. Duffy?
[No response.]
Ms. Hayworth?
[No response.]
Mr. Renacci?
Mr. RENACCI. No.
The CLERK. Mr. Renacci votes no.
Mr. Dold?
Mr. DOLD. No.
The CLERK. Mr. Dold votes no.
Mr. Canseco?
[No response.]
Mr. Stivers?
[No response.]
Mr. Fincher?
[No response.]
The CLERK. Mr. Capuano?
Mr. CAPUANO. Aye.
The CLERK. Mr. Capuano votes aye.
Mr. Gutierrez?
Mr. GUTIERREZ. Aye.
The CLERK. Mr. Gutierrez votes aye.
Ms. Waters?
Ms. WATERS. Aye.
The CLERK. Ms. Waters votes aye.
Ms. Velazquez?
[No response.]
Mr. Watt?
[No response.]
Mr. Sherman?
[No response.]
Mr. Clay?
[No response.]
Mr. Baca?
[No response.]
Mr. Lynch?
[No response.]
Mr. Miller?
[No response.]
Mr. Cleaver?
Mr. CLEAVER. Aye.
The CLERK. Mr. Cleaver votes aye.
Mr. Ellison?
[No response.]

Mr. Himes?
[No response.]
Mr. Carney?
[No response.]
Mr. Chairman?
Chairman NEUGEBAUER. No.
The CLERK. Mr. Chairman votes no.
Chairman NEUGEBAUER. The clerk will report.
The CLERK. Mr. Chairman, the ayes are four and the noes are six.
Chairman NEUGEBAUER. And the motion is not agreed to.
The gentlewoman from California is recognized for 5 minutes.
Ms. WATERS. Thank you very much.
Mr. Truax, you have been convicted, but you have not been sentenced yet. So, are you out on bail?
Mr. TRUAX. Yes.
Ms. WATERS. And what State are you from?
Mr. TRUAX. Pennsylvania.
Ms. WATERS. And in order to come here, you had to have permission from someone?
Mr. TRUAX. Yes.
Ms. WATERS. Who gave you permission?
Mr. TRUAX. The U.S. attorney who is prosecuting.
Ms. WATERS. And did you have any conversations with the U.S. attorney, that perhaps your cooperation would be—you would get a lighter sentence, or the possibility of it?
Mr. TRUAX. No.
Ms. WATERS. Did you have that conversation with anybody?
Mr. TRUAX. No.
Ms. WATERS. Did you have that conversation with your lawyer that—was it suggested that you may get a lighter sentence if you come here?
Mr. SHELDON. I am sorry, ma'am. I am going to have to object to that. That is attorney/client privilege, as to what my client and I discussed. That is an improper question.
Ms. WATERS. I didn't ask you what it was.
Mr. SHELDON. You didn't. You asked my client.
Ms. WATERS. You can object if I was asking you. I didn't ask you.
Mr. SHELDON. You are asking my client for an answer—
Ms. WATERS. I asked the witness who volunteered to come here today.
Mr. SHELDON. He will not be—
Ms. WATERS. On my time, you don't get a chance to do that. I am asking the witness who appeared here today whether or not you had that conversation with your attorney where you discussed that your coming here may get you a lighter sentence?
Mr. TRUAX. I am not going to answer that. It pertains to the attorney and—
Ms. WATERS. You are under oath, and I am asking you whether or not you had that conversation with your attorney.
Mr. TRUAX. With all due respect, I refuse to answer on the grounds that it is attorney-client privilege.
Ms. WATERS. How long were you involved in the fraud and deception that you were convicted for? How many years?

Mr. TRUAX. I was employed there for 3 years.

Ms. WATERS. Three years. About how many contractors competed for the contracts that you gave out that you steered to your three friends or people who were giving you kickbacks?

Mr. TRUAX. There was an average of three contractors per project who were able to bid.

Ms. WATERS. These were contractors who put in a bid, whose bids went in the trash can or did not get considered because you knew where you were going to direct the contracts. Is that right?

Mr. TRUAX. Correct.

Ms. WATERS. How many were those—

Mr. TRUAX. Five.

Ms. WATERS. Over a 3-year period of time?

Mr. TRUAX. Five projects.

Ms. WATERS. About five? Did any of these contractors sue you or the city or HUD or anybody—

Mr. TRUAX. No.

Ms. WATERS. —for the deception that you were involved in?

Mr. TRUAX. No.

Ms. WATERS. So would you think they have a cause of action?

Mr. TRUAX. I am not a lawyer. I can't answer that.

Ms. WATERS. Do you have assets? Do you have a home?

Mr. TRUAX. Yes.

Ms. WATERS. Do you have a bank account?

Mr. TRUAX. No.

Ms. WATERS. Do you have any other assets?

Mr. TRUAX. My home is in foreclosure. I have no bank account. I have no money.

Ms. WATERS. Do you know you could be liable—in addition to the money that you stole, you could be liable for having defrauded those contractors who competed in an open process where you steered the contracts to other contractors?

Mr. TRUAX. I am not a lawyer. I can't answer that.

Ms. WATERS. So for those contractors who bid for these contracts, and their contracts were not even considered because you steered them to your friends or others who were giving you kickbacks, they may have a cause of action where they could sue you; they could sue the city; or they could sue HUD because you denied them an honest opportunity to compete. And if you have assets, then those assets may be available to them.

So, on the record, what you said here today is you have no assets. Is that what you are saying?

Mr. TRUAX. Correct.

Ms. WATERS. I didn't hear you.

Mr. TRUAX. Correct.

Ms. WATERS. You have no assets?

Mr. TRUAX. Correct.

Ms. WATERS. Okay. And so for 3 years, you were involved in defrauding the HOME program and others. I don't know how many others. Would you say that you were deceptive, at all? Would you say you lied? Would you say you cheated?

Mr. TRUAX. Which one do you want me to answer?

Ms. WATERS. The first one. Have you lied? In all of this, were you telling lots of lies to people?

Mr. TRUAX. No.

Ms. WATERS. You didn't lie to anyone?

Mr. TRUAX. No.

Ms. WATERS. You are under oath, sir.

Mr. TRUAX. I understand that.

Ms. WATERS. If you deceived them; if you took kickbacks; if you told the other contractors—unanimous consent for at least 30 seconds. This lawyer whispering in his ear is taking up all of my time.

Chairman NEUGEBAUER. If the gentleman can answer that specific question, and then we will move on—the gentlewoman's time will expire.

Ms. WATERS. Did you lie when you deceived the contractors and/or the government? Did you lie?

Mr. TRUAX. Yes.

Ms. WATERS. So you lied; you deceived—

Chairman NEUGEBAUER. The gentlewoman's time has expired.

Ms. WATERS. And you are before us today. Why should we think you are telling us the truth if you are a liar?

Chairman NEUGEBAUER. The gentlewoman's time has expired.

Mr. Renacci?

Mr. TRUAX. To my knowledge, I have nothing to gain from this. I am going to jail.

Ms. WATERS. Except what your lawyer directed you to do.

Chairman NEUGEBAUER. The gentlewoman's time has expired.

Ms. WATERS. I yield back the balance of my time.

Chairman NEUGEBAUER. Mr. Renacci is recognized for 5 minutes.

Mr. RENACCI. Thank you, Mr. Chairman.

I want to get to the point of HUD, more than the point of what you guys did. Because it appears you had some wrongdoings here.

But first off, let us start with "Ms. Smith."

"Ms. Smith," did you work for an agency that did—I want to make sure—did you work for an agency that took monies under the HOME Program through HUD?

"Ms. Smith?"

We must have lost her.

Ms. SMITH. Can you hear me?

Mr. RENACCI. "Ms. Smith?" Yes, did you work for an organization that actually received funds under the HUD HOME Program?

Ms. SMITH. The organization that I worked for set up a sub-organization that received those funds, yes, sir.

Mr. RENACCI. Okay. So you were involved in the HOME Program through your organization as an executive director?

Ms. SMITH. Yes, sir.

Mr. RENACCI. Thank you.

Mr. Truax, did you work for an organization that received HUD dollars through the HOME Program?

Mr. TRUAX. Yes.

Mr. RENACCI. Okay. Mr. Truax, you said you had a number of projects. How many projects in total came through your organization?

Mr. TRUAX. Throughout my tenure?

Mr. RENACCI. Yes, just an estimate.

Mr. TRUAX. Under 50 in a 3-year period.

Mr. RENACCI. Okay, under 50. Under those programs, you actually went out and took bids. If HUD would have asked you to submit three bids for each program, would that have caused you not to be able to do what you did? If they would have actually used an internal control that most other banks and businesses use, if they would have asked you for three bids, would you have been able to do what you did?

Mr. TRUAX. No.

Mr. RENACCI. Thank you.

"Ms. Smith", if HUD would have asked you for three bids on all the projects that you worked on, would you have been able to do some of the things you did? "Ms. Smith?"

Ms. SMITH. Hello? Can you hear me?

Mr. RENACCI. Yes. If HUD would have asked you for three bids for every project that you worked on, would you have been able to do some of the things you did as far as taking dollars?

Ms. SMITH. I think so, because some of the bids—we did take bids, but, again, some of those bids were politically driven.

Mr. RENACCI. But if they would have asked you to take three bids, and you were required to use the lowest bid, would you have been able to perform and take the dollars you did?

Ms. SMITH. If HUD had received those bids, then no.

Mr. RENACCI. Exactly. That is what normally happens in the banking world, in many cases.

Now, I am going to move to another internal control. If HUD would have come into your organization, Mr. Truax, and done an unannounced, random selection, including site visits on even one or two of your projects, would you have been inclined to do what you did and take dollars?

Mr. TRUAX. No.

Mr. RENACCI. "Ms. Smith", if HUD would have done the exact same thing with your organization, if they would have come in, done unannounced, random selections to review the sites on the buildings you did, would you have been prone to take the money you did?

Ms. SMITH. No.

Mr. RENACCI. Thank you.

Mr. Truax, one other thing—which is another internal control, a normal internal control—I am a CPA, I have seen internal controls like this—if there was an unannounced third party that was able to come in and randomly select, which happens in many cases, some of your projects, would you have been prone to take the dollars you did?

Mr. TRUAX. No.

Mr. RENACCI. Thank you.

"Ms. Smith", if there was an unannounced third party that was required to come in and on an unannounced basis take a look at your projects and determine percentage of completion and be able to determine how much of the project was completed, would you have been able to take the dollars you did through the HUD HOME Program indirectly?

Ms. SMITH. No.

Mr. RENACCI. Thank you.

So it does appear that if HUD's internal controls were up to a higher standard, neither of you would have been able to do some of the things you did as far as taking the dollars you did?

Mr. TRUAX. Correct.

Mr. RENACCI. Thank you. I yield back my time.

Chairman NEUGEBAUER. I thank the gentleman.

The gentleman from Missouri, Mr. Cleaver, is recognized for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman.

Sir, I am curious about how your criminal enterprise was detected.

Mr. TRUAX. I am sorry?

Mr. CLEAVER. How were you found out?

Mr. TRUAX. Somebody thought that I was possibly receiving kickbacks, and they contacted our criminal investigation department of Dauphin County, which in turn got ahold of the United States investigation department, and they came to me asking questions. I knew what I did was wrong, and then, that is how they found out.

Mr. CLEAVER. Was HUD notified?

Mr. TRUAX. After the investigations, yes; after the clarification of what was going on.

Mr. CLEAVER. Did you have any contact with the I.G.?

Mr. TRUAX. Just through the interviews.

Mr. CLEAVER. The contact with the I.G., and when you were identified as allegedly having committed fraud, what was the time period between your contact with HUD, even through the I.G. or—

Mr. TRUAX. I am not sure the exact time that they got ahold of HUD. When the I.G. came to me then, that is when it was all laid out on the table. It was instantly.

Mr. CLEAVER. Yes, I guess where I am trying to go is, do you think you were given permission to do this?

Mr. TRUAX. Was I given permission?

Mr. CLEAVER. Yes.

Mr. TRUAX. No.

Mr. CLEAVER. So you don't think HUD turned a blind eye that would allow criminal activity to take place?

Mr. TRUAX. I don't believe so.

Mr. CLEAVER. And you have no reason to believe that, right?

Mr. TRUAX. With the once-every-3-year inspection—

Mr. CLEAVER. It opened the door.

Mr. TRUAX. Yes.

Mr. CLEAVER. So as best as you can recall, did you ever think, "Well, we have every-3-year inspection, so this gives me a chance?" As best as you can recall, did you actually consciously wonder how much time you had before the next inspection to commit fraud?

Mr. TRUAX. Yes.

Mr. CLEAVER. And so you thought, "I can get away with it, because HUD has an every-3-year inspection?"

Mr. TRUAX. Because of the oversight, correct.

Mr. CLEAVER. How long have they had that procedure?

Mr. TRUAX. I am not sure. I was only there for 3 years.

Mr. CLEAVER. But it was there when you arrived, right?

Mr. TRUAX. Yes.

Mr. CLEAVER. Okay. So we have to assume that it has been around a while.

Mr. TRUAX. Yes.

Mr. CLEAVER. It is possible that somebody else could have done something like this and gotten away with it 5 years ago, or 6 years ago.

Mr. TRUAX. Sure.

Mr. CLEAVER. And your recommendation to HUD would be?

Mr. TRUAX. Just to have a little tighter oversight on monitoring the administrators of the program.

Mr. CLEAVER. The problem, of course, is—you took a job that apparently had great temptation, right?

Mr. TRUAX. Correct.

Mr. CLEAVER. Did you know that when you took the job?

Mr. TRUAX. Pardon me?

Mr. CLEAVER. Did you realize, "I am taking a job, but, man, the temptation here is going to be—"

Mr. TRUAX. No. I didn't think about that—

Mr. CLEAVER. Because you had no intention—

Mr. TRUAX. I had no idea—

Mr. CLEAVER. And so when HUD—when you were hired, nobody could have possibly assumed that you were going to commit fraud.

Mr. TRUAX. Correct.

Mr. CLEAVER. You didn't think about fraud, the people who hired you didn't think about fraud. If it has happened before, they probably didn't think about it, the employer didn't think about it, right?

Mr. TRUAX. Right.

Mr. CLEAVER. So what is the corrective step now?

Mr. TRUAX. It is, like I said, a little tighter oversight.

Mr. CLEAVER. I am sorry?

Mr. TRUAX. Maybe not having one person in charge of the entire program. The more people that you have involved in the program, the more it will deter any kind of fraudulence.

Mr. CLEAVER. Okay. So the whole issue of trust has to be discarded, right? In other words—Al Green, who is to my left—Congressman Green, I trust him, so I don't need anybody to be an intermediary or check on him because I trust him. So I am wondering if you are saying that henceforth we should eliminate trust—

Mr. TRUAX. No, but don't put—the files, for example. Go in and randomly pick the files during an audit or inspection.

Mr. CLEAVER. Yes.

Chairman NEUGEBAUER. The gentleman's time has expired.

Mr. CLEAVER. Thank you, Mr. Chairman.

Chairman NEUGEBAUER. Does anybody on the—

Ms. WATERS. Mr. Chairman, a point of order. Could you reiterate every now and then to the committee that there is a woman, faceless and nameless, who is also a witness who can be questioned? Because we don't see her, and we don't hear her, we kind of forget she is there.

Chairman NEUGEBAUER. That is right; very good. And I thank the gentlewoman.

"Ms. Smith" is still with us. And we periodically get video and she is still available for questions.

Is there anybody else on the Minority who would like to question any of these witnesses?

Mr. GREEN. May I have time, Mr. Chairman?

Chairman NEUGEBAUER. Mr. Green, you are recognized for 5 minutes.

Mr. GREEN. Thank you. I would like to yield to Mr. Gutierrez.

Mr. GUTIERREZ. Thank you very much, Mr. Green.

So, "Ms. Smith", we have conflicting testimony here. You never worked for HUD, did you?

Ms. SMITH. No, sir, I never worked for HUD.

Mr. GUTIERREZ. Thank you.

You worked for an organization that received HUD funds, did you not?

Ms. SMITH. Yes, sir.

Mr. GUTIERREZ. Thank you. And that is why you are here to tell us about how you stole those HUD funds, and how in the future we can stop HUD funds from being stolen.

Yes? No?

Ms. SMITH. Was that a question?

Mr. GUTIERREZ. Yes, that is a question. Is that your purpose here, to tell us how you stole the HUD funds?

Ms. SMITH. I am here to tell you how HUD's funds were mismanaged and—

Mr. GUTIERREZ. Were stolen and embezzled. Is that not correct?

Ms. SMITH. Were mismanaged. Yes, sir.

Mr. GUTIERREZ. But "mismanage"—did you pay off your car debt? Did you pay off a car debt with those "mismanaged" funds?

Ms. SMITH. No, sir, I did not.

Mr. GUTIERREZ. Okay. Did you increase your salary with those mismanaged funds?

Ms. SMITH. Did I do what?

Mr. GUTIERREZ. Did you increase your salary with those mismanaged funds?

Ms. SMITH. Yes, sir, I did.

Mr. GUTIERREZ. Okay. So you increased your salary with those mismanaged funds, which we agree came from HUD.

Ms. SMITH. No, sir; again, no, sir. Those funds did not come from HUD. That organization had its own revenue source. Those funds came from that revenue source.

Mr. GUTIERREZ. Then what are you doing here? This is an investigation into the HOME Program conducted by HUD, which you have nothing to do with. You never received any money from that Program, according to you.

Ms. SMITH. My organization, again, sir—

Mr. GUTIERREZ. Your organization that you were the executive director of received money from HUD, did it not?

Ms. SMITH. The organization that I was the executive director of set up a sub-organization that received money from HUD.

Mr. GUTIERREZ. And you managed that sub-organization, did you not?

Ms. SMITH. Yes, sir, I did.

Mr. GUTIERREZ. There you go. So you were getting paid to manage that sub-organization which was receiving HUD funds.

Ms. SMITH. Yes, sir, but—

Mr. GUTIERREZ. Okay. Good. We finally got to the HUD funds, and why you are here.

Now, let me ask you just one more question—and I will give the time back to the gentleman from Texas—now that we have established that you were running an organization and supervising an organization and getting paid—right?—with HUD proceeds—right?—did any of those HUD proceeds go to make up the $5,000 contribution that you made in 2003 to the National Republican Congressional Campaign Committee?

Ms. SMITH. No, sir, it didn't.

Mr. GUTIERREZ. You segregated the money.

Ms. SMITH. My salary did not come from those HUD—

Mr. GUTIERREZ. Your salary did not, so you supervised an organization, but your salary didn't come from it. I am sorry. It is like this doesn't pass any remote test. The money came from there. You don't want to admit it. The Majority won't let us go into executive session so we can find out who the consultant was that designed this program.

We can't find out who the politicians were that consult this program. We want to find out how all these happened, but we are going to be limited to asking questions of two convicted felons, one of whom is saying she didn't steal anything. She just like borrowed it and got caught before she paid it back.

I return the time to my friend from Texas, Mr. Green.

Mr. GREEN. Thank you.

And I do want to ask just a limited number of questions. I will start with the lady since it is difficult to get her on and off.

Ma'am, do you agree that you are a criminal?

Ms. SMITH. I agree that I conducted some unfortunate—

Mr. GREEN. I am sorry. I didn't quite understand. Could you just answer yes or no, are you a criminal?

Ms. SMITH. I participated in some criminal acts. Yes, sir.

Mr. GREEN. And you were convicted?

Ms. SMITH. Yes, sir.

Mr. GREEN. Usually, when people are convicted of criminal acts, and they are felons, they are called "criminals." You would not label yourself a criminal?

Ms. SMITH. How you choose to label yourself is not something—society can't label you. You can only label yourself. I choose not to label myself as that.

Mr. GREEN. Let me just ask you about the definition of a person who has committed a crime. Let me just make this comment. You bring some concern to your credibility when you don't own up to the fact that you have committed a crime and that you engaged in criminal conduct, and as a result you are a criminal.

That causes some disbelief in some of what you say, and I am sorry I didn't get to say more.

But thank you, Mr. Chairman.

Chairman NEUGEBAUER. The gentleman's time has expired.

The gentleman, Mr. Miller, is recognized for 5 minutes.

Mr. MILLER OF NORTH CAROLINA. Thank you. I yield my time to Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Miller.

Thank you, Mr. Chairman.

Mr. Truax, first of all, I want to say, thank you. I know this is probably not easy for you, and I respect that.

I also want to thank you because in this, I don't know, we have been here about a couple of hours now, you provided the one point of light so far which, to me, was the only thing that I think I have heard that I could act on, which is to make sure that when HUD does inspect, that they don't let you or people like you pick their own projects to be reviewed. That is a good point, and I think a point that we can follow up on, and I intend to do so. So thank you for providing that single point of light.

But I do want to ask you, on the 50-odd projects that you had, in the final analysis, how much Federal HOME money did you steal?

Mr. TRUAX. I didn't steal any Federal HOME money.

Mr. CAPUANO. You didn't steal any Federal HOME money?

Mr. TRUAX. Not personally.

Mr. CAPUANO. "Ms. Smith", are you still there? "Ms. Smith?" In and out—on the presumption that she is not there, I thought I heard her say that she did not steal any HOME money. I am not sure of that. That is why I wanted to ask, but that is what I heard.

"Ms. Smith", if you come back, would you let us know because I don't want to put words in your mouth.

But if I have heard that correctly, we now have two people here testifying as some sort of experts on how to fix the HOME Program, which I want to hear, yet neither of them stole any HOME money.

Mr. TRUAX. Sir, if I may add to that?

Mr. CAPUANO. Go right ahead.

Mr. TRUAX. I received the money that I admitted to through kickbacks. I defrauded the system.

Mr. CAPUANO. I understand that. But you didn't steal HOME money. I get that.

And by the way, when one of my colleagues asked you if you had gotten three bids, would that have stopped you, in all the time that you did this, did you ever inform the contractors with whom you were working what the low bid was that they had to undercut?

Mr. TRUAX. Yes.

Mr. CAPUANO. So you told them, "If you bid $10,000, you will get the contract."

Mr. TRUAX. Yes.

Mr. CAPUANO. So if you had to get three of those bids, would you somehow not have told them what the lowest of the third bid was?

Mr. TRUAX. Correct.

Mr. CAPUANO. You would not have told them?

Mr. TRUAX. Right.

Mr. CAPUANO. So by simply getting three—what if you had gotten two bids, would you have told them?

Mr. TRUAX. No.

Mr. CAPUANO. What were you comparing it to? Was there a sole bidder?

Mr. TRUAX. Sometimes.

Mr. CAPUANO. But when there was a sole bidder, why would you have to tell them the number to bid?

Mr. TRUAX. I wouldn't have to, at that point.

Mr. CAPUANO. So what you did when there were competitive bids is you would get on the phone or in person with your co-conspirator and say, "This contractor over here has already bid $10,000, so you have to bid $9,000."

Mr. TRUAX. Yes.

Mr. CAPUANO. And somehow, miraculously, if you got three of those, you wouldn't do that anymore? Is that what you are suggesting?

Mr. TRUAX. No. I believe what he was asking is if we had to turn those bids into HUD themselves.

Mr. CAPUANO. That is not the way I heard it. I heard if you had had to get three bids, would you do it.

Mr. TRUAX. It states in here in my statement—

Mr. RENACCI. Will the gentleman yield?

Mr. CAPUANO. And would you have given those bids if they had—

Mr. RENACCI. Would the gentleman yield?

Mr. CAPUANO. Sure, I will.

Mr. RENACCI. As a CPA and what I was talking about—

Mr. CAPUANO. I am a tax accountant, so you are not the only person here who is a—

Mr. RENACCI. Three—

Mr. CAPUANO. And I am a former mayor just like you.

Mr. RENACCI. Great. When three bids come in separate and individual and you turn them into HUD, you don't have the opportunity to make—

Mr. CAPUANO. Yes, that is true if you do it right, but it is not true if you are in conspiracy with a co-conspirator outside. You tell them what the other bids are. You open them up. And you re-seal them if you are a criminal. If you are not a criminal, you do it your way. If you are a criminal, you do it another way.

All I am suggesting is if you are criminally oriented, which is fine, you are going to find a way. That is all I am suggesting.

So we have two people here who haven't stolen HUD funds, as far as they have said. And we have people here who claim to be experts on how to fix it, yet to my knowledge, I have only heard one suggestion that we can bring to HUD that we can act on, that is a good one, and I intend to follow up on.

And I simply wanted to use my time to say thank you, and with that I appreciate the gentleman yielding, and I yield back the remainder of my time.

Chairman NEUGEBAUER. The gentleman yields his time?

Mr. MILLER OF NORTH CAROLINA. I yield back the balance of my time.

Chairman NEUGEBAUER. I thank the gentleman.

We are at this particular point in time—I want to thank these two witnesses. We appreciate you taking your time and your insight on this issue.

And with that, this panel is excused, and we will now call up the second panel of witnesses.

Chairwoman BIGGERT. [presiding]. I will now introduce the second panel of witnesses.

We have Mr. John McCarty, acting Deputy Inspector General, Office of the Inspector General, U.S. Department of Housing and Urban Development; Mr. Kenneth Donohue, former Inspector Gen-

eral, U.S. Department of Housing and Urban Development; Mr. James Beaudette, Deputy Director, Departmental Enforcement Center, U.S. Department of Housing and Urban Development; and Mr. Ethan Handelman, vice president for policy and advocacy, National Housing Conference.

Thank you; and thank you for your patience—having had a vote and then quite a long questioning period for the first panel. Without objection, your written statements will be made a part of the record, and you will each be recognized for a 5-minute summary of your testimony. We will start with Mr. McCarty.

You are recognized for 5 minutes.

STATEMENT OF JOHN P. MCCARTY, ACTING DEPUTY INSPECTOR GENERAL, OFFICE OF INSPECTOR GENERAL, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. MCCARTY. Thank you. Good afternoon, Chairman Neugebauer, Chairwoman Biggert, Ranking Members Capuano and Gutierrez, and members of the subcommittees. I am John McCarty, Acting Deputy Inspector General for the Department of Housing and Urban Development, Office of Inspector General (OIG). I thank you for this opportunity to discuss our investigations of HUD's HOME Program.

My testimony on our investigative work builds upon prior OIG testimony in June of this year, which related to audit findings, internal controls, and administration of the HOME Program.

Over the past 3 years, we have opened 51 investigations based on allegations of fraud in the HOME Program. Subjects of our investigations have included executive directors of community development departments and nonprofit entities, elected officials, construction companies, employees, contractors, developers, and investment companies.

Typically, our HOME Program cases involve fraud schemes associated with embezzlement of funds, bribery, theft, false billing, and kickbacks. The Office of Investigations works closely with our many law enforcement partners in most of our cases, including investigations involving the HOME Program. Our relationships with State and local law enforcement entities, the FBI, the IRS, and other Federal agencies help to leverage our investigative resources.

Many of our HOME cases are initiated based on information received from confidential informants. Often, these are contractors or developers who feel that they should have gotten contracts received by others or have come forward to reveal bid-rigging kickbacks.

We also receive referrals from our Office of Audit and the Department itself. Typical charges in HOME cases involve conspiracy, bribery, tax violation, wire and mail fraud, embezzlement, money laundering, false statements, and theft of government funds.

Since October of 2008, our criminal investigations have resulted in 21 convictions of individuals who used HOME funds for their own personal gain. It is clear that the penalties received by these wrongdoers represent the seriousness with which these cases are handled.

Additionally, the impact on local jurisdictions which are victims of HOME fraud can be significant in terms of the loss of limited rehabilitation funds to a local community.

In addition to these convictions, we routinely refer individuals indicted or convicted of any HUD program fraud to the Departmental Enforcement Center for administrative actions. We maintain a well-established rapport with the Departmental Enforcement Center and work closely with them to facilitate timely and thorough referrals for administrative action to mitigate further wrongful use of program dollars.

We feel that removing these bad actors from participating in the HOME and other government programs is imperative to protecting important taxpayer dollars. It also sends a strong message to the others in the industry that this type of fraudulent activity will not be tolerated.

O.I. believes that HOME is an important program which provides affordable housing to low-income Americans. Given the current economic and housing crisis in our country, the need for affordable housing may never have been greater than in these tumultuous times. With this crisis comes fraudulent activity to compete against the good work of how HOME funds are to be used for their intended purposes.

Since our investigative work focuses on areas of high risk and egregious actions in the program, our cases highlight areas where improvements need to be made, especially in the area of monitoring.

O.I. believes that increased monitoring would have a deterrent effect on fraud in HUD's HOME Program. We look forward to working with the Department and the Congress in addressing ways to improve the effectiveness of this vital program.

I want to thank you for this opportunity to speak to you today about our investigations in the HOME Program. I am happy to answer any questions you may have. Thank you.

[The prepared statement of Mr. McCarty can be found on page 80 of the appendix.]

Chairwoman BIGGERT. Thank you, Mr. McCarty.

Mr. Donohue, you are recognized for 5 minutes.

TESTIMONY OF KENNETH M. DONOHUE, FORMER INSPECTOR GENERAL, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. DONOHUE. Thank you very much, Chairman Neugebauer, Chairwoman Biggert, Ranking Member Capuano, and Ranking Member Gutierrez. I am Kenneth M. Donohue, former Inspector General of HUD, and principal at the Resident Group firm. I am no stranger to this committee, and it is great to come back and get a chance to talk to you all with my 9 years of experience at the I.G.'s office.

I am also delighted to have my colleague John McCarty join me. John was the Head of Investigations while I was the Inspector General and he holds a very important position at this time.

It is rare that the Inspector General gets a chance to come back and speak on this type of activity, but I am delighted to do so. I would be remiss if I didn't recognize the former colleagues that I served with for 9 years and the great job they did in many of these investigations.

My mission was independent, objective reporting to the Secretary and Congress for the purpose of supporting a positive change in integrity, efficiency, and effectiveness of HUD programs. That was my mandate and I took that very seriously.

During my time, as John indicated, the number of investigations—we did 60 audits relating to the HOME Programs. By the way, when we were doing this, you might recall we had an enormous amount of mandated congressional oversight involving the redevelopment of Lower Manhattan after the 9/11 disaster. We had oversight of FHA and Ginnie Mae, the affected Gulf States via Hurricanes Wilma, Katrina, and Rita. And, quite frankly, you can imagine the amount of activity that was going on certainly with the mortgage-fraud activity.

During my tenure, I was proactive. I had a proactive sense of urgency in everything I did. And my position was zero tolerance with those wrongdoers who might attempt to commit fraud and abuse their authority. I would often express my concerns to the Department. And the Department would receive that in a very formal sort of way. And the fact of the matter is, I expressed my concern about recapturing current and future funds due to compliance.

I further expressed my concerns about compliance, controls, and information systems relating to the HOME Program.

Of those 60 audits, on 12 separate cases, HUD came to us and asked me to address their concerns with regard to some of these programs. And in fact, I directed audits to be completed on those very 12 cases.

The Secretary often expressed the importance of HOME Programs, based on his positive experience that he had involving his New York practice.

The answer and sum up is the fact aggressive monitoring in my estimation has to occur with the sub-grantees on these programs. HUD had 42 local field offices with enormous undertaking to oversee these programs. Unfortunately, there were frequent incidences of noncompliance and, as John had recorded, criminal fraud, particularly in the sub-grantee level.

The HUD information systems were self-reporting. And I was pleased to hear most recently the Assistant Secretary speaking in the June-July hearing where they said they are addressing such issues, as well.

Yes, it is true that the Inspector General—there is never enough compliance and oversight to satisfy such programs that distribute precious tax dollars. I do, however, believe there is needed balance between program efficiency and oversight to be applied collectively between the programs and these oversight agencies.

I believe, after 35 years in Federal law enforcement, that without an effective compliance and monitoring practice, we unfortunately encourage those wrongdoers, some we saw today, who would seize upon the system and use Federal funds for unintended purposes—their own self-gain, as stated in several examples in these hearings.

Criminal cases like this could be considered anomalies, or are they a pattern of behavior?

In my experience, I think when we don't have effective monitoring, we in fact encourage those people who would take the big

step and get involved in criminal activity. And I think we owe it to ensure that we have aggressive compliance.

I am pleased with the comments the Assistant Secretary made in June and the fact that I look forward to those aggressive actions that they are planning on following up and I think may very well might have occurred since that time.

It is primarily to compliance responsibilities on local grant levels. HUD and Congress might consider reforming the legislation to expand the role and responsibilities of HUD to ensure a more active compliance program.

I enjoyed a very positive relationship with the Department's enforcement center and Jim Beaudette. Past Secretaries have often talked to me about the role and the placement of the enforcement center within HUD's structure.

In my opinion, over those 9 years, I felt they did not have adequate resources and the question of an independent role in addressing matters not only just for the grant activities but the subgrantees as well.

As stated earlier, an effective Inspector General must be diligent, encouraging, and at times insisting on strong oversight and transparency within government programs.

The practice of monitoring State and local government entities is paramount, as discussed today. And such programs do exist and are available.

One such example is following the 9/11 disaster in New York, where the importance of New York City and New York State went back and hired monitors, recognized monitors to go back and look at real-time issues to see, in fact, whether grantees or the subgrantees were, in fact, doing things inappropriately.

Chairwoman BIGGERT. If the gentleman could conclude?

Mr. DONOHUE. Yes.

Finally, I am at a disadvantage of knowing the constructive changes made by the HUD in the past year or so, but I do look forward to their continuation. Thank you.

[The prepared statement of Mr. Donohue can be found on page 72 of the appendix.]

Chairwoman BIGGERT. Thank you.

Mr. Beaudette, you are recognized for 5 minutes.

STATEMENT OF JAMES M. BEAUDETTE, DEPUTY DIRECTOR, DEPARTMENTAL ENFORCEMENT CENTER, OFFICE OF GENERAL COUNSEL, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. BEAUDETTE. Thank you.

Chairmen Neugebauer and Biggert, Ranking Members Capuano and Gutierrez, and members of the subcommittees, thank you for inviting me to testify about efforts by HUD to prevent and combat fraud against government programs, including HOME.

I am the Deputy Director of HUD's Departmental Enforcement Center, or DEC, in HUD's Office of General Counsel. The DEC is responsible for the Department's suspension and debarment program and other civil enforcement actions against individuals who violate HUD rules and commit fraud.

My career has been devoted to law enforcement and related anti-fraud efforts. I served for 9 years in HUD's Office of Inspector General, where my work involved virtually all HUD programs, including HOME.

I also worked for 16 years for the U.S. Border Patrol in anti-fraud enforcement at the Department of the Interior.

Throughout the course of my career, I am not aware of any fraud by any HUD or other Federal official in connection with the HOME Program. Overall, in my experience, there has been relatively little fraud by private individuals or more rarely by State or local officials with respect to HOME funds.

I agree with Assistant Inspector General Jim Heist's testimony that there is a very good relationship between the OIG and HOME, that the program's Administration is probably better than most and that HUD has been very responsive in the last couple of years and agreed with OIG audits 95 percent of the time about HOME.

The vast majority of people involved with HOME and other Federal programs and private institutions are honest and trustworthy. Unfortunately, dishonest and greedy people do exist. We strongly condemn fraudulent activity relating to HUD programs and place a high priority on preventing, uncovering, and punishing such activity.

But attempted fraud relating to funds provided under HOME and other programs, just as in private institutions like banks, has sometimes occurred and will continue. This is just as true with respect to non-Block Grant as well as with Block Grant Programs.

A key anti-fraud component is aggressive enforcement. That is a HUD focus. Secretary Donovan and others have made it clear that there is zero tolerance for fraud.

Just last week, the DEC suspended a contractor who was recently indicted for fraudulently obtaining HOME funds from Lewiston, Maine, starting in 2005.

The working relationship between OIG and HUD ensures that we can begin debarment or other actions against a violator as soon as possible. Another important approach is improved monitoring and oversight. A congressionally created Block Grant Program like HOME, by definition, involves local control and implementation.

With some 30,000 HOME projects at any time, it would require significant additional funding to enable HUD to conduct day-to-day monitoring of each of these projects.

But HUD recognizes its fiduciary responsibility as a steward of taxpayer funds. A critical part of that is monitoring State and local government grantees and referring suspected problems to the OIG for more investigation.

In my experience, this is exactly the approach taken by HUD with respect to HOME. Within the last few years in particular, HUD has improved HOME monitoring and oversight such as through the additional reports that Assistant Secretary Marquez testified about in June.

In addition, HUD has been working since 2009 on revisions to the HOME regulations that are designed in part to improve accountability and performance.

Although the improvements are in the final stages of review by OMB, the Acting Inspector General concluded in a letter to Sen-

ators Murray and Collins, after an OIG review of the proposed rule changes in August, that they should help ensure the timely completion of future program activities and strengthen HUD's future enforcement authority.

HUD is also making key enhancements to the IDIS system to ensure better project reporting, tracking, including more financial and project risk mitigation controls.

In short, it is unfortunately likely that attempted fraud by private developers and others will continue with respect to HOME funds as with virtually any government program or private activity.

In my opinion, based on a career in anti-fraud efforts, however, it is incorrect to single out HOME as being particularly susceptible to fraud. To the contrary, based on my experience at the DEC and OIG, HUD continues to take important steps to improve monitoring, oversight, and enforcement that can prevent and combat fraud with respect to HOME and other programs.

Thank you again for the opportunity to testify. I would be pleased to answer any questions.

[The prepared statement of Deputy Director Beaudette can be found on page 68 of the appendix.]

Chairwoman BIGGERT. Thank you, Mr. Beaudette. Mr. Handelman, you are recognized for 5 minutes.

TESTIMONY OF ETHAN HANDELMAN, VICE PRESIDENT FOR POLICY AND ADVOCACY, NATIONAL HOUSING CONFERENCE

Mr. HANDELMAN. Thank you very much. My name is Ethan Handelman, and I am the vice president for policy and advocacy at the National Housing Conference. I am grateful to all the members of the committee for inviting me here to testify. I hope that, as part of the discussion of the need for strong regulatory and financial controls, we can remember the central work of the HOME Program in creating affordable housing.

Since 1931, the National Housing Conference has been dedicated to ensuring safe, decent, and affordable housing for all in America. We are a nonpartisan, nonprofit group that brings together a diverse membership of housing stakeholders, including tenant advocates, mortgage bankers, nonprofit and for-profit homebuilders, property managers, policy practitioners, REALTORS®, equity investors and more; all of whom share a commitment to balanced housing policy.

Some of our members administer HOME funds or work on projects that receive HOME funds, but most do not. We all, however, support the important work HOME does as part of our national commitment to safe, decent, and affordable housing for all in America.

The first way HOME does that is simply by creating affordable housing. For 20 years, this Federal Block Grant Program has provided critical funding to State and local governments exclusively to provide affordable housing for low-income families.

Over 1 million units have been produced, including those for new homebuyers, some for owner-occupied rehabilitations, and some for rental housing units.

Above and beyond those units created, over 240,000 tenants have received direct rental assistance to make private market apartments more affordable.

Second, HOME leverages other resources. For every HOME dollar expended, $3.94 in other public and private investment has been leveraged, resulting in more than $80 billion in other funding for affordable housing since the program began.

As just one example, the county of Orange in New York since 1992 has leveraged over $350 million in other funds using less than $16 million in HOME funds to construct and preserve affordable housing, often in properties with just a few apartments, sometimes in larger developments.

In particular, HOME dollars are often the early money necessary to get projects off the ground, while private lenders, equity investors, low-income housing tax credit allocations and other resources come together.

Third, HOME creates jobs. HOME funds frequently provide essential gap financing for low-income housing tax credit properties. Those developments create jobs.

In the first year, construction of a typical 100-unit property results in 116 jobs, about half of which are in the construction sector. Other HOME Program activities, such as the development and renovation of owner-occupied homes also produce employment. Now more than ever, such jobs are essential.

Fourth, HOME sustained projects during the downturn. The recession and financial crisis disrupted real estate development across the country. In a survey of homebuilders from the beginning of this year, 45 percent reported placing multifamily projects on hold, and 60 percent reported placing single family projects on hold until the financing climate gets better.

Housing starts and completions have slowed dramatically as a result of the crisis by as much as 75 percent nationally from the height in 2005 to the bottom in 2010. HOME-funded projects, however, outperformed the broader real estate market. In June, HUD reported that only 2.5 percent of 28,000 active projects were delayed. So, against the backdrop of disrupted real estate markets, HOME projects stand out for completion.

Fifth, HOME reaches many communities. The flexibility of the HOME Program provides urban, rural, and suburban communities across the country with the ability to both produce and rehabilitate single-family homes, many for new homeowners, while also providing and rehabilitating rental housing from low- to extremely low-income families.

In addition, the HOME Program provides critical resources for housing persons with special needs including the homeless, disabled veterans, and persons with HIV/AIDS. I share as one example the Silver Star Apartments project in Battle Creek, Michigan, which used HOME funds as both first mortgage loan and gap financing to create 75 apartments on the campus of a VA hospital, allowing homeless veterans: one, to be housed; and two, to have access to the medical care they need.

Lastly, HOME empowers State and local governments. Local communities can target the flexible HOME funds to the particular needs of their communities and housing market. HUD provides the

essential oversight function, making sure that communities follow program requirements, verifying project completion, and when necessary bringing enforcement action to recapture funds.

HUD's enforcement is strong, and must continue to ensure the continued success of HOME. The HOME Program is a proven solution that is part of our national commitment to creating housing opportunities for all Americans.

Thank you again for the opportunity to be here, and I am glad to answer questions.

[The prepared statement of Mr. Handelman can be found on page 77 of the appendix.]

Chairwoman BIGGERT. Thank you, Mr. Handelman.

We will now recognize Members for 5 minutes each to ask questions. And we will begin with the gentleman from Illinois.

Mr. Dold is recognized for 5 minutes.

Mr. DOLD. Thank you, Madam Chairwoman. And I certainly appreciate the opportunity to ask some questions.

And thank you all for being here. We had an interesting first panel. And I think really the goal of this hearing is to try and find out where we can make things better.

Obviously, the intended result is to make sure that the HOME Program has the dollars that stretch further for the intended beneficiaries and for the American taxpayer. And unfortunately, we see dollars that are mismanaged, not just in the HOME Program, but across the sector and throughout the entire government.

Our job in the oversight is to try to get that right, because if HUD doesn't get it right, then beneficiaries suffer by not receiving the intended benefits and also making the American taxpayer more reluctant to fund additional programs, which we do believe are important.

So, Mr. Beaudette, one thing that I just wanted to go at first is, we look at—according to the Washington Post, we had 700 projects in a sample of about 5,100 multifamily projects that were undeveloped, indefinitely delayed or abandoned. This represents about 14 percent of the multifamily projects that were susceptible to waste, fraud, and abuse. Can you talk to me about this 14 percent, especially in light of what you had mentioned in your testimony about a zero tolerance policy for fraud?

In fact, let me back up just 1 more second, because I do want to get a better understanding of how you are aware of the fraud in your role.

Mr. BEAUDETTE. In my particular role it is after the fact. It is coming from the I.G.'s office to the DEC (Departmental Enforcement Center).

Mr. DOLD. So, the I.G.'s office is giving you that information. I am just trying to—in layman's terms, the Departmental Enforcement Center, you investigate whether a person who has already committed fraud or broken HUD rules should be barred from receiving HUD money?

Mr. BEAUDETTE. That is incorrect.

Mr. DOLD. Okay. Can you tell me about—

Mr. BEAUDETTE. The Departmental Enforcement Center handles the suspension or debarment of individuals who do business with HUD.

Mr. DOLD. Okay. In the scope of the hearing that we are having here today—I am just trying to get a better handle. You are the best person in terms of HUD to be here to be answering the questions about fraud and abuse?

Mr. BEAUDETTE. From HUD, I probably am, yes.

Mr. DOLD. Okay. Can you go back then, and we talked about the 700 cases, the 14 percent and the zero tolerance policy. Can you focus on that for us a little bit because we are interested in terms of how do we make it better—because 14 percent, to me, does that sound like a bigger number or a smaller number?

Mr. BEAUDETTE. That sounds like a smaller number.

Mr. DOLD. Fourteen percent of waste, fraud, and abuse is small. Okay? Please elaborate.

Mr. BEAUDETTE. I don't think it is a good number. I believe it is a smaller number.

Mr. DOLD. Smaller than what?

Mr. BEAUDETTE. Smaller than 15 percent.

Mr. DOLD. Okay. Historically, it is smaller than 17 percent as well. It is certainly greater than 13 percent. I am glad we don't have to go down this path.

But what I am interested in is, it is certainly from my perspective as a taxpayer, as someone who is over here trying to do some oversight, 14 percent when you have—correct me if I am wrong—a zero tolerance policy, not a 14 percent tolerance policy. So, am I correct in thinking that it is the zero tolerance policy or 14 percent tolerance policy?

Mr. BEAUDETTE. There is a zero percent tolerance policy. There is no evidence of fraud in this particular 14 percent we are talking about.

Mr. DOLD. Okay. In the 14 percent that I am specifically referring to, we have monies that have gone out there in the programs that have not been spent. We have vacant lots. So, I guess I am having a difficult time saying there is not fraud involved with that.

Mr. BEAUDETTE. I am not aware of it myself.

Mr. DOLD. Okay. Is there anybody that we should be talking to at HUD who would be aware of those?

Mr. BEAUDETTE. I am sorry?

Mr. DOLD. Is there anybody at HUD who would be aware of those?

Mr. BEAUDETTE. Actually, the Deputy Assistant Secretary is with me today, who could speak to the program aspect of it.

Mr. DOLD. Madam Chairwoman? I don't want to mess up your panel, but I would be happy to just try to find out if there is someone more appropriate to speak with.

With just a short period of time, we will let you sit down, Mr. Beaudette. We will go to another thought.

And Mr. Donohue, based on your years as Inspector General, can you please describe your greatest concern about oversight or lack thereof? Because I am sure I am confident that regardless of the Administration, we have had problems with regard to oversight.

We want to make sure that it gets stronger and better for the future. Can you talk to me about what your greatest problem was in the past and what will fix it?

Mr. DONOHUE. Quite frankly, I transcend Administrations in my capacity as Inspector General. And I might say that the Secretaries, all of the Secretaries I served under were sensitive to the issue of oversight and monitoring all the programs.

HUD by itself has systemic problems, I believe, in a lot of different programs as far as exposure to fraud. That is why my office is so engaged, as I indicated in my testimony.

But to answer your questions specifically, I think the key here comes down to is that when these formula grants go back out, the issue, the key issue on most of these activities is at the sub-grantee level. And until you get to that sub-grantee level, you really don't really know or find out necessarily as to what might be going on wrong.

And we rely upon—as an Inspector General we rely upon, as Mr. McCarty indicated, the support of other Federal agencies, good stewards, colleagues within these housing programs and HUD programs to sort of give us the tips, let us know, hotlines or whatever else to come back. And we investigate those on a case-by-case basis, with the exception of my audits.

I did 60 audits. That is a significant number. Audits are due in the HOME Program, and there is good reason to do so.

Chairwoman BIGGERT. The gentleman's time has expired.

Mr. DOLD. Thank you.

Chairwoman BIGGERT. Just as a reminder, we have an orderly process for witnesses. And so, we will continue.

The gentleman from Massachusetts is recognized for 5 minutes.

Mr. CAPUANO. Thank you, Madam Chairwoman.

Thank you, gentlemen, for being here. Were you all here for the earlier panel to listen? Do you agree that it was probably a very good point that when someone is being audited, they should not be allowed to select the portion of their portfolio to get audited? Does anybody disagree with that statement? Did anybody here have anything else substantive that you learned that you didn't know before you walked into the room, relative to the auditing HUD or anybody else does? The answer is no, right? It was a nice show, but you didn't learn anything.

Mr. DONOHUE. Sir, I think my standpoint is—being an I.G., I think it was very informative to hear. Anytime I hear criminal wrongdoers speak to that, the issues of how they do that and collect their fraud and do their fraud—

Mr. CAPUANO. Did you hear anything today that was unique or something you hadn't heard before?

Mr. DONOHUE. You know, in 35 years, I have probably heard it all.

Mr. CAPUANO. That is what I figured. I didn't hear anything here that I haven't heard before, and I haven't been doing it that long. So, I mean, though it was fun, I don't see why we—I would have rather gone right to this panel. I think you gentlemen have more to offer to the things we really want to do than we just did.

And I would like to know specifically—not today, but I would ask each of you in writing, as soon as you can—I would like specific recommendations about what you think we should be doing to increase and enhance the oversight of the HOME Program.

There is nothing that I wouldn't be open to. But, at the same time, though it is very interesting to hear we should have more, I need to hear specific proposals, as I am sure you all respect.

So when you get a chance—this isn't the time or place—I would appreciate more specificity as to either what we could have HUD do under current law or, if you think we should be changing the law to, say, something, suggest that as well because I would be more than happy to do that.

I guess I would also like to ask—Mr. Beaudette, in his testimony, said there was, in his estimation, very little fraud in the HOME Program.

Mr. McCarty, would you generally agree with that?

And, again, that is not no fraud. Every program has something. Would you agree with the general statement?

Mr. MCCARTY. Generally, like Mr. Donohue said, any fraud is too much fraud.

Mr. CAPUANO. I agree with that.

Mr. MCCARTY. So I think, from what we have seen over the last 3 years, the numbers I gave you, that is what we have been provided to work with.

Mr. CAPUANO. Fair enough.

Mr. MCCARTY. Not knowing what is out there is what troubles us.

Mr. CAPUANO. That is always the trouble.

And I guess the other question that I really want to know is, during your term, Mr. McCarty—and I will ask you the same thing in a minute, Mr. Donohue and Mr. Beaudette—when you go to HUD with proposals, do they generally accept your proposals—not proposals but suggestions on how to improve something?

Do they generally accept those suggestions and implement your suggestions?

Mr. MCCARTY. I think my colleague, Jim Heist, testified in June that the Department's HOME Program has been very receptive to our audits.

Mr. CAPUANO. Yes, he did, but I want to know if you agree with him.

Mr. MCCARTY. I think so. Yes, sir.

Mr. CAPUANO. Mr. Donohue, would you agree with that, in your estimation, that HUD has been open to suggestions from the I.G. when you were there?

Mr. DONOHUE. Not only do I believe all the Secretaries are quite sensitive to the issue of appropriate monitoring, making sure the monitoring goes—

Mr. CAPUANO. So when you made a suggestion, they would try to implement it. Mr. Beaudette, have you found that to be true as well?

Mr. BEAUDETTE. Absolutely.

Mr. CAPUANO. So that, as people find new ways to do it and they go to suggest it, in general, the people at HUD, not just this Administration but past Administrations—they are good people trying to do the right thing. And if somebody comes up with a good idea, they do it. Is that a fair estimate of what you just said?

I guess the other thing is, have there been any times when you have suggested, Mr. McCarty, that you really need to do this; it is

an important issue—not details, but an important issue; you really need to do this to enhance your oversight, that HUD has said no, we won't do it; we refuse to do it?

Mr. MCCARTY. We have been asking them for awhile to do more monitoring, to implement a real-time surprise monitoring system that was mentioned earlier here. And that started back when I was Assistant Inspector General for Investigations, for the most part right after 9/11, where it was successful, but we—

Mr. CAPUANO. And they said, no, they won't do it?

Mr. MCCARTY. I think they tried to implement it in other ways.

Mr. CAPUANO. But they haven't said no?

Mr. MCCARTY. No, sir.

Mr. CAPUANO. Mr. Donohue, did you have the experience of them saying no to you?

Mr. DONOHUE. I have presented in the past with regard to my past years as monitoring—that I put in my written testimony—to be applied in New York. It is a very effective program, but what it does is it gets down, a monitoring practice, to the sub-grantee level. And to me, that is the key to make this monitoring effective.

Mr. CAPUANO. Have you suggested that to HUD, and they said no, when you were the I.G.?

Mr. DONOHUE. I have made suggestions to HUD in past years, and they weren't carried out.

Mr. CAPUANO. Mr. Beaudette, have you had that experience, where you have made suggestions to HUD and they said no?

Mr. BEAUDETTE. No, I have not. And I think, given the resources to do so, HUD would love to enhance their monitoring program.

Mr. CAPUANO. Mr. Donohue, in your testimony, which I actually appreciated very much, I just want to read one sentence back to you: "As stated earlier, an effective Inspector General must be diligent and encouraging and at times insisting on strong oversight and transparency with any government."

I think that is a wonderful statement. Did you insist that your proposals be adopted?

Mr. DONOHUE. Sir, if you knew me for 9 years, I insist quite a bit about the actions on these, my concerns. And I would make it very vocal, whether it is this matter or mortgage fraud or whatever else. Yes, I did.

Mr. CAPUANO. I guess I don't—what is the difference between suggesting and insisting?

Mr. DONOHUE. I am sorry?

Mr. CAPUANO. What is the difference, then, between suggesting and insisting?

Mr. DONOHUE. It is probably synonymous, probably the same thing.

Mr. CAPUANO. Fair enough. Thank you very much.

And I look forward to your written comments on specificity because I would like to follow up on them. Thank you.

Chairwoman BIGGERT. Thank you, Mr. Capuano.

I think that we are here to really look at the future and how we can solve any of the problems both from the first panel and from the second panel.

And with that, I would recognize the gentleman from Ohio, Mr. Stivers, for 5 minutes.

Mr. STIVERS. Thank you, Madam Chairwoman. I would like to thank the Chairs of the two subcommittees for calling this hearing. I would also like to thank these witnesses from panel two, as well as the witnesses from panel one, for your time, because we all want to make the Program much more accountable and root out waste, fraud, and abuse.

My first question is for Mr. McCarty. Were you here for the first panel in which Mr. Renacci, the gentleman from Ohio, asked about internal controls, specifically random inspections, multiple bids, and taking the lowest bid?

Mr. MCCARTY. Yes, sir, I was.

Mr. STIVERS. Has your organization, as Inspector General, ever recommended these steps to HUD for the HOME Program?

Mr. MCCARTY. I am certain we have through our audits, yes, sir.

Mr. STIVERS. So to follow up on the gentleman's question from Massachusetts, while you have recommended them, they have not been adopted. Is that correct?

Mr. MCCARTY. I am not certain I could answer that right now, sir.

Mr. STIVERS. It sure appears they have not been adopted, I guess we will—

Mr. MCCARTY. At that sub-grantee level, probably not.

Mr. STIVERS. At the sub-grantee level.

Next, another question for Mr. McCarty about the information systems—because you brought up those in your testimony a bit.

So the way the information system works today is grantees and sub-grantees can go in and change numbers at any point in the system. So it is really hard for the computer system to have a reconcilable audit trail that you can use in your investigations. Is that correct?

Mr. MCCARTY. Yes, sir. That is what our audits have shown. And I think Mr. Truax testified to that also.

Mr. STIVERS. He did. Has the Inspector General's Department ever suggested that HUD fix that?

Mr. MCCARTY. Yes, sir, we have.

Mr. STIVERS. Okay. Again, and I know Mr. Capuano, the gentleman from Massachusetts, asked about specific actions. It sounds like we have four specific actions already. I appreciate you answering those questions.

The next question is for Mr. Donohue. You suggested in your testimony some real-time monitoring fixes that HUD should adopt for the HOME Program. Can you quickly elaborate, knowing that we have 2 minutes and 50 seconds left, on specifically what those are?

Mr. DONOHUE. Right. The one I saw most effective was implemented in New York and is currently in play with regard to redevelopment of Lower Manhattan.

And what happens is, in effect, in concert with the grant recipient and the Inspector General, they hire a reputable monitor that goes back and, real-time, a la carte, real-time, goes back and looks at the disbursement of funds. It could be any matter that they ask upon. But the person goes on site at a sub-grantee level. Their reimbursement for those costs are provided for within the administrative cost of the grant.

Mr. STIVERS. Great, thank you.

Mr. Beaudette, you talked about how you had never seen an issue when HUD didn't adopt the recommendations from the Inspector General's office. Have you heard about the four recommendations that I just talked about with Mr. McCarty?

And I won't get to the second one with Mr. Donohue yet. Is this the first time you have ever heard of those four recommendations?

Mr. BEAUDETTE. In this kind of setting, yes, in that the—

Mr. STIVERS. In any setting, really. I am just curious if you have read them in a report, if you have seen them as a requirement?

This is the first time you have ever heard about these four ideas for fixing—

Mr. BEAUDETTE. I believe these four ideas are in place. I don't know if that was from the Inspector General's office. But I believe the auditing standards are—

Mr. STIVERS. So there are random inspections where the grantees and sub-grantees don't pick the programs now?

Mr. BEAUDETTE. I believe so. Don't quote me on the random inspection.

Mr. STIVERS. And the grantees and sub-grantees can no longer update the system on their own?

Mr. BEAUDETTE. I don't know that.

Mr. STIVERS. Okay.

Mr. BEAUDETTE. Actually, I thought you were referring to the internal controls and—

Mr. STIVERS. The first three were the internal controls. The fourth is the systems issue. And so, you are saying all four of those issues are fixed. I will follow up with your office in writing on that. But I really appreciate—I would love to get a full report. That is what we are here for today.

The last question is for Mr. Handelman. And I will just follow up on something that I think Mr. Dold asked. He talked about 14 percent of fraud. And let us assume for a second—I don't know if that is the right number. Let us assume there is 14 percent fraud, waste, and abuse. Because if you spend money on something, even if it is not fraud and they don't build the stuff they are supposed to build, it might not be fraud but it is at least waste.

If there is 14 percent fraud and waste in this program that you and I agree is an important program, what is the impact on this important program?

Mr. HANDELMAN. You and I certainly agree that this is an important program. I understand that you have asked me to hypothetically assume the 14 percent number. I will say, for the benefit of the committee, we looked at the numbers produced by The Washington Post, were unable to replicate them, and The Post did not release its analysis. So I have no confidence in that number.

Mr. STIVERS. If there is that kind of waste, is it bad for the program?

Mr. HANDELMAN. Yes.

Mr. STIVERS. Okay. That is really what I was looking for is, we all want to agree—when we agree there is a worthy program, we want the money in that program to be spent wisely and efficiently. I think my time has expired. Thank you—

Chairwoman BIGGERT. The gentleman's time has expired.

The gentleman from Missouri, Mr. Cleaver, is recognized for 5 minutes.

Mr. CLEAVER. Thank you, Madam Chairwoman.

Mr. McCarty, we had the two individuals on earlier, and both of them appear to be headed toward serving time in prison for what they did. So that means the system worked. Does that mean the system worked?

Mr. MCCARTY. It means the criminal justice system worked.

Mr. CLEAVER. Yes.

Mr. MCCARTY. Yes.

Mr. CLEAVER. When people do that, what is supposed to happen? A combination of whistleblowers and good investigatory work done by the U.S. attorney, the I.G., all of that played into catching people who were committing fraud in the HOME Program. Is that correct?

Mr. MCCARTY. Yes, sir.

Mr. CLEAVER. Okay. So if the system is working, and people get into the system, like the gentleman who was here earlier, who said he didn't go into the program to commit a crime, and the people who hired him didn't see that. No human being can see into somebody else's mind and soul. So they hired him.

What else can we do? You try to hire the best people you can. And when people commit a crime, they get caught. What else do we do?

Mr. MCCARTY. Speaking for law enforcement, we like to get the word out through fraud awareness briefings. We want to make sure that we have an ear to the ground for the people who are running the programs and possibly manipulating them.

Those who are confronted with opportunities of fraud, it is done out of desperation, greed. And where we can reach those people before that happens, in prevention rather than in enforcement, we are all better off.

Mr. CLEAVER. Yes. The human condition would be as such that we can't stop people from doing wrong. Correct?

Mr. MCCARTY. Correct.

Mr. CLEAVER. And so all we can do is try to minimize it, and then punish people when they do so, so that others might be hesitant or reluctant to do the same.

Mr. MCCARTY. Yes, sir.

Mr. CLEAVER. Mr. Donohue?

Mr. DONOHUE. Yes, sir. I want to go back to your reference of the two people. I think what I would—how I would phrase that is, in those two cases, the system worked perfectly. The system, the environment we deal is the ones we don't know about or the ones we don't—and I think as Mr. McCarty has specifically stated, that I think, in Federal law enforcement, a key issue is prevention.

And I think how you prevent that—I have seen this in the mortgage fraud world—is that how you prevent that is having strong requirements, good oversight compliance and monitoring. So I think you can't have one without the other to be effective.

Mr. CLEAVER. So one of the most significant steps we can take now would be to cut funds from the HOME Program?

Mr. DONOHUE. Are you asking me that?

Mr. CLEAVER. Yes.

Mr. DONOHUE. I am not suggesting that at all.

Mr. CLEAVER. No, I know you didn't.

Mr. DONOHUE. Oh.

Mr. CLEAVER. I am asking, does it make sense now to—because we have a problem, let us cut the budget in the HOME Program, which probably would result in cutting people who would be in a position to do some of the monitoring. Do any of you disagree with what I just said?

Did any of you understand what I just said?

[laughter]

Mr. BEAUDETTE. I don't think the idea is to shut down HOME. I think the idea is to provide a deterrence to where an individual is relatively confident that if he defrauds the program, he is going to get caught. And not to mimic Mr. McCarty, but pursuing that sort of angle is going to be the best possible route to take.

Mr. CLEAVER. Sir?

Mr. HANDELMAN. I would further agree that shutting down HOME is not the answer to this problem.

Mr. CLEAVER. Yes. I think anytime we start talking about a program like this—sometimes people think, okay, we had a problem there, so let us eliminate the program. I never will forget—we had a problem with somebody misusing their access to the Pages here in Congress a short time ago. And so there were people who said, "Let us cut out the Page Program," instead of saying, "Let us cut out Congress." But the point that I think is important is that when there is a problem, we always decide, let us cut something, instead of trying to figure out ways to strengthen the system so that fraud becomes increasingly difficult to commit.

Do all four of you agree with me?

Does anybody disagree?

Thank you, Madam Chairwoman.

Chairwoman BIGGERT. The gentleman's time has expired.

The gentleman from Texas, Mr. Neugebauer?

Chairman NEUGEBAUER. Yes, I thank the chairwoman.

Mr. McCarty, does HUD track whether funds are used for the intended purposes—in other words, if I received a grant of HOME funds for 100 units, but only built 60, does HUD have a way of tracking whether I built 60 or 100 units?

Mr. MCCARTY. I don't think I would be able to answer that, sir. It would be a program question, how they run the program, how they track it.

Chairman NEUGEBAUER. Let me ask you a question. I want to use an example up here. It is hard to see that, but that is a kind of a model that somebody did of a project that was going to be built here in the Washington, D.C., area. It was supposed to be 106 units, which was in—$6.8 million was spent.

The next slide is actually the property. And as you can see, some of the units were built in the back, but this property has been like this for 2 years. So do you think it would be appropriate for HUD to have some knowledge that, if they extended a grant for 106 units, they got 106 units?

Mr. MCCARTY. Yes, sir, I do. But I think, in your example, real-time surprise monitoring would pick something like that up immediately.

Chairman NEUGEBAUER. Yes. But today, does a system exist at HUD where they could pull up that project and determine whether that was 106 or 40 or 30 units built?

Mr. MCCARTY. I am not certain about that, sir, how IDIS might draw that up.

Chairman NEUGEBAUER. But you would agree they should have a system like that?

Mr. MCCARTY. Yes, sir.

Chairman NEUGEBAUER. Yes. And I want to go back to this computer system, where the recipients can manipulate that data. Would you agree that is not good internal control, that people who are receiving the money can go in and make entries into the records?

Mr. MCCARTY. No, that should never happen. There has to be some control.

Chairman NEUGEBAUER. Because I was thinking, if I was using this analogy, it would be like me being able to log in to my—I do online banking, because I don't get the chance to go to the bank a lot; not that I have a lot in the bank to do anything with.

But I was just thinking, if I could go into the bank, for example, and erase the checks and keep the deposits, it would be a good thing for me, wouldn't it?

Mr. MCCARTY. Certainly.

Chairman NEUGEBAUER. Yes. And I kind of relate that to this system that is in place at HUD now, is that basically they can go in—and one of the examples that we have seen is, we saw examples where projects were closed when we brought those to HUD's attention. Then, they were mysteriously reopened.

Now, how would that happen? How would projects that were in the system that said they are closed, but all of a sudden we bring it to HUD's attention, and all of a sudden they—when we go back and look in those records again, then they are open again. How does that happen?

Mr. MCCARTY. —the data.

Chairman NEUGEBAUER. And that is probably not good, is it?

Mr. MCCARTY. No, that is not good. There needs to be transparency built into all the data.

Chairman NEUGEBAUER. Because my credit card company, if I do a number of different transactions that are out of my usual pattern, they call me up. And sometimes, they cut my credit card off. They will say, we suspect something is going on.

Should HUD have systems to be able to track—that we keep—that we are making disbursements for a project and it seems irregular?

Mr. MCCARTY. I believe IDIS is supposed to do that in this particular program.

Chairman NEUGEBAUER. But do you believe it is operating in an effective way?

Mr. MCCARTY. No, sir, I do not.

Chairman NEUGEBAUER. Yes. And so I think that the question here—we have been talking about suggestions. One of the things that—and I heard both of you say that, hey, when we say something to the Secretary or to the people in the organization, they are receptive to it.

But, there is—sometimes, my wife asks me to empty the trash. I am receptive to it, but I don't always empty the trash. And there is a penalty for that, by the way, as well.

I don't think anybody is questioning whether these people are receptive. I think what we are talking about here, I think, is a very serious issue, is that being receptive and putting in place these internal controls to keep this from happening in the future are important. And this is just one example. We have other examples where when we pulled up the records, we went out and found vacant lots.

Some people say, we may not have given you the right address. I think it would be appropriate for HUD to at least have the correct address for where they are spending millions of dollars. Wouldn't you agree?

Mr. MCCARTY. Yes, sir.

Chairman NEUGEBAUER. Yes. I think some folks wanted to discredit some of the first panel witnesses. I think they painted a picture that is not a pretty picture. And that is a picture that inside the system today, the taxpayers' money may not—we may not be the best stewards of it.

It is my job; it is your job; it is HUD's job to make sure that when we take money from taxpayers to use for other purposes, that we be good stewards of that. And I would hope the panel would agree with that. And so I think where we have it, we have some work to do.

And I would hope that—from this hearing today, I would hope that the Secretary and others understand that we intend for this to stop. And we are trying to send a message here that we need to fix this.

I thank the Chair.

Chairwoman BIGGERT. The gentleman's time has expired.

The gentleman from Texas, Mr. Green, is recognized for 5 minutes.

Mr. GREEN. Thank you very much, Madam Chairwoman. And I thank you for allowing me to be a part of the subcommittee.

And I thank the witnesses for appearing. I just want to make a comment about the witnesses that testified previously. I think that persons who commit crimes should be caught. I think they should be appropriately prosecuted. And I think that they should be appropriately punished.

So, I think that I speak for everybody on the committee when I say this. I rarely will take an opportunity to say I speak for everybody. But it is my belief that the committee would as a whole, with unanimous consent, agree that this is the case.

My concerns with reference to them have little to do with their credibility as much as it has to do with the fact that they are criminals. I don't participate in oversight hearings as much as I would like to because this is not my subcommittee. But as such, once we start setting this precedent of bringing the criminals in to act as experts. I guess at some point, Madoff will come in, and we will try to find out how we can better strengthen the SEC to make sure that we can prevent crimes from occurring. And if there is anybody who is an expert on how to defraud folks, probably Madoff may be one. I don't know how he gets qualified. I am sure the process that

we use to qualify these folks would probably work with him as well.

And I had a concern about just the specific thing that was being called to our attention about the three bids. It makes sense to get three. It makes sense that it might help. But it also makes sense to me that a determined criminal will find a way to manipulate the system.

And these people, whether they admit it or not, are criminals. And whether they admit it or not, they may have found other ways to manipulate the system to their advantage. Criminals do this. That is why they are criminals, I guess, because they do these types of dastardly things.

So, now to the gentlemen with HUD, I just want to make sure that you are on the record. And you may have said this. My assumption is that you want to catch all the criminals that you can if they are trying to defraud HUD in some way. Is this a fair statement?

Mr. MCCARTY. Yes, sir.

Mr. GREEN. Okay. And you are willing to change rules and make reasonable adjustments so that you will be in a position to prevent crimes from occurring. Is that a fair statement?

Mr. MCCARTY. The rules need to prevent crimes from occurring.

Mr. GREEN. Yes. So you are not—HUD is not trying to in some way declare that you have a perfect system that needs no adjustments, are you?

Mr. MCCARTY. I can't speak for HUD, but I know that they don't have a perfect system—

Mr. GREEN. Okay. Let me ask the HUD representative.

Mr. MCCARTY. Could you repeat that, please?

Mr. GREEN. You are not implying that HUD has a perfect system, and that you can't make some adjustments, are you?

Mr. MCCARTY. No.

Mr. GREEN. And you want to see that criminals are caught, don't you?

Mr. MCCARTY. Yes, we do.

Mr. GREEN. And it does not offend you to know that the system worked and criminals were caught this time. And you would like to make sure that it works every time. Is that a fair statement?

Mr. MCCARTY. That is a fair statement.

Mr. GREEN. Okay. I am saying this to you and to all who are within viewing and earshot of this because sometimes people do allow these things to metamorphose from an investigation into a desire to end the program. And I don't—this is not something I am placing with any of my colleagues, but that can become the next hue and cry that the whole Program should be eliminated.

Is there anyone who is of the opinion that this program should be eliminated because we caught two criminals who were trying to perform some sort of dastardly deed? Sir, do you—I see you moving forward. Is it Mr. Handelman? Are you of the opinion that the Program should be eliminated?

Mr. HANDELMAN. The Program is one of the strongest housing programs we have. We should keep it.

Mr. GREEN. Okay. Does anybody think it should be eliminated? Okay.

So, I want the record to reflect that all of the members of this panel are of the opinion that this Program should not be eliminated.

And to be fair to you, you believe that if there are some places where we need to strengthen the regulations that we should do so to prevent criminals from preventing crimes. Would everybody agree with this? Okay.

So, I think that the point I would like to make is I know how these programs benefit people. This is a good program. And I just don't want this to metamorphose into a later time when you are not here that we need to eliminate it because there was fraud.

I thank all of you for appearing. And I yield back.

Chairwoman BIGGERT. Thank you.

Mr. Canseco is recognized for 5 minutes.

Mr. CANSECO. Thank you, Madam Chairwoman.

Let me address this question to Mr. McCarty and Mr. Donohue, but one at a time. In your investigations into the HOME Program, did HUD personnel charged with oversight seem more concerned with achieving the mission of the HOME Program or ensuring that HOME Program funds were being spent correctly?

Mr. MCCARTY. I believe that the HUD program people were concerned about both. That is their job.

Mr. CANSECO. On making sure that the funds were being applied correctly and at the same time making sure that the mission of HOME was being taken care of?

Mr. MCCARTY. Yes, sir.

Mr. CANSECO. All right.

Mr. Donohue?

Mr. DONOHUE. In a manner of speaking, I agree with you. I think there are times as an I.G., when you are dealing with a Department for 9 years, that you have concerns. And you voice those concerns.

But to fundamentally answer your question, I believe—listen, I believe these people come to work to do a good job, and I think they are trying to help people in need. And they are trying to do it the best way they can. But it all comes down to—I mentioned this balance between oversight, constructive oversight and the application of the programs themselves. Therein lies the challenges.

Mr. CANSECO. Still to both of you, HUD relies on its participating jurisdictions for program management of the HOME Program. What policies or procedures does HUD have in place to verify that participants actually have adequate policies in place?

Mr. MCCARTY. I would defer to the program on that. I don't know the program that well at that level.

Mr. CANSECO. Okay.

Mr. Donohue, the same answer for you?

Mr. DONOHUE. I believe the same answer would apply. You have to ask that question of the—

Mr. CANSECO. Mr. Beaudette, do you have—

Mr. BEAUDETTE. Same answer, I would have to defer to the program. We could get you that.

Mr. CANSECO. All right. And you, sir?

Mr. HANDELMAN. I am going to defer even further since I don't work for HUD.

Mr. CANSECO. All right. I just thought you might have an opinion on that.

Mr. HANDELMAN. Fair enough.

Mr. CANSECO. So, we have learned that the HOME Program database is riddled with inaccuracies. Would you say that these inaccuracies stem from the database being difficult to enter information into?

Mr. MCCARTY. I don't believe so. No.

Mr. CANSECO. Mr. Donohue?

Mr. DONOHUE. I will say no. My answer is that the audits have indicated, as you suggest. I will state, however, that I believe in June, Assistant Secretary Marquez did speak to improvements with regard to that database program. I don't know what the status of those are.

Mr. CANSECO. Mr. Beaudette, can you weigh in on that?

Mr. BEAUDETTE. I would hope it is easy to enter data into those. In this regard the grand tea, the State and local governments are the enterers of information into the Integrated Disbursement Information System (IDIS.) I suspect that HUD provides them with sufficient information to put the information in there.

Mr. CANSECO. What policies does HUD have in place for auditing its database and flagging projects for review that obviously need more follow-up such as those with "address unknown?"

Mr. Donohue, yes?

Mr. DONOHUE. Oh, sure. And, again I am going to have to defer to—in that regard. If you get into these areas with me, I have lost any objectivity. I believe oversight is so paramount. My suggestion is, if it doesn't exist, I would say it needs to exist. But I don't know what the status of that is now.

Mr. CANSECO. Mr. McCarty?

Mr. MCCARTY. I don't know what the status is.

Mr. CANSECO. Mr. Beaudette?

Mr. BEAUDETTE. Same.

Mr. CANSECO. Okay.

I yield back the balance of my time.

Chairwoman BIGGERT. Thank you.

The gentleman from North Carolina, Mr. McHenry, is recognized for 5 minutes.

Mr. MCHENRY. I thank the Chair.

Mr. McCarty, how does monitoring—or lack of monitoring—affect fraud in the HOME Program? For instance, additional site visits, and the fact that grantees—I guess the additional question is, the lack of monitoring, how does that effect fraud?

And an additional question would be: Are grantees allowed to select which HOME projects they show and when the site visits occur?

Mr. MCCARTY. The lack of monitoring provides an opportunity for fraud and criminal activity. As you heard Mr. Truax testify, he knew when the inspectors were coming, when the monitors would come. And he knew that, because of, probably, the lackadaisical implementation of the oversight guidelines that should have been applied, they allowed him to pick which projects would be inspected.

Mr. MCHENRY. Is that commonplace?

Mr. MCCARTY. We have heard that throughout our investigations, yes, sir.

Mr. MCHENRY. Okay—so not only the scheduling of it, but also which sites to show?

Mr. MCCARTY. The grantees have been able to manipulate the monitoring system, the oversight system.

Mr. MCHENRY. Okay. Are there apparent rules for how this is done, how the site visits are done or how the monitoring—

Mr. MCCARTY. Yes, sir, I believe there is a checklist that the monitors go through.

Mr. MCHENRY. Do you have issues with that checklist? Do you have—

Mr. MCCARTY. Not if applied properly.

Mr. MCHENRY. And it appears that it is not being followed properly.

Mr. MCCARTY. Yes, sir.

Mr. MCHENRY. Okay; all right. If we could put up on the screen, HOME.

Mr. Beaudette, does HUD's approach to oversight in the HOME Program leave the door open to fraud and abuse?

Mr. BEAUDETTE. I believe anything pertaining to it would provide the opportunity. You enhance it, it decreases. You release it, the possibility of it goes up.

Mr. MCHENRY. No, no. I am asking, does the current approach to oversight of the HOME Program leave the door open to fraud and abuse?

Mr. BEAUDETTE. I don't think so.

Mr. MCHENRY. Okay. Then, let me show you an example.

This is a duplex in the town I grew up in, not in my district, but I am in a divided county with a redistricting year, it will be in my new district, not in my current district. But, anyway, suffice it to say, I grew up, actually, just a couple of blocks from this house. You can see that it is not that old.

That appears to be a duplex. Do you all agree? It looks like a duplex. If you disagree, just tell me. But, according to the grant information, this multi-family housing project was supposed to be six units. You can see it is clearly two units. First, I ask that your agency look into this, because this is a very serious discrepancy. And I would be happy to provide you with the exact address. But this is a big concern.

I have a staffer who grew up in a hometown in a different State. She found the same thing. And this is not—we haven't been working full-time on this. But the fact that we found this is a really a bad indication for the program. And, technically, I would like to know how this can happen.

Mr. Beaudette?

Mr. BEAUDETTE. I don't know.

Mr. MCHENRY. You don't know how it could happen?

Mr. BEAUDETTE. No, in this specific situation, I don't know. I am sorry.

Mr. MCHENRY. But generally, how does this happen? Because we have heard testimony from the first panel—there is a hue and cry on the other side of the aisle that we bring folks who are basically

fraudsters in to give examples. Then, we have another panel who says, "I don't know how it happens." You know?

Mr. McCarty, do you, you know, is there—

Mr. MCCARTY. It happens because there is no oversight. There is no one out on the street looking at it. Your staff went out and found this. If the Department were to go out there, the grantees go out there, the sub-grantees go out there, they will see this.

Mr. MCHENRY. So is it a failure of policy or is it a failure of people to follow those policies?

Mr. MCCARTY. I believe it is a failure of the people to get out there to do it.

Mr. MCHENRY. Okay.

Mr. MCCARTY. I think that when you have that many sub-grantees, and you have 42 offices of HUD that do this, and they probably all do it different ways, I think the numbers overwhelm them.

Mr. MCHENRY. Okay.

Mr. Beaudette?

Mr. BEAUDETTE. Can we get back to you on this and give you specifics?

Mr. MCHENRY. I would much appreciate it. And I think the taxpayers would appreciate it, too. I don't think the person who did this would appreciate being found out, but we certainly appreciate you doing that.

Mr. BEAUDETTE. Thank you very much.

Chairwoman BIGGERT. The gentleman's time has expired.

The gentleman from Arizona, Mr. Huizenga—I mean, from Michigan. Sorry.

Mr. HUIZENGA. Thank you, Madam Chairwoman. And I appreciate that.

Mr. Beaudette, I am curious. How much waste, fraud, and abuse is present in the system? Because earlier, 14 percent was referenced, and staff, much like they are doing now, are shaking their heads and rolling their eyes and doing all those things and pulling faces.

I am curious what number you are comfortable with citing?

Mr. BEAUDETTE. I am comfortable with zero. And I don't know—

Mr. HUIZENGA. No, no. How much exists? Because I believe in the fallibility of mankind, so I know that there is some. But I am curious what number you would settle on, or your staff who are rolling their eyes behind you would settle on?

Mr. BEAUDETTE. I don't know how much fraud does exist.

Mr. HUIZENGA. Okay. I would like to find out, then, from our Inspectors General what they think. But I would also like to know what internally you all believe is that number. So please feel free to get back to me on that. In fact, I insist that you get back to me on this.

Do you commonly not know where and what projects you are funding, where they are? Is that common?

Mr. BEAUDETTE. Is this for me?

Mr. HUIZENGA. Yes.

Mr. BEAUDETTE. Once again, that is a program question. And I can get that to you.

Mr. HUIZENGA. Okay. I would like to put up an example of what is in my district. We just heard from my friend, Mr. McHenry.

This is the address that you all provided to me, to my office, to this committee. This is 400 136th Avenue in Grand Haven. My staff went out, and this is what is at the corner.

When that was brought up, it was like, "Oh, no, no, no. Wait a minute. I guess it is the wrong city." The city, granted, is in the same county, my home county, but about 20 to 25 miles south of there, in Holland.

So that address I am very familiar with, because it is actually across the street from where my daughter takes her ballet lessons. That would be the headquarters of Heritage Home, Incorporated, the person who was doing the developing.

Now, you all couldn't tell me where their projects were, so I called them. We called them and talked to them. And they supplied us with the three different locations. I am just curious why we are in that spot.

And I know that the ranking member has asked, "What are those specifics?" I think we have started to hear a few of those from Mr. McCarty. What are the specific action items that we can do, because I fully believe that you all in HUD, when you are told about fraud or you discover that fraud, you pursue that. I have no doubts about that.

My problem is, I don't believe there are systems in place to deter that fraud or that waste or that abuse of the system.

Now, earlier, Mr. McCarty, you were talking about not knowing what is out there is what is troubling. That was your quote, and I think on page 4 of your testimony, you go into some of those problems.

Mr. Beaudette, you said, after my friend, Mr. Stivers, had run through four different suggestions, you thought that those suggestions were in place.

I don't want to put words in anybody's mouth, but Mr. McCarty, the look on your face at that point gave me an answer that contradicted that. I would like you to—if you want to take a moment and voice what you actually think of that.

Mr. MCCARTY. Not to go into too great detail from my position, but Jim Heist, our Assistant Inspector General for audit, who testified in the June committee hearing, spoke very well to that, in our audit work, 60-plus audits that we have done, and the number of systemic problems within the controls, the monitoring, the oversight of the HOME Program.

Mr. MCHENRY. Okay. HUD is not perfect. Our colleague from Texas has left. That would not be the case, I think, based on the context of what happened in that first panel, whether it was him or our friend from Illinois. They defended the internal systems of HUD. They defended the actions that have gone on. And that, to me is unconscionable, all right?

We have an ability here to go in and change—

Mr. CAPUANO. If the gentleman would yield, could he tell me about whom he is speaking?

Mr. MCHENRY. That would be Congressman Gutierrez, who was talking about that, and Congressman Green.

So it seems to me that we have some areas that we need to improve on. We have one side that is battling back on that. And we are trying to get in place here some of those control systems that

are the simple basic things that you would do when I am running my little gravel company back in Michigan or whether you are running a major corporation like Mr. Renacci has done or whether you are running GM.

You must know what your assets are, where they are, and the status of them. Because I can tell you, when I was doing my developing as well, the bank had a trust with my family for about 50 years of business. But guess what? They drove past every single one of my developments on a regular basis to make sure we were actually doing the work. That is "Trust, but verify." And that is what we need.

Thank you, Madam Chairwoman.

Chairwoman BIGGERT. The gentleman's time has expired.

The gentleman from Ohio, Mr. Renacci, is recognized for 5 minutes.

Mr. RENACCI. Thank you, Madam Chairwoman.

I am not going to go through a lot of the internal controls that I already talked about. But I am a little shocked—and my colleague indicated that we only learned one thing. One thing about internal controls is one internal control does not fix things. It is usually when you have three or four that give you the opportunity to catch things.

So even though there would be a potential of three bids, and maybe somebody could change or get the other person to change his bid, if you still do site visits, which every—I have done a lot of construction. Every bank I have ever worked with went out and did site visits.

I have had third-party companies go out and do a reference, unannounced review of my projects. And I have had random visits.

All of these things are part of internal controls. You can't pick just one thing. So here is what I learned today. Here is what I learned today: We have some fraud. I don't know what it is. And again, it sounds like none of you know what the number is. We talked about 14 percent. It could be 2 percent, or 5 percent.

If it is $1 and we can stop it, it is a problem, because the taxpayers that I represent are not happy whether we waste $1 or $10, especially if we can catch it.

Now, we know we are going to have issues with fraud. We know that. So the question is, what procedures can we put in place?

I don't know what the fraud is, but I know we have some of that.

Mr. McCarty, you said you opened up 51 investigations. That is great. But you also said that those came from confidential informants.

Mr. MCCARTY. Some did, sir.

Mr. RENACCI. Yes, so informants are giving you the answer. But I think, if you had the internal controls in place, you wouldn't have to worry about the informants. And if the informants give you the answers, then the internal controls will also help you.

So if you are only catching 14 percent fraud, maybe there is 30 percent fraud. But you have to have internal controls.

What I have learned is I am not sure that any of you can tell me that we have at least four minimal internal controls in place. So I would like to get that answer.

And I am going to put a house up. This is in Ohio. This facility was funded $212,000, I guess, through 2008. I will bet you that, if somebody—of one of my four internal controls, if somebody would have done a random visit and went out there and looked at that, they would have had a hard time finding $212,000 in funding to that house.

So the question is not whether the program is good. We can talk all day as to whether the program is good. The question is whether we can save some dollars that can be used in that program to better other recipients.

So I would ask, somehow, some way because I am leaving here today with this question mark: Do we have internal controls? I would love to hear an answer.

Do we have multiple internal controls, not just one?

I did hear from the witnesses before; both of those witnesses said, whether they are criminals or not, if these four internal controls were in place, they would not have done what they did.

So somehow, some way, I don't want to leave this hearing and not get a follow up that tells me what the internal controls are, and how they are using them.

Look, I understand it is a big Department, and I understand there are a lot of good programs going on. But the American people are counting on us and they are counting on you to implement these programs properly and to make sure the proper internal controls are in, not just one but all of them. Those are not expensive internal controls to require the recipient to pay for a third-party review, which could be done very simply.

Hopefully, my colleague can say that there is another thing he learned. A third-party review, an inexpensive third party review, could stop some of this.

So I appreciate your time, and I yield back. Thank you.

Chairwoman BIGGERT. Thank you. And I recognize myself for 5 minutes.

Mr. Donohue, in your testimony, you said that there is a need in many of the HUD programs, including HOME for HUD, and the grantee recipients, to aggressively monitor the sub-grantees.

What other programs would you recommend that this committee review?

Mr. DONOHUE. You mean programs other than HUD itself, ma'am?

Chairwoman BIGGERT. Yes.

Mr. DONOHUE. I think any grant activity, be it HUD or, for that matter, any other government agency—

Chairwoman BIGGERT. Or any other, if you really have—

[laughter]

Mr. DONOHUE. Yes, I think any activity where a grant application is involved, I think it has to warrant, in my estimation, a monitoring practice not just with the grantee but at the sub-grantee level.

I think, without that, what in effect we are doing is we are telling, in a sense—by not doing it aggressively, we are telling the grantees, we are not going to look at you. Why would they spend the cost to go back and monitor the sub-grantees?

I think, in my estimation, we can encourage wrongdoing rather than discouraging it, at times.

Chairwoman BIGGERT. Thank you. And we certainly don't want to do that.

And that leads me into—Mr. Beaudette, in your testimony, you state that with approximately 30,000 pending individual HOME projects at any time, it would require an additional appropriation of funds to reach the level of increased numbers of HUD staff to literally allow monitoring of day-to-day progress.

Is there a way to—as Mr. Donohue said about—we really have to have the grantees and the sub-grantees—to have that monitored—but is there a way to have that go down so that it is not just HUD having to really monitor all of that?

Mr. BEAUDETTE. I believe—

Chairwoman BIGGERT. Or do we really need more money to be able to make sure that there isn't fraud?

Mr. BEAUDETTE. I think we would probably need more funding. Given State and local governments nowadays, I am not sure if they would be ready to jump on the bandwagon to enhance their monitoring.

We could certainly do it, too. It would require additional funding.

Chairwoman BIGGERT. And that would be nice, but obviously we can't spend money that we don't have right now. So we really have to find other ways to do that.

Mr. Handelman, would you have any—I think we all recognize that this is just a huge project. But it is a very important project. And so we want to make it—if we can help to make it work—better.

Mr. HANDELMAN. And I agree improving the effectiveness of the program is very important. What I would observe is that cost-effectiveness needs to be part of the calculation. It does not benefit us all collectively to spend $10 to save $1.

So as we look at ways to improve internal controls and monitoring even at the sub-grantee level, which I think, potentially, is useful, I would hope that we do it in a cost-effective way to maximize how much of program funding goes to creating affordable housing rather than enforcement.

As Mr. Donohue observed a few moments ago, you would build the cost of enforcement into the grant, which necessarily means it is taking away from funds that would go to create housing.

Chairwoman BIGGERT. Okay.

And then, Mr. McCarty, in your testimony it appears that there is about 20 percent of your audits were conducted due to recommendations from HUD. Would that be a way—why doesn't HUD recommend more audits? And would that be necessary?

Mr. MCCARTY. I think, since they are the ones working the programs and have firsthand knowledge of how they should be working if they are effective enough, we would encourage them to forward more to us that we could look at with our audit staff around the country.

Chairwoman BIGGERT. And so that would be one way to try and alleviate the fraud?

Mr. MCCARTY. Yes, ma'am.

Chairwoman BIGGERT. Okay.

I think I have finished my questioning. And I want to thank all of the witnesses for your testimony. I think it has been very enlightening. Thank you all.

Mr. CAPUANO. Madam Chairwoman?

Chairwoman BIGGERT. Yes.

Mr. CAPUANO. I don't want to interrupt you. Are you finished? Madam Chairwoman, thank you.

Madam Chairwoman, we have been here for about 3 hours now, and we have had four professional gentlemen who I think have some great and wonderful ideas and I am looking forward to getting on how to actually accomplish what we say we want to accomplish.

But we also spent an hour-and-a-half on a dog-and-pony sideshow that in my opinion, wasted the time of Congress, wasted taxpayers' money, and gave us no light into the issues. These gentlemen have given us some light and hopefully will give us more.

We had, even in the hearings, we had questions asked of these people that they couldn't possibly answer. How much fraud is in HUD? If they answered the question, the next question would have been and should be, well, if you know there is 10 percent, 5 percent, 14 percent, 100 percent fraud, why didn't you stop it? It is because they don't know how much because if they knew it, they would have stopped it.

And we ask these kinds of questions even if that question is to the wrong people on this panel. The reason I just wanted to have a closing statement was simply because everybody here wants to minimize and eliminate as much fraud as possible. No one likes that. I actually would argue that those of us who actually like the HOME Program have the most to gain by limiting fraud the most. I want as much money put into these programs as possible.

Yet, what do we get? Pictures of pretty homes put up on the screen that no one knows where they are, they weren't asked these questions beforehand. You want to chase a particular issue of fraud, any Member here who has information of fraud should let these gentlemen know so they can do their job, chase them down, put more people in jail, not a problem.

What I am simply asking is that if we really are serious about shutting down or limiting fraud, then we should act in a serious manner, talking to professionals, getting their ideas and implementing them to the best of our ability, and if they cost money, we have to have the discussion about, is it worth the money? Can we afford it? Where do we get it?

Good points, good issues, but for me, I am hoping that the next time we do this, we do it in a more serious manner and leave the dog- and-pony show to some other committees. We haven't done that here up until now, and I regret that we went through this. Not the second panel; the second panel was useful. The first panel was a dog-and-pony show that shed no light, and I am looking forward to receiving some thoughtful information from these gentlemen so that maybe we can implement some serious improvements to the HUD program.

Thank you, Madam Chairwoman; and thank you for your indulgence.

Chairwoman BIGGERT. Thank you. Let me just say that I think that we want to ensure that we can help to move forward and not have the waste, fraud, and abuse that is there and to help HUD. I think that we should use any type of measure to get to the loopholes that we have here. And I think we are all very serious about this, and I think that it was a serious first panel to try and find out from people who have been involved in that.

And so with that, I would disagree with you. But I think that this has been a good hearing, and I thank the witnesses. They are very professional, and I think that this has been a very professional hearing.

The Chair notes that some Members may have additional questions for the panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for Members to submit written questions to these witnesses and to place their response in the record.

With that, this hearing is adjourned.

[Whereupon, at 5:42 p.m., the hearing was adjourned.]

A P P E N D I X

November 2, 2011

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410

Written Testimony of James M. Beaudette
Deputy Director, Departmental Enforcement Center, Office of General Counsel
U.S. Department of Housing and Urban Development (HUD)

Hearing before the Subcommittee on Oversight and Investigations and the Subcommittee on Insurance, Housing and Community Opportunity of the House Financial Services Committee

on

"Fraud in the HUD HOME Program"

November 2, 2011

Chairmen Neugebauer and Biggert, Ranking Members Capuano and Gutierrez, and Members of the Subcommittees, thank you for inviting me to testify today about the efforts by the Department of Housing and Urban Development to prevent and combat fraud committed against government programs, including the HOME program.

I am the Deputy Director of HUD's Departmental Enforcement Center or DEC in the Office of General Counsel at HUD. In that capacity, I manage the day-to-day operations of the DEC. Among other activities, this includes the suspension and debarment of individuals who violate HUD regulations and commit fraud, the imposition of civil money penalties for various violations of HUD regulations, responding to Office of Inspector General (OIG) audits that have recommended HUD imposition of administrative sanctions against individuals and corporations, and helping ensure that HUD's Recovery Act funding has been effectively utilized. I am the agency's Deputy Debarring Official and a member of the Association of Certified Fraud Examiners, and I participate in the National Mortgage Fraud Working Group, the National Procurement Fraud Working Group, and the Federal Interagency Suspension and Debarment Committee.

My entire career has been devoted to law enforcement and related anti-fraud efforts. Before coming to the DEC in 2008, I worked for nine years in HUD's Office of Inspector General.

My responsibilities there have included serving as a senior special agent on OIG's Los Angeles Housing Fraud Initiative, working as the case agent with the FBI on one of the largest white-collar cases in the Los Angeles area, supervising the largest OIG investigative region in the country, and helping manage all the activities of the Office of Investigations. My work at OIG involved virtually all HUD programs, including HOME.

Before coming to OIG at HUD, I worked for nine years on anti-fraud enforcement at the Department of Interior's Bureau of Land Management. Before that, I worked for seven years for the U.S. Border Patrol, where I began as a Border Patrol Agent in Yuma Arizona, eventually being assigned as a Field Operations Supervisor in El Paso, Texas.

Throughout the course of my career at HUD, I am aware of no fraud by any HUD or other federal official in connection with the HOME program. As I understand it, the focus of today's hearing is on fraud by private individuals or state or local officials in which funds provided under the HOME program were involved.

The vast majority of people involved with HOME and other federal programs with which I am familiar, as well as people who work with private entities that deal with large sums of money, are honest and trustworthy. Unfortunately, dishonest and greedy people do exist. We strongly condemn fraudulent activity relating to HUD programs, and we place a high priority on preventing, uncovering and sanctioning such activity. However, while we have in place systems aimed at curbing fraudulent acts and appropriately punishing perpetrators (and as described below we continue to seek to strengthen these systems), fraud relating to funds provided under HOME and other programs, -- just as in private institutions like banks and loan companies -- has occurred from time to time and it is unfortunately likely that people will try to commit fraud using HOME and other federal funds. This is true for non-block grant and block grant programs. It is of course our goal to prevent any fraud in HOME and other HUD programs.

Overall, in my experience at HUD, there has been relatively little fraud by private individuals or, even more rarely, by state or local officials with respect to HOME funds.

With respect to the HOME program in particular, I would agree with then-Assistant Inspector General Jim Heist's testimony to the full Committee in June that there is a "very good" relationship between OIG and HOME, that the administration of the program is "probably better than most," that HUD has been "very responsive in the last couple of years" to OIG suggestions about HOME, and that HOME has agreed with OIG audits "95% of the time." Transcript of June 3 hearing at 16, 19, 28, 38.

A key component to combating and preventing fraud is aggressive enforcement. That is a current focus at HUD, where Secretary Donovan and other officials have made clear that there is zero tolerance for fraud. Indeed, Mr. Heist noted in his written testimony that several of the 48 fraud investigations opened by OIG over the last 3 years related to HOME were specifically referred to it by HUD officials. Just last week, for example, the DEC suspended a housing rehabilitation contractor who was recently indicted for fraudulently obtaining HOME funds from the City of Lewiston, Maine in 2005-08.

Debarment is a particularly powerful civil enforcement tool because it permanently bars an individual from ever participating in any federal grant or contract. A recent GAO report indicated that the agencies with the highest numbers of suspensions and debarments are those that have a dedicated suspension and debarment staff, detailed policies and procedures, and practices that encourage an active referral process. That is just what we have at HUD, thanks to our senior leadership, the DEC, OIG, OGC's Office of Program Enforcement, and program staff concerned with preventing and combating fraud and other misconduct, including HOME program staff. The working relationship between the Office of Inspector General and HUD ensures that we are able to initiate debarment and other actions against a violator at the earliest point in time.

Another important approach to help prevent and detect fraud is improved monitoring and oversight. When Congress sets up a block grant program like HOME, by definition, Congress has designed it for flexible local control and implementation. As Mr. Heist testified with respect to HOME, the structure of the program as enacted by Congress has "devolved much of the decision making to the local level." Transcript of June 3 hearing at 28. With approximately 30,000 pending individual HOME projects at any time, it would require a significant additional appropriation of funds to reach the level of increased numbers of HUD staff to literally allow the monitoring of day-to-day progress of each of these projects.

Nevertheless, HUD has a fiduciary responsibility as a steward of federal taxpayer funds and has ultimate oversight responsibility with respect to HUD programs. From my experience, particularly with respect to block grant programs, a critical part of that is monitoring performance by grantees – the state and local governments that receive the funds from HUD – and providing those grantees with appropriate guidance and technical assistance. Therefore, subject to overall financial resource constraints, HUD itself should engage in that process as actively as possible, through monitoring of participating jurisdictions by HUD field offices and referral of suspected problems to OIG for more detailed investigation and audit. In my experience at HUD, this is exactly the approach taken by the Office of Community Planning and Development with respect to HOME.

Within the last few years in particular, HUD has undertaken efforts to improve monitoring and oversight with respect to HOME, as Assistant Secretary Marquez testified in June before the full Committee. These steps include, for example:

- The "Participating Jurisdiction analysis" report, first posted in 2009, that is updated quarterly and provides HUD field offices with a quick overview of each jurisdiction's HOME performance and compliance, highlighting areas of particular concern for each jurisdiction. This includes the number of open HOME projects and projects in "final draw" status for more than 120 days; completion rates for rental projects and for projects undertaken by Community Housing Development Organizations (known as CHDOs); and lease-up rates for rental units.

- The "final draw" report, begun in January, 2011, which provides field offices with a monthly list of projects in final draw, where all HOME funds have been expended but the project has not been completed for more than 120 days, to be used for follow-up with local jurisdictions.

In addition, I understand that HUD has been working since 2009 on revisions to the HOME regulations that are designed in part to improve accountability and performance. The proposal is still under review by OMB, which limits what can publicly be said about it. As Acting Inspector General Michael Stephens concluded in a letter to Senators Murray and Collins after OIG review of the proposed rule changes in August, the proposed revisions "should help ensure the timely completion of future Program activities" and "strengthen HUD's future enforcement authority."

The Department is also making key enhancements to the Integrated Disbursement and Information System (IDIS) to ensure better reporting and tracking of grantee projects. These improvements include additional financial and project risk mitigation controls.

In conclusion, it is unfortunately likely that there will continue to be instances of attempted fraud by private developers and others with respect to HOME funds, as will tend to be the case with virtually any government program or private activity involving substantial sums of money. In my opinion based on a career in anti-fraud efforts, however, it is incorrect to single out the HOME program as being particularly susceptible to fraud. To the contrary, based on my experience at HUD and OIG, HUD continues to take important, positive efforts to improve monitoring, oversight, and related efforts that can prevent and combat fraud with respect to HOME, as well as other programs. HUD takes very seriously its role as a steward of taxpayer dollars, and the agency places a very high priority on ensuring that we provide funding and services to responsible participants. In concert with the Office of Inspector General, HUD will continue to vigorously pursue debarment and other remedies against violators.

Thank you again for the opportunity to testify. I would be pleased to answer any questions from members of the panel.

WRITTEN STATEMENT OF
KENNETH M. DONOHUE
FORMER INSPECTOR GENERAL
DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT

BEFORE THE
SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS
AND THE
SUBCOMMITTEE ON
INSURANCE, HOUSING AND
COMMUNITY OPPORTUNITY
U.S. HOUSE OF REPRESENTATIVES
November 2, 2011

Good afternoon Chairman Neugebauer, Chairwoman Biggert, Ranking Member Capuano and Ranking Member Guttierez and distinguished members of these subcommittees. I am Kenneth M. Donohue, former Inspector General at the Department of Housing and Urban Development Office of the Inspector General and currently a Principal and Senior Advisor with Reznick Government. I thank you for the opportunity to discuss oversight of HUD's HOME program. Today I will speak on this issue based on my more than 35 years of federal law enforcement experience, including nine years as HUD Inspector General.

Background

It is rare for a former Inspector General to testify and I welcome the opportunity. I would, however, be remiss if I did not recognize the work of my many former colleagues that served honorably throughout my nine-year term. My mission as Inspector General was to independently and objectively report to the Secretary and Congress for the purpose of supporting a positive change in the integrity, efficiency and effectiveness of HUD programs. As you know, as one of the largest federal block grant programs, HOME disperses funds to local and state governments to create affordable housing options for low-income households.

Based on specific formulas, this program annually allocates approximately $2 billion to hundreds of localities nationwide. Often these funds are used in partnership with local nonprofits to build, buy and rehabilitate affordable housing for rent or homeownership. HOME provides direct renter assistance to low-income persons. Of the annual appropriations, 60 percent goes to local governments and 40 percent supports state programs. This formula is based, in part, on factors including age of units, substandard occupied units, number of families below the poverty rate and population in accordance with the most recent census debts.

During my term as Inspector General, my office conducted approximately 60 audits relating to the HOME program. In addition, we addressed mandated congressional oversight and reporting of the redevelopment of Lower Manhattan following the 9/11 disaster and while performing oversight of FHA and Ginnie Mae relating to the mortgage fraud crisis that witnessed the largest growth of mortgage applications and securitization in history. We were also actively involved with the oversight and redevelopment of the affected Gulf States region following the hurricane Katrina, Rita and Wilma disaster, which was described as the largest natural disaster of its kind. I approached these programs with a proactive sense of urgency and a position of zero tolerance for those wrongdoers that might attempt to commit fraud or abuse their authority.

Oversight Concerns

As Inspector General, I expressed my concerns and disagreement with HUD regarding its accumulative approach for measuring the department's compliance as well as the process for recapturing current and future funds due to noncompliance.

I further expressed my concerns about compliance, controls and information systems related to the HOME program. At times, HUD agreed with my concerns, and on 12 separate occasions the department expressed concerns which resulted my ordering audits to be completed. Both the current and previous administrations privately expressed to me their concerns over fund recipients' compliance. The Secretary often expressed the importance of the HOME program, based on his positive experience while serving as Commissioner for the New York Community Preservation Corporation.

In my judgment, there is a need in many of the HUD programs, including HOME, for HUD and the grantee recipients to aggressively monitor the subgrantees.

HOME funds are distributed to thousands of grantees and subgrantees. HUD generally focuses its compliance at the grantee level through its 42 local field offices, which is an enormous undertaking. Grantees, in turn, are responsible for ensuring compliance of their subgrantees. Unfortunately, HUD-OIG audits and investigations have uncovered frequent instances of noncompliance and criminal fraud, particularly at the subgrantee level. While it is true that HUD uses the Integrated Disbursement and Information System (IDIS), which includes more than 15,000 individual grantee users and is reviewed by HUD headquarters and field officers, in my estimation the system does not provide the needed data or oversight to monitor compliance with HOME program requirements for committing and expending funds. Under IDIS, grantees and subgrantees are allowed to subreport their projects without a comprehensive review by HUD. I believe HUD's information system used to administer the HOME program was incapable of producing complete audit trails for the entire grant life cycle and was unable to produce reports that would facilitate timely identification of fraud in the program.

Yes, it is true that as Inspector General there is never enough compliance and oversight to satisfy any such programs that distributes precious taxpayer dollars. I do, however, believe there is a needed balance between program efficiency and oversight to be applied collectively between the programs and the oversight

agencies. Never in our nation's history have we seen the need for such oversight and transparency as in the current state of our economy. In my opinion, you cannot have effective oversight without transparency.

As I stated earlier, having spent 35 years in federal law enforcement, without an effective compliance and monitoring practice we unfortunately encourage those wrongdoers who would seize upon the system to use federal funds for unintended purposes and for their own self gain, as stated in several examples throughout this hearing.

Such criminal cases could be described as anomalies or a pattern of behavior, but I think we have an obligation to ensure through monitoring that grantees and subgrantees understand clearly that HUD will aggressively address these matters and hold accountable those responsible.

Monitoring Program

There were countless examples of audits and investigations that support my concerns of lack of aggressive oversight with such examples as the Mobile, Alabama Housing Board; the Puerto Rico Department of Housing, HOME Investment Partnerships Program; and the District of Columbia HOME Funds Program, to name a few, that clearly demonstrated the need for such oversight.

I was pleased by comments the Assistant Secretary made during her June testimony before this Committee that she agrees that HUD has some fiduciary responsibilities for oversight within the HOME programs and her reference to the Department's Enforcement Center and the important services they provide. I recognize the legislation that created the HOME program and that it was designed primarily to place compliance responsibility on the local grantees. HUD and Congress might consider reforming the legislation to expand the role and responsibility of HUD to ensure a more active compliance program.

During my term, I enjoyed a very positive relationship with the Department's Enforcement Center and referred many proposed actions to the Enforcement Center for resolution. I have had several conversations with past HUD Secretaries and other officials regarding the role and placement of the Enforcement Center in the HUD structure. I believe that though the Enforcement Center was entrusted with significant responsibility, it was not provided the resources or independent authority to act on such important issues relating to sanctions, debarments and civil recoveries. Their enforcement efforts often ended at the grant level and, therefore,

did not satisfy my concerns of active hands-on monitoring and compliance of the subgrantees.

As stated earlier, an effective Inspector General must be diligent in encouraging, and at times insisting, on strong oversight and transparency within any government programs. The practice of monitoring state and local government entities is paramount, and such effective programs do exist today and are available.

Following the 9/11 disaster in New York, the state of New York and city of New York recognized the importance of real-time monitoring of the redevelopment of Lower Manhattan. They created a practice in coordination with the New York Department of Investigations and the New York/New Jersey Port Authority Office of the Inspector General that is actively applied today. It provides for a qualified monitoring firm to be 'the eyes and ears' of grant recipients on a real-time basis. Such firms are hired in coordination of the grant recipient and the Inspector General of jurisdiction to report on the compliance of such funds and such issues as waste, fraud and abuse. The reimbursement for such services is included in the administrative costs of the grant.

In my judgment such a program needs to be considered as an alternative or addition to the oversight of the HOME program and other programs within HUD.

I agree with the three-step program that the Chairwoman of this Committee proposed during the June hearing- first, that the contracts require repayment for failed projects or misspent funds; second, that those who defraud the government are pursued vigorously; and third, that eligibility requirements for developers are substantially tightened. By adopting a monitoring system like the one I've just described, HUD can meet these three objectives while ensuring future compliance from grantees and subgrantees.

Conclusion

I am at a disadvantage in not knowing the constructive changes reported by the HUD Assistance Secretary being made within the HOME program. to ensure a more robust compliance effort, but I look forward to its continuation. I do believe that programs like HOME provide needed support to low-income recipients and those that are most in need during this difficult time. I am, however, always concerned about funds derived from taxpayer money being misused or additional fraudulent activity that would take away or deplete these resources from those in need.

Testimony of

Ethan Handelman
Vice President for Policy and Advocacy
National Housing Conference

Before the
U.S. House of Representatives
Insurance, Housing and Community Opportunity Subcommittee
and the
Oversight and Investigations Subcommittee
of the Financial Services Committee

Hearing on
"Fraud in the HUD HOME Program"
November 2, 2011
Washington, DC

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My name is Ethan Handelman, and I am the Vice President for Policy and Advocacy at the National Housing Conference. I am grateful to the Committee for inviting me to testify. I hope that as part of the discussion of the need for strong regulatory and financial controls, we can remember the essential work of the HOME program in creating affordable housing.

Since 1931, the National Housing Conference (NHC) has been dedicated to ensuring safe, decent and affordable housing for all in America. NHC has earned its strong reputation as the *United Voice for Housing* by actively engaging and convening its membership in nonpartisan advocacy for effective housing policy solutions at the local, state, and national levels. NHC brings together a diverse membership of housing stakeholders including tenant advocates, mortgage bankers, non-profit and for-profit home builders, property managers, policy practitioners, realtors, equity investors, and more, all of whom share a commitment to balanced housing policy. Some of our members administer HOME funds or work on projects with HOME funds, but most do not. We all, however, support the important work HOME does as part of our national commitment to safe, decent, and affordable housing for all in America.

HOME creates affordable housing. For 20 years, this federal block grant program has provided critical funding to state and local governments exclusively to provide affordable housing for low-income families. According to the U.S. Department of Housing and Urban Development (HUD), since 1992 the HOME program has funded over one million affordable housing units. Of these million units, over 400,000 were for new homebuyers, nearly 200,000 were for owner-occupied rehabilitations and almost 400,000 were rental housing units. Above and beyond the units created, an additional 240,000 tenants received direct rental assistance to make private market apartments more affordable.

HOME leverages other resources. For every HOME dollar expended, $3.94 in other public and private investment has been leveraged, resulting in more than $80 billion in other funding for affordable housing since the program began. As one example, the County of Orange, New York, since 1992 has leveraged over $350 million in other funds using less than $16 million in HOME funds to construct and preserve affordable housing, many in properties with just a few apartments, some in larger developments. In particular, HOME is often the early money necessary to get projects off the ground while private lenders, equity investors, Low Income Housing Tax Credit allocations, and other resources come together.

HOME creates jobs. HOME funds frequently provide essential gap financing for Low Income Housing Tax Credit properties. That development creates jobs. In the first year, construction of a typical 100-unit property results in 116 jobs, about half of which are in the construction sector. Other HOME program activities, such as the development and renovation of owner-occupied homes, also produce employment. Now more than ever, such jobs are essential.

HOME sustained projects during the downturn. The recession and financial crisis disrupted real estate development across the country. In a survey of home builders from the beginning of this year, 45% reported placing multifamily projects on hold and 60% reported placing single-family projects on hold until the financing climate gets better. Housing starts and completions slowed

dramatically as a result of the crisis, by as much as 75% nationally from the height in 2005 to bottom in 2010. HOME-funded projects, however, outperformed the broader real estate market. In June, HUD reported that only 2.5% of 28,000 active projects were delayed. Against the backdrop of disrupted real estate markets, HOME projects stand out for completion.

HOME reaches many communities. The flexibility of the HOME program provides **urban, rural and suburban** communities across the country with the ability to both produce and rehabilitate single-family homes, many for new homeowners, while also providing and rehabilitating rental housing for low to extremely low-income families. In addition, the HOME program provides critical resources for **housing for persons with special needs** including the homeless, disabled veterans, and persons with HIV-AIDS. The state of Michigan, for instance, makes effective use of its HOME allocation to fund permanent supportive housing for at-risk individuals who would be homeless but for the services and housing provided.

HOME empowers state and local government. Local communities can target flexible HOME funds to the particular needs of their communities and housing market. HUD provides the essential oversight function, making sure that communities follow program requirements, verifying project completion, and, when necessary, bringing enforcement action to recapture funds. HUD's enforcement is strong and must continue to ensure the continued success of HOME. The HOME program is a proven solution that is part of our national commitment to creating housing opportunities for all Americans.

Thank you again for the opportunity to be here. I am glad to answer questions from the Committee.

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Testimony before the U.S. House of Representatives
Committee on Financial Services
Subcommittees on Insurance, Housing and Community Opportunity
and Oversight and Investigations

"Fraud in the HUD HOME Program"

Testimony of
John P. McCarty
Acting Deputy Inspector General
Office of Inspector General
U.S. Department of Housing and Urban Development

November 2, 2011
2:00PM
Room 2128 Rayburn House Office Building

Chairman Neugebauer and Chairwoman Biggert, Ranking Members Capuano and Guttierez, and Members of the Subcommittees, I am John McCarty, Acting Deputy Inspector General at the U.S. Department of Housing and Urban Development's (HUD) Office of Inspector General (OIG). I thank you for the opportunity to discuss oversight of HUD's HOME program. Today, I will discuss this issue from the perspective of an investigations manager with 37 years of law enforcement experience, including over ten years with HUD OIG. My testimony on our investigative work builds upon prior OIG testimony in June of this year which related to audit findings, internal controls and administration of the HOME program.

Background

OIG's mission is to provide independent and objective reports to the Secretary and the Congress for the purpose of bringing about positive change in the integrity, efficiency, and effectiveness of HUD programs.

In order to put the program in perspective, I will briefly go over some of the general facts which were outlined in the earlier testimony. HOME is the largest federal block grant dispersed to state and local governments designed to create affordable housing for low-income households. During fiscal year 2011, HUD dispersed approximately $1.8 billion HOME funds to the states and hundreds of localities nationwide based on formula grants. The program was designed to reinforce several important held values and principles of community development:

- HOME's flexibility enables people and communities to design and implement strategies tailored to their own needs and priorities.
- HOME's emphasis on consolidated planning expands and strengthens partnerships among all levels of government and the private sector in the development of affordable housing.
- HOME's technical assistance activities and set-aside for qualified community-based nonprofit housing groups builds the capacity of these partners.

The HOME program is authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended. Program regulations are found at 24 CFR Part 92. HOME provides formula grants to states and localities that communities often use, in partnership with local nonprofit groups, to fund a wide range of projects that build, buy, and rehabilitate affordable housing for rent or homeownership, or to provide direct rental assistance to low-income people. HOME funds are allocated by formula to Participating Jurisdictions. Participating Jurisdictions are state and local governments (including consortia) that receive funds to operate the program. The formula is based, in part, on factors including age of units, substandard occupied units, number of families below the poverty rate, and population in accordance with the most recent Census data.

HOME addresses a need for affordable housing in our country; a need that is increasing in the wake of the housing and economic downturn and rise in unemployment. However, OIG's Office of Audit has expressed for many years concerns about the controls, monitoring and information systems related to the HOME program.

While my experience is in the investigative and management aspects of OIG operations, I mention our audit work because it provides background on OIG's long standing concerns about some aspects of the HOME program. As my colleague, James Heist, testified this past June in his capacity as Assistant Inspector General for Audit, over the past five years, the OIG has conducted more than 60 audits of HUD's HOME program. At least twelve of these audits were conducted by the OIG at the request of the Department to address concerns that they had and wanted us to review

Our audits primarily focused on high risk or egregious actions within the HOME program. Some of the most common findings of these OIG audits involve concerns about lack of adequate controls, subrecipient activities, recapture provisions, over-reporting of program accomplishments, accounting issues and ineligible activities. There are many HOME programs that operate efficiently. In these audits, however, there is a pattern of non-achievement of some of the HOME objectives to provide affordable housing or to meet local building code requirements for actual housing rehabilitation work. As it pertains to our Office of Audit's accounting concerns previously cited in earlier testimony, that matter remains open and the OIG has asked the General Accountability Office (GAO) to opine. The OIG Office of Audit continues to work with the GAO on the resolution of this important issue.

The HOME program appropriation has been funded at almost $2 billion annually over the last several years. Since October of 2008, we have opened 51 investigations of allegations of HOME fraud and convicted 21 individuals of fraudulent activity. Thirty-four of these investigations remain open. Over the last several years, our Office of Investigation has focused on a number of HUD grant programs resulting in criminal investigations. We have investigated and prosecuted criminal activity in HUD Community Program Development grants. We are diligently watching the delivery of those funds through the grantee process. Due to the pernicious effect and impact of HOME fraud in local communities, we expend time and resources to make sure that those instances of criminal behavior are aggressively pursued.

Monitoring

OIG has also expressed a long standing concern about monitoring in the HOME program. For the past three years, there were approximately 650 Participating Jurisdictions receiving HOME funds. Those Participating Jurisdictions distributed the HOME funds to many thousands of sub-grantees. HUD focuses its monitoring at the grantee level through its 42 local field offices which is a large responsibility. Grantees in turn are responsible for monitoring their sub-grantees. Our

Office of Audit has found that, in some instances, no monitoring is occurring, particularly at the subrecipient level.

On the investigative side, some of those who have been caught perpetrating HOME fraud have confessed that they were well aware of the at times minimal monitoring and oversight and have indicated that due to this, they were able to take advantage of the program for personal enrichment. Indeed, some defendants have stated that when monitoring was conducted, the defendants were able to hand pick which projects would be inspected. This allowed the defendants to steer oversight entities toward projects which were completed in accordance with policies rather than have an opportunity to expose wrongdoing in certain other HOME projects. In other cases, defendants have stated that they were able to use the Integrated Disbursement and Information System (IDIS) to indicate that projects were completed in order to take the final draw down funds for projects which were not in fact completed. Defendants indicated that they were able to easily do this because monitoring of transaction was limited.

One aspect of monitoring which HUD may want to consider is the use of independent third party monitors in the HOME program. HUD has used this concept in monitoring reconstruction grants (also Community Program Development grants) in New York after the destruction of September 11, 2001. Additionally, this concept was used in the Gulf States with five housing authorities for monitoring disaster recovery grants in the aftermath of Hurricane Katrina. The use of the third party monitors could be incorporated into the administrative fees to manage the HOME program, or as part of the underwriting process for project implementation.

As an OIG investigator, assessing some of the ways that HOME participants structure their operations, I believe that having the same individual design, implement, manage or draw down funds may not be a sound risk or fraud prevention strategy.

Information System Issues

IDIS is used by more than 1,200 HUD grantees, including urban counties and states, to report projects and activities, draw down program funds, and report on accomplishments. IDIS has more than 15,000 individual grantee users, as well as several hundred HUD headquarters and field office users. HUD also uses the information system to generate reports used within and outside HUD, including the by public, participating jurisdictions, and the Congress.

Our Office of Audit has found that grantees and sub-grantees are able to update, change, cancel, re-open and increase or decrease project funding without review by the Department. Grantees and sub-grantees also self-report the number of families housed by their projects without verification by HUD. Grantees can also move HOME funds around from project to project and year to year. This level of control over the IDIS system can enable those intent on defrauding to hide their fraudulent activities.

We believe that HUD's information systems used to administer the HOME program are incapable of producing complete and reconcilable audit trails throughout the entire grant life cycle and are unable to produce reports which would facilitate timely identification of fraud, waste and abuse in the programs. As stated in previous testimony, the OIG has concerns about the data integrity in the IDIS system and the impact that it has on HUD's overall financial statements. We believe with a more robust, up to date information system, the Department would be able to better monitor the HOME program. Further, the fact that grantees can draw down funds from the system without HUD approval can easily facilitate fraudulent transactions, as there is no check and balance provision.

Highlights from HOME Investigations

Our investigative work reflects that fraud perpetrated on the HOME program, similar to other grant fraud, is sometimes facilitated through opportunity, desperation, and greed. Defendants may be motivated by ease of access to the funds and by their ability to deceive program oversight by manipulating the grant procedures. Subjects of our investigations have included Executive Directors of Community Development Departments and non-profit entities, elected officials, construction company employees, contractors, developers, and investment companies.

Our HOME program cases generally involve fraud schemes associated with embezzlement of funds, bribery, theft, false billing and kickbacks. Often, our cases are referred to us from confidential informants, who are involved with the grant and contract processes and, on occasion, by the Department, our Office of Audit, the press and the grantees themselves.

The impact on local jurisdictions, who are victims of HOME fraud, can be significant in terms of the political scandal it sometimes generates and the loss of limited rehabilitation funds to the local community. It is clear that the penalties received by these wrongdoers represent the seriousness with which these cases are prosecuted.

Law Enforcement Partnerships

The Office of Investigations works closely with our many law enforcement partners in most of our cases, including investigations involving the HOME program. Our relationships with state and local law enforcement entities, the FBI, the IRS and other federal agencies, in many instances, assist in the initiation of these cases, as well as help to leverage tight investigative resources. Many of our HOME cases originate based on information received from confidential informants. Often these are contractors or developers who feel that they should have gotten contracts received by others, or who come forward to reveal bid-rigging or kickbacks schemes. Typical charges in HOME cases involve conspiracy, bribery, tax violation, wire and mail fraud, embezzlement, money laundering, false statements, program fraud and theft of government funds.

Same Players

Because of the emphasis on local control of HOME funds, we find that some of the same entities are annual recipients of HOME funds and can be for many years. Having the same players receive HOME funds from year to year is a double-edged sword. On the one hand, the recipients can be knowledgeable about how the program works. On the other, they can also exploit and manipulate the program since they may be aware of the weaknesses in the controls and potential limited oversight, as some HOME defendants have pointed out. Additionally, because the program is formula-based, recipients know that they will receive funding year after year and may face limited monitoring. We are aware that the Department is promulgating regulations to address some of the deficiencies in the HOME program and we understand that monitoring is one of the issues contained in the proposed regulations. In other cases, developers or non-profits lack the experience and capacity to handle HOME project development. This has caused, in some instances, floundering and failing projects, and can also make the program vulnerable for fraudulent activities.

Enforcement Actions Available to HUD

In addition to the legal authority to recapture misspent HOME funds, HUD also has the ability to refer program violators to its Departmental Enforcement Center, the (DEC), as well as to the OIG, for possible civil, criminal or administrative sanctions. Some of the potential penalties for misusing HOME funds include sanctions provided in the False Claims Act and the Program Fraud Civil Remedies Act, suspensions, debarments, and criminal penalties. Our investigative and audit work has shown that we use all of these statutes to address violators.

We maintain a well-established rapport with the Departmental Enforcement Center, and work closely with it to facilitate timely and thorough referrals for administrative action to mitigate further wrongful use of program dollars.

We feel that removing bad actors from participating in the HOME and other government programs is imperative to protecting important tax payer dollars. It also sends a strong message to others in the industry that this type of fraudulent activity will not be tolerated and that the OIG and the Department will take advantage of all possible remedies.

Conclusion

OIG believes that the HOME program is important program in providing affordable housing to low income Americans. Given the current economic and housing crisis in our county, the need for affordable housing may never have been greater than in these tumultuous times. With this crisis unfortunately comes opportunity for fraud to compete against successful examples of

HOME funds used for their intended purpose. Since our investigative work focuses on areas of high risk and egregious actions in the program, our cases highlight areas where improvements need to be made especially in the area of monitoring. OIG believes that increased monitoring would have a deterrent effect on fraud in HUD's HOME program. We look forward to working with the Department and the Congress in addressing ways to improve the effectiveness of this vital program.

My NAME IS I AM CURRENTLY INCARCERATED FOR MAIL FRAUD AND TAX EVASION PRIOR TO MY INCARCERATION I WAS EMPLOYED AS AN EXECUTIVE DIRECTOR OF A NON PROFIT ORGANIZATION KNOWN AS GARY URBAN ENTERPRISE ASSOC. GUEA AS IT WAS KNOWN BY ITS ACRONYM, WAS A QUASI-GOVERNMENT ORGANIZATION. THE ORGANIZATION WAS BIRTHED OUT OF STATE LEGISLATION THAT WAS INACTED IN 1985. THROUGH THIS LEGISLATION URBAN COMMUNITIES WITHIN THE STATE OF INDIANA COULD APPLY FOR WHAT WAS CALLED AN ENTERPRISE ZONE. THESE ENTERPRISE ZONES BY LEGISLATION WERE ABLE TO GIVE STATE TAX ABATEMENT TO BUSINESSES THAT WERE LOCATED WITHIN THE BOUNDARIES OF THE ZONE. IN RETURN FOR THE ABATEMENT THE BUSINESS WOULD GIVE A CONTRIBUTION TO THE ORGANIZATION. GUEA WOULD IN TURN INVEST THE FUNDS INTO THREE CORE AREAS: ECONOMIC, COMMUNITY, AND WORKFORCE DEVELOPMENT.

PRIOR TO MY EMPLOYMENT WITH GUEA I ATTENDED DEVRY UNIVERSITY FOR COMPUTER SCIENCE. LOOKING BACK, ITS CRYSTAL CLEAR TO ME THAT MANY PEOPLE START LIFE NOT REALLY KNOWING WHAT IT IS THAT THEY WANT TO DO FOR A LIVING. I WAS NO DIFFERENT. WHILE ATTENDING DEVRY I QUICKLY LEARNED THAT WHILE I HAD A LOVE FOR COMPUTERS IT WAS NOT MY PASSION. THIS WAS NOT WHAT I WAS MEANT TO DO FOR THE REST OF MY LIFE. AFTER LEAVING SCHOOL I HELD A FEW ODD JOBS UNTIL I ARRIVED AT GUEA. WHEN I STARTED AT GUEA I WAS A TEMPORARY RECEPTIONIST

I was only to work a 30 day assignment. That 30 day assignment actually turned into a ten year career. At this time CUEA was relatively small. We had 5 employees 2 major programs (a catch key program and a summer youth program) and a budget that was less than $200,000 annually. Two and a half years after coming to CUEA I was promoted to Executive Director. In hind sight I must admit that this was the making of a disaster. At this point I had not recieved any real formal training to speak of. I really had no idea what it meant to operate a non profit. I had no idea how to manage an enterprise. Unfortunate for me I was saddled with board of thirteen who was just as clueless as myself. I guess the one bright side at that particular time was the size of the organization.

All of that would change in the fall of 1996. I attended my first community development conference. It was a complete eye opener for me. For the first time I saw the true potential of a non profit and I found my passion. I would attend two round table workshops that set the tone for the work that the organization would do for the next several years.

I RETURNED to the ORGANIZATION FROM that CONFERENCE ENERGIZED AND PREPARED to build. But building REQUIRED FUNDS, SOMETHING WE did NOT HAVE at the time. A Couple of MONTHS LATER C-UEA WAS ABLE to EXPAND its boundaries which gave it the opportunity to RAISE MORE FUNDS. It WAS At this point that C-UEA WENT FROM ANNUAL REVENUE of LESS than $200,000.00 to having About $3,000,000. With FUNDS SECURELY IN PLACE WE started A whole NEW direction.

This direction consisted of developing A comprehensive training program AND Affordable housing. The training program WAS designed for young adults FROM the AGES of 18-30 who were considered At RISK and or UNDERSERVED. The training program had three components basic skills, life skills, AND job skills. The job skills component dealt with construction. From there C-UEA started purchasing property At county tax SALES. During this period C-UEA purchased over 200 properties.

Through its training program C-UEA started rehabing dilapidated houses FROM THERE WE decided to develop NEW Affordable housing. During this period there WAS NO ONE within the organization that understood how to develop Affordable housing. The ORGANIZATION hired the expertise that WAS

NEEDED to complete Applications for HUD HOME funds and the Low Income Housing Tax Credit. Once the projects were started most of the expertise was gone with the exception of those who would file the monthly reports.

During the pre development period of the affordable housing project known as the Emerson Renessance. A construction budget was put in place. From there the project was put out for bid. At this point the "politicks" began. The organization started recieving pressure from the political power brokers to except bids from certain contractors even though they over priced for the project. There were constant threats of shutting down the project. There were even several occurrances of theft of material from the job sight. By all accounts there were several times where the project should have been stopped because of budget constraints. But we continued at the expense of the organization. We used contractors who did not have the capacity to carryout the work, causing the organization to have to pay another contractor to fix and complete the work. They were there because of their political connections.

Looking back I operated from a position of fear. Not fear for my life, but a fear of loss and a fear of failure. The problem with

5

With that thought process was I feared losing something that I wasn't completely equipped to operate. My passion to build and change lives kept me going. But my lack of knowledge and fear of failure caused me to step out of my integrity and mortgage my passion, and future with an animal lender.

One of the really good things about computers is when they are messed up you can reboot them. By rebooting the computer it doesn't necessarily allow you to start over. It allows you to start from where you are. The only thing you need to do is use the right commands. Today I'm humbly rebooting myself. I'm using the right commands to rebuild a sustainable future for myself.

United States House of Representatives
Committee on Financial Services

Subcommittee on Oversight and Investigations
&
Subcommittee on Insurance, Housing and Community Opportunity

STATEMENT
OF
TIMOTHY TRUAX

Rayburn House Office Building
November 02, 2011

Chairwoman Biggert, Chairman Neugebauer, Honorable Members of the Subcommittees, I first want to thank you for the opportunity to come before you today and assist your awareness of the potential for fraud within the HUD Home Program. Let me state from the outset that I know the program has its flaws and can be defrauded, and I possess this knowledge because I sit before you as a man who has fully acknowledged his criminal culpability before the federal Middle District Court and who awaits his sentence in the matter. It is not easy to admit that I have engaged in criminal actions and it is a fact that that I take no particular pride in presenting to you today. And I can say with a certainty that is imputed to a person such as myself who *has* defrauded the home program, that I am willing to bet that there such fraud continues at the hands of others who hold a position as I once held.

In appearing before you today, please know that I neither consider myself as some knight in shining armor, nor do I see myself a crusader for justice. I am a man who engaged in a criminal act, was caught and awaits his payment to society. However, if through my testimony before you today, you find a way to improve the system and close the loopholes that I exploited, the program will be much better, much stronger and more effective in its achievements.

My experience in the construction industry began in 1994 as a heavy equipment operator. Ten years later, I became employed b y Dauphin County in the facility maintenance program where I engaged in all aspects of construction and remodeling. When the position of Home Rehabilitation Specialist opened, I applied for the position and was so employed until my resignation in 2010 due to the present criminal charges.

My duties as the home rehab specialist included soliciting applications from home owners who qualified for government assistance in repairing their residences, soliciting the contractor bids for work to be completed, awarding the contracts and verifying that the work had been completed before the contractor was paid. Essentially, I was the master of my own domain in that I was rarely supervised and inspected by HUD only once every three years.

When HUD determined it wanted to audit the home rehab program, a representative from the Philadelphia office would contact me to request that I select files and homes for inspection when the representative visited. Being the primary person in charge of the entire process, it was my sole decision what homes and related files would be selected. The examiner would review the files and only sometimes complete a home visit to verify that the work was completed as represented in the file. Regardless, since I was the one selecting the files, I had complete control over what the examiner would see.

At first, the ease with which the program could be defrauded did not occur to me; however, as my tenure in my position grew, I eventually realized just how easily the program *could* be used to my personal advantage. This realization was further enhanced by an on-line article I read out of California where a Community Development Block Grant employee created fictitious companies in order to defraud the system. My entry into the process was rather simple, primarily because I was the proverbial wolf safeguarding the hen house.

Whenever an applicant submitted an application for home rehabilitation, I would review it and, as the process <u>should</u> work, the application would be publicized for bids to be

submitted by contractors interested in completing the work. In the early portion of my employment, that *is* how it was done; however, when I began abusing the program, I would forward the home owner's application to certain select contractors and keep them informed of the lowest bids I received at any one point, ultimately providing the chosen contractor with the lowest external bid information so that he could submit an even lower bid and thereby be awarded the work. Many times, because I had no oversight, I would simply provide the selected contractor with the application and take the bid he submitted as being the lowest, ultimately awarding the work to that contractor. Given that the Philadelphia examiner would visit only once in three years and review only the files which I selected for review, the process was virtually foolproof ... or so I thought.

Before I continue, I would like to state in my defense that my original intent through all of my criminal activity was to simply get a few dollars as compensation from the contractors for helping them get work. It was my intent to "manage" the individual file until such time as the contractor would get financially settled and return at a later time to properly complete the work assignment. The payment from the contractor to me would remain mine and the contractor would absorb its payment to me during the later completion of the work. The concept was that by that time, the contractor would have enough other work to be able to afford to absorb its payment to me.

Although at first I felt I wasn't doing anything really wrong because I had convinced myself that the contractors I was assisting were going to eventually complete the work as awarded. Eventually, I realized that the first contractor for whom I developed this fraudulent practice had absolutely no intention of ever properly completing the work, and

when that realization hit me, it was too late for me to turn back. I thought I would be able to pay back every penny which I received as a result of my wrongful actions but soon realized that I could never repay the money I was responsible for taking from the program. Regardless of *when* such realization may have occurred, my actions were wrong from the very beginning and I should have never started the process in the first place. I was wrong

in my thinking and in my actions.

As to how I selected the contractors in my particular activity, I met one of the three individuals with whom I took the money in the course of my work. Because I have not received their permission to present the contractors' individual names, I will refer to them by way of "Contractor #1", "Contractor #2" and "Contractor #3".

Contractor #1 was referred to me by way of a third party as a contractor who might be interested in getting involved with the county program. I contacted him to come to the office and make application to the program, which he did and for which he was approved as a contractor.

Contractor #1 completed roughly four or five jobs and appeared to do more than acceptable work. Throughout the time and because of my on-going contact with him, we developed a friendship.

On one occasion when. Contractor #1 and I were socializing after work hours, he turned the conversation turned to the state of his financial situation and overall business. He openly wondered if there was any easier method to better secure open bids which led me to thinking that perhaps I could help him out on a temporary basis. My entire thought process was that if I were to help him, that ultimately when he stabilized a bit more, he

would rehabilitate a home using funds from his own finances. Remembering the fraud in the California Block Grant program, I realized there was a way we could help each other. After further conversation, I made the decision to engage in the course of actions that eventually brought me here before you today.

It was never my intent to defraud or steal money from anyone, but I got caught up in my own financial problems and discussed receiving some of the money I would pay him through the program. It was wrong and I freely admit what I did was wrong; but, at the

time, with my own personal finances being so messed up, I didn't think of the wrongness of my actions. In my own stupid way, I simply figured the money would somehow be replaced when Contractor #1 renovated a home out his own finances and the money I received would be replaced though his completed work. Unfortunately that didn't happen. Contractor #1 was involved in drugs and alcohol and, although he never intended to live up to his word, he led me to believe that he would do the honorable thing.

At the time all of this was happening with Contractor #1, he had an employee I will refer to as Contractor #2. Apparently, Contractor #2 was aware of Contractor #1's and my arrangement because when I eventually wised up and realized that Contractor #1 wasn't going to live up to his deal with me, I ended the work with him and approached Contractor #2 to take over the jobs. When I did, Contractor #2 brought up the arrangement I had with Contractor #1 and indicated he wanted the same arrangement. Since I had already gotten myself into this mess, I was hoping Contractor #2 would honor the arrangement and complete the jobs that Contractor #1 was supposed to finish. That simply did not happen.

I met Contractor #3 through a mutual friend. When he found out what I did for a living, he expressed an interest in becoming part of it and we met to discuss the process. He completed all of the requirements and worked a couple of jobs which—upon review—sort of bidding, adding in overhead costs, and the such. After losing a few bids, he asked me to help him better learn the process and, since I had already been involved in what I thought was assistance to Contractor #1 and Contractor #2, I figured I may as well try to help him because he seemed like a hard worker who sincerely wanted to do well. And since I was already in trouble because of Contractor #1 and Contractor #2, I was hoping to find a way to make everything right through the work of Contractor #3.

I do want to state that throughout the process of working with Contractor #1 and Contractor #2, I repeatedly told them both that I had realized that what I was doing with them in terms of their bids and payments was wrong. I kept stressing that because I wanted them both to live up to their original words to me that they would each pay out of their own pockets for a home renovation. Regardless, both of them continued to pressure me to make "progress" payments to them.

Progress payments are fees paid at certain points in the work, such as 25 percent completed, 50 percent completed, 90 percent completed, and the final 10 percent would be withheld until the job was reported as completed and a final inspection was made.

This is where I really burned myself because I caved in and took Contractor #1's, Contractor #2's and Contractor #3's word for it that that they completed the required work at the proper interval. I totally bear the fault for not being diligent and checking on them <u>before</u> I paid them. After Contractor #1 didn't live up to what I though was an agreement, I should have ended my involvement and ignored Contractor #2 and—ultimately—

Contractor #3. Unfortunately, I did not. Each time I re-started the process with another contractor, it was my thinking that this time it would be different, this time I would be able to make things right and put an end to the stuff I was doing. Well, it didn't and I got myself in more and more trouble. And, simply put, I let my job down, I let me supervisors down, I let the county down and I dishonored my family name in the process.

Unfortunately, the process was entirely too simple to defraud merely by way of its own set-up. With an examination by the supervising Philadelphia HUD representative taking place only once every three years, and then relying upon me to choose the files for review, I knew my wrongdoings may never get revealed. Obviously, I never considered getting caught and took advantage of the program's total lack of proper oversight.

When an investigator came to ask me questions about the "situation", I realized at that point that my actions had been found out and that I would never get the chance to rectify my wrongs as I had planned. Accordingly, when the investigator came to me with questions, I figured he pretty well knew the whole story.

That being said, I knew what I had done was wrong and I was sincerely sorry for getting involved in the matter. So, from the very first question by the detective, I fully and willingly cooperated and told him everything I knew, everything I did, and everyone who was involved. I never asked for a lawyer through any of that process because I knew what I did was wrong and I wanted to help make it right in any way I possibly could.

The Dauphin County detective asked me to make recorded telephone calls on his behalf so that I could get Contractor #1, Contractor #2 and Contractor #3 to admit their involvement on tape. I did that willingly. I also willingly agreed to wear a wire and arrange a meeting with Chandler Wells; however, Contractor #3 never showed up for whatever reason.

I truly and sincerely regret that I ever got involved in this, and I don't state this because I'm caught and am headed to incarceration. Obviously, no one really wants to go to jail and I have always hoped I would never go there either. But the reality of this is that I am going to jail.

My regret comes from what my actions caused so many people. I harmed the county which employed me, and they didn't deserve that. Because of this process, my marriage disintegrated, with my wife divorcing me and taking my daughter to live with her. I've lost my house because I can't pay for it. I can't get a job because of my actions and the resulting charges. And the worst of it all is how I have hurt my school-aged daughter.

Before I got involved with this matter, I was more than just a dad for her—I was her friend too. She felt comfortable coming to me to discuss some of her personal matters and school work, and I felt that we had a mutual respect for each other. It was the best relationship a father could ever ask for with his 13-year old daughter. Unfortunately, my selfish and wrongful actions severely hurt that relationship.

My daughter has been the brunt of jokes at her school after the matter was publicized in the local newspaper. Since then, she's felt ashamed of her father and I've really hurt my status in her eyes. Facing the impending jail time, she's also going to be losing any real contact with her father. Words simply cannot express how this hurts me and how sorry I am for everything I did.

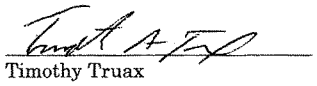
My actions hurt so many people and I truly am sorry for what I did. I cannot apologize enough for my wrongs and hope to one day re-gain the trust and love of my family and friends. I know I'll probably never get another job with responsibility like the one I had

with Dauphin County; however, I am going to work my hardest at proving to society that I can be a productive and helpful member.

Again, I thank you for the opportunity to appear before you today in the hopes of preventing any future theft of vital program money in a like manner. I sincerely and truly apologize to these Subcommittees, the HUD program, Dauphin County, and the people of our community for my actions.

Thank you for allowing me to provide this statement to you.

Respectfully submitted,



Timothy Truax

November 1, 2011

The Honorable Judy Biggert
Subcommittee on Insurance, Housing and
Community Opportunity
2113 Rayburn HOB
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Luis V. Gutierrez
Subcommittee on Insurance, Housing and
Community Opportunity
2266 Rayburn HOB
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Randy Neugebauer
Subcommittee on Oversight and Investigations
1424 Longworth HOB
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Michael E. Capuano
Subcommittee on Oversight and Investigations
1414 Longworth HOB
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairmen and Ranking Members:

We are writing to you to reiterate our support for the HOME Investment Partnerships program and to underscore the record of accomplishments it has achieved. HOME has successfully and cost-effectively produced more than 1 million affordable homes, both ownership and rental, in addition to making homes affordable for tens of thousands of families with rental assistance.

HOME uniquely empowers states and localities to respond to the housing needs they judge most pressing, allowing them to serve the whole spectrum of need, from homeless to ownership to disaster recovery, from urban to rural areas, and all low-income populations, including families with children, the elderly, and persons with special needs.

States and localities leverage HOME by generating almost four dollars of other public and private funding for every HOME dollar. HOME program administrators must comply with federal regulations; meet expenditure deadlines; fulfill reporting requirements; and, in the event of non-compliance, return the funding to HUD.

We find any report of misspent taxpayer dollars disturbing and fully support efforts to ensure all HOME funds are properly used. We ask that the Subcommittees view any instances of misused HOME funds in the context of a program that has, in its 20-year history, successfully produced almost 382,000 rental units, assisted more than 428,000 homebuyers, completed almost 198,000 rehabilitations, and helped over 242,000 tenants.

HOME funding is a vital piece in financing numerous affordable housing developments—many of which would not be able to move forward without HOME assistance. HOME complements and supports many critical federal housing programs, including Section 202 housing for the elderly, Section 811 housing for persons with disabilities, rural housing programs, and the Low Income Housing Tax Credit, making developments financially feasible and achieving deeper income targeting than would otherwise be possible. It also enables for-profit and nonprofit developers to provide affordable housing in their communities.

As we work together to address the growing need for safe, decent, and affordable housing, we ask that you recognize HOME's unique ability to address the varied affordable housing needs in every jurisdiction and that you continue the bipartisan support this program has received throughout its existence.

Sincerely,

Corporation for Supportive Housing
Council for Affordable and Rural Housing
Council of State Community Development Agencies
Enterprise Community Partners
Habitat for Humanity International
Housing Assistance Council
Institute of Real Estate Management
LeadingAge (formerly AAHSA)
Local Initiatives Support Corporation
Mercy Housing
National Affordable Housing Management Association
National Alliance to End Homelessness
National Association for County Community and Economic Development
National Association of Counties
National Association of Home Builders
National Association of Housing and Redevelopment Officials
National Association of Local Housing Finance Agencies
National Association of REALTORS®
National Association of State Mental Health Program Directors
National Community Development Association
National Council of State Housing Agencies
National Housing Conference
National Housing Trust
National Law Center on Homelessness & Poverty
National Leased Housing Association
National Low Income Housing Coalition
National NeighborWorks Association
Preservation of Affordable Housing, Inc.
Rebuilding Together
Stewards of Affordable Housing for the Future
The Community Builders, Inc.
U.S. Conference of Mayors
YWCA USA

Cc: The Honorable Spencer Bachus
The Honorable Barney Frank
Subcommittee on Insurance, Housing and Community Opportunity Members
Subcommittee on Oversight and Investigations Members

November 1, 2011

The Honorable Judy Biggert
Subcommittee on Insurance, Housing and Community Opportunity
U.S. House of Representatives
Washington, DC 20515

The Honorable Randy Neugebauer
Subcommittee on Oversight and Investigations
U.S. House of Representatives
Washington, DC 20515

The Honorable Luis Gutierrez
Subcommittee on Insurance, Housing and Community Opportunity
U.S. House of Representatives
Washington, DC 20515

The Honorable Michael E. Capuano
Subcommittee on Oversight and Investigations
U.S. House of Representatives
Washington, DC 20515
RE: HOME Program Hearing on November 2nd

Dear Chairpersons and Ranking Members,

In advance of Wednesday's Joint Hearing before the Subcommittee on Insurance, Housing, and Community Opportunity, and the Subcommittee on Oversight and Investigations, I am writing to express Enterprise Community Partner's strong support of the HOME Program. I direct the Northern California office for Enterprise, a national affordable housing and community development organization.

The negative press around the HOME Program in a recent Washington Post series of articles overlooks the incredible impact of this program, which has created over one million desperately needed affordable homes nationwide for lower-income Americans. In our state of California alone, HOME provided important funding to support over 140,000 units, and leverage $3.2 billion. Across the country, the program leveraged a total of $80 billion in affordable housing funding. HOME funds are often a crucial early source of funding that must be in place for affordable developments to secure the balance of needed funds, including private investment dollars.

There are numerous affordable housing organizations here in Northern California that have used HOME funds in critical ways to help low income communities.

The HOME Program is crucial to the production and preservation of affordable homes in the United States and, in turn, has a powerful positive impact on the lives of lower-income Americans. I urge you to consider this impact as you listen to the hearing on Wednesday, and respectfully request that you protect the HOME Program as a critical resource for housing investment.

Sincerely,

Rich Gross
Vice President and Market Leader
Enterprise Community Partners, Inc.
100 Bush Street, Suite 600
San Francisco, CA 94104
415.395.9466 | Fax: 415.395.9453
Follow Enterprise: facebook | LinkedIn | twitter | YouTube
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November 1, 2011

The Honorable Judy Biggert
Subcommittee on Insurance, Housing and Community Opportunity
2113 Rayburn HOB
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Luis V. Gutierrez
Subcommittee on Insurance, Housing and Community Opportunity
2266 Rayburn HOB
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Randy Neugebauer
Subcommittee on Oversight and Investigations
1424 Longworth HOB
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Michael E. Capuano
Subcommittee on Oversight and Investigations
1414 Longworth HOB
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairmen and Ranking Members:

Enterprise Community Partners, Inc. (Enterprise) is a strong supporter of the HOME Investment Partnerships program because it provides critical resources to local jurisdictions to address their affordable housing needs. Our founder, Jim Rouse was a lead member of the commission that recommended creating the HOME program and since then, the HOME program has been very effective at providing good, affordable homes for millions of underserved Americans. Indeed, the HOME program has produced more than one million homes in all corners of our nation.

HOME leverages and complements many other government and private resources, including the Housing Credit, Housing Bonds, Federal Housing Administration-insured housing, Supportive Housing for the Elderly (Section 202), Supportive Housing for People with Disabilities (Section 811), and rural housing programs. Often, HOME is the vital "gap funding" that fills the gap between construction costs and available financing, meaning it is the vital last piece that permits affordable housing developments to move forward. Nationwide, the HOME program leverages $3.94 dollars of other public and private investment for every federal dollar of HOME funds.

The need for safe, stable and affordable housing in vibrant communities has never been greater. In the last 15 years, the nation has lost more than 700,000 federally-subsidized rental units, either through demolition or owners' decisions to turn the units into market-rate rentals. Federal affordable housing programs help low- and moderate-income people build a brighter future with good jobs, services, transportation and quality schools.

Enterprise is a leading provider of the development capital and expertise it takes to create decent, affordable homes and rebuild communities. For nearly 30 years, Enterprise has introduced neighborhood solutions through public-private partnerships with financial institutions,

governments, community organizations and others that share our vision. Enterprise has raised and invested more than $11 billion in equity, grants and loans to help build or preserve more than 280,000 affordable rental and for-sale homes to create vital communities.

Thank you for your support of affordable housing and community development. We look forward to continuing our work with you to create opportunities for low- and moderate-income people through fit, affordable housing and diverse, thriving communities.

Sincerely,

Ali Solis
Senior Vice President
Public Policy and Corporate Affairs Senior Executive
Enterprise Community Partners, Inc.

November 1, 2011

Dear Chairpersons and Ranking Members,

In advance of Wednesday's Joint Hearing before the Subcommittee on Insurance, Housing, and Community Opportunity, and the Subcommittee on Oversight and Investigations, I am writing to express **The Housing Trust of Santa Clara County**'s strong support of the HOME Program.

Board of Directors
Hon. Ken Yeager
Chair
Leslee Guardino
Vice-Chair
Linda Mandolini
Vice Chair
Sparky Harlan
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Carl Guardino
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Hon. Margaret Abe-Koga
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Tara Hood
Julie Quinn
Barbara Oertli
Mai Cat
Jeanette Ruiz-Granada
Stephanie Waltz

95 S. Market St.
Suite 610
San Jose, CA 95113
Tel: 408.436.3450
Fax: 408.436.3454
housingtrustscc.org

The Housing Trust of Santa Clara County was founded as a nonprofit community loan fund in 2000 to address the growing affordable housing crisis in Santa Clara County. We are a California nonprofit public benefit corporation. Started through the efforts of local civic and private industry leaders, as well as affordable housing advocates, the Housing Trust has grown into one of the largest and most effective nonprofit housing trusts in the country. Since 2000, we have raised over $40,000,000 in loan capital and operating support, and have created, through our loan and grant programs, over 9000 affordable housing opportunities.

The negative press around the HOME Program in a recent Washington Post series of articles overlooks the incredible impact of this program, which has created over one million desperately needed affordable homes nationwide for lower-income Americans. In our state of California alone, HOME provided important funding to support over 140,000 units, and leverage $3.2 billion. Across the country, the program leveraged a total of $80 billion in affordable housing funding. HOME funds are often a crucial early source of funding that must be in place for affordable developments to secure the balance of needed funds, including private investment dollars.

The Housing Trust lending programs serve to provide capital to underserved communities, both through direct loans to low and moderate income families to purchase their first homes, and through loans to affordable housing developers to create rental housing for very low income seniors, families, and people with special needs. **Developers receiving HOME funds are able to leverage the Housing Trust of Santa Clara County's gap financing to ensure that every HOME dollar is maximized. In so doing, this partnership creates more affordable housing throughout the county, one of the most expensive housing regions in the nation**

The HOME Program is crucial to the production and preservation of affordable homes in the United States and, in turn, has a powerful positive impact on the lives of lower-income Americans. I urge you to consider this impact as you listen to the hearing on Wednesday, and respectfully request that you protect the HOME Program as a critical resource for housing investment.

Sincerely,

Kevin Zwick
Executive Director
Housing Trust of Santa Clara County

DEDICATED TO AFFORDABLE HOUSING AND SUSTAINABLE COMMUNITIES

November 1, 2011

The Honorable Judy Biggert
Subcommittee on Insurance, Housing
and Community Opportunity
U.S. House of Representatives
Washington, DC 20515

The Honorable Randy Neugebauer
Subcommittee on Oversight and Investigations
U.S. House of Representatives
Washington, DC 20515

The Honorable Luis Gutierrez
Subcommittee on Insurance, Housing
and Community Opportunity
U.S. House of Representatives
Washington, DC 20515

The Honorable Michael E. Capuano
Subcommittee on Oversight and Investigations
U.S. House of Representatives
Washington, DC 20515

RE: **HOME Program Hearing on November 2nd**

Dear Chairpersons and Ranking Members,

In advance of Wednesday's Joint Hearing before the Subcommittee on Insurance, Housing, and Community Opportunity, and the Subcommittee on Oversight and Investigations, I am writing to express *SWJ Housing's* strong support of the HOME Program. *SWJ Housing* is a consulting/development firm that partners with nonprofit development entities and public agencies to create affordable housing and sustainable communities.

The negative press around the HOME Program in a recent Washington Post series of articles overlooks the incredible impact of this program, which has created over one million desperately needed affordable homes nationwide for lower-income Americans. In our state of California alone, HOME provided important funding to support over 140,000 units, and leverage $3.2 billion. Across the country, the program leveraged a total of $80 billion in affordable housing funding. HOME funds are often a crucial early source of funding that must be in place for affordable developments to secure the balance of needed funds, including private investment dollars.

There are a number of critical community-building initiatives in Sonoma, Napa, and Mendocino Counties that SWJ Housing is currently assisting. A loss to the HOME funding base as currently proposed will put many senior and family affordable housing proposals in North Bay rural communities at great risk, and by extension, will damage the viability of our many joint-venture partner plans, including community health-center facility expansion, safe routes to school and bikeway improvements, museum/cultural center enhancements, and public park revitalization.

The HOME Program is crucial to the production and preservation of affordable homes in the United States and, in turn, has a powerful positive impact on the lives of lower-income Americans. I urge you to consider this impact as you listen to the hearing on Wednesday, and respectfully request that you protect the HOME Program as a critical resource for housing investment.

Sincerely,

Scott W. Johnson

Scott W. Johnson - President

SWJ Housing • PO Box 815 • Sebastopol, CA 95473 • (707) 823-9884 • info@swjhousing.com • www.swjhousing.com

November 1, 2011

The Honorable Judy Biggert
Subcommittee on Insurance, Housing and Community Opportunity
U.S. House of Representatives
Washington, DC 20515

The Honorable Randy Neugebauer
Subcommittee on Oversight and Investigations
U.S. House of Representatives
Washington, DC 20515

The Honorable Luis Gutierrez
Subcommittee on Insurance, Housing and Community Opportunity
U.S. House of Representatives
Washington, DC 20515

The Honorable Michael E. Capuano
Subcommittee on Oversight and Investigations
U.S. House of Representatives
Washington, DC 20515RE: HOME Program Hearing on November 2nd

Dear Chairpersons and Ranking Members,

In advance of Wednesday's Joint Hearing before the Subcommittee on Insurance, Housing, and Community Opportunity, and the Subcommittee on Oversight and Investigations, I am writing to express Daniel Solomon Design Partner's **strong support of the HOME Program.** For over thirty years our firm has worked with non-profit developers to create affordable housing that is safe and healthy, allowing low-income families and individuals to live near transit and jobs and build stable lives.

The negative press around the HOME Program in a recent Washington Post series of articles overlooks the incredible impact of this program, which has created over one million desperately needed affordable homes nationwide for lower-income Americans. In our state of California alone, HOME provided important funding to support over 140,000 units, and leverage $3.2 billion. Across the country, the program leveraged a total of $80 billion in affordable housing funding. HOME funds are often a crucial early source of funding that must be in place for affordable developments to secure the balance of needed funds, including private investment dollars.

The HOME Program is crucial to the production and preservation of affordable homes in the United States and, in turn, has a powerful positive impact on the lives of lower-income Americans. I urge you to consider this impact as you listen to the hearing on Wednesday, and respectfully request that you protect the HOME Program as a critical resource for housing investment.

Sincerely,

Anne Torney, Principal

Daniel Solomon Design Partners

Cc: Rep. Barbara Lee

Anne

Anne Torney, AIA, LEED® AP
Principal
Daniel Solomon Design Partners
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Testimony of

Deborah De Santis
President and Chief Executive Officer
Corporation for Supportive Housing

Insurance, Housing and Community Opportunity and
Oversight and Investigations Joint Subcommittee hearing:

Fraud in the HUD HOME Program

November 2, 2011

Madam Chair Biggert, Chairman Neugebauer, Ranking Member Gutierrez and Ranking Member Capuano:

On behalf of the Corporation for Supportive Housing (CSH), I appreciate your consideration of my testimony regarding HUD's HOME program. CSH is a national non-profit organization that works in communities across the country to create affordable housing linked to services that prevent and end homelessness. Supportive housing is a highly successful and cost-effective model for reducing homelessness, particularly for families and individuals with the greatest barriers to housing stability.

I appreciate the Subcommittees conducting oversight of HUD programs, particularly those that have been the subject of fraud. Defrauding publically-funded programs has two significant consequences: denying or delaying the provision of much-needed assistance to the most vulnerable families in our communities, and eroding the public's confidence - and potentially its support - for vitally important government programs.

CSH urges HUD to respond to abusive activity through far more aggressive oversight and enforcement of its programs. At the same time, CSH urges Congress to not make the mistake of punishing poor people and depressing an already strained housing development industry by cutting funding for the HOME program, which provides critical financing to housing development, and which has innumerably more success stories than it does failures.

CSH is submitting this testimony because it may not be outwardly apparent just how important the HOME program is to ending homelessness in the United States. CSH estimates that 80 percent of the supportive housing we've worked to create utilizes HOME dollars. While it is not always a large source of capital funding in absolute terms, HOME fills critical gaps in the development of supportive housing and other affordable housing. It is not uncommon for supportive housing to bring together a dozen different sources of financing to make the project a reality. The great benefit of HOME is that states or localities can invest these funds in a project to leverage private investment, or use it to fill in while the project pulls together other forms of permanent financing. Here are just three quick examples:

In Dallas, Texas, CSH worked with the Central Dallas Community Development Corporation to help create Citywalk@akard. Citywalk is a premier example of "integrated housing" where supportive housing units are set-aside within a larger affordable housing development for formerly homeless families with supportive service needs. This development, a rehabilitation of a 200-unit affordable and supportive housing project with 50 units set-aside for homeless individuals, includes retail space and an indoor parking garage, office space, a community room, a cyber café, and an outdoor patio area. Citywalk makes a positive contribution to Downtown Dallas in four major ways: it increases the diversity of the downtown population; reduces the homeless population; creates jobs; and increases the life and activity of Downtown Dallas. It could never have become a reality without a key $2.25 million HOME investment from the City of Dallas.

In San Diego, California – a city with a significant problem of homelessness – HOME played a particularly important role in saving the development of 34 affordable housing units, including twelve units set aside for people living with HIV/AIDS along with the chronically homeless with serious mental illness. Despite the presence of Townspeople, an experienced community provider, a committed government partner and a nearly "done deal", the economic downturn hampered the developer's ability to secure state tax-exempt bonds. To save the project, the City made a carefully considered decision to provide an additional $880,000 loan using HOME funds. In exchange for the City's extensive support of the project, the developer agreed to extend the period of affordability of the property for an additional 10 years. The result was a true win-win-win for the developer, the city, and the homeless and very low-income people who all benefit from the housing, services, revitalized tax base and community resource the project provides.

In Chicago, Illinois – CSH was proud to partner with the City of Chicago and its investment of a $1.5 HOME loan to St. Andrew's Court. St. Andrews Court is an award winning residence that includes 42 units for formerly homeless men with disabilities. St. Leonard's Ministries provides comprehensive, individualized case management, including substance abuse and mental health services, to help each resident succeed. Services include life skills classes, financial management assistance, substance abuse relapse prevention, and employment and educational programs. Once again, HOME played a crucial role in making this remarkable residence a reality.

The bottom line is that Congress must understand just how important a role HOME plays in developing supportive housing, and therefore reducing homelessness in communities across the country. Anytime fraud takes place, it is one less person served who is in need. The answer should be more strict enforcement and oversight of the program, not a reduction of Congressional funding.

We greatly appreciate your thoughtful consideration of our testimony.

November 1, 2011

The Honorable Judy Biggert
Subcommittee on Insurance, Housing and Community Opportunity
U.S. House of Representatives
Washington, DC 20515

The Honorable Luis Gutierrez
Subcommittee on Insurance, Housing and Community Opportunity
U.S. House of Representatives
Washington, DC 20515

The Honorable Randy Neugebauer
Subcommittee on Oversight and Investigations
U.S. House of Representatives
Washington, DC 20515

The Honorable Michael E. Capuano
Subcommittee on Oversight and Investigations
U.S. House of Representatives
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Hunter L. Johnson
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RE: HOME Program Hearing on November 2nd

Dear Chairpersons and Ranking Members,

In advance of Wednesday's Joint Hearing before the Subcommittee on Insurance, Housing, and Community Opportunity, and the Subcommittee on Oversight and Investigations, I am writing to express LINC Housing's strong support of the HOME Program. Nonprofit LINC Housing serves low-income seniors, families and persons with special needs by creating and managing to date more than 7,000 affordable apartments in 59 communities throughout California. Much of our award-winning portfolio could not have been built without the inclusion of HOME dollars.

The negative press around the HOME Program in a recent Washington Post series of articles overlooks the incredible impact of this program, which has created more than one million desperately needed affordable homes nationwide for lower-income Americans. In our state of California alone, HOME provided important funding to support over 140,000 units, and leverage $3.2 billion. Across the country, the program leveraged a total of $80 billion in affordable housing funding. HOME funds are often a crucial early source of funding that must be in place for affordable developments to secure the balance of needed funds, including private investment dollars.

Most recently at LINC, HOME dollars awarded through Los Angeles County and the City of Compton have come together to create 84 apartments for low-income seniors, seniors with developmental disabilities, and seniors caring for persons with developmental disabilities. **HOME is a key tool that helps create the new models for housing so needed by our poorest Americans, and fuels jobs in the construction and maintenance industries as well as creates jobs in these neglected neighborhoods where new housing brings new life.**

The HOME Program is crucial to the production and preservation of affordable homes in the United States and, in turn, has a powerful positive impact on the lives of lower-income Americans. I urge you to consider this impact as you listen to the hearing on Wednesday, and respectfully request that you protect the HOME Program as a critical resource for housing investment.

Sincerely,

Hunter L. Johnson
President & CEO
LINC Housing Corporation

November 1, 2011

The Honorable Judy Biggert
Subcommittee on Insurance, Housing and Community Opportunity

The Honorable Randy Neugebauer
Subcommittee on Oversight and Investigations

The Honorable Luis Gutierrez
Subcommittee on Insurance, Housing and Community Opportunity

The Honorable Michael E. Capuano
Subcommittee on Oversight and Investigations
U.S. House of Representatives
Washington, DC 20515

Re: HOME Program Hearing on November 2, 2011

Dear Chairpersons and Ranking Members:

In advance of Wednesday's Joint Hearing before the Subcommittee on Insurance, Housing, and Community Opportunity, and the Subcommittee on Oversight and Investigations, I am writing to express MidPen Housing Corporation's strong support of the HOME Program. MidPen Housing Corp. has recently been ranked the nation's 4th largest non-profit developer of affordable rental housing for low-income working families, seniors, and persons with special needs. Since our founding over 40 years ago, we have developed more than 6,600 affordable homes in ten Bay Area counties, housing more than 13,500 residents.

The negative press around the HOME Program in a recent Washington Post series of articles overlooks the incredible impact of this program, which has created over one million desperately needed affordable homes nationwide for lower-income Americans. In our state of California alone, HOME provided important funding to support over 140,000 units, and leverage $3.2 billion. Across the country, the program has leveraged a total of $80 billion in affordable housing funding. HOME funds are often a crucial early source of funding that must be in place for affordable developments to secure the balance of needed funds, including private investment dollars.

At MidPen Housing we rely heavily on the HOME Program which we typically combine with Low Income Housing Tax Credits – the two most significant federal funding sources for affordable housing. Since the inception of the HOME Program, we have made use of $46.5 million of HOME loans to create 2,587 units of housing for low and extremely low income

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households in the San Francisco and Monterey Bay Areas – a remarkable testament to the importance and effectiveness of this program.

The HOME Program is crucial to the production and preservation of affordable homes in the United States and, in turn, has a powerful positive impact on the lives of lower-income Americans. I urge you to consider this impact as you listen to the hearing on Wednesday, and respectfully request that you protect the HOME Program as a critical resource for housing investment.

Please feel free to contact me at (650) 356-2903 or mfranklin@midpen-housing.org if you have any questions.

Sincerely yours,

Matthew O. Franklin
President

cc: Minority Leader Nancy Pelosi
Rep. Anna Eshoo
Rep. Sam Farr
Rep. Michael Honda
Rep. Zoe Lofgren
Rep. Jackie Speier
Rep. Pete Stark

October 31, 2011

The Honorable Judy Biggert
Subcommittee on Insurance, Housing and
Community Opportunity
U.S. House of Representatives
Washington, DC 20515

The Honorable Luis Gutierrez
Subcommittee on Insurance, Housing and
Community Opportunity
U.S. House of Representatives
Washington, DC 20515

The Honorable Randy Neugebauer
Subcommittee on Oversight and Investigations
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Michael E. Capuano
Subcommittee on Oversight and Investigations
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairpersons and Ranking Members:

Since 1931, the National Housing Conference (NHC) has been dedicated to ensuring safe, decent and affordable housing for all in America. NHC has earned its strong reputation as the *United Voice for Housing* by actively engaging and convening its membership in nonpartisan advocacy for effective housing policy solutions at the local, state, and national levels. NHC brings together a diverse membership of housing stakeholders including tenant advocates, mortgage bankers, non-profit and for-profit home builders, property managers, policy practitioners, realtors, equity investors, and more, all of whom share a commitment to balanced housing policy.

In response to the upcoming joint hearing of the Subcommittee on Insurance, Housing and Community Opportunity and the Subcommittee on Oversight and Investigations regarding fraud in the HOME program, we wish to express our strong support for the **HOME program as an effective part of our national commitment to safe, decent, and affordable housing for all in America**.

HOME creates affordable housing. For 20 years, this federal block grant program has provided critical funding to state and local governments exclusively to provide affordable housing for low-income families. According to the U.S. Department of Housing and Urban Development (HUD), since 1992 the HOME program has resulted in over one million affordable housing units. Of these million units, 428,373 were for new homebuyers, 197,780 were for owner-occupied rehabilitations and 381,883 were rental housing units. Above and beyond the units created, an additional 242,768 tenants received direct rental assistance.

HOME leverages other resources. For every HOME dollar expended, $3.94 in other public and private investment has been leveraged, resulting in more than $80 billion in other funding for affordable housing since the program began. In particular, HOME is often the early money necessary to get

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projects off the ground while private lenders, equity investors, Low Income Housing Tax Credit allocations, and other resources come together.

HOME creates jobs. HOME funds frequently provide essential gap financing for Low Income Housing Tax Credit properties. In the first year, construction of a typical 100-unit property results in 116 jobs, about half of which are in the construction sector. Other HOME program activities, such as renovations of homes, also produce employment. Now more than ever, such jobs are essential.

HOME sustained projects during the downturn. The recession and financial crisis disrupted real estate development across the country. Projects were put on hold and housing starts dropped precipitously, as illustrated in the attached exhibits. HOME-funded projects, however, outperformed the broader real estate market. In June, HUD reported that only 2.5% of 28,000 active projects were delayed. Against the backdrop of disrupted real estate markets, HOME projects stand out for completion.

HOME reaches many communities. The flexibility of the HOME program provides **urban, rural and suburban** communities across the country with the ability to both produce and rehabilitate single family homes, many for new homeowners, while also providing and rehabilitating rental housing for low to extremely low-income families. In addition, the HOME program provides critical resources for **housing for persons with special needs** including the homeless and persons with HIV-AIDS.

HOME empowers state and local government. Local communities can target HOME the particular needs of their communities and housing market. HUD provides the essential oversight function, making sure that communities follow program requirements, verifying project completion, and, when necessary, bringing enforcement action to recapture funds.

The HOME program is a proven solution that should continue to be an important element of our national commitment to creating housing opportunities for all Americans.

Sincerely,

Jeanne K Engel

Jeanne Engel
Interim President & CEO
National Housing Conference

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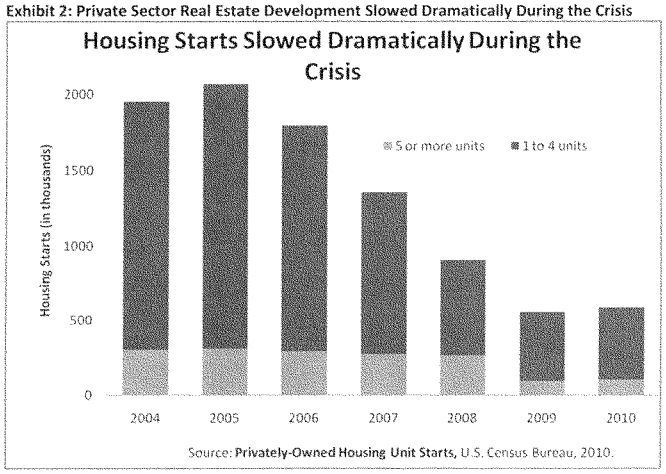
NATIONAL HOUSING CONFERENCE

Exhibit 1: National Association of Home Builders Survey---Share of Respondents who reported putting projects on hold until financing climate gets better- By Region

(Percent of Respondents)

	Total	Region			
		Northeast	Midwest	South	West
Land Acquisition	53%	53%	55%	57%	42%
Land Development	61	63	56	61	67
Single-family Construction	60	47	58	66	54
Multifamily Construction	45	36	48	43	55
Condo	37	27	38	35	47
Rental	32	20	27	32	45

Exhibit 2: Private Sector Real Estate Development Slowed Dramatically During the Crisis



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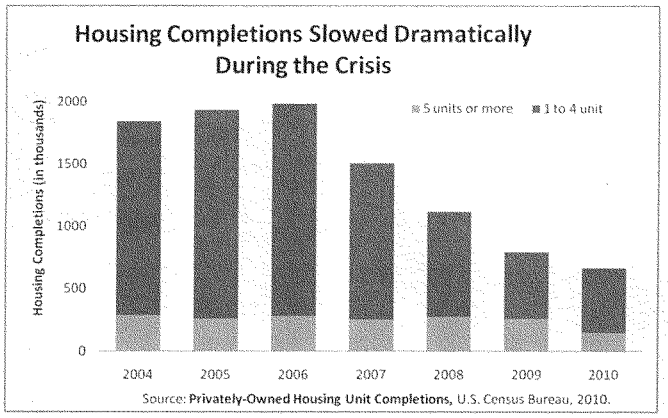

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Nov. 1, 2011

The Honorable Judy Biggert
Subcommittee on Insurance, Housing and Community Opportunity
U.S. House of Representatives
Washington, DC 20515

The Honorable Randy Neugebauer
Subcommittee on Oversight and Investigations
U.S. House of Representatives
Washington, DC 20515

The Honorable Luis Gutierrez
Subcommittee on Insurance, Housing and Community Opportunity
U.S. House of Representatives
Washington, DC 20515

The Honorable Michael E. Capuano
Subcommittee on Oversight and Investigations
U.S. House of Representatives
Washington, DC 20515

RE: HOME Program Hearing on November 2nd

Dear Chairpersons and Ranking Members,

In advance of Wednesday's Joint Hearing before the Subcommittee on Insurance, Housing, and Community Opportunity, and the Subcommittee on Oversight and Investigations, I am writing to express Resource for Community Development's strong support of the HOME Program. We are a non-profit organization who has developed over 2,000 units of housing with the help of the HOME program.

The negative press around the HOME Program in a recent Washington Post series of articles overlooks the incredible impact of this program, which has created over one million desperately needed affordable homes nationwide for lower-income Americans. In our state of California alone, HOME provided important funding to support over 140,000 units, and leverage $3.2 billion. Across the country, the program leveraged a total of $80 billion in affordable housing funding. HOME funds are often a crucial early source of funding that must be in place for affordable developments to secure the balance of needed funds, including private investment dollars.

The HOME Program is crucial to the production and preservation of affordable homes in the United States and, in turn, has a powerful positive impact on the lives of lower-income Americans. I urge you to consider this impact as you listen to the hearing on Wednesday, and respectfully request that you protect the HOME Program as a critical resource for housing investment.

Sincerely,

Kate McKean
Controller
Resources for Community Development

Please note new address & phone number!

Kate McKean
Controller
Resources for Community Development
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510-841-4410 x 314

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Government Affairs

James W. Tobin III
Senior Vice President & Chief Lobbyist

October 27, 2011

The Honorable Judy Biggert
Chairman
Insurance, Housing and Community Opportunity Subcommittee
United States House of Representatives
Washington, DC 20515

The Honorable Randy Neugebauer
Chairman
Oversight and Investigations Subcommittee
United States House of Representatives
Washington, DC 20515

The Honorable Luis V. Gutierrez
Ranking Member
Insurance, Housing and Community Opportunity Subcommittee
United States House of Representatives
Washington, DC 20515

The Honorable Michael E. Capuano
Ranking Member
Oversight and Investigations Subcommittee
United States House of Representatives
Washington, DC 20515

Dear Chairmen and Ranking Members:

On behalf of the 160,000 members of the National Association of Home Builders (NAHB), I am writing today to reiterate NAHB's support of the Department of Housing and Urban Development's (HUD) HOME Investment Partnerships Program (HOME).

HOME is the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households. This program has played a critical role in the production of affordable rental housing, the rehabilitation of existing single family homeownership units and the preservation of existing affordable rental housing. Without HOME to fill the financing gap that remains even with multiple sources of financing, many thousands of affordable housing units would not be built. There are very few sources of gap financing today, making the HOME program an extremely valuable resource.

As stated in our June 3, 2011, letter, NAHB values the HOME program and the funding it provides to help build affordable housing. There are many NAHB members who have used the HOME program successfully. Most of our members use HOME in conjunction with the Low Income Housing Tax Credit program, which has very specific and non-negotiable deadlines for expenditure of funds and placing the project into service. Other NAHB members have used HOME funds in conjunction with other financing sources to build affordable single family homes for first-time buyers, special needs housing and housing for low and moderate income senior citizens.

NAHB does not condone the misuse of taxpayer funds in any manner. Any report of misspent federal funds hurts the entire industry and the people for whom we provide affordable housing. Further, we believe it is incumbent on all parties to discover the truth and pinpoint appropriate actions to remedy the problems. NAHB supports efforts to identify weaknesses in program oversight and to address those weaknesses quickly and decisively.

NAHB would be happy to share our members' successful HOME stories with you. Further, we would welcome any opportunity to assist the committee to help ensure the HOME program continues its mission and operates in an effective and efficient manner

Thank you for giving consideration to our views.

Sincerely,

James W. Tobin III

Cc: Chairman Spencer Bachus, Ranking Member Barney Frank, Members of the Insurance, Housing and Community Opportunity Subcommittee, Members of the Oversight and Investigations Subcommittee

November 2, 2011

The Honorable Judy Biggert
Subcommittee on Insurance, Housing, and
Community Opportunity
2113 Rayburn HOB
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Luis V. Gutierrez
Subcommittee on Insurance, Housing, and
Community Opportunity
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Washington, D.C. 20515

The Honorable Randy Neugebauer
Subcommittee on Oversight and Investigations
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The Honorable Michael E. Capuano
Subcommittee on Oversight and Investigations
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U.S. House of Representatives
Washington, D.C. 20515

Dear Chairmen and Ranking Members:

On behalf of the National Council of State Housing Agencies (NCSHA), and the state Housing Finance Agencies (HFAs) it represents, I urge you to support the HOME Investment Partnerships (HOME) program. HOME is one of the federal government's most effective tools used in helping state efforts to produce desperately needed affordable housing for low-income families. HOME's flexibility allows states to decide how best to use the scarce HOME funds to meet their most urgent affordable housing needs, while appropriate federal rules and oversight help guide state and local efforts to minimize fraud, waste, and abuse.

NCSHA is a national, nonpartisan, nonprofit organization representing the state HFAs. The HFAs operate in every state, the District of Columbia, New York City, Puerto Rico, and the U.S. Virgin Islands. A majority of HFAs administer the HOME program, acting as the state participating jurisdiction (PJ) for their state. In addition to HOME, HFAs administer a wide range of affordable housing and community development programs, including tax-exempt Housing Bonds, the Low Income Housing Tax Credit (Housing Credit), Section 8, down payment assistance, and state trust funds.

With HOME, states have provided more than a half-million quality, affordable homes. HOME uniquely empowers states to respond to the full spectrum of housing needs, from homeless to rental to ownership to disaster recovery. States invest HOME funds in a wide variety of rental and homeownership programs and developments, including new construction, rehabilitation, down payment assistance, and tenant-based rental assistance. HOME is used in both urban and rural areas, and serves all low-income populations, including families with children, the elderly, and persons with special needs. States leverage HOME by generating almost four dollars of other public and private funding for every HOME dollar.

HOME funding is a vital piece in financing numerous affordable housing developments—many of which would not be able to go forward and many of which could not provide housing for low-income families without HOME assistance. HOME complements and supports many critical federal housing programs, including Section 202 housing for the elderly, section 811 housing for persons with disabilities, rural housing programs, and the Housing Credit, making development financing feasible and achieving deeper income targeting than would otherwise be possible.

State PJs receive 40 percent of annual HOME funding and must commit the funds within 2 years. They monitor HOME-assisted units to ensure long-term affordability and compliance with program rules. NCSHA regularly facilitates training opportunities for and information exchange among state PJs to assist their efforts to administer the program effectively.

NCSHA recognizes that any misused HOME dollars represent not only misspent taxpayer dollars but also a loss of assistance to those we are dedicated to helping and we are also disturbed by any report of fraud associated with HOME funding. However, we ask that as you review the HOME program, you review it in the context of its undeniable record of success—the more than one million affordable homes it has produced.

We urge your continued, bipartisan support of the HOME program so that communities may continue to use it to produce the affordable, decent housing that meets their unique needs.

Sincerely,

Barbara J. Thompson
Executive Director

Cc: The Honorable Spencer Bachus
The Honorable Barney Frank
Subcommittee on Insurance, Housing, and Community Opportunity Members
Subcommittee on Oversight and Investigations Members

○