



**WRITTEN STATEMENT OF
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**BEFORE THE
COMMITTEE ON COMMERCE,
SCIENCE AND TRANSPORTATION
UNITED STATES SENATE
and
THE COMMITTEE ON SCIENCE
AND TECHNOLOGY
UNITED STATES HOUSE
OF REPRESENTATIVES**

JUNE 7, 2007

Mr. Chairmen and Ranking Members, and members of the Committees, I am Kenneth Donohue, Inspector General of the Department of Housing and Urban Development (HUD OIG) having been confirmed to this position on March 25, 2002. Prior to becoming Inspector General, I spent twenty-one years in the United States Secret Service. After my retirement from that organization, I spent seven years at the Resolution Trust Corporation as Assistant Director for Investigations, uncovering fraud and abuse among directors of failed savings and loans institutions.

The HUD OIG is one the original twelve Inspectors General authorized under the Inspector General Act of 1978. We are committed to our statutory mission of deterring and preventing fraud, waste and abuse and promoting the effectiveness and efficiency of government operations. While organizationally located within the Department, the OIG operates independently with separate budget authority. This independence allows for clear and objective reporting to the Secretary and to the Congress.

The HUD OIG conducts oversight on a Department that receives over \$30 billion in annual appropriation for a myriad of programs including community development block grants, public housing, homeless and lead abatement, and nursing home and hospital mortgage insurance coverage. In addition to these areas, HUD also manages the Federal Housing Administration (FHA), a program that is the largest mortgage insurer in the world, providing coverage to over 34 million home mortgages and 47,000 multifamily projects since 1934. In the last fiscal year, FHA had an outstanding insurance portfolio of about \$395 billion. HUD also manages securitizations worth

billions of dollars in the Ginnie Mae program as well as maintains oversight of the regulatory agency that oversees the Fannie Mae and Freddie Mac programs. As you can see, we have a busy portfolio that requires us to maintain a significant pool of talented federal criminal investigators and auditors on staff. Our semi-annual reports reflect our audit and investigative work as well as impressive criminal statistics and significant taxpayer funds put to better use.

On March 21, 1996, President William J. Clinton signed Executive Order 12993 that outlines procedures to be taken regarding administrative allegations against Inspectors General. This process is intended to mitigate the concern that Inspectors General, as designated by the Inspector General Act, are independent but can still be held accountable in the event that allegations of misconduct are valid. This process has been in place for years and has proven to be valuable in terms of maintaining credibility and integrity within the OIG community. The process is understood and accepted by the Inspectors General when they consent to their nomination and are confirmed by the United States Senate.

In early 2006, the Integrity Committee (IC) of the President's Council on Integrity and Efficiency (PCIE), a council comprised of presidentially-appointed Inspectors General, asked the HUD OIG to investigate allegations of administrative misconduct it had received regarding the Inspector General of the National Aeronautics and Space Administration (NASA). The Integrity Committee Executive Order charter states that it shall first determine if there is a substantial likelihood that the allegations presented to the

Committee disclosed a violation of any law, rule, or regulation, or gross mismanagement, gross waste of funds, or abuse of authority. If the IC makes this preliminary determination, and further concludes that allegations cannot be referred to any agency with appropriate jurisdiction, it then refers the matter to the Chair who is to cause a thorough and timely investigation of allegations.

The January 6, 2006 letter I received from the IC Chair (the Federal Bureau of Investigations' Assistant Director, Criminal Investigative Division) stated, in part, that *"at a December 15, 2005 meeting, this matter was discussed and opined that due to the number of credible allegations, with a pattern of possible misconduct and/or wrongdoings by the NASA IG, the IC determined that an administrative investigation of the allegations is appropriate."* It further stated, *"It is requested that the investigators you appoint conduct a thorough investigation to determine whether the alleged misconduct did, in fact, occur and develop a comprehensive factual report concerning the allegations and any additional issues which may be uncovered during the investigation. That report will serve as the basis for further action to be taken by the IC."*

In a prior meeting, your committee staff asked that I speak to the process of what we went through regarding the development and implementation of this investigation. The PCIE IC forwarded 22 complaints that generated approximately 100 separate allegations. A team of HUD OIG Special Agents and Forensic Auditors conducted the investigation and completed the report. Each of the complainants was interviewed and more than 120 interviews were completed. Documents were obtained and analyzed, over

25,000 electronic mail messages were reviewed, and 199 exhibits were catalogued. The NASA IG was interviewed under oath and the interview was reported by a certified court reporter. The most significant of the allegations were grouped into the following general categories: lack of independence and impartiality; obstruction of justice; misconduct; safety issues; audit issues; and hostile/untenable work environment. The final Report of Investigation contained three sections; the first consisted of audit issues, the second of investigation issues, and the third of management issues.

We had previously successfully conducted another investigation at the request of the IC of an agency of similar size to our organization. It had involved multiple allegations, some of a complicated nature, which had also been forwarded by external entities including congressional chairman. I was asked to conduct this investigation of the NASA IG because of our prior experience and of our position as an objective outsider. I did not seek this task but did not take the request lightly as I feel the process must be respected if the community is to maintain respectable credibility with Congress and the American citizens we serve. Though I intimately knew how cumbersome such an investigation could be, I accepted it at the urging of the then IC Chair despite a confluence of events around that time that made it even more arduous.

Shortly before this assignment, devastating hurricanes hit the Gulf Coast region and HUD became the primary agency for redevelopment activities. \$17 billion in new HUD funding needed to be immediately overseen by the HUD OIG despite our having lost our office in New Orleans. This was in addition to the already underway, and also

labor-intensive, emergency-related task that we had been given regarding emergency appropriations for HUD redevelopment and revitalization funds for lower Manhattan following the attack of September 11th. Unfortunately, we had also lost our office at World Trade Center 7 on that day.

Despite our previous experience performing IC work, this investigation, nevertheless, has taken a big toll on parts of my staff in terms of manpower and resources. At the time the HUD OIG was tasked in the early part of 2006, a shuttle launch had been delayed for over two and a half years due to safety concerns in the aftermath of the explosion of the Shuttle Columbia and only one previous mission, a return to flight in the summer of 2005, had taken place. The next shuttle launch was set for the summer of 2006. Though not in the initial IC direction to us, I felt strongly that, because there had been allegations relating to safety, I needed to complete our investigation and draft our Report of Investigation in time for this scheduled launch.

Indeed, we kept the FBI cognizant of developments for this very reason (the Integrity Committee staff consists of detailees from the FBI owing to the fact that the IC Chair is the FBI Assistant Director, Criminal Investigative Division and these agents perform much of the duties associated with the IC and its process requirements) and I met with Senator Nelson's staff to let them know if any critical safety issues emerged. To keep this timetable and to address all of the numerous, and sometimes lengthy and complex, allegations caused a hardship on my staff. We have, however, as a result of our dealings with the Oklahoma City bombings in which we lost staff, the September 11th

attack, and the hurricanes become somewhat condition-hardened. On August 30, 2006, we turned over our Report of Investigation (ROI) to the Integrity Committee and briefed its members a short time later. Our time and resource commitment has not ended due to the extended deliberation of the IC into 2007 and to the continuing interest of entities such as the Congress and media. Accordingly, we have recently submitted a new request for a modest reimbursement of our expended funds.

I am not a member of the Integrity Committee nor was I privy to its deliberations once we completed our investigation and briefed the IC. I placed great weight on our having been chosen as outsiders to be objective and on our designated role as “finder of the facts.” The IC’s determinations, and the underlying process of how it arrived at its findings, were unknown to me. Only recently was I made aware of its conclusions but I have not had access to its deliberative activities.

When I met with your staff previous to this hearing, I was asked specific questions relating to various aspects of an Inspector General. Being an Inspector General is one of the most difficult jobs in the federal government and remaining independent and objective is the benchmark of success. As Senator Grassley once characterized the position, “you’re like a skunk at a picnic.” Or as another IG once testified, “it is like straddling a barbed wire fence.” I know that I am constantly striving to achieve a balance of what I believe it is to be a good public servant in this arena. It can be a challenging job to supervise a staff of disparate disciplines and to interact internally and externally with groups or individuals who do not always want to hear your sometimes controversial or

painful findings. I do know, however, that I believe in the words that the Secretary that I work under has stated to me numerous times. He has said “I know that we are going to definitely disagree, many times and on many different things, but we will always agree to never be disagreeable.”

As I stated to your staff during their questioning, it is crucial that the Department or Agency must respect the independence of the OIG, must understand why this unusual organization needs to be insulated from political pressures, and will, hopefully, come to realization that a strong OIG will ultimately benefit the effectiveness of its operations. Unfortunately, this epiphany does not always manifest. When it does by those who run America’s federal programs, however, it works to the betterment of government efficiency and, ultimately, to the benefit of the American taxpayer and the recipients of the programs it manages.