

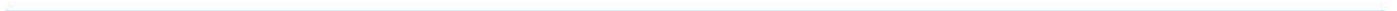


# U.S. Department of Housing and Urban Development, Washington, DC

## Compliance With the Improper Payments Elimination and Recovery Act

**Office of Audit, Region 4  
Atlanta, GA**

**Audit Report Number: 2019-AT-0001  
June 3, 2019**





**To:** Irving Dennis, Chief Financial Officer, F

**From:** //signed//  
Nikita N. Irons, Regional Inspector General for Audit, 4AGA

**Subject:** HUD Did Not Always Comply With the Improper Payments Elimination and Recovery Act of 2010

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of HUD's fiscal year 2018 compliance with the Improper Payments Elimination and Recovery Act of 2010.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



**Audit Report Number: 2019-AT-0001**

**Date: June 3, 2019**

**HUD Did Not Always Comply With the Improper Payments Elimination and Recovery Act of 2010**

## Highlights

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### What We Audited and Why

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We audited the U.S. Department of Housing and Urban Development's (HUD) fiscal year 2018 compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). IPERA was enacted to eliminate and recover improper payments and requires each agency's inspector general to perform an annual review of the agency's compliance with IPERA. Our audit objective was to determine whether HUD complied with IPERA reporting and improper payment reduction requirements according to guidance from Office of Management and Budget (OMB) Circular A-123, appendix C.

### What We Found

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Fiscal year 2018 marked the sixth consecutive year in which HUD did not comply with IPERA. In 2018, HUD complied with three of the six IPERA requirements, did not comply with two requirements, and one requirement was not applicable. Specifically, HUD did not always (1) publish improper payment estimates for all required programs and (2) report an improper payment rate of less than 10 percent (See the table below). These conditions occurred because HUD was continuing to revamp its program to address many of the prior-year IPERA compliance issues. We recognize HUD's ongoing efforts to remediate the improper payment-related issues noted in this and prior-year reports and look forward to working with HUD on these matters in fiscal year 2019.

Fiscal year 2018 IPERA compliance reporting table					
Published an agency financial report	Conducted a risk assessment	Published an improper payment estimate	Published corrective action plans	Published and is meeting reduction targets	Reported an improper payment rate of less than 10 percent
Yes	Yes	No	N/A	Yes	No

### What We Recommend

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New recommendations were not made because prior-year audit recommendations that remain open will help HUD remediate repeat findings identified in this year's report if implemented. See the followup on prior audit section of this report for the status of open audit recommendations made in prior years.

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# Background and Objective

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The Improper Payments Information Act of 2002 (IPIA) required the head of each agency to annually review all programs and activities administered by the agency, identify all such programs and activities that may be susceptible to significant improper payments, estimate the annual amount of improper payments for each program or activity identified as susceptible, and report those estimates. For programs with estimated improper payments exceeding \$10 million, IPIA required agencies to report the causes of the improper payments, actions taken to correct those causes, and results of the actions taken. The Improper Payments Elimination and Recovery Act of 2010 (IPERA) decreased the frequency with which each agency was required to review all of its programs but increased the responsibilities and reporting requirements. IPERA also required each agency inspector general to determine whether the agency complied with IPIA as amended by IPERA. IPIA was further amended by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA).

Under IPERIA, the inspector general is required to review the assessed level of risk associated with high-priority programs as determined by the Office of Management and Budget (OMB), the quality of the improper payment estimates and methodology for high-priority programs, and the oversight of financial controls to identify and prevent improper payments under high-priority programs. The inspector general must then submit recommendations to Congress for modifying any agency plans relating to improper payments determination and estimation methodology. OMB further amended requirements with the issuance of appendix C to Circular A-123, Requirements for Payment Integrity Improvement, on June 26, 2018, to provide guidance for agencies in implementing IPIA, IPERA, and IPERIA requirements.

To achieve compliance with IPERA, OMB Circular A-123, appendix C, provides the following steps. Step 1 is to review all programs and activities and identify those that are susceptible to significant improper payments. OMB defined “significant improper payments” as gross annual improper payments<sup>1</sup> in the program exceeding (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payment percentage of total program outlays). Step 2 is to obtain a statistically valid estimate of the annual amount of improper payments in programs and activities for those programs identified in step 1 as susceptible to significant improper payments. Then, all programs and activities determined to have significant improper payments must implement a plan to prevent and reduce improper payments. Finally, an agency reports this information annually in the agency financial report (AFR) or the performance and accountability report (PAR). Each agency’s inspector general is tasked with annually reviewing the agency’s improper payment reporting in the agency’s annual AFR or PAR and accompanying materials to determine whether the agency is in compliance under IPERA.

The U.S. Department of Housing and Urban Development’s (HUD) Office of the Chief Financial Officer is the lead office overseeing HUD’s actions to address improper payment issues and

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<sup>1</sup> Gross annual improper payments are the total amount of overpayments and underpayments.

compliance with the requirements of IPERA. HUD reported improper payment information for four of the five programs discussed in the AFR including: the Office of Public Housing's Tenant-Based Rental Assistance (PIH-TBRA),<sup>2</sup> the Government National Mortgage Association's (Ginnie Mae) contractor payments, the Office of Community Planning and Development's Disaster Relief Appropriations Act (CPD-DRAA) supplemental appropriation,<sup>3</sup> and the Federal Housing Administration's single-family insurance claims (FHA-SFIC). For its Multifamily Housing Project-Based Rental Assistance (MF-RAP),<sup>2</sup> HUD did not conduct a statistically valid estimate for this program as discussed in the finding. HUD's fiscal year 2018 AFR stated that it received approval from OMB to exclude the Community Development Block Grant (CDBG) entitlement grants and the HOME Investment Partnerships program.<sup>4</sup>

Our audit objective was to determine whether HUD complied with IPERA reporting requirements according to guidance from OMB Circular A-123, appendix C.

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<sup>2</sup> HUD previously combined the PIH-TBRA and MF-RAP under a single program, the Rental Housing Assistance Program. These programs are now separated into their own programs.

<sup>3</sup> The Disaster Relief Appropriations Act of 2013 designated the CDBG Disaster Recovery program as susceptible to significant improper payments. On that basis, HUD is required to report an improper payment rate. HUD uses an alternative estimation approach approved by OMB to estimate improper payments for the CPD-DRAA program.

<sup>4</sup> In 2016, the CDBG and HOME programs were identified as susceptible to significant improper payments in HUD's 2016 AFR. Last year's review found that improper payment estimates were not reported for these programs. In fiscal year 2018, OMB did not require HUD to conduct improper payment testing for these programs.

# Results of Audit

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## **Finding: HUD Did Not Always Comply With IPERA**

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Fiscal year 2018 marked the sixth consecutive year in which HUD did not comply with IPERA. HUD did not comply with two of the six IPERA requirements. These two areas of noncompliance were related to (1) publishing improper payment estimates and (2) reporting a program with an improper payment rate that exceeded the statutory threshold of 10 percent. In addition, HUD did not complete recapture audit plans for all programs and activities that spent \$1 million or more annually. These conditions occurred because HUD was continuing to revamp its program and continued planning<sup>5</sup> to address many of the prior-year IPERA compliance issues. Until all of the prior- and current-year IPERA issues have been remediated, HUD will likely continue to miss opportunities to prevent, identify, reduce, and recover improper payments.

### **HUD Did Not Always Comply With IPERA**

HUD did not comply with two of the six IPERA requirements (c and f) in fiscal year 2018. According to OMB Circular A-123, appendix C, part IV, section (A)(3), compliance with IPERA means that an agency must have met all of the following six requirements.

- a. Published an agency financial report – HUD complied with this requirement. The agency published an AFR for the most recent fiscal year and posted the report and accompanying materials required by OMB on the agency website.
- b. Conducted a compliant program-specific risk assessment – HUD complied with this requirement and conducted risk assessments for 35 of its programs as listed in appendix B. During our review, we identified that the Nehemiah Housing Opportunity Grant Program (NHOP) was not risk assessed in fiscal year 2018 because HUD determined the program had no disbursements and no additional funding was allocated.<sup>6</sup> HUD further explained that the program started making outlays again and plans to risk assess NHOP in 2019. Therefore, we did not determine HUD noncompliant since the program had a low risk of being susceptible to significant improper payments at the time of our review. However, HUD should ensure that this program is risk assessed at least once every three years since there are remaining funds associated with NHOP.
- c. Published improper payment estimates – HUD did not comply with this requirement. HUD did not publish an improper payment estimate for one program that was susceptible

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<sup>5</sup> In 2018, HUD continued to work on its plan to address many years of noncompliance with IPERA. In 2018, HUD hired a contractor that would help bring the program into compliance within the next 2 years.

<sup>6</sup> Federal Register 5878-F-01 explained that funding ended for NHOP but HUD maintained one NHOP grant agreement and had 1,028 active loans it was responsible for.

to significant improper payments.<sup>7</sup> In another case, HUD provided an improper payment estimate, but the estimate was not valid. With regard to the other three programs, HUD's CPD-DRAA (Sandy), FHA-SFIC programs, and Ginnie Mae's contractor payments, HUD supported the improper payment estimates reported in the AFR.

- d. Published corrective action plans – At this time, we consider this criterion to be not applicable for five programs. For the CPD-DRAA and FHA-SFIC programs, corrective actions were not reported because the estimated improper payments did not exceed the statutory thresholds of OMB Circular A-123, appendix C, part I, section (B)(1).<sup>8</sup> In addition, HUD provided justifications for not developing corrective actions for the Office of MF-RAP, PIH-TBRA, and Ginnie Mae contractor payments program as required.<sup>9</sup> HUD stated that once it has established an approved statistically valid plan for MF-RAP and PIH-TBRA, it will be able to provide a corrective action plan. For the Ginnie Mae contractor payments program, HUD was unable to develop corrective actions because it began remediating the majority of its contractor payment errors beginning in fiscal year 2019, which was after the publication of its fiscal year 2018 AFR. HUD stated that it would publish corrective actions for this program in fiscal year 2019. For these reasons, we consider this criterion to be not applicable.
- e. Published and met reduction targets – HUD met with this requirement for two of its programs. For the other three programs, this requirement was determined to be not applicable. See appendix B for additional detail.
- f. Reported an estimate below 10 percent – HUD did not comply with this requirement. Specifically, the gross improper payment rate for the Ginnie Mae contractor payments program exceeded the 10 percent statutory threshold.

Below is a discussion of the two noncompliance areas. In addition, appendix B of our report includes the results of the programs reviewed.

### **HUD's Improper Payment Estimates Were Not Published or Valid for Two Programs**

HUD did not comply with the requirement to publish an improper payment estimate for all of its programs that were susceptible to significant improper payments. Specifically, HUD did not produce and publish an improper payment estimate for MF-RAP due to its limited resources. With no improper payment estimate, HUD was not able to establish corrective actions, reduction targets, and an improper payment rate for MF-RAP.

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<sup>7</sup> According to OMB Circular A-123, appendix C, part I, sections B and D, programs or activities determined to be susceptible to significant improper payments must produce a statistically or nonstatistically (approval required) valid estimate of the annual amount of improper payment.

<sup>8</sup> OMB Circular A-123, appendix C, part I, section (B)(1), defines significant improper payments as estimated improper payments that did not exceed (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payment percentage of total program outlays).

<sup>9</sup> According to OMB Circular A-136, section 4.5(1)(f), if the agency does not have a corrective action for a particular root cause, it must provide a justification for not having a corrective action.

In addition, HUD did not publish a valid improper payment estimate for its PIH-TBRA program. Specifically, HUD produced the PIH-TBRA improper payment estimate based on a condensed alternative testing methodology due to limited resources.<sup>10</sup> For this program, HUD conducted testing at one public housing site. HUD stated that it implemented this condensed approach in accordance with its OMB-approved alternative plan. While we recognize HUD's effort, we believe this approach is not a fair representation of the universe or the total outlays reported of \$5.56 million, which included 510 public housing sites. As a result, the improper payment estimate reported was not representative of the universe, which hindered HUD's ability to establish appropriate corrective actions to address all possible root causes.

HUD stated that it plans to develop a statistically valid sampling plan as required by OMB Circular A-123, appendix C, for the MF-RAP and PIH-TBRA programs.

### **HUD Reported a Gross Improper Payment Rate That Exceeded OMB's Required Threshold**

HUD reported a gross improper payment rate exceeding the OMB required threshold of 10 percent for the Ginnie Mae contractor payment program. The contractor payment program had an improper payment rate of 22.65 percent, which is more than double the threshold amount. HUD stated that this error occurred because there was insufficient documentation to validate the accuracy of the payment identified in the improper payment testing sample. As a result, there was no assurance that HUD properly used its program funds. Therefore, HUD stated that it began remediating its contractor payment errors at the end of 2018, with the majority of the efforts beginning in fiscal year 2019. HUD stated that it planned to report corrective actions in 2019 and would include better documentation to support contract expenses and ensure that invoices would be properly reviewed and paid according to the terms of the contract.

### **Recapture Audit Plans Were Not Completed for All Programs**

For the past 3 fiscal years, we have had an ongoing concern regarding HUD's payment recovery audit program. In fiscal year 2015, we reported that HUD did not provide support to show that all of its programs and activities that spent \$1 million or more during the fiscal year were considered for payment recapture audits or excluded based on cost-benefit considerations. Further, our fiscal year 2016 review confirmed recurrence of the same issue identified in 2015 and additionally found that the cost justifications provided were not reasonable or valid. The fiscal year 2017 review found that there had been no progress in addressing previously identified issues and possible regression in some areas. For example, HUD did not perform the threshold analysis to identify programs that would be subject to recovery audits to determine whether a payment recapture audit was warranted for its programs.<sup>11</sup>

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<sup>10</sup> In 2017, OMB approved an alternative testing methodology to identify improper payments. Due to resource constraints, HUD condensed its methodology for PIH-TBRA from testing five public housing sites to one. Last year's OIG audit report (2018-FO-0006, page 8) found that HUD was not able to fully implement the alternative plan as agreed to with OMB.

<sup>11</sup> OIG audit report 2018-FO-0006, page 9

In fiscal year 2018, these concerns continued.<sup>12</sup> HUD did not complete recapture audit plans for all programs and activities that spent \$1 million or more annually. For the programs that did not have a recapture audit plan, HUD did not complete its analysis and justification to determine whether a payment recapture audit was cost effective as required. OMB Circular A-123, appendix C, part III, section (C)(2), requires agencies to implement recapture audit plans for programs and activities that spend more than \$1 million in a fiscal year if it is cost effective. Section (C)(6) explains that if the agency has determined that a payment recapture audit program is not cost effective, the agency should report the justification and a summary of the analysis used to determine that conducting a payment recapture audit program was not cost effective.

The condition noted above occurred due to an unforeseen contracting delay. Due to this delay, HUD was unable to update its analysis and justification for programs that did not have payment recapture audits. HUD stated that the contract was being awarded and it planned to provide justifications. HUD further stated that it was working with its contractor to develop a plan to reach IPERA compliance.

Until all prior-year payment recovery audit remediation plans are fully implemented, it is likely that HUD will continue to miss opportunities to recover funds from programs with improper payments.

### **Conclusion**

In fiscal year 2018, HUD was revamping the program to meet with OMB requirements and thus remained noncompliant with IPERA. As a result of HUD's noncompliance with IPERA, HUD's programs continued to be vulnerable to the adverse effects of improper payments. Until all of the prior- and current-year IPERA issues have been remediated, HUD will likely continue to miss opportunities to prevent, identify, reduce, and recover improper payments.

### **Recommendations**

New recommendations were not made because prior-year audit recommendations that remain open (see followup on prior audits) will help HUD remediate repeat findings identified in this year's report if implemented.

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<sup>12</sup> In this year's review, HUD did not provide the threshold analysis to identify programs that would be subject to recovery audits in which an agency is required to compare program disbursements to a \$1 million threshold.

# Scope and Methodology

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We conducted our audit of HUD's compliance with IPERA for fiscal year 2018 from November 2018 through March 2019 at HUD headquarters in Washington, DC, and our office in Miami, FL. We followed OMB Circular A-123 guidance on the Office of Inspector General's (OIG) responsibility in determining compliance with IPERA. OMB Circular A-123, appendix C, part IV, section (A)(3), states the following:

To determine compliance with IPERA, the agency inspector general should review the agency's AFR or PAR (and any accompanying information) for the most recent fiscal year. Compliance with IPERA means that the agency has

- a. Published an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.
- b. Conducted a program-specific risk assessment for each program or activity that conforms with the Section 3321 note in 31 U.S.C. (United States Code) (if required).
- c. Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).
- d. Published programmatic corrective action plans in the AFR or PAR (if required).
- e. Published and is meeting annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable).
- f. Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.

If an agency does not meet one or more of these requirements, it is not compliant under IPERA. In addition, as part of its review of these improper payment elements, the agency inspector general should evaluate the accuracy and completeness of agency reporting and evaluate agency performance in reducing and recapturing improper payments.

To accomplish our audit objective, we reviewed

- Requirements contained in the applicable Federal laws and OMB Circular A-123, appendix C, and OMB Circular A-136, part II.4.5, as they relate to improper payments.
- HUD's 2018 AFR to understand and identify all relevant IPERA reporting components.

- HUD’s policies and procedures to understand the controls in place for reporting, preventing, reducing, and recovering improper payments.
- Fiscal year 2018 improper payment risk assessments, which identified the programs that were risk assessed and those that were considered susceptible to improper payments.
- Improper payment methodologies used to select samples for testing and the results of its testing.
- Records and documents to support information published in the AFR.

We also met with the appropriate personnel responsible for overseeing HUD’s improper payment program. In addition, we did not assess the reliability of computer-processed data provided by HUD because the data were not used to materially support our audit findings and conclusions.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## **Relevant Internal Controls**

Based on our review of the AFR and documents to support it, policies and procedures, and communication with HUD, we determined that the following internal controls were relevant to our audit objective:

- HUD's design and implementation of controls to prevent, detect, report, and recover improper payments.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## **Significant Deficiencies**

Based on our review, we believe that the following item is a significant deficiency:

- HUD continued to not have an effective process to ensure that all programs that spent \$1 million or more during the fiscal year were either considered for payment recapture audits or excluded because it was determined that audits would not be cost effective (finding).

# Followup on Prior Audits

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Last year's improper payment audit report, 2018-FO-0006, found that HUD was not in compliance with IPERA. Additional recommendations were not made since prior year audit recommendations remained opened. According to audit report 2018-FO-0006, as of April 2018, there were 24 recommendations that remained open from prior audit reports including 2014-FO-0004, 2015-FO-0005, 2016-FO-0005, and 2017-FO-0006.

We reviewed the recommendations from our prior audits regarding HUD's compliance with improper payment regulations. According to HUD's Audit Resolution and Corrective Action Tracking System, as of March 2019, 17 recommendations remained open. These open recommendations included 7 recommendations from audit report 2014-FO-0004, 7 recommendations from audit report 2016-FO-0005, and 3 recommendations from audit report 2017-FO-0006. Based on our review, this is the sixth year that HUD did not meet IPERA requirements (see finding). HUD continued to revamp its program and continued planning to address many of the prior-year IPERA compliance issues noted below. HUD stated that in 2018, it hired a contractor that would help bring the program into compliance within the next 2 years to address prior year recommendations.

The 17 open recommendations<sup>13</sup> are listed below.

We recommended that the Chief Financial Officer

1. Report on Multifamily, Public Housing, and Section 8 program improper payment rates separately in the agency financial report (recommendation 2014-FO-0004-001-G; no agreed-upon management decision).
2. Work with PIH and Multifamily Housing to determine annual improper payments HUD made to deceased tenants and report this amount as an additional source of improper payments in the agency financial report (recommendation 2014-FO-0004-002-H; no agreed-upon management decision).
3. Consider stratifying the population of RHAP [rental housing assistance programs] tenant cases between income-based and non-income-based rents going forward in determining the population of cases for the QC [quality control] study and determine whether it is appropriate to include only the income-based tenants in the population (recommendation 2016-FO-0005-001-C).
4. Develop, document, and implement formal policies and procedures to ensure that (1) all programs or activities that expend \$1 million or more annually for each program office identified are included in either the program office's payment recapture audit plan or

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<sup>13</sup> With the exception of items 1, 2, 15, and 17, HUD and OIG has agreed-upon management decisions to resolve the open recommendations.

provide a justification and analysis showing why a payment recapture audit would not be cost effective for that program or activity and (2) justifications and analyses showing why a payment recapture audit would not be cost effective are maintained and adequately described in the AFR, in accordance with OMB Circular A-123, appendix C (recommendation 2016-FO-0005-002-A).

5. Revisit the existing recovery audit plan and update as needed to ensure that all programs and activities that expended more than \$1 million annually were included in the recovery audit plan or excluded from the recovery audit plan and maintain the corresponding cost-benefit and analyses supporting their exclusion (recommendation 2016-FO-0005-002-B).
6. Resubmit the justification for why a payment recapture audit would not be cost effective for each program that expended over \$1 million or more to OMB and us for programs that were not already identified under a separate recovery audit plan (recommendation 2016-FO-0005-002-C).
7. Amend the checklist to ensure that descriptions of corrective actions in the AFR includes an explanation of how the corrective actions address the root causes reported in table 2 and all required timelines (recommendation 2016-FO-0005-004-A).
8. Establish and implement procedures to ensure that the required information specified in the checklist is adequately and specifically addressed and is included in the published AFR (recommendation 2016-FO-0005-004-B).
9. Establish and implement a process to identify high-dollar overpayments and report them quarterly to OMB and us or submit a written request to OMB for an alternative reporting structure (recommendation 2016-FO-0005-004-C).
10. Establish and implement procedures and controls, in coordination with FHA, to ensure that FHA information reported in the AFR is accurate and consistent with supporting documents (recommendation 2017-FO-0006-001-B).
11. Develop and implement steps to ensure that the description of corrective actions highlights current efforts and key milestones for ongoing efforts and explain in the AFR how it specifically tailored its corrective actions to better reflect the unique processes, procedures, and risks involved with RHAP as required by OMB (recommendation 2017-FO-0006-004-A).
12. Develop and implement steps to ensure that adequate disclosures are made when future-year reduction targets for improper payments reported in the AFR are higher than the current-year improper payment estimates (recommendation 2017-FO-0006-004-B).

We recommended that the Deputy Assistant Secretary for Multifamily Housing Programs

13. Coordinate with all the appropriate program officials when responding to OCFO's [Office of the Chief Financial Officer] information requests to ensure that all statements are accurate for the current fiscal year, to include but not be limited to updates to corrective action plans, internal controls in place, and information on any barriers the agency is experiencing (recommendation 2014-FO-0004-001-L).
14. Develop and execute formal plans to hold accountable program officials and processing entities (owners or administrators) responsible for improper payments (recommendation 2014-FO-0004-001-M).
15. Reassess existing supplemental measures and corrective actions and enhance or develop new supplemental measures and corrective actions to ensure that they target the root causes of errors identified in the improper payment studies (recommendation 2014-FO-0004-002-D; no agreed-upon management decision).
16. Periodically reevaluate the supplemental measures and corrective actions so that new and innovative ways to reduce improper payments are identified and implemented (recommendation 2014-FO-0004-002-E).
17. Work with the Real Estate Assessment Center to develop management-level reports in the Enterprise Income Verification system that will allow Multifamily Housing management to efficiently and effectively identify processing entities that are responsible for improper payments and develop policies and procedures to hold owners/administrators identified accountable (recommendation 2014-FO-0004-002-F; no agreed-upon management decision).

# Appendixes

## Appendix A

### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments

 U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-3000

CHIEF FINANCIAL OFFICER

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May 20, 2019

MEMORANDUM FOR: Kimberly Randall, Acting Assistant IG for Audit, OA  
FROM: *George J. Tomchick*  
George J. Tomchick, Deputy Chief Financial Officer, HUD, F  
SUBJECT: Response to Draft OIG IPERIA Audit Report

HUD is committed to fulfilling its mission to create strong, sustainable, inclusive communities and quality affordable homes for American families and individuals. The work of HUD's Office of Inspector General (OIG) helps to ensure that HUD programs and employees work to successfully accomplish these goals.

HUD thanks OIG for reporting on HUD's IPERIA progress. We appreciate that OIG recognizes that HUD has made substantial improvement with OIG reporting compliance with four out of the six criteria. We are pleased that OIG agrees that HUD:

- Published a compliant AFR;
- Implemented a compliant IPERIA Risk Assessment approach;
- Published and is meeting its reduction targets; and
- Justified why the corrective action requirement was not applicable.

HUD requests that in Appendix B of the draft audit report, ACD 601 Demonstration should be removed as a program. As described to and cleared by OIG; ACD 601 is a system, not a program. Payments affected by this system were assessed under other programs. Leaving ACD 601 listed as a program will lead future auditors to question why it is not being assessed as a separate program.

HUD looks forward to working with OIG to resolve prior year recommendations. Those will guide our work to identify, estimate, and recapture improper payments and report on these efforts.

During the next year, HUD plans to reach compliance with the remaining two IPERIA compliance requirements.

Comment 1

Comment 2

## OIG Evaluation of Auditee Comments

- Comment 1    OIG appreciates HUD’s cooperation throughout the audit and acknowledge their efforts to reach IPERA compliance.  OIG recognizes that HUD has made substantial improvement with reporting compliance with three of the six criteria and the corrective action requirement was not applicable for our review period as explained in the audit report.
- Comment 2    According to a previously issued OIG audit report,<sup>14</sup> ACD was a demonstration program that evolved into the Single Family Notes Sales program.  Once we provided this information to HUD, they provided us with evidence to show that the Single Family Notes program was risk assessed in 2017.  Therefore, we did not remove ACD 601 as a program and our report remains unchanged.

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<sup>14</sup> Audit report AT 2017-KC-0006 explained how the ACD program evolved into the Single Family Notes Sales program.  The report found that HUD did not have a plan to transition its single-family notes sales program from a demonstration to an official program and did not conduct rulemaking or develop formal procedures for its single-family note sales.

## Appendix B

### IPERA Compliance Reporting Table

	Program name	Published an AFR	Conducted a risk assessment	Published an improper payment estimate	Published corrective action plans	Published and is meeting reduction targets	Reported an improper payment rate of less than 10 percent
	Compliance requirement	A	B	C	D	E	F
<b><i>Programs susceptible to significant improper payments</i></b>							
1	Office of Multifamily Housing Programs – RAP	Yes	N/A <sup>15</sup>	No	N/A <sup>16</sup>	N/A <sup>17</sup>	N/A <sup>17</sup>
2	PIH – TBRA	Yes	N/A <sup>15</sup>	No	N/A <sup>16</sup>	N/A <sup>18</sup>	Yes
3	Ginnie Mae – contractor payments	Yes	N/A <sup>15</sup>	Yes <sup>19</sup>	N/A <sup>16</sup>	Yes	No
4	CPD – DRAA (Sandy)	Yes	N/A <sup>15</sup>	Yes	N/A <sup>20</sup>	Yes	Yes
5	FHA –SFIC	Yes	N/A <sup>15</sup>	Yes	N/A <sup>20</sup>	N/A <sup>21</sup>	Yes
<b><i>Programs Not Susceptible to Significant Improper Payments</i></b>							
6	NHOP <sup>22</sup>	N/A	N/A	N/A	N/A	N/A	N/A

<sup>15</sup> OMB Circular A-123, appendix C, part I, section(C)(1), states that programs already reporting an improper payment estimate do not need to perform an additional improper payment risk assessment.

<sup>16</sup> Not applicable because HUD provided justifications (Results of Audit).

<sup>17</sup> Not applicable because HUD was unable to establish an improper payment estimate (Results of Audit).

<sup>18</sup> According to OMB Circular A-123, appendix C, part III, section (A)(3), a baseline for reduction targets is established over a 24-month period. Last year was the first year HUD published estimates for this program. Although HUD reported a reduction target this year, it was not required since it was still establishing its baseline.

<sup>19</sup> Although we took no exception to the sampling methodology used, we suggest that if HUD uses its revised plan next year, it should submit it to OMB for review as required by OMB Circular A-123, appendix C, part I, section (D)(1). HUD revised the original plan submitted to OMB by breaking each of the original eight strata into three parts. Therefore, this change in strata variable requires the updated plan to be resubmitted to OMB.

<sup>20</sup> Not applicable because the estimated improper payments did not exceed the statutory thresholds (Results of Audit).

<sup>21</sup> This is the first year HUD reported an estimate for this program; thus, no reduction target was reported in the prior year. HUD reported a futuristic reduction target this year, but is still establishing its baseline.

<sup>22</sup> Based on our review, NHOP was not assessed by HUD in fiscal year 2018 as discussed in the report (Results of Audit).

7	ACD 601 Demonstration <sup>23</sup>	N/A	N/A	N/A	N/A	N/A	N/A
8	CPD – ARRA Community Development Fund	Yes	Yes	N/A	N/A	N/A	N/A
9	CPD – Appalachian Regional Commission Projects	Yes	Yes	N/A	N/A	N/A	N/A
10	CPD – CDBG - CDBG Insular Areas	Yes	Yes	N/A	N/A	N/A	N/A
11	CPD – U.S. Department of Transportation Surface Transportation Project	Yes	Yes	N/A	N/A	N/A	N/A
12	CPD – HOME Investment Partnerships program	Yes	Yes	N/A	N/A	N/A	N/A
13	CPD – Homeless Assistance Grants	Yes	Yes	N/A	N/A	N/A	N/A
14	CPD – Homeless Prevention and Rapid Rehousing Program	Yes	Yes	N/A	N/A	N/A	N/A
15	CPD – Housing Trust Fund	Yes	Yes	N/A	N/A	N/A	N/A
16	CPD – CDBG - Disaster Recovery Assistance (Hurricane Ike, other disasters)	Yes	Yes	N/A	N/A	N/A	N/A
17	CPD – Neighborhood Initiatives Program	Yes	Yes	N/A	N/A	N/A	N/A
18	CPD – Project-Based Section 8 (Renewal of Expiring Section 8 Moderate Rehabilitation Single Room Occupancy)	Yes	Yes	N/A	N/A	N/A	N/A
19	CPD – Self-Help Homeownership Opportunity Program	Yes	Yes	N/A	N/A	N/A	N/A
20	Ginnie Mae – Master Subservicer Default Activity	Yes	Yes	N/A	N/A	N/A	N/A
21	Housing – Energy Innovation Fund	Yes	Yes	N/A	N/A	N/A	N/A
22	Housing – Emergency Home Loan Program - Emergency Homeowners Relief	Yes	Yes	N/A	N/A	N/A	N/A

<sup>23</sup> Based on our review, ACD was assessed in 2017 under the Single Family Notes program.

	(administrative costs) - Emergency Homeowner Positive - Emergency Homeowner Relief						
23	Housing – Debt Service Grants	Yes	Yes	N/A	N/A	N/A	N/A
24	Housing – Multifamily Upfront Grants - General Insurance and Special Risk Insurance Fund	Yes	Yes	N/A	N/A	N/A	N/A
25	Housing – ARRA - Energy & Green Retrofit Loan Financing	Yes	Yes	N/A	N/A	N/A	N/A
26	Housing – Emergency Homeowners’ Loan Program - Financing Account	Yes	Yes	N/A	N/A	N/A	N/A
27	Housing – Homeownership & Rental Housing Assistance Section 236	Yes	Yes	N/A	N/A	N/A	N/A
28	Housing – Housing Counseling Program	Yes	Yes	N/A	N/A	N/A	N/A
29	Housing – Housing for Special Populations - capital advance portion of expenditures, Section 202	Yes	Yes	N/A	N/A	N/A	N/A
30	Housing – Permanent Supportive Housing	Yes	Yes	N/A	N/A	N/A	N/A
31	Housing – Housing for the Elderly and Disabled – Direct Loan-Liquidating Account	Yes	Yes	N/A	N/A	N/A	N/A
32	Office of the Chief Information Officer – Working Capital Fund	Yes	Yes	N/A	N/A	N/A	N/A
33	Office of the Chief Procurement Officer – Payments to Federal Contractors	Yes	Yes	N/A	N/A	N/A	N/A
34	PIH – Choice Neighborhoods Initiative	Yes	Yes	N/A	N/A	N/A	N/A
35	PIH – Family Self-Sufficiency program	Yes	Yes	N/A	N/A	N/A	N/A
36	PIH – Public Housing Capital Fund	Yes	Yes	N/A	N/A	N/A	N/A

37	PIH – Revitalization of Severely Distressed Public Housing (HOPE VI)	Yes	Yes	N/A	N/A	N/A	N/A
38	PIH – Disaster - Federal Emergency Management Agency Disaster Housing Assistance Program	Yes	Yes	N/A	N/A	N/A	N/A
39	FHA – multifamily claims	Yes	Yes	N/A	N/A	N/A	N/A
40	FHA – multifamily notes	Yes	Yes	N/A	N/A	N/A	N/A
41	FHA – multifamily premium refunds	Yes	Yes	N/A	N/A	N/A	N/A
42	FHA – multifamily property	Yes	Yes	N/A	N/A	N/A	N/A
<b>Overall</b>		<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Yes</b>	<b>No</b>