



January 23, 2024

To: Adrienne Todman
Deputy Secretary, SD

From: Rae Oliver Davis *Rae Oliver Davis*
Inspector General, G

Subject: Management Alert (2024-IG-0001) – Action Is Needed From HUD Leadership To Resolve Systemic Challenges With Improper Payments

While conducting our annual audit of the U.S. Department of Housing and Urban Development's (HUD or Department) compliance with the Payment Integrity and Information Act, HUD's Office of the Chief Financial Officer (OCFO) informed my office that the Department will once again be unable to estimate improper payments for the Office of Public and Indian Housing's Tenant-Based Rental Assistance (PIH-TBRA) program and the Office of Multifamily Housing Programs' Project-Based Rental Assistance (PBRA) program for fiscal year (FY) 2023. These are the two largest program expenditures in HUD's portfolio, totaling \$45.3 billion in FY 23, or 67.5 percent of HUD's total expenditures.

This marks the 7th consecutive year that HUD will be unable to report improper payment estimates for these programs and the 11th consecutive year that the Office of Inspector General (OIG) will find that HUD is not in compliance with improper payment laws¹. Even more troubling, we recently learned that OCFO believes it will not be able to provide estimates of improper payments in these programs next year either, and OCFO has informed the Office of Management and Budget (OMB) that it may not be able to make these estimates until FY 2027, dependent on funding. If left unaddressed until then, hundreds of billions of dollars in HUD rental assistance payments will continue to be at heightened risk of waste, mismanagement, and fraud.

Action is needed immediately from HUD leadership to resolve its systemic challenges in preventing, identifying, and remediating improper payments and better protect taxpayer-funded expenditures made through these programs. The lack of proper planning and coordination from leadership in HUD's program and support offices prevents HUD from addressing the root causes behind the failure to comply with improper payment laws. For several years, we have reported that HUD was unable to test for improper payments in its largest rental assistance programs because OCFO was unsuccessful in working with the Offices of Public and Indian Housing, Multifamily Housing Programs, and the Chief Information Officer to securely collect program files needed to test payments. This year, OCFO told OIG and OMB

¹ Although HUD has been non-compliant for 11 years, prior to 2017 it was able to report improper payment estimates in these programs. The non-compliance prior to 2017 was primarily related to shortcomings in HUD's risk assessments and not meeting reduction targets. While we reported some flaws with the estimates prior to 2017, the estimates were foundationally sound.

that HUD was again unable to complete improper payment testing because it was delayed in implementing a secure platform designed to collect supporting data and documentation and also because of limited staffing resources with the technical knowledge of the payment cycles.

We find that OCFO's approach to improper payments is fundamentally flawed because for seven years OCFO has failed to develop an approach that will allow it to make a valid statistical projection of improper payments, and it did not account for the resources necessary to gather the documentation in the timeframe required. We believe this requires intervention from HUD leadership. As a starting point for deciding how it will address improper payments, HUD is required to identify all programs and activities that may be susceptible to significant improper payments, estimate the annual amount of improper payments using sampling and statistical projections, and report those estimates. However, OCFO has continually failed to develop a sound methodology for testing improper payments in HUD's largest programs, which can then be executed in a timely fashion in order for HUD to publicly report estimates of those improper payments. For example, OCFO's sampling approach is to select a statistical sample of HUD's general ledger disbursements, instead of statistically sampling payments made from PHAs and PBCAs to landlords and owners. Using this method, the number of individual payments made by PHAs and PBCAs in the sample is so large that HUD is forced to apply judgmental sampling, which does not comply with PIIA. We are concerned that these conditions are due in large part to OCFO's lack of a comprehensive understanding of how HUD makes payments through its programs and the resources necessary to produce a compliant estimate.

This conclusion is supported by the fact that OCFO improperly closed two priority OIG recommendations related to HUD's process for sampling and testing the full cycle of payments made through its programs. OCFO officials closed these recommendations after documenting a plan that did not include legitimate steps for creating a statistically valid sample of payments made from housing agencies and contract administrators to landlords. Without including these payments in its testing, HUD cannot produce actual estimates of improper payments required by law. Despite these known deficiencies in its plan, OCFO closed the recommendations and noted that the Department had taken final action sufficient to address OIG's concerns. After their closure, OCFO informed OIG that it would not be able to produce estimates of improper payments in these programs for FY 2023 and projected to OMB that it may not be able to do so until FY 2027, dependent on funding.

In 2016, the last year HUD reported a compliant estimate, HUD reported an estimated \$1.7 billion in improper payments for these programs. Since that time, the dollars flowing through these rental assistance programs have increased substantially, from \$30.7 billion in FY 2016 to \$45.3 billion in FY 2023. Yet during that same period, HUD has not been able to estimate the improper payment rate and, therefore, has been unable to conduct a root cause analysis and implement corrective actions to reduce improper payments. HUD leadership must act immediately to break the cycle of noncompliance with improper payment laws.

Because of this ongoing, systemic problem, we recommend that the Deputy Secretary

Develop and execute a detailed plan and timeline for both testing and reporting estimates of improper payments in the PIH-TBRA and PBRA programs in compliance with Federal law and OMB guidance.

We stress that for HUD to close this recommendation, it must finish testing the full life cycle of payments in these programs and publicly report estimates of the improper payments in them. Merely producing a plan with future action target dates is not sufficient to meet the spirit of this recommendation.

My office remains committed to helping HUD reduce improper payments in its programs, and we look forward to working with HUD to resolve the challenges outlined in this memorandum.

Included in appendix 1 is a more comprehensive discussion of OCFO's challenges with estimating improper payments, and appendix 2 is a graphic illustrating the complex payments made through HUD's PIH-TBRA and PBRA programs.

The information contained in this management alert was developed during an audit conducted 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective(s).

Agency Comments

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

January 22, 2024

MEMORANDUM FOR: Rae Oliver Davis, Inspector General, G
 FROM: Adrienne Todman, Deputy Secretary, SD 
 SUBJECT: Response to Draft PIIA Management Alert (2024-IG-0001)

The Department of Housing and Urban Development (HUD) is committed to demonstrating that HUD funding is spent as Congress mandated. We recognize the importance of comprehensive testing of payments as a method of demonstrating our ongoing commitment to providing strong, inclusive, and sustainable communities through rental assistance from our largest and most complex programs.

Previously, HUD shared with the Office of Inspector General (OIG) the new challenges and complexities that have been encountered which have prevented full life-cycle testing. Overcoming these challenges will require commitment to refining approaches, expanding the use of technologies, dedicating additional financial and personnel resources, and collaboration with external parties.

Since the 2017 testing of potentially improper payments within HUD's rental assistance programs, HUD has been working in earnest to establish privacy compliant solutions for the collection and storage of payment documentation from external parties and to enhance and automate the payment integrity risk assessments.

HUD has also requested additional funding for system enhancements to support functionality to address certain aspects of the Payment Integrity and Information (PIIA) requirements. For example, HUD requested funds for Public and Indian Housing (PIH) Modernization and in fiscal year (FY) 2023 received \$6.6 million which covers Enterprise Income Verification (EIV) and HUDCAPS Section 8 Program Management, but have been unable to deploy the funds because the FY 2023 PIH Performance plan is currently pending Congressional approval. For FY 2024, an additional \$1.1 million has been requested, but HUD remains unsure if that funding will be provided.

Notwithstanding, HUD has oversight and monitoring in place to ensure the integrity of its rental assistance programs. PIH performs monitoring reviews of its Tenant-Based Rental Assistance programs (TBRA), and Project-Based Rental Assistance Programs (PBRA), including Comprehensive Program Monitoring Reviews and Voucher Management System Data Integrity Reviews, which validate PHA's reported leasing and expense data. We also conduct Financial Management Reviews, which take a deeper dive into PHA's Housing Choice Voucher financials to ensure funds have been spent properly and recorded accurately.

The Real Estate Assessment Center (REAC) also monitors the financial integrity of the TBRA program through the following oversight activities:

- Financial assessment of the TBRA program through the review of unaudited and audited financial statements (the Financial Data Schedule) submitted annually to HUD.
- REAC operates HUD's Enterprise Income Verification (EIV) program which helps validate whether the income and asset amounts reported by residents and reviewed by PHAs is within the bounds of eligibility for HUD's rental assistance programs.
- REAC's Quality Assurance Sub-system (QASS) team reviews the work of independent public auditors (IPAs) that certify PHA financial statements prior to submission to ensure these entities are performing quality work.

Additionally, the Office of Multifamily Housing (MFH) reviews the monthly owner voucher submission in comparison with previous monthly vouchers and annual subsidy usage. Also, owners receive a Management and Occupancy Review (MOR) which reviews the owner's compliance with Section 8 subsidy administration requirements, including resident recertification and voucher processing. MFH will continue to require annual audited financial statements which must note any areas of non-compliance with HUD's financial requirements.

Each year, HUD has made progress in its payment testing for additional HUD programs and realized significant achievements along the way. Specifically, HUD successfully tested and confirmed low payment error rates for the following programs, the results of which were audited by OIG:

- CPD Disaster Recovery - Harvey, Irma, Maria (compliant in FY 2022)
- CPD Disaster Recovery – Sandy (complaint in FY 2020)
- FHA Single Family Insurance Claims (complaint in FY 2019)
- Ginnie Mae Contractor Payments (complaint in FY 2020)

You have requested that the Department develop and execute a detailed plan for both testing and reporting estimates of improper payments in the PIH-TBRA and PBRA programs in compliance with federal laws and OMB guidance. I concur that a detailed plan is necessary to expedite this work. To that end, the multiple relevant offices at HUD are working with me and the CFO and will provide a plan within the next 30 days that takes into consideration the necessary resources and IT investments that HUD will need to get the job done.

We appreciate your attention to this matter. HUD is committed to effectively addressing payment testing and strengthening collaboration with OIG to advance HUD's mission by enhancing integrity, efficiency, and effectiveness.

OIG Evaluation of Agency Comments

We are encouraged by the Deputy Secretary's commitment to develop a plan responsive to our recommendation in the next 30 days. Developing a comprehensive plan to address HUD's challenges in testing its rental assistance programs is critical to making a valid improper payment estimate. HUD's response discusses several internal controls that it has in place to detect and prevent improper payments. However, without a valid improper payment estimate it is difficult for HUD to determine if the controls in place are sufficient, operating effectively, and targeting the root causes of improper payments occurring in the PIH-TBRA and PBRA programs. We look forward to our continued partnership on this matter.

Appendix 1

Requirements Under Improper Payment Laws

OMB requires that agencies review all programs that outlay more than \$10 million annually and identify those that are susceptible to significant improper and unknown payments. For all programs determined to be susceptible, agencies are required to produce statistically valid estimates of the annual improper and unknown payments in such programs. When the rate of unknown or improper payments for a program exceeds the statutory threshold, which is either 1) 1.5 percent of program outlays and \$10 million or 2) \$100 million during the fiscal year reported, HUD must publish a corrective action plan detailing how it will prevent and reduce improper and unknown payments and report its progress annually in its agency financial statements and on [PaymentAccuracy.gov](https://www.paymentaccuracy.gov).

At HUD, OCFO has been responsible for producing a statistically valid estimate of the improper and unknown payments and for the information required in the accompanying materials to the financial statements. OCFO is the lead office for producing the estimates and reporting on improper and unknown payments, but HUD's program offices are responsible for providing OCFO with the information necessary to complete those functions. Additionally, program offices must implement and monitor controls that ensure payment integrity in the execution of their programs and activities. Each agency's inspector general performs an annual review of the agency's compliance with the Payment Integrity and Information Act (PIIA).

Background on Improper Payments in PIH-TBRA and PBRA Programs

The PIH-TBRA and PBRA programs have complex eligibility requirements, and substantial parts of program administration are delegated to thousands of non-Federal administrators, such as public housing agencies (PHA) and performance-based contract administrators (PBCA). HUD provides blocks of funding to PHAs and PBCAs to execute its PIH-TBRA and PBRA programs, which then determine tenant eligibility and are responsible for making payments to landlords and owners on behalf of HUD to subsidize millions of tenants.

The greatest risk to payment integrity occurs at the PHA and PBCA level, when those entities determine which renters are eligible to receive rental assistance from HUD and then make payments to landlords directly on HUD's behalf.

HUD's methodology and testing execution has not been able to bridge the gap between the payments that HUD makes to the PHAs and PBCAs (tier 1 payments) and payments PHAs and PBCAs make on HUD's behalf (tier 2 payments). The complex nature of the payment structure that makes testing for improper payments complex is also the very reason why it is so important that HUD performs this testing to maintain the integrity of these programs.

The PIH-TBRA and PBRA programs also have an established history of significant improper payments. In FY 2000, HUD reported an estimated \$3.2 billion in improper payments for these programs, and in 2001, the U.S. Government Accountability Office classified HUD's rental assistance programs (PIH-TBRA and PBRA, collectively) as high risk, noting significant opportunities to reduce excess subsidy payments. In

2016, the last year HUD reported a compliant estimate, HUD reported an estimated \$1.7 billion in improper payments for these programs.

In 2017, HUD changed its approach to improper payment estimates and discontinued its quality control for rental subsidy determinations studies, which were previously performed annually by a contractor to determine HUD's estimates. Under the previous studies, the contractor was responsible for collecting the documentation from PHAs and owners that was needed to test for improper payments. This data collection effort was a substantial part of the contract and included creating and automating more than 30 data collection instruments, contacting and obtaining information from PHA and owner staff, and hiring and training 73 field interviewers.

HUD's Failure To Complete Testing and Provide Estimates of Improper Payments in the TBRA and PBRA Programs

When HUD changed its approach, it hired a new contractor and decided to collect the data itself. However, it did not adequately plan for this data collection effort. OCFO, which is responsible for reporting compliant improper payment estimates for the Department, has encountered challenges with this responsibility because it now relies heavily upon the program offices to provide the necessary documentation from the PHAs and PBCAs to complete testing. Program offices have raised concerns that they do not have the resources to fulfill OCFO's requests in the timeframe given, and OCFO, in developing its methodology and executing its testing strategy, does not fully understand the complexities of the PIH-TBRA and PBRA programs and payment model. For example, OCFO is trying to reconcile the amount HUD paid to PHAs with the amounts in the PHAs' housing assistance payment (HAP) registers for a particular period, which is challenging because HUD's payments are based on estimates and PHAs are allowed to adjust prior periods.

Knowing the number of improper payments occurring in these programs is important in maximizing program integrity and the number of low-income households that receive HUD rental assistance. PIIA requires an estimation of improper payments that is either statistically valid or supported by an appropriate methodology that is approved by the Director of OMB. However, the PIH-TBRA sampling plan did not include a methodology to sample tier 2 payments. The PBRA sampling plan included only a nonstatistical judgmental sample of tier 2 payments without approval from the Director of OMB. Further, HUD could not produce estimates based on the plans. Both of these issues related to the sampling plans are required to be compliant with PIIA.

For HUD to develop compliant methodologies and improper payment estimates in time, it is extremely important to improve the coordination of OCFO, program offices, and support offices across HUD to find a practical solution that will result in departmental compliance with PIIA and maintain payment integrity in these programs. Fully understanding all of the processes and challenges involved in getting to reporting compliant improper payment estimates for the PIH-TBRA and PBRA programs will be essential to ensuring that HUD is successful in its efforts.

Appendix 2: Graphic Illustration of HUD’s Tier 1 and Tier 2 Payment Structure

UNDERSTANDING TIER 1 AND TIER 2 Payments in HUD Programs

TIER 1 PAYMENTS	TIER 2 PAYMENTS
<p> Payment Cycle</p> <p>Disbursement made from HUD to:</p> <p> A grantee, PHA, PBCA, TCA, HFA</p>	<p> Payment Cycle</p> <p>From the disbursement HUD gave the Grantee, PHA, PBCA, TCA, or HFA, then make disbursements to:</p> <p> Subrecipients, landlords, property owners, or individual beneficiaries</p>
<p> Scenario of Tier 1 Payment Cycle</p> <p>HUD executes an ACC Contract and Amendments with the PHA. Based on the contract, HUD Disburses HAP to:</p> <p> A PHA for total rent subsidy for the month</p> <p>The ACC contract and amendments are the supporting documentation for this Tier 1 payment</p>	<p> Scenario of Tier 2 Payment Cycle</p> <p>From the HAP received from HUD, PHA disburses funds to:</p> <p> The landlord for portion of rent payment subsidized by program for eligible beneficiaries. PHAs determine eligibility and subsidy payment amount based on tenant files that include support for income, allowances, household members, etc. and conduct annual examinations.</p> <p>The tenant file and income verification documents are the supporting documentation for this Tier 2 payment</p>
<p> Examples of Tier 1 Payment Documentations:</p> <ul style="list-style-type: none"> • Grant Agreements • Annual Contributions Contract (ACC) • Other obligating documents 	<p> Examples of Tier 2 Payment Documentations:</p> <ul style="list-style-type: none"> • Invoices or contracts supporting eligible activity of the program • Beneficiary documentation to show eligibility • Rental agreement • Tenant files to support amounts needed to calculate Housing Assistance payments* • Tenant Income Verification <p><small>*Such as income, medical and other allowances, assets, and number of household members</small></p>



This is not an exhaustive list of the documentation required to determine if payments are proper. This graphic was created to provide the reader an illustration of the full payment cycle and is not intended for any other uses.

*In the graphic above, (TCA) and (HFA) stand for traditional contract administrators and state housing finance agencies, respectively.