



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

July 15, 2019

MEMORANDUM NO:
2019-LA-0801

Memorandum

TO: Susan A. Betts
Deputy Assistant Secretary for Finance and Budget, HW

FROM: //SIGNED//
Tanya E. Schulze
Regional Inspector General for Audit, 9DGA

SUBJECT: HUD Completed the Agreed-Upon Corrective Actions for One of the Two
Recommendations Reviewed From Prior OIG Audit Report 2015-LA-0001 on
FHA-HAMP Partial Claims

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), completed a corrective action verification (CAV) of recommendations 1A and 1C from prior OIG audit report 2015-LA-0001 (issued April 20, 2015). The CAV was initiated based on preliminary analysis, which identified potential ineligible partial claims. The prior audit determined that the Federal Housing Administration's (FHA) claim payment system failed to identify two types of ineligible partial claims. As part of its response to the audit report, HUD's Office of Finance and Budget agreed to implement new system controls to prevent the problems from recurring. The CAV objectives were to determine (1) whether HUD implemented adequate corrective actions in response to recommendations 1A and 1C of audit report 2015-LA-0001 and (2) the number and amount of previously unidentified FHA loan modification claims or partial claims that were ineligible due to a prior loss mitigation claim for the same loan within 24 months or a duplicate claim.

HUD Handbook 2000.06, REV-4, provides specific timeframes for management decisions on recommended corrective actions and for recommendations that have been reopened. 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 review.

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>.

METHODOLOGY AND SCOPE

Our CAV generally covered the period January 2015 to January 2019 and included actions taken by HUD as a result of recommendations 1A and 1C from the prior OIG audit report. We conducted the audit fieldwork from the OIG Office of Audit in Phoenix, AZ, between November 2018 and May 2019. To accomplish our objective, we

- reviewed the prior OIG audit report (audit report 2015-LA-0001), including recommendations 1A and 1C addressed to HUD;
- reviewed the management decisions¹ submitted by HUD;
- reviewed background information, including relevant criteria;²
- interviewed HUD officials;
- analyzed programming code for HUD's Single Family Insurance System – Claims Subsystem (Claims Subsystem) system controls related to the audit objectives; and
- tested available data for all 539,140 FHA partial claims and loan modification claims paid during the period January 18, 2015,³ through September 30, 2018, for amounts totaling \$7.3 billion.⁴

We relied on information obtained from the Audit Resolution and Corrective Action Tracking System (ARCATS)⁵ and claim data that were obtained from HUD's Single Family Data Warehouse.⁶ Our review was not conducted in accordance with generally accepted government auditing standards and was designed to achieve the specific CAV objectives.

BACKGROUND

FHA, created by Congress in 1934, provides mortgage insurance on loans made by FHA-approved lenders. This insurance is paid for by borrowers and provides lenders with protection

¹ Management decisions are management's responses to recommendations included in an internal or external audit report, which include corrective actions needed to resolve a recommendation.

² See appendix C.

³ The prior audit testing included claims paid between November 16, 2012, and January 17, 2015.

⁴ The audit testing related to recommendation 1C was extended through January 31, 2019, to address additional claims that appeared to be potential duplicates. During this expanded period, HUD paid a combined total of 579,605 in partial claims and loan modification claims for amounts totaling \$7.85 billion.

⁵ ARCATS is an automated system used primarily to monitor the process of implementing corrective actions as a result of OIG-issued audit reports. It is HUD's official system to track the status of corrective actions.

⁶ The Single Family Data Warehouse is a large collection of database tables dedicated to support analysis, verification, and publication of FHA single-family data.

against losses in the event of a loan default. Before proceeding to foreclosure when an insured loan defaults, lenders must first attempt to work with the homeowner and consider HUD's available loss mitigation options, which can assist the borrower in bringing the loan current or allow the borrower to dispose of the home without foreclosure. HUD's loss mitigation options include the FHA Home Affordable Modification Program (HAMP), which consists of loan modification and partial claim. These options allow a mortgage to be reinstated by establishing an affordable monthly payment and providing for principal deferment. HUD requires that to qualify a borrower for a loan modification or partial claim, lenders must ensure that a borrower has not executed a separate loan modification or partial claim agreement in the past 24 months.

The Office of Finance and Budget, within the Office of Housing, oversees the FHA claims process and the Claims Subsystem, which processes single-family insurance claims.

On April 20, 2015, OIG issued audit report 2015-LA-0001, which noted that HUD's Claims Subsystem did not always identify ineligible FHA-HAMP partial claims. Specifically, HUD's Claims Subsystem allowed payment of (1) more than one claim with a modification or FHA-HAMP option in a 24-month period and (2) duplicate claims. The audit report included recommendations to prevent these problems from recurring, and HUD agreed to take corrective actions as shown in figure 1 below.

Figure 1 – Audit recommendations and management decisions

1A	Recommendation	Develop and implement controls to detect and prevent payment of claims with a modification or FHA-Home Affordable Modification Program (HAMP) option submitted within a 24-month period.
	HUD management decision	The effective date for Mortgagee Letter 2012-22 was extended to March 15, 2013, due to the issuance of Mortgagee Letter 2013-03. System controls are now being modified to allow only one of the four potential loss mitigation options every 24 months and to update the effective date.
1C	Recommendation	Develop and implement controls to detect and prevent payment of duplicate claims.
	HUD management decision	The Office of Finance and Budget agrees with this recommendation and is implementing A43C system enhancements to detect and prevent the payment of duplicate claims.

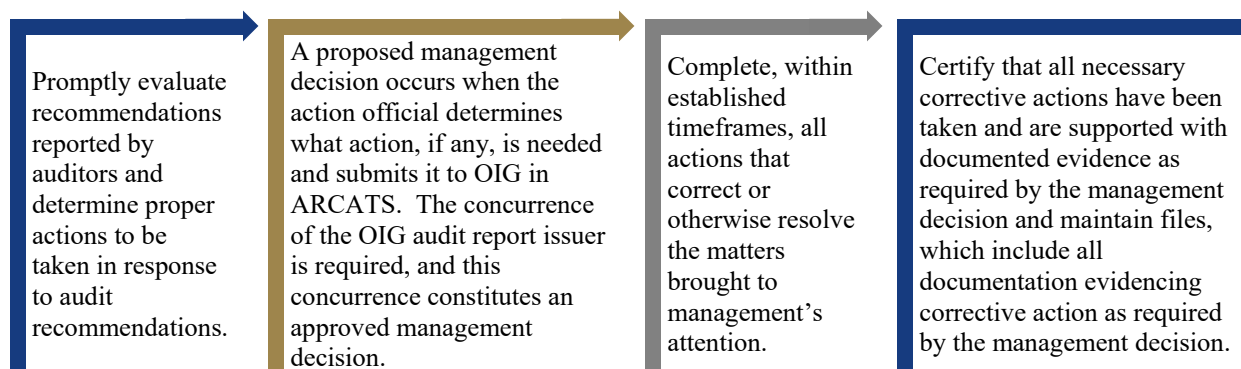
The recommendations were closed based on HUD's assertions that the planned corrective actions were completed. For recommendation 1A, HUD certified that a new Claims Subsystem control was implemented on January 12, 2016, to allow only one loss mitigation option claim every 24 months. For recommendation 1C, HUD indicated that a new Claims Subsystem control was implemented on April 10, 2015, to prevent duplicate payments based on matching partial claim note amounts.

Audit Resolution Process

HUD Handbook 2000.06, REV-4, details the operating procedures for HUD's management system used to monitor the implementation of recommendations in audit reports prepared by

OIG, the U.S. Government Accountability Office, or other auditors.⁷ The core responsibility for the implementation of the audit resolution process is vested within HUD and its subordinate headquarters and field program and administrative managers. After OIG issues an audit report or memorandum with recommendations, HUD program or administrative managers are to follow the audit resolution process described in figure 2 below.

Figure 2 – Audit resolution process



Final action for an OIG-issued recommendation occurs when all actions identified in the management decision or the revised management decision have been implemented; the action official, recommendation action official, or point of contact certifies to the completion of all actions; and the audit liaison officer accepts the certification and closes the recommendation. Final action should normally occur within 1 year of the original management decision date.

RESULTS OF REVIEW

HUD implemented the agreed-upon corrective actions in response to the prior OIG audit recommendation 1A, yet further action is needed to improve Claims Subsystem controls and to address ineligible claims that were already paid. For recommendation 1C, HUD did not implement adequate corrective actions to detect and prevent payment of duplicate claims.

HUD Completed Corrective Actions for Recommendation 1A, yet Further Action Is Needed.

HUD completed its corrective action for recommendation 1A on January 12, 2016, by implementing a new control within its Claims Subsystem to suspend payment for claims that had a reported prior loss mitigation action within 24 months. This control was generally effective, and ineligible claim payments stopped almost entirely once this corrective action was in place. However, HUD's revised controls did not work in limited circumstances, and as a result, HUD paid 12 unsupported claims for amounts totaling \$199,724, which appeared to have been ineligible based on a reported prior claim within 24 months.⁸ HUD's corrective action was

⁷ See appendix C for additional details on the audit resolution process required by HUD Handbook 2000.06, REV-4.

⁸ Additional ineligible claims could have been paid that were not identified by our testing. For example, if lenders executed more than one loss mitigation action within 24 months and had not yet submitted a claim for the earlier action, the violation would not be evident based on the HUD claim data used for our testing.

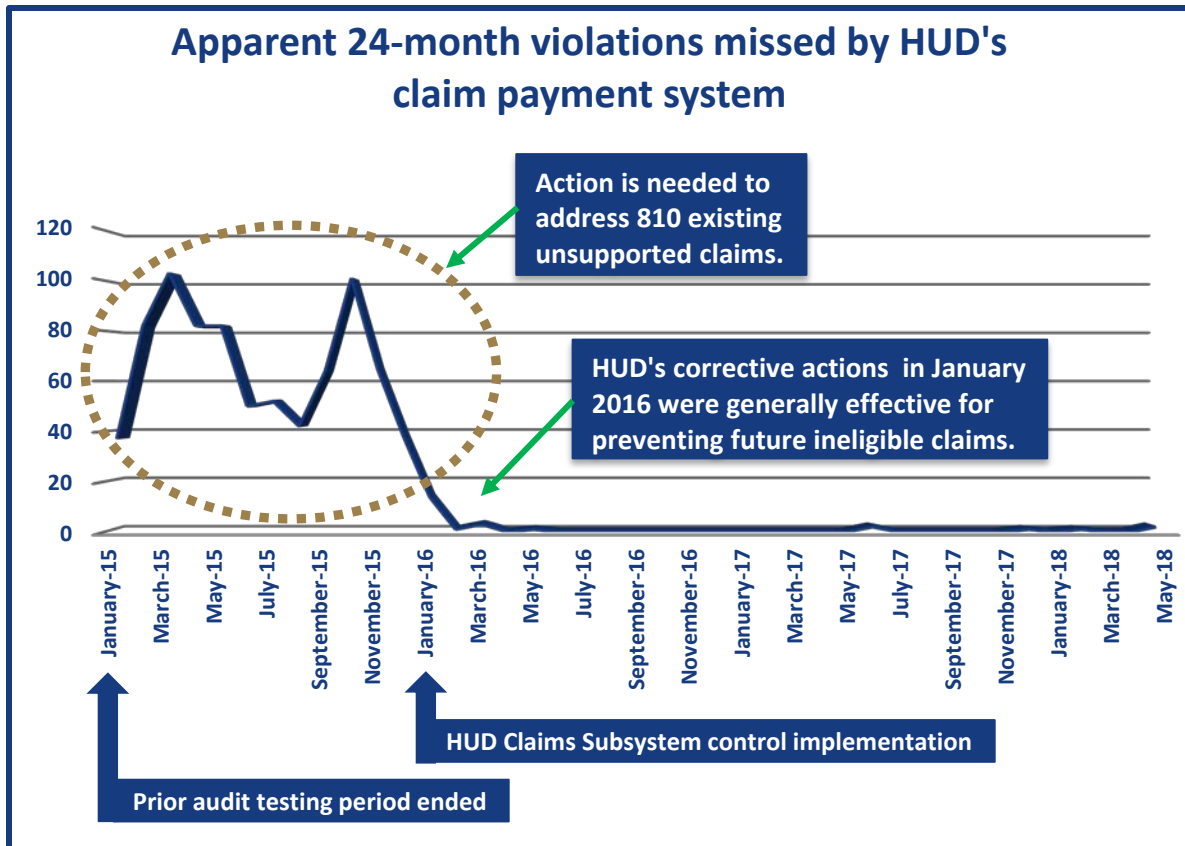
ineffective in some of these cases due to its Claims Subsystem's programming, which failed to properly apply system controls when the prior claim was not designated on the claim form as a "HAMP" program claim by the servicer.⁹ In other cases, HUD's corrective action was ineffective because its Claims Subsystem's programming did not always properly calculate the time between claims that were submitted out of sequence (that is, when the servicer waited to submit the first loss mitigation action claim until after it submitted the claim for a subsequent loss mitigation action). At the time of our review, HUD officials agreed that further action was needed to address this apparent claims system control limitation.

Although HUD's corrective action for recommendation 1A was implemented in accordance with the agreed-upon management decision and was generally effective when processing newly submitted claims, it did not address unsupported claims that had already been paid. After the prior OIG audit testing period ended and before HUD implemented the related corrective action, lenders submitted 810 unsupported claims for amounts totaling \$4.9 million, which appeared to have been ineligible due to a second reported claim within 24 months.¹⁰ During the CAV, HUD was made aware of these potential lender violations and agreed to review them further. Figure 3 below shows the results of our claim system data analysis related to recommendation 1A.

⁹ This circumstance is not expected to recur because in response to a separate recommendation from the prior audit, HUD stopped accepting non-HAMP partial claims more than 24 months ago.

¹⁰ The 810 identified claims were paid after the prior audit testing period ending date of January 17, 2015, and before HUD implemented corrective actions on January 12, 2016.

Figure 3 – Apparent 24-month violations



HUD Did Not Implement Adequate Corrective Actions for Recommendation 1C.

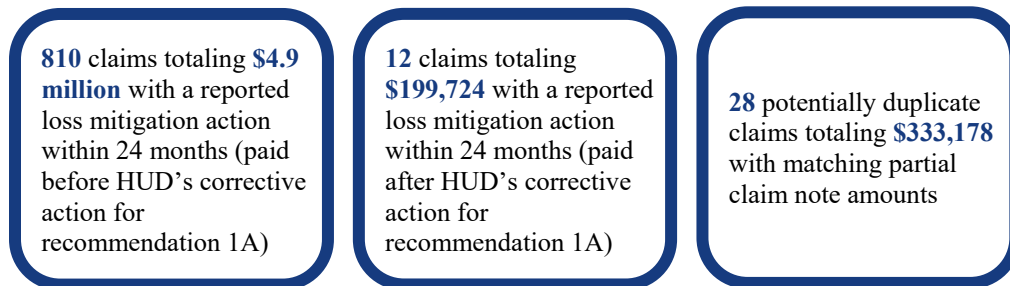
HUD officials stated that they attempted to implement enhanced Claims Subsystem controls to prevent duplicate payments in response to audit recommendation 1C but later reversed the changes because the new controls did not function as intended and blocked claim payments unnecessarily. Ultimately, HUD did not implement a permanent corrective action to address the recommendation, and as a result, it paid 28 unsupported claims for amounts totaling \$333,178 that were potentially ineligible duplicates based on matching partial claim note amounts. HUD's Claim Subsystem includes a control to identify duplicate payments; however, this control is not effective for all claim types and can effectively be bypassed if lenders do not correctly enter the loss mitigation agreement details on the claim form.

CONCLUSION

HUD implemented corrective action to address the prior OIG audit recommendation 1A to prevent unsupported claims that had a prior loss mitigation action within 24 months, yet further action is needed to improve Claims Subsystem controls and address unsupported claims that were already paid. HUD did not implement adequate corrective actions for recommendation 1C to detect and prevent payment of duplicate claims. This condition occurred because (1) HUD's system controls were ineffective for a limited number of cases, (2) lenders continued submitting

unsupported claims after the prior OIG audit testing period and before HUD implemented its related corrective actions, and (3) HUD did not follow through to implement effective corrective actions to prevent and detect duplicate claims after its initial attempt was unsuccessful. As a result, HUD paid a total of 850 unsupported claims for amounts totaling \$5.4 million. Figure 4 breaks down the unsupported partial claims paid.

Figure 4 – Unsupported partial claims paid



RECOMMENDATIONS

Based on the cited deficiencies, we will reopen recommendation 1C from OIG audit 2015-LA-0001 until corrective action is fully developed and implemented.

In addition, we recommend that the Deputy Assistant Secretary for Finance and Budget

- 1A. Provide support of eligibility or require lender repayment of \$5,115,079 for the 822¹¹ identified claims with a reported partial claim or loan modification within the prior 24 months.
- 1B. Further revise and implement Single Family Insurance System – Claims Subsystem controls to address deficiencies that allowed payment for a limited number of claims that were ineligible due to prior loan modification or FHA-HAMP option within 24 months.
- 1C. Provide support of eligibility or require repayment of \$333,178 for the 28 identified potential duplicate claims with reported matching partial claim note amounts and take appropriate action as necessary to ensure that related partial claim note amounts are correctly reflected within HUD's Single Family Mortgage Asset Recovery Technology¹² system for loan-servicing purposes.

¹¹ Including 810 claims paid before HUD's corrective actions were implemented and 12 claims paid after HUD's corrective actions were implemented

¹² The Single Family Mortgage Asset Recovery Technology system is HUD's loan-servicing system used for partial claim loans.

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$5,115,079
1C	333,178
Total	5,448,257

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures. In this instance, unsupported costs include amounts paid for 822 claims that appeared to have been ineligible based on a reported prior claim within 24 months and 28 claims that were potentially ineligible duplicates based on matching partial claim note amounts.

Appendix B


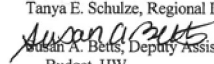
AUDITEE COMMENTS AND OIG'S EVALUATION

Auditee Comments

Ref to OIG Evaluation

Comment 1

Comment 1

 OFFICE OF HOUSING	U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, DC 20410-8000
JUN 20 2019	
MEMORANDUM FOR:	Tanya E. Schulze, Regional Inspector General for Audit, 9DGA
FROM:	 Susan A. Betts, Deputy Assistant Secretary for Finance and Budget, HW
SUBJECT:	Discussion Draft Comments - HUD Completed the Agreed-Upon Corrective Actions for One of the Two Recommendations Reviewed from Prior OIG Audit Report 2015-LA-0001
<p>Thank you for providing the Office of Finance and Budget the opportunity to comment on the Office of Inspector General's (OIG) draft audit report entitled HUD Completed the Agreed-Upon Corrective Actions for One of the Two Recommendations Review from Prior OIG Audit Report 2015-LA-0001. Please find our comments below:</p>	
<p><u>Re-opened Recommendation 1C:</u></p>	
<p>Develop and implement controls to detect and prevent payment of duplicate claims.</p>	
<p><u>Response:</u></p>	
<p>The Office of Finance and Budget agrees that further action is needed to fully implement the agreed-upon A43C system enhancements to detect and prevent payment of duplicate claims.</p>	
<p><u>Recommendation 1A:</u></p>	
<p>Provide support of eligibility or require lender repayment of \$5,115,079 for the 822 identified claims with a reported partial claim or loan modification within the prior 24 months.</p>	
<p><u>Response:</u></p>	
<p>The OIG provided the Office of Finance and Budget with a list of 821 identified claims with a reported partial claim or loan modification within the prior 24 months. The Office of Finance and Budget agrees that further review of each claim is required and will take appropriate corrective action in coordination with the Office of Single-Family Housing.</p>	
<p><u>Recommendation 1B:</u></p>	
<p>Further revise and implement Single Family Insurance System-Claims Subsystem controls to address deficiencies that allowed payment for a limited number of claims that were ineligible due to prior loan modification or FHA-HAMP option within 24 months.</p>	
<p>www.hud.gov espanol.hud.gov</p>	

**Ref to OIG
Evaluation**

Comment 1

Response:

The Office of Finance and Budget agrees with this recommendation and is implementing A43C system enhancements to address system control limitations.

Recommendation 1C:

Provide support of eligibility or require repayment of \$333,178 for the 28 identified potential duplicate claims with reported matching partial claim note amounts. Also, take appropriate action as necessary to ensure related partial claim note amounts are correctly reflected within HUD's Single-Family Mortgage Asset Recovery Technology (SMART) system for loan servicing purposes.

Response:

The Office of Finance and Budget agrees that further review of each claim is required and will take appropriate corrective action in coordination with the Office of Single-Family Housing.

Comment 1

OIG Evaluation of Auditee Comments

Comment 1 HUD's response did not state any concerns with the audit finding and indicated agreement with the audit report recommendations. We appreciate the assistance HUD provided during our review and look forward to continued cooperation during the audit resolution process.

Appendix C

CRITERIA

Superseded **HUD Mortgagee Letters 2012-22, 2013-03, 2013-32**, and the current **HUD Handbook 4000.1** require that to qualify for an FHA-HAMP loan modification or partial claim, the borrower must not have received a loan modification of partial claim in the previous 24 months.

HUD Handbook 2000.06, REV-4, Section 1-6, General Standards for Management Decisions and Final Actions

- A. Timing. HUD has established a goal for achieving a management decision within 120 calendar days so that any impasses can be satisfied prior to the federal requirement that management decisions be in place by 180 days after report issuance. A management decision is required on all recommendations in an audit report within 6 months (180 days) after the report is issued. HUD's goal for completion of final action is 1 year from the management decision date. However, when large amounts of disallowed costs are to be recovered by HUD or the program on an installment basis, HUD's goal is to have all costs recovered within 3 years. Final action could occur simultaneously with the management decision if the management decision can be made and the required corrective actions completed within 120 calendar days after issuance of an audit report.
- B. Documentation. Management decisions and final actions shall be supported in ARCATS and supplemented by appropriate documentation so that the Audit Management System (AMS) status of each audit report and its controlled recommendations can readily be determined. An electronic Final Action Certification (FAC) in ARCATS is required for all final actions that are not closed by the OIG or where the OIG has requested that the ALO [audit liaison officer] close the recommendation. ALOs will not close audit recommendations without the certification from the responsible AO [action official], RAO [recommendation action official], or POC [point of contact] as designated in ARCATS.
- C. Management Decision. A proposed management decision occurs when the AO evaluates the recommendations in the audit report and determines what action, if any, is needed and submits it to the OIG in ARCATS. The concurrence of the OIG audit report issuer is required on OIG-issued recommendations and this concurrence constitutes an approved management decision. Proposed management decisions provided for OIG concurrence must include:
 - 1. A final action target date;
 - 2. Details on the types of documentation that will be used to evidence that final action is completed;
 - 3. A Program POC;

4. Projections of any savings (funds to be put to better use) or amounts to be repaid (disallowed questioned costs) to HUD or program participants that will result from implementation of corrective actions, as applicable; and
5. A description of the actions to be taken.

Any changes to the corrective actions necessary, projections of any savings, amounts to be repaid (i.e. amounts disallowed), or the types of documentation to be used to evidence final action are considered revised management decisions. These changes must be submitted to the OIG through ARCATS and concurred on by the OIG report issuer before management can consider the recommendation as having a revised management decision.

- D. Final Action. Final action for an OIG issued recommendation occurs when all actions identified in the management decision (action plan) or the revised management decision have been implemented, the AO, RAO, or POC certifies to the completion of all actions, and the ALO accepts the certification and closes the recommendation. Final action should normally occur within 1 year of the original management decision date.

The AO, RAO, and POC is responsible for monitoring progress, documenting completion of the final action, forwarding the evidence to provide closure, as specified in the management decision, to the ALO within the target date. For an OIG recommendation to be considered as having final action, all actions required by the management decision or revised management decision must be completed. Additionally, the AO, RAO, or POC must certify in ARCATS that all necessary corrective actions have been taken and all necessary documentation has been obtained in accordance with the management decision that was concurred on by the OIG. If a recommendation contains disallowed costs, the amounts shall be recovered, adjusted, or forgiven before the recommendation can be considered to have final action for AMS purposes.

HUD Handbook 2000.06, REV-4, Section 4-3, Duties and Responsibilities

B. The ALO's responsibilities include the following:

1. Serving as the contact point for all inquiries concerning the status of recommendations during the various stages of the AMS process;
2. Maintaining and providing technical assistance and training for AMS and ARCATS for their program area;
3. Entering and updating ALO comments in ARCATS for all open recommendations in their program area that are overdue or need a status update;
4. Ensuring that the required status reports are provided to the OIG report issuer and AO or HPOH [headquarters primary organization head];
5. Working with management, and when necessary OIG, to ensure that management decisions are reached timely;

6. If a management decision is not obtained within the 120-day Departmental goal, negotiating/coordinating with OIG to ensure the recommendations are referred to upper management for resolution;
7. Working with management, and when necessary OIG, to ensure that action plans are implemented within the final action target dates;
8. Coordinating with OIG the need to recode recommendations to under judicial, legislative, and investigative review;
9. Informing senior management of systemic or specific problems preventing timely implementation of action plans;
10. Reviewing final action target date extension requests for action plans that are within 1 year of the original management decision and updating ARCATS to reflect the extension granted including the rationale;
11. Coordinating with staff the necessary documentation needed to address each action plan;
12. Reviewing the supporting documentation to ensure compliance with the agreed upon management decision;
13. Providing a detailed analysis of what corrective action is needed to complete the requirements of the action plan if the submitted documentation does not adequately address it, as contained in the OIG's approved management decision's Evidence to Provide Closure Section; and
14. If the submitted documentation adequately addresses the action plan: a) directing the AO, RAO, or POC to submit the FAC in ARCATS; b) receiving the FAC in ARCATS; c) reviewing the certification package; and d) if appropriate, closing the recommendation in ARCATS to reflect that final action has been taken.

HUD Handbook 2000.06, REV-4, Section 5-8, Closing Recommendations

Final action occurs when all corrective actions, including recovery and/or forgiveness of disallowed costs, is completed. The date of the ALO acceptance of the final action certification and closure of the recommendation in ARCATS is the date of the final action, except when the OIG closes a recommendation at the time the audit was issued.

- A. AO, RAO, and POC Responsibilities. The AO, RAO, or POC should obtain and review supporting documentation to ensure all action has been completed either through the review of documentation submitted, on-site review, or a combination of both. The AO, RAO, or POC shall certify in ARCATS that all actions have been taken in accordance with the management decision concurred on by the OIG and that all documentation evidencing final action has been obtained. The AO, RAO, or POC must forward to the

responsible ALO the documentation evidencing final action taken on OIG-issued recommendations for purposes of closing the recommendation in ARCATS.

B. ALO Responsibilities. Before recording the closure of a recommendation in ARCATS, the responsible ALO should take care to assure that all documentation of final action has been provided including the final action certification from the AO, RAO, or POC. The ALO must have sufficient evidence to demonstrate that the corrective actions have actually occurred before closing an audit recommendation (i.e. journal entries, copies of checks, copy of new procedure, etc.). The general rules on final action certification packages are as follows:

1. Keep paper to a minimum (e.g., only get the table of contents, or the section that shows the policy was updated, not the whole manual), and whenever possible provide electronic copies in lieu of paper, ensuring that there is reasonable documentation for third-party review;
2. Statements that the corrective actions have been observed are fine and either written or emailed statements are acceptable; or
3. The ALO will use their judgment to decide what is needed based upon the management decision; however, such documentation should be clear enough that anyone reviewing closure will understand and agree with the decision to close.

HUD Handbook 2000.06, REV-4, Section 5-9, Repeated and Reopened Recommendations

Subsequent audits may contain the same deficiency and recommendation as a prior audit, or the Corrective Action Verification (CAV) review may conclude that the recommendation has not been implemented. If it is found that a recommendation had not been implemented, the OIG will reopen the recommendation and it will be tracked using the previous report. Only new recommendations (i.e., those that were not in the prior report) will be tracked using the current report. Once a recommendation has been reopened, the OIG shall enter a new final action target date that is 45 days from the date it is reopened. The AO should propose a revised management decision through ARCATS to the OIG within 30 days and then follow the usual audit follow-up procedures.