



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

**Compliance With the Improper Payments
Elimination and Recovery Act of 2010**



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SUBJECT: HUD's Fiscal Year 2013 Compliance 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 review of HUD's fiscal year 2013 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 Web site. 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 202-402-8216.



April 15, 2014

HUD's Compliance With the Improper Payments Elimination and Recovery Act of 2010

Highlights

Audit Report 2014-FO-0004

What We Audited and Why

We conducted an audit of the U.S. Department of Housing and Urban Development's (HUD) fiscal year 2013 compliance with the Improper Payments Information Act of 2002 as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA). IPERA was enacted to eliminate and recover improper payments by requiring agencies to identify and report on programs that are susceptible to significant improper payments. IPERA also requires each agency's Inspector General to perform an annual review of the agency's compliance with IPERA. Our audit objectives were to (1) determine HUD's compliance with IPERA reporting and improper payment reduction requirements and (2) determine whether corrective action plans addressed the root causes of HUD's improper payments and were effectively implemented.

What We Recommend

We recommend HUD (1) enhance its IPERA reporting process to ensure that it accurately reports on its improper payments and actions it took to reduce and recover improper payments and (2) reassess its supplemental measures and corrective actions to ensure that they target all root causes of error identified in the quality control studies.

What We Found

HUD did not comply with IPERA reporting requirements because it did not sufficiently and accurately report its (1) billing and program component improper payment rates; (2) actions to recover improper payments; (3) accountability; or (4) corrective actions, internal controls, human capital, and information systems as required by IPERA. In addition, HUD's supplemental measures and associated corrective actions did not sufficiently target the root causes of its improper payments because they did not track and monitor processing entities to ensure prevention, detection, and recovery of improper payments due to rent component and billing errors, which are root causes identified by HUD's contractor studies.

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BACKGROUND AND OBJECTIVES

The Improper Payments Information Act of 2002 (IPIA) required the head of each agency to annually review all programs and activities the agency administered, identify all such programs and activities that might be susceptible to significant improper payments, and report estimated improper payments for each program or activity identified as susceptible. For programs with estimated improper payments exceeding \$10 million, IPIA required agencies to report the causes of the improper payments, actions taken to correct the causes, and the results of the actions taken. IPIA was amended in July 2010 by the Improper Payments Elimination and Recovery Act (IPERA). IPERA decreased the frequency with which each agency was required to review all of its programs but increased the Federal agencies' responsibilities and reporting requirements to eliminate and recover improper payments and required each agency inspector general to determine whether the agency complied with IPIA. The Office of Management and Budget (OMB) issued Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments, to provide implementation guidance for agencies.

The U.S. Department of Housing and Urban Development's (HUD) Secretary designated the Chief Financial Officer as the lead official for overseeing HUD actions to address improper payment issues and complying with the requirements of IPERA. The responsibility for conducting an agency wide IPERA program risk assessment is jointly shared by the Federal Housing Administration's (FHA) and the Office of the Chief Financial Officer (OCFO). Historically, none of the FHA programs have been determined to be susceptible to improper payments.

HUD previously identified the Community Development Block Grant (CDBG) entitlement and State or small cities programs as susceptible to improper payments; however, HUD found that in 2 consecutive years, CDBG improper payments were below the \$10 million threshold. In 2007, OMB approved HUD's request for relief from annual improper payment reporting for those programs. Currently, HUD reports only public housing, tenant-based voucher,¹ and project-based assistance² programs (collectively referred to as HUD's rental housing assistance programs) as susceptible to improper payments. In these programs, beneficiaries pay 30 percent of their adjusted income toward the market rent, and HUD's subsidy payments cover the remainder of the rental cost (or the operating cost in the case of public housing).

HUD has identified the following three sources of errors and improper payments in rental housing assistance programs:

¹ The HUD Office of Public and Indian Housing (PIH) is the office responsible for the oversight of the Public Housing Operating Fund and the Section 8 tenant-based voucher rental housing assistance programs. PIH allocates and disburses the funding to the State and local public housing agencies that administer the program in accordance with program eligibility requirements.

² The HUD Office of Multifamily Housing (Multifamily Housing) is responsible for the Section 8, 202, and 236 project-based rental housing assistance programs. It allocates and disburses the funding to multifamily projects' owners or their agents, which administer the program in accordance with each program eligibility requirements.

- Program administrator error – The program administrator’s failure to properly apply income exclusions and deductions and correctly determine income, rent, and subsidy levels;
- Tenant income reporting error – The tenant beneficiary’s failure to properly disclose all income sources and amounts upon which subsidies are determined; and
- Billing error – Errors in the billing and payment of subsidies due between HUD and third-party program administrators or housing providers.

Before IPIA, HUD established the Rental Housing Improvement Integrity Project³ to reduce improper payments . In 2010, HUD implemented supplemental measures to comply with IPERA and Executive Order 13520. Executive Order 13520 required agencies to provide their inspector general an accountable official report, describing (1) the agency’s methodology for identifying and measuring improper payments; (2) the agency’s plans, together with supporting analysis, for meeting the reduction targets for improper payments in the agency’s high-priority programs susceptible to improper payments; and (3) the agency’s plans, together with supporting analysis, for ensuring that initiatives undertaken pursuant to the order do not unduly burden program access and participation by eligible beneficiaries.

In consultation with OMB, HUD developed supplemental measures to track and report on intermediaries’ efforts in addressing improper payments. HUD provided the details of these supplemental measures in its accountable official report to the Office of Inspector General (OIG) as required. All of HUD’s supplemental measures are reported quarterly on OMB’s payment accuracy Web site.

HUD has made substantial progress in reducing erroneous payments, from an estimated \$3.2 billion in fiscal year 2000 to \$1.23 billion in fiscal year 2011, however; in 2012 improper payments increased from the previous year to \$1.32 billion. However, all three rental assistance programs still exceed IPERA’s significance threshold of 1.5 percent of program outlays. HUD calculated its estimated annual improper payment amount using a quality control study, an income match study, and a billing study, conducted by independent contractors. These quality control and income match studies were conducted using data from the prior fiscal year. However, the billing studies used estimates from fiscal year 2004 for public housing and fiscal year 2009 for the owner administrator program.

Our audit objectives were to (1) determine HUD’s compliance with IPERA reporting and improper payment reduction requirements and (2) determine whether the Office of Public and Indian Housing’s (PIH) and Office of Housing’s corrective action plans addressed the root causes of HUD’s improper payments and were effectively implemented.

³ In fiscal year 2001, before enactment of IPIA and IPERA, HUD established the Rental Housing Integrity Improvement Project to reduce an acknowledged improper payment problem in its rental assistance programs. HUD implemented the Project as a comprehensive strategy to correct program errors in HUD’s high-risk rental housing subsidy programs and related management control deficiencies. This plan included upfront income verification, rental integrity monitoring reviews, training and technical assistance, program guidance, error measurement, and incentives and sanctions. HUD no longer follows all aspects of this plan.

RESULTS OF AUDIT

Finding 1: HUD Did Not Comply With IPERA Reporting Requirements

HUD did not sufficiently and accurately report its (1) billing and program component improper payment rates; (2) actions to recover improper payments; (3) accountability; or (4) corrective actions, internal controls, human capital, and information systems as required by IPERA and OMB Circular A-123, Appendix C. OCFO relied on the information from a few program officials in PIH and Multifamily Housing and HUD did not prioritize IPERA reporting within the agency. In addition, the Chief Financial Officer did not take an active role in the reduction or recapture of improper payments. It only coordinated program office responses to update the previous reports and did not perform procedures to verify the information provided. Consequently, reports provided to OMB, OIG, and Congress were not a complete and accurate representation of HUD's improper payments or HUD's actions to reduce improper payments.

HUD Did Not Accurately Report on Billing and Component Errors or Meet its Annual Reduction Target

HUD did not accurately report on its billing error for two programs and did not report at all on its billing error for another program as required by OMB Circular A-123, Appendix C, which states that agencies must include the gross estimate of the annual amount of improper payments. HUD's billing error estimates were based on fiscal year 2004 data for public housing and fiscal year 2009 data for owner administrators. These studies were conducted several years ago, and HUD had not reevaluated them to consider changes in inflation, programmatic changes, or population changes. Therefore, they did not reflect HUD's true annual billing error. Additionally, HUD did not report billing error for the tenant-based Section 8 program because PIH believed it had eliminated billing error when the program changed to budget-based, using predetermined payments. However, OIG believes that while traditional billing error may not exist, since the predetermination of payments was based on expenses that were self-reported by public housing agencies (PHA) through HUD's Voucher Management System, HUD is still at risk of paying PHAs improperly. An error could occur if a PHA reported its expenses incorrectly and was given funding over the amount of its actual expenses. The OIG fiscal year 2013 financial statement audit⁴ noted that controls over the Voucher Management System were not sufficient to ensure that the PHAs reported their expenses correctly.

⁴ 2014-FO-0003 - Additional Details To Supplement Our Report on HUD's Fiscal Year 2013 and 2012 (Restated) Financial Statements, issued December 16, 2013.

HUD inaccurately reported on program component errors. OMB Circular A-123 prohibits agencies from grouping programs or activities in a way that masks improper payment rates. However, public housing, Section 8, and owner administrator improper payment rates were all reported together in HUD's agency financial report. Although HUD considers all of these programs as rental housing assistance programs, these three programs were reported separately on HUD's financial statements and were administered by different offices and systems. Although OMB approved this combination, the large size and scope of this grouping masked the 5 percent increase in public housing in fiscal year 2013. This combination may also mask other underperformers in later years and makes it difficult for the reader to differentiate between programs. The error rates from 2010 to 2012 were as follows.⁵

Total improper program payments and percent of total program payments				
	Public housing	Section 8	Owner administrator	Total
2010 total	\$4,407,169,564	\$16,550,252,896	\$9,735,505,288	\$30,692,927,748
Percentage	5.34%	2.59%	3.04%	3.13%
2011 total	\$4,766,492,020	\$17,135,626,692	\$10,048,770,703	\$31,950,889,415
Percentage	5.61%	4.10%	2.59%	3.85%
2012 total	\$4,177,551,692	\$16,505,784,146	\$10,265,702,263	\$30,949,038,101
Percentage	10.62%	3.63%	2.74%	4.28%

HUD's improper payment reduction target for fiscal year 2012 was 3.8 percent, however as noted in the table above, HUD's actual rate was 4.28 percent. Therefore, HUD missed its annual reduction target rate. Per OMB Circular A-123 guidance, since HUD did not meet its annual reduction target, it is not in compliance with IPIA, as amended by IPERA 2010.⁶

⁵We used HUD's contractor's quality control and income match studies, and its billing error reported in HUD's fiscal year 2013 AFR to calculate the improper payment rates. We divided the improper payments by HUD's expenditures provided to us by OCFO. OCFO took out certain technical assistance, administrative, and grant expenditures to calculate 2012 expenses because they were for rental housing and were not part of the quality control and income match studies. For consistency, OIG took these same amounts out in 2011 and 2010 (these amounts should be similar each year).

⁶ OMB Circular A-123 states that if an agency does not meet one or more of the following requirements, it is not in compliance with IPIA, as amended by IPERA 2010: published an AFR, conducted a risk assessment, published improper payment rates, published corrective action plans in the AFR, published and has met annual reduction targets, reported gross improper payments of less than 10 percent, and reported information on its recapture efforts.

HUD Did Not Accurately and Sufficiently Report on its Actions to Recover Improper Payments

IPERA requires recovery audits, if cost effective, for programs or activities that expend more than \$1 million and justification if the agency has determined that performing recovery audits is not cost effective. However, HUD did not perform recovery audits for all programs that expended more than \$1 million or provide an accurate justification for its determination in its agency financial report.

HUD's fiscal year 2013 agency financial report states, "HUD is still in the process of implementing the recovery audit requirements under the IPERA." However, interviews with OCFO indicated that HUD did not intend to implement formal recovery audits; instead, it used an informal recovery audit plan. This practice did not comply with IPERA for several reasons: (1) HUD did not mention this plan as its alternative to formal recovery audits in its accountable official report or agency financial report; therefore, HUD did not accurately report on its actions to recover improper payments; (2) this plan described the recovery audit processes for more than 40 programs; however, only 5 of the processes were tracked and reported in the agency financial report; and (3) the plan had not been updated since February 2011. Since HUD's AFR contained insufficient and inaccurate information on its efforts to recapture improper payments, per OMB Circular A-123 guidance, HUD is not in compliance with IPIA, as amended by IPERA of 2010⁷.

In addition to its informal recovery audit plan, in December 2013, HUD sent a white paper to OMB describing why recovery audits would not be cost effective for Multifamily Housing's and PIH's rental assistance programs; however, HUD did not submit this analysis for its other programs that spent more than \$1 million. As of March 14, 2014, OMB had not reached a decision on whether these programs were exempt from this requirement.

HUD Did Not Include All Required Elements of Accountability

IPERA requires that when agencies report on improper payments, they include a description of the steps taken to ensure that managers, programs, States, and localities are held accountable through annual performance appraisal criteria for (a) meeting applicable improper payments reduction targets; and (b) establishing and maintaining sufficient internal controls, including an appropriate control environment, that effectively prevent, detect, and recover improper payments.

⁷ See footnote #6 for information on the OMB guidance we used to make our determination of non-compliance

However, HUD's fiscal year 2013 agency financial report did not explain how program officials or processing entities were held accountable. Neither Multifamily Housing nor PIH had formal processes in place to review and if necessary, penalize its processing entities for significant improper payments or noncompliance with its Enterprise Income Verification (EIV) system requirements. Multifamily Housing formally issued penalties during management and occupancy reviews; however, these reviews were conducted for only 14 percent of the properties.⁸

HUD Did Not Accurately Report on Its Corrective Actions, Internal Controls, Human Capital, and Information Systems

OMB Circular A-123, Appendix C, states, "Agencies must report on their corrective action plans in their annual PARs and AFRs according to the reporting instructions in Circular A-136." HUD's fiscal year 2013 agency financial report states, "HUD's corrective action plans will include addressing this issue during the Management and Occupancy Reviews (MORs)⁹ and Rental Integrity Monitoring (RIM) reviews¹⁰." However, MORs were not performed in 42 states and only 2 RIM reviews were performed. At the time of the report, HUD was in a lawsuit with performance-based contract administrators¹¹ (PBCA) and therefore, PBCAs, could not conduct management and occupancy reviews in 42 States. The agency financial report should have discussed this obstacle or barrier. Further, PIH had conducted too few rental integrity monitoring reviews in recent years for this review to be considered an effective tool in reducing improper payments; therefore, it should not be considered and reported as a corrective action. The accountable official report also reports on HUD's corrective action plans; however, HUD did not have several of the corrective actions in place. The accountable official report stated that PIH initiated monthly and quarterly

⁸ This is further explained in finding 2, HUD's Supplemental Measures and Corrective Actions Did Not Target the Root Causes of HUD's Improper Payment.

⁹ A Management Occupancy Review (MOR) is an on-site review of a Section 8 project by a PBCA or HUD. It is a comprehensive assessment of the owner's procedures for directing and overseeing project operations, and the adequacy of the procedures for carrying out day to day activities. Some examples of the areas that the PHA must audit are: maintenance, security, leasing, occupancy, certification and recertification of family income, and determination of the family payments, financial management, Management Improvement and Operating (MIO) Plans, and general maintenance practices. The results of the on-site review may result in enforcement actions against the owner by the PBCA or HUD.

¹⁰ Rental integrity monitoring reviews (RIM) are ongoing quality control monitoring reviews to determine whether and to what extent public housing agencies (PHA) thoroughly and clearly determined family income and rent for the purpose of reducing subsidy errors. This includes gathering PHA income and rent information, identifying income and rent errors, and assessing PHA policies and procedures. The reviewer analyzes this information to establish root causes of income and rent errors and recommends necessary corrective actions for PHA improved performance.

¹¹ The lawsuit is regarding the 2011 performance-based contact administrator competitive rebid. Forty-two States filed a lawsuit against HUD.

monitoring to reduce the number of egregious income discrepancies and the Public and Indian Housing Information Center system (PIC) nonreporting rate; however, PIH did not perform this monitoring. Since HUD's AFR contained insufficient and inaccurate information on its corrective actions, per OMB Circular A-123 guidance, HUD is not in compliance with IPIA, as amended by IPERA of 2010¹².

IPERA also requires agencies to report on "whether the agency has what is needed with respect to (a) internal controls; (b) human capital; and (c) information systems and other infrastructure; if not sufficient resources, a description of the resources the agency has requested in its budget submission to establish and maintain internal controls." The agency financial report states, "The internal controls, human capital, information systems, and other infrastructure are sufficient to reduce improper payments to the levels targeted by HUD." However, HUD did not have internal controls in place to monitor rental component and billing errors, which were responsible for the majority of its improper payments as identified by HUD's quality control, income match, and billing studies. HUD's corrective actions focused on supplemental measures it developed around its EIV system. However, the EIV system did not match data for several rental components or billing components, and PIH management could not use EIV effectively to monitor the income discrepancy rent component matched in EIV.¹³ Additionally, PIH and Multifamily Housing reported to OIG that their efforts had been hampered by limited staff, EIV limitations, and funding. However, the agency financial report did not address these issues or discuss funding requests that Multifamily Housing discussed in the accountable official report as required.

OCFO Did Not Oversee HUD Actions to Address Improper Payment Issues and Bring HUD Into Compliance with IPERA Requirements

As the agency accountable official, HUD's Secretary designated the Chief Financial Officer (CFO) as the lead official for overseeing HUD actions to address improper payment issues and bring HUD into compliance with IPERA requirements. However, the CFO did not oversee PIH or Multifamily Housing's efforts to reduce or report on its improper payments. Instead, the CFO relied on the information from a few program officials in PIH and Multifamily Housing to determine if it needed to update its billing study, and to complete the accountable official report and IPERA section of the agency financial report (AFR). OCFO

¹² See footnote #6 for information on the OMB guidance we used to make our determination of non-compliance.

¹³ This is explained further in finding 2, HUD's Supplemental Measures and Corrective Actions Did Not Target the Root Causes of HUD's Improper Payment.

did not have formal procedures in place to ensure complete and accurate information was collected from program staff or perform any procedures to verify the accuracy of the information provided. Further, OCFO did not serve as a facilitator for tracking and resolving EIV system issues¹⁴ or for reevaluating PIH and Multifamily Housing supplemental measures to compensate for the lack of MOR and RIM reviews. Overall, OCFO did not take an active role in the reduction or recapture of improper payments; it simply coordinated program office responses to update the previous reports.

Conclusion

HUD did not comply with IPERA and OMB Circular A-123, Appendix C, because it did not sufficiently and accurately report on the required elements. In addition to misreporting several sections in its AFR, HUD did not comply with the following three fundamental requirements, which are all mandatory to be considered compliant with IPERA: 1) HUD did not meet its annual reduction target rate, 2) HUD inaccurately reported on its corrective actions in its AFR, and 3) HUD did not report on its recapture efforts for all programs that disbursed more than \$1 million. Since HUD did not report correctly, it did not provide OIG, OMB, and Congress with information to correctly evaluate HUD's efforts and barriers toward reducing improper payments.

Recommendations

We recommend the Acting Chief Financial Officer

- 1A. Work with PIH and Multifamily Housing to accurately identify and report on all corrective actions in place at the time of the report and periodically verify that these actions are performed during the year.
- 1B. Work with PIH and Multifamily Housing to identify and report on all human capital and information system limitations that hamper reduction efforts and track progress in addressing and overcoming these obstacles.
- 1C. In the agency financial report and accountable official report, report on PIH and Multifamily Housing plans to hold program officials and processing entities (PHAs and owner administrators) accountable for improper payments.
- 1D. In fiscal year 2015, conduct a current billing study for Multifamily and Public Housing to accurately determine 2014 improper payment billing rate errors.

¹⁴ See Finding #2- HUD's Supplemental Measures and Corrective Actions Did Not Target the Root Causes of HUD's Improper Payments for more information regarding the EIV system issues.

- 1E. For fiscal year 2015, conduct a study to assess improper payments arising from Housing Choice Voucher program PHAs misreporting their 2014 expenses to HUD.
- 1F. In future years, if a billing study is not performed annually, explain the reason for not doing so in the agency financial report and update the billing error for inflation, programmatic, or population changes and any other factors that may change the billing error previously reported.
- 1G. Report on Multifamily, Public Housing, and Section 8 program improper payment rates separately in the agency financial reports.
- 1H. Update its recovery audit plan annually and for each program that expends more than \$1 million, report in the agency financial report on the amount recovered using the corresponding activity mentioned in the plan. If recovery activities are not cost effective for a particular program, explain why they are not cost effective in the agency financial report.
- 1I. Develop and implement formal procedures to collect and verify information provided by program offices to ensure information reported is accurate and in compliance with IPERA reporting requirements.

We recommend the Assistant Secretary for Public and Indian Housing

- 1J. Coordinate with all appropriate program officials when responding to OCFO's 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.
- 1K. Develop and execute formal plans to hold accountable program officials and processing entities (PHAs) responsible for improper payments.

We recommend the Deputy Assistant Secretary for Multifamily Housing

- 1L. Coordinate with all appropriate program officials when responding to OCFO's 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.
- 1M. Develop and execute formal plans to hold accountable program officials and processing entities (owners or administrators) responsible for improper payments.

Finding 2: HUD's Supplemental Measures and Corrective Actions Did Not Target the Root Causes of HUD's Improper Payment

HUD's supplemental measures and associated corrective actions did not sufficiently target the root causes of the improper payments its contractors identified¹⁵ and as HUD reported in its fiscal year 2013 agency financial report as required. Specifically, HUD's supplemental measures and associated corrective actions did not track or monitor processing entities'¹⁶ efforts in preventing, detecting, and recovering improper payments arising from rent component and billing errors. This condition occurred because HUD's supplemental measures were based on the EIV system; however, the system did not match data for several rental and billing components. Additionally, other EIV system limitations prevented PIH and Multifamily Housing management from effectively monitoring processing entities. Without supplemental measures and corrective actions that are directly related to the root causes of HUD's improper payments, HUD's monitoring system was ineffective, and HUD could not hold appropriate officials accountable or accurately evaluate its efforts. Consequently, HUD's improper payments increased and it missed its improper payment target rate.

HUD's Supplemental Measures Did Not Target Rent Component or Billing Errors

HUD's supplemental measures and associated corrective actions did not sufficiently target the root causes of the improper payments identified in the quality control, income match, and billing studies performed by HUD's contractor. According to the studies performed, 92 percent of HUD's improper payments occurred because processing entities calculated tenant rent using incorrect rent components¹⁷ and 8 percent occurred because processing entities billed HUD incorrectly. However, HUD's supplemental measures did not address rent and billing component errors identified in the quality control study, the income match study, and previous billing studies. OMB Circular A-123, Appendix C, states that agencies should use the results of their statistical sampling measurements to identify the root causes and implement robust corrective action

¹⁵ To calculate its annual improper payments, HUD used a contractor to identify errors in the calculation of tenant rent for a statistical sample of households. The study tested both administrative errors and errors that resulted from intentional tenant misreporting. Based on the rent errors identified, HUD estimated its annual administrative and income reporting improper payments. HUD also used contracted studies to calculate its billing error; however, these were from fiscal year 2004 for operating subsidy and fiscal year 2009 for multifamily programs.

¹⁶ Processing entities are PHAs for tenant-based Section 8 and public housing programs and owners or management agents for Multifamily Housing owner-administered projects.

¹⁷ Forty-nine percent are from earned income, and 43 percent are from the total of other rental components: pension, asset income, other income, public assistance and five allowances: medical, dependent, elderly disabled, child care, and disability.

plans to address those root causes. While OMB required agencies to continuously use their improper payment measurement results to identify new and innovative corrective actions to prevent and reduce improper payments, HUD determined its supplemental measures in 2010 and had not reevaluated them. We found the following disconnects between HUD's supplemental measures and the errors related to rent and billing component errors identified as root causes by the studies:

Failed identity verification supplemental measure - Correcting failed identity errors in HUD's EIV system is important to verify tenants' identity and eligibility so that a tenant's income can be matched with the National Directory of New Hires and Social Security Administration (SSA) data. However, this measure did not ensure that when the identity verification was corrected, the processing entities would use the income discrepancy report to take action on any discrepancies identified. Additionally, for PIH, PHAs are required to recertify tenants every 12 months. However, if the PHA failed to recertify the tenant in the last 15 months, the tenant will fail the pre-screening and will not be sent to SSA for verification or included in this measure. However, tenants that have not been recertified in 15 months would be the most likely to cause errors in the subsidized rent calculation because the income they reported would not have been updated or verified in more than 15 months. Further, Multifamily Housing did not routinely follow up with owners and management agents that appeared on this report.

Usage and access supplemental measures - EIV usage and access supplemental measures showed that the owner administrator had access to EIV and had used it in the last 6 months. This is a good measure to identify processing entities not using the system, however; this measure fell short because it did not show how it was used. Therefore, these measures provided no assurance that the system was used in a timely and effective manner to correct income discrepancies and other rent component errors. Further, Multifamily Housing's usage rate was not based on the entire population but solely on the results of management occupancy reviews conducted in each quarter. This is problematic because these reviews were conducted on only 14 percent of the properties in fiscal year 2013 due to the lawsuit with performance-based contract administrators. Although, this only impacts the calculation during the lawsuit, in fiscal year 2013, Multifamily Housing did not implement alternative procedures to collect data for the entire population. Therefore, this measure was not effective in assessing the usage rate of the entire population, and there was no assurance that the majority of owner administrators used EIV.

Income discrepancy supplemental measure - Multifamily Housing did not have supplemental measures that measured income discrepancies or other rent component discrepancies and, therefore, is not addressing this root cause identified in the improper payment study.¹⁸ For PIH, this supplemental measure

¹⁸ In our audit report 2012-FO-0003, dated November 15, 2012, we recommended that Multifamily Housing report on income discrepancies at the 100 percent threshold level as a supplemental measure since income discrepancy was

measured a discrepancy only when the tenant reported zero income; all tenants that reported some amount of income were excluded. Further, the report supporting this measure contained many false positives¹⁹ and did not report on processing entity action to investigate the discrepancies. Therefore, PIH management could not use it to effectively monitor its processing entities.

Deceased tenants supplemental measure - HUD's quality control study and income match study did not report on deceased tenant payments; therefore, these improper payments were not included in HUD's improper payments estimate. Consequently, reducing deceased tenant payments will not reduce the amounts reported in the study and by HUD. Further, Multifamily Housing did not routinely follow up with owners or management agents that appeared on this report, and its calculation of this supplemental measurement was primarily manual. Multifamily Housing manually removed 25-50 percent of the single-member household tenants identified by EIV due to false positives, move-outs, terminations, inactivity in HUD's Tenants Rental Assistant Certification System, and duplicated Social Security numbers. Therefore, the reliability and timeliness of this report was not sufficient to ensure that it met the goal to reduce improper payments.

PIC reporting rate supplemental measure - This measure tracks the participating tenant data reported by PHAs. However, PIH management did not use this measure to monitor PHAs. While a high PIC reporting rate is necessary to ensure PHAs' ability to verify tenant income, this measure did not ensure the timeliness or accuracy of the information entered into PIC or that the PHA performed income verification. Further, the report used for this supplemental measure was unreliable because it did not accurately count the number of PIC submissions required for each PHA. The quarterly reports showed that several PHAs submitted more forms HUD-50058²⁰ than required, some PHAs were not required to submit these forms but appeared as noncompliant in the report, and a few PHAs appeared to have to be required to submit a negative amount of forms in the report.

Lastly, PIH and Multifamily Housing did not have supplemental measures regarding the level of billing errors made by processing entities. In HUD's fiscal year 2013 agency financial report, HUD reported that billing errors occurred in the public housing and multifamily rental housing assistance programs and estimated the error to be \$106 million (8 percent of total error) from prior billing studies. HUD stated that billing errors were eliminated in the Section 8 tenant-based program after implementing the fixed-budget formula allocation process in

the major root cause for improper payments. Refer to the Follow-up on Prior Audits section in this report for an update.

¹⁹ False positives are further discussed under the next section - HUD's Management Could Not Effectively Monitor PHAs and Owners' Performance for Addressing Rent or Billing Component Errors

²⁰ Form 50058 is the Family Report, where all information about the family is collected. This form should be updated when family/income information changes.

2005. However, billing errors could still occur at the PHA level. HUD had not conducted a billing study since 2004 for PIH and 2009 for Multifamily Housing programs to confirm assumptions and reassess the materiality of billing errors.

HUD Management Could Not Effectively Monitor PHAs' and Owners' Performance for Addressing Rent or Billing Component Errors

Previously, HUD used rental integrity monitoring (RIM) and management occupancy reviews (MOR) to reduce its improper payments. These reviews addressed rent component errors as well as billing errors. However, due to limited resources and agency priorities, PIH reviewed only a few PHAs using RIM reviews in fiscal year 2013. Further, Multifamily Housing's performance-based contract administrators did not use MORs to review owners in 42 States because HUD was in a lawsuit with the contract administrators regarding the rebid in 2011. In the absence of these reviews, HUD's corrective actions were limited to supplemental measures it developed around the EIV system; however, PIH and Multifamily Housing management could not use EIV to monitor rent or billing component errors.

First, PIH and Multifamily Housing management could not use the EIV system to effectively monitor the income discrepancy rent component because the EIV report showing income discrepancies contained many false positives. The false positives existed because the EIV system reports all discrepancies between HUD's determined income²¹ and the amount reported by the National Directory of New Hires (NDNH); however, due to a 6-month time lag in the National Directory data²² and the possibility of identity theft, not all differences were true errors. From a management perspective, there was no way to determine the validity of each discrepancy in the EIV system; therefore, management could not determine whether processing entities used the reports to identify, investigate, and either correct the income or record the discrepancy as a false positive. PIH and Multifamily Housing notices and handbooks instruct processing entities to use EIV to identify and investigate possible income discrepancies; however, EIV does not track or warehouse actions taken by processing entities. Without a tracking mechanism, management could not use EIV to determine the extent of the income discrepancy problem or hold appropriate officials accountable.

²¹ PHAs and owners of multifamily projects are required to verify and report to HUD the tenant's income via PIC or the Tenants Rental Assistant Certification System. These systems feed into the EIV system, and tenant information is matched with the latest National Directory of New Hires and Social Security Administration data.

²² NDNH data is 6 months behind the tenants current income. Therefore, HUD's tenant income may not match NDNH income because the tenant lost a job during the 6 month period or the tenant obtained a new job.

Second, PIH designed EIV to reduce improper payments, but it should not be PIH's only corrective action because it was not designed to measure administrator error²³ arising from several rental components such as most pensions, welfare benefits, and allowances.²⁴ EIV does not have the means to acquire data for these components and cannot detect errors that occur when the PHA has the correct information but calculated rent incorrectly. This is especially problematic because PIH's and Multifamily's administrative pension and allowance errors were responsible for 53 percent of the administrator error. Additionally, the EIV system does not have the means to review the amount that the processing entity billed HUD, so PIH and Multifamily Housing management could not use EIV to track and monitor their billing error. These limitations do not represent problems with EIV, but shortcomings with HUD's corrective action plan, which relies on EIV to identify improper payments.

Lastly, Multifamily Housing continued to be unable to use EIV to accurately measure three of its supplemental measures: EIV usage rate, EIV access rate, and deceased tenants. We reported this issue in our fiscal year 2012 IPERA audit report.²⁵ Since HUD's Real Estate Assessment Center (REAC) designed the EIV system for the PIH platform, the system needed several enhancements to accommodate the Multifamily Housing platform. This process began several years ago, and a lack of communication between Multifamily Housing REAC and insufficient oversight by Multifamily Housing management and the IPERA lead official, the Chief Financial Officer, hampered its progress. Several program and system offices and contractors should have been involved in this process; however, since one Multifamily Housing program office and one system contractor handled the majority of the work, several EIV releases failed to produce reports that Multifamily Housing could use to accurately measure its supplemental measures. As of the end of our audit fieldwork, REAC was working with the Integrated Real Estate Management System team to resolve this issue and believed that since the appropriate systems and systems personnel were involved, the issue would be resolved in a timely manner.

Conclusion

HUD did not fully implement OMB Circular A-123, Appendix C, the implementing guidance of IPERA requirements, because it did not use the results of its statistical sample to identify the root causes of improper payments and implement corrective actions to prevent and reduce associated improper

²³ Administrator error occurred when the processing entity 1) had access to the correct information but calculated income incorrectly, 2) failed to conduct a recertification, or 3) failed to verify tenant reported information.

²⁴ Allowance includes medical allowance, dependent allowance, elderly disabled allowance, child care allowance, and disability allowance.

²⁵ Audit report number 2012-FO-0005, U.S Department of Housing and Urban Development, Washington DC, Compliance With the Improper Payments Eliminations and Recovery Act of 2010, issued March 15, 2013.

payments. Without this link, HUD could not determine whether its corrective actions were effective or accurately measure or track its efforts. Further, HUD could not hold appropriate officials accountable. Consequently, HUD's gross improper payment error rate increased, and it missed its improper payment reduction goal. Public Housing's error rate increased by 5 percent, while Section 8 and owner administrator rates stayed approximately the same. All three programs remained above OMB's threshold, and were, therefore, considered risky programs that were susceptible to significant improper payments.

Recommendations

We recommend that the Assistant Secretary for Public and Indian Housing, in coordination with OCFO and the Office of Policy Development and Research

- 2A. 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 error identified in the improper payment studies.
- 2B. Periodically reevaluate the supplemental measures and corrective actions so that new and innovative ways to reduce improper payments are identified and implemented.
- 2C. Work with REAC to develop management-level reports in EIV that will allow PIH management to efficiently and effectively identify processing entities that are responsible for improper payments and develop policies and procedures to hold PHAs identified accountable.

We recommend that Deputy Assistant Secretary for Multifamily Housing, in coordination with OCFO and the Office of Policy Development and Research

- 2D. 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 error identified in the improper payment studies.
- 2E. Periodically reevaluate the supplemental measures and corrective actions so that new and innovative ways to reduce improper payments are identified and implemented.

- 2F. Work with REAC to develop management-level reports in EIV 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.

We recommend that the Deputy Assistant Secretary for the Real Estate Assessment Center

- 2G. Work with PIH and Multifamily Housing management to develop management-level reports in EIV that will allow PIH and Multifamily Housing management to efficiently and effectively identify processing entities that are responsible for improper payments.

We recommend that the Acting Office of Chief Financial Officer

- 2H. 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 its AFR.

SCOPE AND METHODOLOGY

We conducted this audit of HUD's fiscal year 2013 compliance with the reporting requirements of IPIA, as amended by IPERA, and Executive Order 13520, Reducing Improper Payments. The objectives of this audit were to (1) determine HUD's compliance with IPERA reporting and improper payment reduction requirements and (2) determine whether PIH's and Multifamily Housing's corrective action plans addressed the root causes of HUD's improper payments and were effectively implemented.

We conducted our review from January 2014 to April 2014 at HUD headquarters in Washington, DC, and followed OMB Circular A-123 guidance on OIG responsibility. OMB Circular A-123, Appendix C, states:

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

- a. Published a PAR or AFR 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 Section 3321 of Title 31 U.S.C. (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 PAR or AFR (if required);
- e. Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments;
- 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 PAR or AFR; and
- g. Reported information on its efforts to recapture improper payments.

If an agency does not meet one or more of these requirements, then it is not compliant with IPIA. In addition, as part of its review of these improper payment elements, the agency Inspector General should also::

- o Evaluate the accuracy and completeness of agency reporting
- o Evaluate agency performance in reducing and recapturing improper payments.
- o Determine if the corrective action plans are robust and focused on the appropriate root causes of improper payments, effectively implemented, and prioritized within the agency, to allow it to meet its reduction targets.
- o As part of its report, the agency Inspector General should include its evaluation of agency efforts to prevent and reduce improper payments, and any recommendations for actions to further improve the agency's or program's performance in reducing improper payments.

To determine HUD's compliance with IPERA, we evaluated HUD on the required elements above. First, we reviewed HUD's fiscal year 2013 improper payment risk assessment, which did not identify any new programs as susceptible to improper payments. Next, we focused our review on the rental housing assistance programs, which HUD previously identified as susceptible and for which it annually reported improper payments above OMB's threshold. To complete this work, we interviewed appropriate personnel from OCFO, PIH, Multifamily Housing, and REAC. We also reviewed the information HUD reported in its 2013 accountable official report and fiscal year 2013 agency financial report and assessed the validity of the information provided. In addition, we reviewed HUD's internal controls, policies, procedures, and practices and evaluated HUD's efforts in preventing, reducing, and recovering improper payments.

During our review, we also analyzed the fiscal year 2013 quality control study and income match study, which measured HUD's improper payments by calculating rental errors in a statistical sample of rental housing assistance projects for fiscal year 2012. We also met with HUD quality control study and income match study contractors to gather sufficient information to evaluate HUD's plans and the accuracy of the underlying improper payment data. Additionally, we reviewed the 2004 and 2009 billing studies.

Lastly, we reviewed the applicable Federal laws, Executive Order 13520, and the implementing guidance in OMB Circular A-123, Appendix C, that govern actions needed by the agency to address the issue of improper payments. OMB Circular A-123, Appendix C, parts I and II, provide guidance on the implementation of IPIA as amended by IPERA. Part II requires each agency's Inspector General to review the agency's improper payment reporting in its annual performance and accountability report or annual financial report and accompanying materials in conjunction with its fiscal year 2013 financial statement audit. OMB Circular A-123, Appendix C, part III, requires each agency Inspector General to review the accountable official annual report required under section 3(b) of Executive Order 13520.

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 objectives.

INTERNAL CONTROLS

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

We determined that the following internal controls were relevant to our audit objectives:

- HUD's design and implementation of controls to prevent, detect, and recover improper payments.
- HUD's reporting controls between program offices and OCFO.

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 items are significant deficiencies:

- Finding #1- Monitoring of program offices to ensure that recovery audit plans reported to OCFO are in place and yielding results.
- Finding #1- OCFO's process for ensuring that the accountable official report and agency financial report are complete and accurate.

- Finding #2- Monitoring of processing entities to ensure that they use EIV to prevent, detect, and recover improper payments related to income discrepancies.
- Finding #2- Monitoring of rental components that are not included in EIV but are used in the rent calculation and are a root cause of improper payments.

FOLLOW-UP ON PRIOR AUDITS

2012-FO-0003 Additional Details To Supplement Our Report on HUD's Fiscal Year 2011 and 2010 Financial Statements

We reviewed the recommendations for audit report 2012-FO-0003 covering HUD's financial statement audit for fiscal year 2012. This report had two recommendations (5A and 5B) for improving the improper payment monitoring activities of PIH and Multifamily Housing. We recommended that PIH conduct remote monitoring and onsite monitoring as necessary to ensure that PHAs have a review process in place to prevent consistency and transcription errors and to ensure that income and allowance amounts used in the rent calculation are correct.

In fiscal year 2013, we inquired about the status of PIH monitoring reviews of public housing agencies. PIH responded that only 2 monitoring reviews were related to rental integrity monitoring, and about 50 were related to the Section Eight Management Assessment Program or its components. Despite the agreement to perform reviews, PIH did not conduct a sufficient number of reviews in fiscal year 2013.

We recommended that Multifamily Housing report on income discrepancies at the 100 percent threshold level as a supplemental measure; assign staff to review the deceased single-member household and income discrepancy reports at least quarterly and follow up with owners and management agents listed on these reports. We also recommended that Multifamily Housing include in the contract between HUD and the owners and management agents a provision for improper payments that requires the owners and management agents to resolve in a timely manner income discrepancies, failed identity verifications, and cases of deceased single-member households.

This recommendation had a final action target date of April 1, 2014. However, this recommendation is dependent on EIV enhancements discussed in finding 1 of this report. Since REAC designed EIV for the PIH platform, the system needed several enhancements to accommodate the Multifamily Housing platform. This process began several years ago, and lack of communication and proper oversight severely hampered its progress. As of this report, REAC was working with the Integrated Real Estate Management System team to resolve this issue and believed that since the appropriate systems and systems personnel were involved, the issue would be resolved in a timely manner.

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation


Auditee Comments

Comment 1

Comment 1

Comment 2

Comment 3

 CHIEF FINANCIAL OFFICER	<p>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, DC 20410-3000</p> <p>APR 10 2014</p> <p>MEMORANDUM FOR: Thomas R. McEnany, Director, Financial Audits Division, GAF</p> <p>FROM: <i>Mike McEnany for</i> David Sidari, Deputy Chief Financial Officer, F</p> <p>SUBJECT: Management Comments on the Office of the Inspector General's (OIG) Draft Report on HUD's Compliance with the Improper Payments Elimination and Recovery Act (IPERA) of 2010</p> <p>Thank you for the opportunity to comment on the subject draft report. We appreciate the work of the OIG and take very seriously the findings and recommendations contained in their reports. Multifamily Housing (MFH), Public and Indian Housing (PIH), and my office offer the following summary comments for your consideration when formulating the final audit report.</p> <p><u>Highlights</u></p> <p>We disagree with the statement in the Highlights section of the report that "<i>HUD did not comply with IPERA reporting requirements because it did not sufficiently and accurately report...</i>" This assertion gives the reader the impression that HUD is not in compliance with IPERA. We suggest that the statement be edited as follows: "<i>HUD needs improvement in sufficiently and accurately reporting ...</i>"</p> <p><u>Finding 1</u></p> <p>We disagree with the title of Finding 1 "<i>HUD Did Not Comply with IPERA Reporting Requirements.</i>" We suggest that the title be edited as follows: "<i>Finding 1: HUD Needs Improvement with IPERA Reporting Requirements.</i>"</p> <p>We also disagree with the statements throughout the section that "<i>HUD did not sufficiently and accurately report its (1) billing and program component improper payment rates; (2) actions to recover improper payments; (3) accountability; or (4) corrective actions, internal controls, human capital, and information systems as required by IPERA and OMB Circular A-123, appendix C.</i>" We suggest that the statements be edited as follows: "<i>HUD needs improvement in reporting its (1) billing and program component improper payment rates; (2) actions to recover improper payments; (3) accountability; and (4) corrective actions, internal controls, human capital, and information systems as required by IPERA and OMB Circular A-123, Appendix C.</i>"</p> <p><u>Finding 2</u></p> <p>We disagree with the title of Finding 2 that "<i>HUD's Supplemental Measures and Corrective Actions Did Not Target the Root Causes of HUD's Improper Payment.</i>" HUD is a government- wide leader</p>
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Ref to OIG Evaluation**Auditee Comments****Comment 4**

in addressing improper payments and has a robust program that is identified as a best practice for other agencies. We suggest that the title be edited as follows: *"HUD's Supplemental Measures and Corrective Actions Need Improvement."*

Recommendations 1C, 1K, and 1M

Recommendations 1C, 1K, and 1M are similar and address the same issue. To avoid redundancy, HUD recommends 1K and 1M be eliminated and Recommendation 1C be edited to read as follows: *"Develop a cost-effective plan to hold the program officials and processing entities responsible for improper payments accountable. In the agency financial report, identify and report on specific steps taken by Multifamily Housing and PIH plans to hold program officials and processing entities (PHAs and owner administrators) accountable for improper payments."*

We recommend these changes, because HUD already has tools to hold these individuals accountable. Any modifications in current procedures would have to also look at the associated costs.

Comment 4**Recommendations 1I, 1J, and 1L**

We also request that audit recommendations 1I, 1J, and 1L be consolidated as they are also substantially similar in nature.

Comment 5**Recommendation 1D**

We do not concur with audit recommendation 1D requiring that we conduct billing studies in Fiscal Year (FY) 2014. It is too late in the fiscal year to initiate a billing study. In addition, Public Housing and Housing Choice Voucher (HCV) billing studies are not needed, because payments are not based upon any billings. Also, the MFH billing study conducted in 2009 reported an error that was not a billing error. Continuation of the billing study will require a thorough review of the methodologies used to conduct the study and corrections provided where needed. This review of methodologies also precludes us from having enough time to conduct a billing study in FY 2014.

Comment 6**Recommendation 1E**

PIH management disagrees with audit recommendation 1E requiring that a study be done to assess improper payments arising from HCV program Public Housing Authorities (PHAs) misreporting their expenses to HUD since PIH's current procedures are deemed to be sufficient to provide the assurance.

HCV payments are based on data self-reported and validated and subsequently reviewed by the Program Office divisions and Field Offices. HCV currently follows Treasury cash management procedures to estimate prospective payments that are retroactively reviewed and reconciled against actual expenditures, on a quarterly basis, and at year-end when a settlement is completed. The reconciliation and settlements results are prospectively adjusted in the following quarter(s), which include the consideration of fraud recovery funds. Accordingly, at the year-end of the process,

Ref to OIG Evaluation**Auditee Comments****Comment 7**

PHAs are paid the correct amounts and within their eligibilities, as mandated by Congress in the annual Appropriations Acts.

To insure that self-reported data is accurate, PIH's HCV's Quality Assurance Division (HVQAD) and external auditors perform reviews and audits based on OMB's Circular A-133 Compliance Supplement. Based upon the result of these audits and reviews, the base data is deemed to be accurate. The HVQAD also performs risk-based analyses on an annual basis to determine the agencies that will need review(s) during the calendar year, and it submits their findings and recommendations to the field offices for the respective follow up.

Comment 8**Recommendation 1G**

We disagree with recommendation 1G requiring that improper payment rates be separated by program. HUD and OMB consider HUD's rental housing assistance programs to be one program administered by three offices within HUD. OMB is aware of this fact along with the funding structure and how funds are appropriated for this program. OMB has never required that HUD report separate error rates by program.

Comment 9**Recommendations 2C and 2G**

MFH and PIH management disagree with including deceased tenants and other supplemental measures in studies as stated in audit recommendations 2C and 2G. Current studies intentionally do not include deceased tenants, because they are handled through another method (the Enterprise Income Verification (EIV) system). HUD issues reports to the PHAs for possible deceased tenants. PHAs are responsible for investigating these cases, and if overpayments have occurred, they either collect or offset the errors against future payments. The use of the EIV system allows the Department to identify and follow-up on actual overpayments associated with deceased tenants. To include deceased tenants and other supplemental measures in the studies would provide an estimate of the errors when the actual amount is already available through the EIV system.

Comment 10**Recommendation 2H**

We suggest that Recommendation 2H be corrected to state "Multifamily Housing" rather than PIH within the recommendation. This action was already identified for PIH under Recommendation 2D.

Comment 11**Significant Deficiencies**

We disagree with the OIG's conclusion that Finding 1 and Finding 2 are significant deficiencies based on the following facts:

- *Finding 1- "Monitoring of program offices to ensure that recovery audit plans reported to OCFO are in place."*

HUD has determined that recovery auditing of its high risk programs is not a cost effective or efficient strategy to further reduce improper payments as we utilize a proactive and preventative approach to reducing improper payments. Our success in utilizing this approach has resulted in our reducing improper payments for these programs by 61 percent

Ref to OIG Evaluation

Auditee Comments

Comment 12

between FY 2000 and FY 2012. HUD is still in the process of implementing the recovery audit requirements for its smaller programs, and we will continue to monitor the progress of their efforts.

- *Finding 2- "Monitoring of processing entities to ensure that they use EIV to prevent, detect, and recover improper payments related to income discrepancies" and "Monitoring of rental components that are not included in EIV but are used in the rent calculation and are a root cause of improper payments."*

HUD's success in reducing improper payments by 61 percent between FY 2000 and 2012 is due in large part to the use of the EIV system. For example, HUD implemented reporting in the EIV system to aid PHAs in recovering payment errors at the local level in FY 2010. One of these reports is the Deceased Tenant Report which measures the number of deceased single member households within a public housing agency's jurisdiction. The measure helps Public Housing Agencies reduce improper payments made to deceased beneficiaries. In the first three years of monitoring the Deceased Tenants Report, \$6.9 million in improper payments have been recovered. Use of the EIV system is considered to be a best practice in reducing improper payments.

Thank you and your audit team for the opportunity to comment on your draft report. We appreciate your assistance towards improving HUD's efforts to implement IPERA. If you have any questions on our comments, please contact Jerry Vaiana on extension 8106.

OIG Evaluation of Auditee Comments

Comment 1

OMB Circular A-123 states that if an agency does not meet one or more of the following requirements, it is not in compliance with IPFA, as amended by IPERA 2010: published an AFR, conducted a risk assessment, published improper payment rates, published corrective action plans in the AFR, published and has met annual reduction targets, reported gross improper payments of less than 10 percent, and reported information on its recapture efforts. We found that in addition to misreporting several sections in its AFR, HUD did not comply with three of these fundamental requirements, which are all required for compliance: 1) HUD did not meet its annual reduction target rate, 2) HUD inaccurately reported on its corrective actions in its AFR, and 3) HUD did not report on its recapture efforts for all programs that disbursed more than \$1 million. Therefore, we concluded that HUD is not in compliance with IPERA.

Comment 2

As reported and detailed in Finding #1, we found several insufficiencies and inaccuracies in HUD's reporting, specifically with: (1) Billing error; (2) Component Rates; (3) Actions to recover improper payments; (4) Accountability; (5) Corrective Actions; and (6) Internal Controls, Human Capital, and Information Systems. All detail supporting these insufficiencies and inaccuracies are included in the report.

Comment 3

We found several disconnects between HUD's supplemental measures and corrective action and the root causes of HUD's improper payments, as explained in our report. To conduct this audit, we reviewed the applicable Federal laws, Executive Order 13520, and the implementing guidance found in OMB Circular A-123, Appendix C, that govern actions needed by the agency to address the issue of improper payments and how OIG should evaluate agencies. When performing these reviews, this guidance states that OIG should review the program improper payment rates, corrective action plans, and improper payment reduction targets, to determine if the corrective action plans are robust and focused on the appropriate root causes of improper payments, effectively implemented, and prioritized within the agency, to allow it to meet its reduction targets. We followed this criteria during our review. This criteria does not require the OIG to compare HUD's efforts against other agencies. Therefore, this audit was not designed to compare agency performance.

Comment 4

These recommendations are addressed to different program offices; therefore, they must be different recommendations.

Comment 5

We changed the language in the report to clarify that the study needs to be conducted in 2015 for 2014 expenses. We understand that a thorough review will be required, and believe this time frame is reasonable. This recommendation does not include the Housing Choice Voucher program. Further, HUD uses a billing study from 2004 to report Public Housing billing error in the AFR; this leads the reader to believe that there is an error to be reported.

Comment 6

U.S. Treasury cash management procedures do not decrease the risk of PHA misreporting rental housing assistance expenses in VMS because this process relies on self-reported PHA data. Also, fraud recovery mentioned in HUD's response does not decrease the risk of misreporting expenses in VMS because this is not related to HUD's identification of fraudulent PHAs; it means that PHAs have collected funds from fraudulent tenants. HUD also states that PHAs are paid based on their eligibility, however; PHA eligibility is based on previous PHA reported expenses, which PHAs could have misreported.

The Public Housing billing study conducted in 2004 reviewed items such as rent rolls and calculations PHAs used to determine the total expenses it reported. Since HUD reports billing error for this program, we think the Housing Choice Voucher program should be subject to the same kind of review. In addition, there are other administrative errors that could cause VMS reporting errors that are not evaluated by the quality control study and income match study. These studies determine errors in tenant rent, however; they do not review the PHA's calculation of expenses or verify that it correctly entered the expenses in VMS.

Comment 7

HUD uses Housing Choice Voucher Quality Assurance Division reviews as an internal control to identify and correct PHAs that have misreported their expenses in VMS; however, this is HUD's control. HUD does not use a contractor to perform an independent study to determine the extent of the problem and project an overall estimate of improper payments arising from these errors. Further, as stated in our draft IPERA report, the OIG fiscal year 2013 financial statement audit noted that controls over the VMS were not sufficient to ensure that the PHAs reported their expenses correctly.

Comment 8

This program grouping was approved by OMB in 2000. Since then, IPIA has been amended by IPERA and OMB Circular A-123 implementation guidance states, "Agencies must not put programs or activities into groupings that result in significant improper payment rates being masked by the large size or scope of such a grouping." HUD's current grouping masked the 5 percent increase in Public Housing, making it very difficult for the reader to identify this increase. Further, these three programs are reported separately on HUD's financial statements, funded separately by Congress, and are administered by different offices and systems.

Comment 9

We deleted these recommendations and added a recommendation to the OCFO to report on the deceased tenant improper payment error as an additional error in its AFR.

Comment 10

We concur; this has been fixed in the report.

Comment 11

While HUD states that it has reduced improper payments in its rental assistance programs by 61 percent, this is unrelated to recovery audits. Recovery audits should be performed for all of HUD's programs that spend more than \$1 million annually, not just rental assistance programs. The IPERA requires recovery audits, if cost effective, for programs or activities that expend more than \$1 million and requires agencies to report justification if determined not to be cost-effective. HUD sent white papers to OMB asking for its rental assistance programs to be exempt from this requirement; however, it has not done this for its other programs. Further, HUD did not provide an accurate justification for its determination in the AFR.

During our review, we found that HUD uses an informal recovery audit plan. However, we found a significant deficiency with this plan because it described recovery audit processes for over 40 programs; however, only five of the processes were tracked and reported in the AFR and the plan has not been updated since February 2011.

Comment 12

HUD states that processing entities are using EIV; however, as stated in our report, PIH and Multifamily Housing management cannot use the EIV system to effectively monitor the income discrepancy rent component. The management-level income discrepancy report in EIV contains many false positives and management cannot use it to determine whether processing entities are using EIV to identify, investigate, and either correct the income or record the discrepancy as a false positive. Further, EIV was not designed to measure administrator error arising from several components of the rental calculation, such as most pensions, welfare benefits, and allowances.

Deceased tenant payments are not included in the HUD's annual improper payment rate and therefore, are an independent measure. This control deficiency is not related to deceased tenant payments; it is related to payments made due to income discrepancies or other rental component errors.