



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

**User Fee Requirements**



Issue Date: September 30, 2014

Audit Report Number: 2014-KC-0006

TO: Joseph Hungate, Deputy Chief Financial Officer, F

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, Seattle Region, OAGA

SUBJECT: The HUD Office of the Chief Financial Officer Had Not Always Implemented Its User Fee Policy

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 user fees.

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 913-551-5870.



September 30, 2014

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## **The HUD Office of the Chief Financial Officer Had Not Always Implemented Its User Fee Policy**

# **Highlights**

**Audit Report 2014-KC-0006**

### **What We Audited and Why**

We audited the U.S. Department of Housing and Urban Development's (HUD) fiscal year 2013 compliance with the user fee requirements in Office of Management and Budget Circular A-25 and the Chief Financial Officers (CFO) Act of 1990. We initiated the audit based on observations in our audit of the Federal Housing Administration (FHA) annual lender renewal process. (2010-KC-0002, issued August 6, 2010) We noted that FHA had not updated its user fees for participation in the FHA program since 1993. Our audit objective was to determine whether HUD complied with the user fee requirements of The CFO Act and Circular A-25.

### **What We Recommend**

We recommend that HUD implement HUD CFO Handbook 1830.6, REV-1, publish a user fee schedule, and address HUD's user fees in its CFO report.

### **What We Found**

HUD's Office of the Chief Financial Officer (OCFO) had not always implemented its user fee policy in HUD CFO Handbook 1830.6, REV-1, which is designed to comply with Circular A-25 and CFO Act requirements for user fee reviews. OCFO did not consider other user fees material in comparison to primary collections from insurance fees and loan guarantee fees at FHA and the Government National Mortgage Association. As a result, HUD may not recover potential fee revenue from beneficiaries of its programs. OCFO planned to implement the HUD CFO Handbook 1830.6, REV-1, procedures in the next HUD budget process.

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## **BACKGROUND AND OBJECTIVES**

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The legislative authority for user fees (or charges) is part of Title V of the Independent Office Act of 1952, codified in 31 U.S.C. (United States Code) 9701. It provides the general authority and requirements for user fees, commonly referred to as the User Charge Statute. Office of Management and Budget (OMB) Circular A-25 provides guidance for this Act.

The Chief Financial Officers (CFO) Act of 1990 requires a biennial review of fees and other charges and states the requirement in a broad sense. Section 902.a.(8) requires that an agency biennially review the fees, royalties, rents, and other charges imposed by the agency for services and things of value it provides and make recommendations on revising those charges to reflect costs incurred by it in providing those services and things of value.

On July 8, 1993, OMB updated Circular A-25. Circular A-25 provides that each agency will review user fees (or charges) biennially. These reviews will include (1) assurance that existing fees are adjusted to reflect unanticipated changes in costs or market values and (2) a review of other programs in the agency to determine whether fees should be initiated for Government services or goods for which it does not currently charge fees.

Agencies are responsible for the initiation and adoption of user fee schedules consistent with the policies in Circular A-25, which instructs agencies to discuss the results of the user fee reviews and any resulting proposals in the Agency Financial Report (CFO report) required by the CFO Act. This reporting may be done in agency performance and accountability reports.

In June 1998, the U.S. Government Accountability Office (GAO) reported, “Some Agencies Do Not Comply with Review Requirements” (GAO/GGD-98-161). As of its report date, GAO had received responses from 23 of the 24 CFO agencies. It had not received a response from the U.S. Department of Housing and Urban Development (HUD).

The May 7, 2012, revision to HUD’s CFO Handbook 1830.6 updated the policy to agree with the 1993 OMB manual, changed the analysis required from annual to biennial, and eliminated outdated lists of user fees and examples.

GAO commented in its September 2013 Report on Fee Design Options and Implications for Managing Revenue Instability (GAO-13-820), “In 2012, the President’s Budget reported nearly \$300 billion collected in user fees from the public. Given the nation’s fiscal condition it is critical that every funding source and spending decision be carefully considered and applied to its best use.” Also, “GAO has previously recommended that the Office of Management and Budget (OMB) review fee-funded programs and identify opportunities to improve their design and better align fee collections with program costs.”

Our audit objective was to determine whether HUD complied with the user fee requirements of the CFO Act of 1990 and Circular A-25.

## RESULTS OF AUDIT

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### Finding: The HUD Office of the Chief Financial Officer Had Not Always Implemented Its User Fee Policy

The HUD Office of the Chief Financial Officer (OCFO) had not always implemented its user fee policy because the CFO for Budget did not believe the user fees were material in comparison to other collections, such as insurance fees and loan guarantee fees from the Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA). As a result, HUD may not recover potential fee revenue from beneficiaries of its programs.

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#### HUD's User Fee Policy Was Not Always Implemented

OCFO had not always implemented its user fee policy. HUD CFO Handbook 1830.6, REV-1, HUD's policy, was designed to comply with Circular A-25 and CFO Act requirements for user fee reviews. The handbook, circular, and CFO Act all require that HUD review its user fees biennially and make adjustments to those fees as necessary. Additionally, HUD's policy requires that it (1) have a systematic process to review user fees and incorporate fee proposals into the budget process, (2) include instructions for user fee reviews in the budget process, (3) maintain a schedule of user fees for tracking by OCFO, and (4) address the topic of user fees in the CFO report. Further, Circular A-25 states that, whenever possible, user fees and other charges should be set as rates rather than fixed dollar amounts to adjust for changes in costs to the Government or service provided.

HUD did not have a systematic process for reviewing user fees and incorporating fee proposals into the budget process. HUD's existing practices did not fulfill all the requirements Circular A-25 and the CFO Act. We observed some independent processes for reviewing fees at GNMA and for FHA mortgage insurance premiums. However, other fees had not changed in recent history.

The Office of Housing's lender certification process charged fees for certification and recertification of lenders and branch offices. These fees were flat dollar amounts that had not changed since 1993. In addition, the design of the fee was not responsive to inflation, the size of the lender, or risks associated with particular lenders. The fee also did not recoup the expense of lender monitoring, which, according to HUD's comments in the Federal Register for the last fee change, is a part of the recertification process.

Further, although the Office of Multifamily Housing Programs' underwriting fees had not changed since 1996, they were based on a percentage of the underlying mortgage. While Multifamily Housing had trimmed underwriting costs by moving to a streamlined process for those that qualified, it allowed traditional underwriting. The traditional application process was much more costly and could benefit from a user fee review.

Instructions for user fee reviews were not included in the budget process as described by HUD's policy. Contrary to HUD Handbook 1830.6, the Assistant CFO for Budget did not include guidance, instructions, and other necessary information as well as appropriate schedules for submission of information on user fees. Therefore, the CFO did not receive responses from the divisions for these steps. The Assistant CFO for Budget also did not prepare the required summary report of user fees, user fee reviews, disposition of user fees, and changes made to user fees for inclusion in the agency financial report as required by Circular A-25.

HUD did not maintain a schedule of user fees to be tracked by OCFO. Since OCFO was not aware of a centrally tracked list of fees, it could not immediately identify or track HUD fees at the time of our entrance conference. Centrally communicating requirements and documenting results are necessary to meet the requirements under The CFO Act, Circular A-25, and HUD's policy.

The topic of user fees was not fully addressed in the CFO report. Without the ability to track fees, the HUD CFO report could not fully address the topic of user fees as required by Circular A-25.

### **User Fees Were Not Considered Material**

The Assistant CFO for Budget did not believe the user fees were material in comparison to other collections, such as insurance fees and loan guarantee fees from FHA and GNMA, and, therefore, did not pursue activities to calculate, track, and collect user fees. However, we did not find provisions for materiality or significance in the Handbook or Circular A-25.

### **Revenues Might Not Be Realized**

HUD may not recover potential fee revenue from beneficiaries of its programs. Although we observed some efforts to adjust fees, implementing a structured process, such as that in HUD CFO Handbook 1830.6, REV-1, will help to ensure that OCFO meets its requirements under The CFO Act and Circular A-25.

## Recommendations

We recommend that HUD's CFO

- 1A. Implement HUD CFO Handbook 1830.6, REV-1, in HUD's next budget process.
- 1B. Identify all user fees and publish a user fee schedule for use by OCFO, other Government users, customers, and the public.
- 1C. Address HUD's user fees in HUD's Agency Financial Report.



## SCOPE AND METHODOLOGY

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We performed our audit work between April and August 2014. We conducted audit fieldwork at HUD headquarters in Washington, DC, and in our office in Seattle, WA. Our audit period generally covered October 1, 2012, through March 31, 2014.

To accomplish our objective, we

- Reviewed criteria related to user fee requirements.
- Reviewed HUD's policies and procedures for user fees.
- Interviewed and coordinated with HUD OCFO.
- Interviewed and obtained additional information from HUD staff to clarify policies and procedures.
- Identified programs with user fees.
- Determined whether each of the programs reviewed user fees regularly.
- Reviewed user fees at GNMA and Housing and the overall user fee review process and reporting performed by OCFO.

We did not rely on computer-processed data. Instead, we traced or verified information to supporting documentation, from which we drew our conclusions. We did not use sampling.

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

# INTERNAL CONTROLS

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

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

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

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## Relevant Internal Controls

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

- Program operations - Policies and procedures that management has implemented to reasonably ensure that HUD's collection of user fees for billable services meets program objectives.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that user fees are collected consistent with laws and regulations.
- Safeguarding resources - Policies and procedures implemented to ensure that opportunities to collect user fees are appropriately identified, analyzed biennially, and adjusted as necessary.

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 Deficiency

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

- HUD had not always implemented its policy to review user fees and update those fees as needed (finding 1).

# APPENDIXES


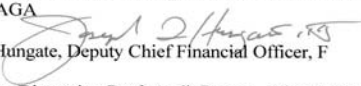
## Appendix A

### AUDITEE COMMENTS AND OIG'S EVALUATION

#### Ref to OIG Evaluation

#### Auditee Comments

#### Comment 1

 U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, DC 20410-3000 CHIEF FINANCIAL OFFICER	<p>MEMORANDUM FOR: Ronald J. Hosking, Regional Inspector General for Audit, Seattle Region, OAGA</p> <p>FROM:  Joseph I. Hungate, Deputy Chief Financial Officer, F</p> <p>SUBJECT: Response to Discussion Draft Audit Report – The HUD Office of the Chief Financial Officer Had No Always Implemented Its User Fee Policy</p> <p>Thank you for the opportunity to comment on the subject draft report. The Department respects the work of the Office of the Inspector General (OIG) and carefully considers all findings and recommendations contained in your reports. We are appreciative of the examination of this issue in various programs of the Department including FHA and GNMA. This review identified ongoing user fee efforts in many program areas, but also recognized that there is a need to extend and build on current efforts. We are in general agreement with the finding and recommendations in the draft report that will strengthen the CFO and Departmental efforts regarding user fees.</p> <p>The one finding in the draft report relates to the full implementation of HUD's User Fee Handbook 1830.6 REV-1. Specifically the review recommends that OCFO:</p> <ol style="list-style-type: none"><li>1. Implement HUD CFO Handbook 1830.6, REV-1, in HUD's next budget process.</li><li>2. Identify all user fees and publish a user fee schedule for use by OCFO, other Government users, customers, and the public.</li><li>3. Address HUD's user fees in HUD's Agency Financial Report.</li></ol> <p>During our discussions we documented that we have started the process by including a required review of user fees in the Fiscal Year 2016 budget call. The CFO Office of Budget will extend this effort in partnership with the budget officers of each program area and will continue to focus on the user fee issues during the hearing process with the Office of Management and Budget. Further, we concur that Fiscal Year 2016 will be a transition year with a goal of full implementation and documentation of the processes and results for Fiscal Year 2017. The user fee issue will also be addressed in HUD's annual Agency Financial Report.</p> <p>We look forward to working with the Office of the Inspector General, to more fully examine and update as necessary all Departmental user fees and document our progress in this area.</p>
<a href="http://www.hud.gov">www.hud.gov</a>	<a href="http://espanol.hud.gov">espanol.hud.gov</a>

### **OIG Evaluation of Auditee Comments**

**Comment 1** The OCFO generally agreed with our finding and recommendations and has begun to implement corrective action. Once the OCFO develops specifics of its implementation plan and target completion dates, it will provide us with its proposed management decisions.

## Appendix B

### CRITERIA

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The CFO Act of 1990 requires a biennial review of fees and other charges and states the requirement in a broad sense. Section 902.a. under the “Authority and functions of agency Chief Financial Officers” states, “An agency Chief Financial Officer shall— (8.) review, on a biennial basis, the fees, royalties, rents, and other charges imposed by the agency for services and things of value it provides, and make recommendations on revising those charges to reflect costs incurred by it in providing those services and things of value.”

OMB Circular A-25 - User charges. 6. General policy: A user charge, as described below, will be assessed against each identifiable recipient for special benefits derived from Federal activities beyond those received by the general public. When the imposition of user charges is prohibited or restricted by existing law, agencies will review activities periodically and recommend legislative changes when appropriate...

6a. Special benefits... 2. Determining the amount of user charges to assess.

(a) Except as provided in Section 6c, user charges will be sufficient to recover the full cost to the Federal Government (as defined in Section 6d) of providing the service, resource, or good when the Government is acting in its capacity as sovereign.

(b) Except as provided in Section 6c, user charges will be based on market prices... Under these business-type conditions, user charges need not be limited to the recovery of full cost and may yield net revenues. ...

(d) Whenever possible, charges should be set as rates rather than fixed dollar amounts in order to adjust for changes in costs to the Government or changes in market prices of the good, resource, or service provided (as defined in Section 6d).

6c. Exceptions...

6d. Determining full cost and market price. 1. “Full cost” includes all direct and indirect costs to any part of the Federal Government of providing a good, resource, or service. These costs include, but are not limited to, an appropriate share of:

(a) Direct and indirect personnel costs, ... (b) Physical overhead, consulting, and other indirect costs ... (c) The management and supervisory costs. (d) The costs of enforcement, collection, research, establishment of standards, and regulation, including any required environmental impact statements.