



# HUD's Office of Public and Indian Housing and Office of Housing – Washington, DC

## Rental Assistance Demonstration, Public Housing Component



**To:** Thomas R. Davis, Director for Office of Recapitalization, HTD  
Jemine Bryon, General Deputy Assistant Secretary for Public and Indian Housing, P  
Genger Charles, Acting General Deputy Assistant Secretary for Housing, H

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

**Subject:** HUD Did Not Complete an Adequate Front-End Risk Assessment for the Rental Assistance Demonstration

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 Rental Assistance Demonstration.

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 404-331-3369.



Audit Report Number: 2015-AT-0003

Date: September 3, 2015

**HUD Did Not Complete an Adequate Front-End Risk Assessment for the Rental Assistance Demonstration**

## Highlights

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### What We Audited and Why

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We audited the U.S. Department of Housing and Urban Development's (HUD) Rental Assistance Demonstration.<sup>1</sup> We initiated the audit under the HUD Office of Inspector General's annual audit plan. Our objective was to determine whether HUD had adequate controls over the Demonstration, to include (1) an appropriate completion of a risk assessment that adequately evaluated the following risks: (a) the need for additional administrative funding, (b) a determination of funding level and computation of program funds, (c) site conditions and residents' ability to return after conversion, and (d) management and information systems capacity by participants; and (2) a plan to reduce these risks to an acceptable level.

### What We Found

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The Office of Public and Indian Housing (PIH) did not sufficiently identify the risks that could disrupt an effective implementation of the Demonstration in its front-end risk assessment (FERA), document a plan to reduce these risks to an acceptable level, or conduct the FERA in a timely manner as required, as PIH completed the FERA nearly two years after budgetary approval for the Demonstration and nearly one year after it began accepting applications for the Demonstration. Additionally, the Office of Housing failed to document its contribution to the FERA prepared by PIH and clearly identify specific risks associated with Housing's program units.

### What We Recommend

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We recommend that (1) PIH reexamine and modify the FERA completed for the Demonstration, and (2) Housing review the existing FERA and modify it to clearly identify specific risks for its program units, and ensure that its contribution to the FERA prepared by PIH is documented via signatures of the proper Office of Housing officials to ensure that risks are sufficiently identified and a plan for reducing the risks to an acceptable level is in place to promote an effective and successful implementation of the Demonstration.

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<sup>1</sup> Although the Demonstration is administered by the Office of Recapitalization within the Office of Housing, it involves the Office of Public and Indian Housing and the Office of Multifamily Housing Programs. See the Background and Objective section of the report for details.

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# Background and Objective

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The Rental Assistance Demonstration is authorized by the Consolidated and Further Continuing Appropriations Act of 2012 (Public Law 112-55, approved November 18, 2011), which provided fiscal year 2012 appropriations for the U.S. Department of Housing and Urban Development (HUD).

The Demonstration has two separate components. The first component allows projects funded under the public housing and Section 8 Moderate Rehabilitation programs to convert their assistance to long-term, project-based Section 8 rental assistance contracts. Under this component, public housing agencies (PHA) and Moderate Rehabilitation owners may choose between two forms of Section 8 housing assistance payments contracts: project-based vouchers or project-based rental assistance. No incremental funds were authorized for this component. PHAs were to convert their assistance at current subsidy levels. The 2012 Appropriations Act authorized up to 60,000 program units to convert assistance under this component. The 2015 Appropriations Act, however, increased the conversion limit from 60,000 to 185,000 units and extended the date to accept applications for the Demonstration to September 30, 2018.

The purpose of the Demonstration is to provide an opportunity to test the conversion of public housing and other HUD-assisted properties to long-term, project-based Section 8 rental assistance to achieve certain goals, including the preservation and improvement of these properties through enabling access by PHAs to private debt and equity to address immediate and long-term capital needs. The Demonstration is also designed to test the extent to which residents have increased housing choices after the conversion and the overall impact on the subject properties. Collectively, projects that convert their form of assistance under the Demonstration are referred to as “covered projects.”

HUD’s Office of Recapitalization within the Office of Housing is responsible for the day-to-day operations of the Demonstration. However, since the Demonstration is available to program participants under the Office of Public and Indian Housing (PIH) and the Office of Multifamily Housing Programs, both of these offices are also directly responsible for the implementation of the Demonstration. Specifically, we audited the first, or public housing, component of the Demonstration. Under the first component, PIH’s role in the Demonstration includes receiving applications from PHAs that wish to participate in the Demonstration and reviewing the applications, which includes evaluating the applications for completeness and feasibility. Upon conditional approval of a PHA’s application, the PHA is assigned to the Office of Recapitalization, which is responsible for monitoring the PHA’s progress toward closing and providing feedback to assist PHAs in obtaining all required data to get to closing, including their financing plan. If the PHA’s project units are converted to the project-based rental assistance program, Multifamily’s Office of Asset Management is responsible for the ongoing monitoring of the PHA’s units.

As of June 24, 2015, HUD had received 1,632 applications and closed on only 168 applications, representing 17,841 units. The rehabilitation and new construction for the closed application is typically expected to take between 12 and 24 months. Therefore, not enough progress had been made for an effective evaluation of the Demonstration.

Our objective was to determine whether HUD had adequate controls over the Demonstration, to include (1) an appropriate completion of a risk assessment that adequately evaluated the following risks: (a) the need for additional administrative funding, (b) a determination of funding level and computation of program funds, (c) site conditions and residents' ability to return after conversion, and (d) management and information systems capacity by participants; and (2) a plan to reduce these risks to an acceptable level.

# Results of Audit

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## **Finding 1: HUD Did Not Complete an Adequate Front-End Risk Assessment for the Rental Assistance Demonstration**

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HUD did not complete an adequate front-end risk assessment (FERA) for the Demonstration as required. The FERA prepared by PIH was not timely as PIH completed the FERA nearly two years after budgetary approval for the Demonstration and nearly one year after it began accepting applications for the Demonstration, and did not sufficiently identify the risks that could disrupt an effective implementation of the Demonstration or document a plan to reduce these risks to an acceptable level. Additionally, Housing failed to clearly identify the risks related to its program units or document its contribution to the FERA prepared by PIH via signature of Office of Housing officials. These conditions occurred because HUD failed to place the proper priority on conducting a timely and thorough FERA as required. As a result, HUD lacked assurance that program risks were sufficiently identified and reduced to an acceptable level for an effective and successful implementation of the Demonstration.

### **The FERA Conducted by PIH Was Not Timely**

The FERA conducted by PIH was not completed in a timely manner. A FERA is a formal, documented review by management to determine the susceptibility of a new or substantially revised program or administrative function to waste, fraud, abuse, and mismanagement. Its purpose is to detect conditions that may adversely affect the achievement of program objectives and provide reasonable assurance that the following goals will be met: (1) safeguarding of assets, (2) effectiveness and efficiency of operations, (3) reliability of financial reporting, and (4) compliance with applicable laws and regulations. Further, according to HUD's requirements,<sup>2</sup> a FERA is a management tool to ensure that risks have been identified and a plan for reducing these risks to an acceptable level is in place before the implementation of a new or substantially revised program or administrative function. A review of the FERA documentation indicated that the FERA was completed by PIH nearly a year after HUD began accepting applications for the Demonstration on September 24, 2012. The FERA certificate of completion was signed by the PIH program manager, Deputy Assistant Secretary, and Assistant Secretary in August and September of 2013.

The Deputy Director of the Office of Recapitalization stated that the timing of the appropriations language for the Demonstration presented a challenge for the development of the FERA. It explained that Congress provided a 3-year window for accepting applications for conversion under the first component, which required HUD to take immediate action to begin designing and implementing the Demonstration. Further, HUD explained that substantial alterations to the

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<sup>2</sup> HUD Handbook 1840.1, REV-3, section 8-1

Demonstration from the revision of the program notice (Notice PIH-2012-32, REV-1) extended the drafting period for the FERA as HUD had to ensure that any new risks presented by the revised notice were included in the FERA. However, the HUD Secretary's memorandum in the Departmental Management Control Program handbook stresses that the time to initiate the conduct of a FERA is when there is budgetary approval for a new or substantially revised program and that it is critical that the FERA process achieve meaningful and useful results. The budgetary approval for the Demonstration occurred on November 18, 2011, nearly two years prior to the completion of the FERA.

### **The FERA Conducted by PIH Did Not Sufficiently Identify All Risks**

The completed FERA did not identify all of the risks that could disrupt an effective implementation of the Demonstration. The Departmental Management Control Program handbook requires the program office to evaluate program risk, addressing each of the specific minimum risk factors listed in section 8-6(C) of HUD Handbook 1840.1, REV-3, and any others that apply and providing a narrative for each with sufficient detail to justify conclusions. The program office is required to include responses to the subcategories and questions for each factor in the narrative. For each factor, the program office is required to (1) identify risks; (2) analyze the possible effects of the risk; (3) estimate the risk's significance—risks should be ranked on a scale that captures their importance, severity, or dollar amount; (4) assess the likelihood of its occurrence—risks should be ranked on a scale of frequency or probability; (5) explain how the risk will be managed (controlled); and (6) identify actions to be taken.<sup>3</sup> Further, the HUD Secretary's memorandum in the Departmental Management Control Program handbook<sup>4</sup> stresses the importance of performing a FERA as an excellent way for program managers to assess risks and establish internal controls before implementing a new or substantially revised program or administrative function. According to the memorandum, the process helps to ensure that risks are taken by choice and not by chance and are acknowledged by management as necessary to achieve programmatic goals within available resource levels.

HUD stated that it included Notice PIH-2012-32, REV-1, as an exhibit in the FERA to document the program rules and risk reduction strategies it had put into place for the Demonstration. While this information is useful as a reference for documenting risk reduction strategies, it does not relieve HUD of the requirements to identify and discuss the program risk in the FERA document. At a minimum, if the risk was significant enough to warrant risk reduction strategies in the notice, it should have been documented and discussed in the FERA document.

The following are examples of risks not identified in the FERA, which require a plan to ensure that the risks are at an acceptable level. Specifically,

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<sup>3</sup> HUD Handbook 1840.1, REV-3, paragraph 8-6(A)

<sup>4</sup> HUD Handbook 1840.1, REV-3, memorandum



### **The Need for Additional Administrative Funding**

HUD was provided no administrative funding to implement the Demonstration and was expected to use the existing organizational structure and management information systems to implement and monitor the Demonstration.

According to HUD, the congressional intent was that the offices with the programs most affected would provide for salaries and expenses. HUD believed this was the intent because otherwise Congress would have provided additional administrative funds to run and manage the Demonstration since the Demonstration language was part of the Appropriations Act. However, based on our review, the specifics of this need for additional administrative funding were not discussed in the FERA. This risk may negatively affect the existing organizational structure by using limited resources for salaries and expenses from other functions to implement and monitor the Demonstration.<sup>5</sup>

### **Determination of Funding Level and Computation of Program Funds**

The Demonstration statute required that HUD provide no financial assistance after the conversion except the combined amount of operating funds and capital funds provided. However, the legislation did not specify the fiscal year HUD was to use in determining the funding level and did not prescribe the method of computing the operating and capital funds. We identified a risk that the lack of specific direction in the legislation could directly affect the level of total funding available for the Demonstration as well as the level of assistance to tenants, depending upon HUD's implementation of the computations. HUD did not discuss the risks presented by the lack of specific legislative direction for determining the funding level for the Demonstration in the FERA.<sup>6</sup>

HUD stated that the FERA acknowledged the risk of funds controls and the concerns relating to congressional intent through a rigorous discussion of how HUD interpreted the funding provisions and how it devised and implemented controls surrounding those funding mechanisms. Further, HUD stated that by providing the funds control plans as exhibits in the FERA, containing language indicating how HUD had interpreted and controlled for congressional intent, HUD clearly specified the risk and the internal controls implemented. While the funds control plans documented HUD's implementation of the funding provisions, we believe that the FERA narrative did not discuss the risks presented by the lack of specific legislative direction.

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<sup>5</sup> HUD Handbook 1840.1, REV-3, chapter 8, requires the consideration of risks related to the adequacy of the appropriation under Risk Factor 9, Funding and Funds Control Plan. Specifically, A FERA must consider whether funding resource requirements have been identified for all program and administrative costs, the adequacy of funding resources had been assessed, and contingency plans were available for meeting any funding shortfalls.

<sup>6</sup> HUD Handbook 1840.1, REV-3, chapter 8, requires the determination of potential for risk because of the way the statutory or regulatory authority is worded under the Risk Factor 1, Legislative Language, scope of written authority. Specifically, a FERA must consider whether legislative authority or regulations are broad or vague and require consideration of whether legislative intent is clear.

### **Site Conditions and Residents' Ability To Return After Conversion**

The Demonstration statute requires that the conversion of assistance under the Demonstration not be the basis for rescreening or termination of assistance or eviction of any tenant family in a property participating in the Demonstration and such a family must not be considered a new admission for any purpose, including compliance with income-targeting requirements. One of the main concerns of Congress related to the Demonstration is the impact on housing opportunities for the low-income public housing residents affected by the Demonstration. Another risk is that tenants at the low-income project would not or could not reside in the converted projects due to possible arbitrary policy decisions of participating PHAs. While tenant rights are documented in Notice PIH-2012-32, REV-1, effective July 2, 2013, the FERA must document how HUD plans to enforce those rights and ensure that PHAs comply with them.<sup>7</sup>

The notice documented HUD's decision to conduct a management override of requirements regarding deconcentration of poverty, impacted sites, and expanding housing and economic opportunity. Effectively, HUD's management override allowed Demonstration projects on racially and economically impacted sites. The FERA did not provide the means for reducing the risk of projects' being located on economically and racially impacted sites or discuss HUD's conclusion that this was a low-risk issue.<sup>7</sup>

HUD explained that although it was considered to be a risk, the determination to waive site selection and neighborhood review standards for preserving in-place public housing units was not considered to be a high or medium risk for the purposes of the FERA. Specifically, HUD stated that since the Demonstration was designed to preserve affordable housing and provide more stable long-term funding, such waivers were appropriate. Further, HUD determined that the risk of continuing such housing was no greater than the risk of running existing public housing units as those units were already in place. Instead, HUD determined that the Demonstration reduced risk for existing sites by requiring capital needs to be addressed and ensuring long-term preservation of the existing sites through the Demonstration milestone submissions, use agreement, and associated contractual documentation.

While we agree with HUD's explanation regarding the concern relating to projects' remaining on their existing site after the conversion when the site is located in an economically and racially impacted geographic location at the time of conversion, the discussion of such risk was not included in the completed FERA. The purpose of conducting a FERA is to ensure that risks have been identified and a plan for reducing these risks to an acceptable level is in place before implementation. Although HUD determined that the risk for this issue was not a high or medium risk that would require risk reduction strategies, the FERA process requires an evaluation of all risks and requires HUD to provide a narrative for each risk factor, including responses for all subcategories and questions in that narrative.<sup>8</sup>

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<sup>7</sup> HUD Handbook 1840.1, REV-3, chapter 8, requires the consideration of risks that have been the focus of special attention; for example, special interest exhibited by Congress or media attention under Risk Factor 15, Special Concerns or Impacts.

<sup>8</sup> HUD Handbook 1840.1, REV-3, chapter 8, section 6-A

### **Management and Information Systems Capacity by Participants**

We identified a risk that PHAs with ineffective management may have difficulty in properly managing the conversion process, negatively affecting the chances for a successful conversion. Likewise, PHAs with ineffective management information systems may not be able to provide relevant and reliable information to use in evaluating the demonstration. The FERA did not discuss the risks of PHAs with management capacity and operating problems participating in the Demonstration. Also, the FERA did not prescribe a means to reduce the risk for substandard performing PHAs or PHAs with ineffective management information systems that may not be able to provide relevant and reliable information to evaluate the Demonstration. HUD was required to identify in the FERA what risks are presented by these PHAs and what steps HUD planned to take to reduce those risks.<sup>9</sup>

HUD stated that PHA management information systems were not considered to be a high or medium risk because before conversion, controls were put into place to ensure that useful and accurate data were submitted using established systems and methods. Regardless of whether this issue was considered a high or medium risk, the FERA must have identified this issue as a risk. The FERA process requires HUD to evaluate all risks and provide a narrative for each risk factor, including responses for all subcategories and questions in that narrative.<sup>10</sup> An example of the importance of this issue is documented in HUD Office of Inspector General (OIG) audit report 2013-PH-0004. That report documented HUD OIG's review of HUD's experience with its Moving-to-Work Demonstration program and concluded that in more than 15 years since the program was implemented, HUD had not been able to show whether the program had met its objectives. This conclusion was based in part on the lack of verified data from participating agencies.

### **Housing Failed to Clearly Identify Its Risks and Document its Contribution to the FERA**

Program managers are responsible for performing FERAs for new or substantially changed programs or administrative functions that fall within their program area.<sup>11</sup> However, Housing did not conduct its own FERA for the Demonstration, or ensure that program risks specific to Housing were clearly identified in the FERA prepared by PIH, and a plan for reducing those risks to an acceptable level was in place to promote an effective and successful implementation of the Demonstration.

The Director of the Office of the Chief Financial Officer's (OCFO) Risk Management Division explained that each program office is required to submit a FERA identifying the risks for

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<sup>9</sup> HUD Handbook 1840.1, REV-3, chapter 8, requires the consideration of whether procedures are in place to accurately document program outputs and outcomes, establish program goals, and hold business partners accountable for these goals under Risk Factor 13, Documentation. Further, under Risk Factor 15, Special Concerns or Impacts, the FERA must consider the risks that have been the focus of special attention; for example, special interest exhibited by Congress or media attention.

<sup>10</sup> HUD Handbook 1840.1, REV-3, chapter 8, section 6-A

<sup>11</sup> HUD Handbook 1840.1, REV-3, paragraph 8-3(B)

programs that fall within its area based on the requirements in HUD Handbook 1840.1. The Risk Management Division did not receive a FERA from Housing for the Demonstration. However, the OCFO Director further explained that in circumstances where multiple program offices have shared responsibilities and share one FERA, each program office's specific risks should be clearly denoted within the FERA and each program office should provide appropriate signature approval of the FERA.

HUD explained, via the Deputy Director of the Office of Recapitalization, that the FERA prepared by PIH addressed risks to all of HUD, including Housing. HUD further explained that Housing had significant input in the process and that the OCFO review and approval of the FERA included the assessment of risks pertaining to PIH, Housing, and HUD in total. The FERA was led by PIH because the Demonstration was managed by PIH when the FERA started in 2012. However, HUD stated that future risk assessments of the Demonstration would be led by Housing, with similar input from other participating offices.

While a number of the risks identified in the FERA were applicable to both program offices, we agree with the OCFO's explanation that each program office is required to clearly identify the risks for programs that fall within its area, and provide appropriate signature approval of the FERA to comply with the requirements of Handbook 1840.1.

#### **A Revised Notice Also Requires Reexamination of FERA**

As additional support requiring the need for a reexamination of the FERA, HUD issued a revised program notice (PIH 2012-32, REV-2) on June 15, 2015, that provides program instruction for the Demonstration. HUD Handbook 1840.1, REV-3, requires the program office to reexamine an approved FERA when events occur that potentially affect a program's risks or planned internal control techniques. These events may be changes in funding or staffing levels, administrative practices, etc.<sup>12</sup> The revision of the Demonstration notice represents a change in administrative practices for the Demonstration, thus triggering this requirement.

If any proposed change increases the level of risk, the program office must revise the FERA and identify the control techniques to address new or increased risks.

HUD stated that it was working on an annual update to the FERA.

#### **Conclusion**

Because PIH failed to place the proper priority on conducting a timely and thorough FERA and Housing failed to clearly identify the risks related to its program units, the FERA's effectiveness was lessened, and it was not used as a tool to ensure that risks that could lead to a possible disruption of the successful implementation of the Demonstration had been identified and a plan for reducing those risks to an acceptable level was in place before implementation.

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<sup>12</sup> HUD Handbook 1840.1, REV-3, paragraph 8-4(H)

## **Recommendations**

We recommend that the Office of Public and Indian Housing

- 1A. Reexamine and modify its completed FERA for the Demonstration to ensure that risks, including those identified in this finding, are adequately identified and a plan for reducing the risks to an acceptable level is in place to promote an effective and successful implementation of the Demonstration.

We recommend that the Office of Housing

- 1B. Review the existing FERA prepared by PIH and modify it to ensure that risks specific to its program units are adequately identified and a plan for reducing those risks to an acceptable level is in place to promote an effective and successful implementation of the Demonstration and ensure that its contribution to and approval of the FERA is documented via signatures of the proper Office of Housing officials.

# Scope and Methodology

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We conducted the audit from November 2014 through June 2015 at HUD headquarters in Washington, DC, and the Knoxville, TN, HUD OIG office. The audit covered the period September 2012 through September 2014 but was expanded as necessary.

To accomplish our objective, we

- Reviewed applicable laws, regulations, and relevant HUD program requirements, including Notice PIH-2012-32, REV-1; Notice PIH-2012-32, REV-2; and Demonstration legislation, HR 2112;
- Interviewed PIH, Housing, Recapitalization, and other program staff to obtain an understanding of the controls significant to the audit objective;
- Reviewed HUD Handbook 1840.1 to determine FERA requirements;
- Reviewed the FERA and applicable attachments prepared by PIH for the Demonstration to determine whether it adequately identified risks and documented the plans to reduce the risks that could affect a successful implementation of the Demonstration.

The records reviewed were not computer generated; therefore, an assessment of data reliability was not applicable.

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

# Internal Controls

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

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

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

## **Relevant Internal Controls**

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

- Controls over the effectiveness and efficiency of operations.
- Controls over compliance with applicable laws and regulations.

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:

- The FERA completed by PIH for the Demonstration did not adequately identify and document the plans to reduce all of the risks that could affect a successful implementation of the Demonstration (see finding 1).
- Housing did not ensure that program risks specific to its program units were adequately identified and a plan for reducing those risks to an acceptable level was in place to promote a successful implementation of the Demonstration, or document approval signatures of Office of Housing officials for the FERA prepared by PIH (see finding 1).


# Appendixes

## Appendix A

### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments

  
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-5000  
OFFICE OF PUBLIC AND INDIAN HOUSING  
OFFICE OF HOUSING

AUG 21 2015

MEMORANDUM FOR: Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

FROM: Jemine A. Bryon, General Deputy Assistant Secretary for Public and Indian Housing, P  
Genger Charles, Acting General Deputy Assistant Secretary for Housing, H

SUBJECT: Comments to Revised Discussion Draft Audit Report – HUD Did Not Complete a Front-End Risk Assessment or Annual Assessments for the Rental Assistance Demonstration (RAD) as required

Thank you for the opportunity to comment on the draft findings and recommendations contained in the above-referenced audit report of the Office of the Inspector General (OIG). The Department of Housing and Urban Development (the Department) is committed to full and effective compliance with statutory requirements and with the CFO Handbook. The revised draft report was reviewed by the Office of Housing and the Office of Public and Indian Housing (PIH).

The Department offers the following comments on the recommendations provided in the revised draft report.

**Recommendation 1A: Modification of the FERA to address additional risks**

The Department concurs with several of the additional risk items that OIG identified, and PIH and Housing will work collaboratively to add them to an updated FERA. The Department intends to document in the FERA the policies and procedures adopted to ensure robust tenant protections and improved property conditions under RAD. This includes, but is not limited to, technical assistance materials, training, in-depth reviews of transactions with certain risk elements, and reporting requirements.

However, the Department would like to provide clarification on a few issues.

The Department believes that the RAD statute was not problematically vague or ambiguous regarding the establishment of contract rents; however, the updated FERA will more fully describe policies on establishing rents.

[www.hud.gov](http://www.hud.gov)      [espanol.hud.gov](http://espanol.hud.gov)

Comment 1



**Auditee Comments**

Additionally, the Department did not waive Site and Neighborhood Standards in their entirety, but only those standards that directly contradicted the statutory purpose of RAD and that would present a barrier to the preservation of affordable housing. HUD intends to more fully document in the FERA the determination that such waivers posed a low-level risk, and that the Demonstration in fact reduced risk by requiring that the capital needs of existing sites be addressed.

And finally, while some PHAs struggle with effective management information systems, the Department has provided extensive guidance and technical assistance to PHAs in this area, including trainings and guidance on the data entry and submission requirements.

**Recommendation 1B: Review and edit existing FERA to include the Office of Housing's risks and signature**

The Department agrees that RAD presents risks that are relevant for multiple parts of HUD, including the Office of Housing. The original FERA incorporated extensive input from the Office of Housing and addressed risk to the Department as a whole, including the Office of Housing. HUD intends to update the existing FERA with formal approval from both the Office of Housing and the Office of Public and Indian Housing.

## OIG Evaluation of Auditee Comments

Comment 1 HUD provided additional clarification in its response but ultimately agreed with the conclusions and recommendations in the report. While HUD provided a positive response to the report it was not responsive to implementing the risk assessment program as mandated in the statute and HUD Handbook. The response demonstrates that PIH and Housing did not comply with the risk assessment process for identifying, analyzing, and reducing all of the risks. OIG recommended essentially that the Department Offices of PIH and Housing each re-examine the risk assessment to identify all risks in compliance with HUD's requirements.

HUD stated that it agreed with the risks OIG identified and will add them to the updated FERA. Nonetheless, HUD Handbook 1840.1 provides in section 2-3, that management should be comprehensive in its identification of risks and should consider all significant interactions between the organization and other parties as well as internal factors at both the organization and department level. Our report provided some examples of risks not considered but did not identify all the risks not identified. The risks identified in the report were presented to demonstrate the prior FERA effort was incomplete and needs to be re-examined by both Housing and PIH. Therefore, recommendations included in this report should be implemented.