



Office of Housing Counseling, Washington, DC

HUD's Administration of the Housing Counseling Program



To: Sarah S. Gerecke, Deputy Assistant Secretary for Housing Counseling, HC

//SIGNED//

From: Kimberly S. Dahl, Regional Inspector General for Audit, 2AGA

Subject: HUD Did Not Adequately Administer Its Housing Counseling Program

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 administration of the Housing Counseling Program.

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 website. 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 (212) 264-4174.



Audit Report Number: 2018-NY-0001

Date: September 24, 2018

HUD Did Not Adequately Administer Its Housing Counseling Program

Highlights

What We Audited and Why

We performed a review of the U.S. Department of Housing and Urban Development's (HUD) Housing Counseling Program, located within the Office of Housing Counseling. We selected this program based on an audit suggestion that was included in our annual audit plan to help address HUD's strategic goal to strengthen the housing market to bolster the economy and protect consumers. Our objective was to determine whether HUD adequately administered its program.

What We Found

HUD did not adequately administer its program in accordance with Federal regulations and its requirements. Specifically, it (1) did not adequately perform its agency approval and performance review processes, (2) approved grant vouchers without ensuring that agencies provided sufficient supporting documentation to verify the related expenses, and (3) did not ensure that termination and posttermination processes were adequately performed. These conditions occurred because HUD did not have adequate controls over its program and due to weaknesses in its Housing Counseling System. As a result, HUD did not have assurance that (1) agencies classified as approved in its system were properly qualified to provide services, (2) more than \$1.3 million in grant funds disbursed to agencies was for eligible and supported costs, and (3) unqualified agencies stopped advertising and providing services as HUD-approved agencies in a timely manner.

What We Recommend

We recommend that HUD (1) identify housing counseling agencies that were classified as reapproved without performance reviews being performed upon expiration of their approvals and determine whether they were properly qualified to provide services; (2) obtain documentation for seven housing counseling grants to show that more than \$1.3 million in grant funds disbursed was for eligible and supported costs; (3) develop and implement updated standard operating procedures to ensure consistency and adequacy of the agency approval, performance review, voucher approval, and termination and posttermination processes; and (4) ensure that the new system being developed provides the ability to adequately oversee the work of its staff and track important housing counseling agency milestones, including HUD approval expirations and required terminations.

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Background and Objective

The U.S. Department of Housing and Urban Development's (HUD) Housing Counseling Program is authorized by Section 106 of the Housing and Urban Development Act of 1968, as amended, to provide, make grants to, or contract with public or private organizations to provide a broad range of housing counseling services to homeowners and tenants to assist them in improving their housing conditions and in meeting the responsibilities of tenancy or home ownership. For example, the program addresses homelessness through counseling and assists homeowners in need of foreclosure assistance. It also helps those who want to or already do rent housing get the counseling they need to make rent and be a responsible tenant. These housing counseling services are provided by HUD-approved housing counseling agencies.

HUD's Office of Housing Counseling is responsible for administering the program. The office was created under the Dodd-Frank Wall Street Reform and Consumer Protection Act of January 5, 2010. Prior to October 2011, the program was administered under HUD's Office of Single Family Housing.

HUD provides initial approvals to housing counseling agencies and regularly reviews the performance of each agency to evaluate whether it can maintain its HUD-approved status. HUD-approved housing counseling agencies are also eligible for HUD grants through a competitive award process. HUD awarded nearly \$43 million in Housing Counseling Program grants during fiscal year 2016 and more than \$49 million during fiscal year 2017.

Regulations at 24 CFR (Code of Federal Regulations) Part 214 establish procedures and requirements for approved participation in the program. Additionally, agencies must comply with HUD Handbook 7610.1, mortgagee letters, grant agreements, and other regulations governing Federal grant recipients.

Our audit objective was to determine whether HUD adequately administered its program.

Results of Audit

Finding: HUD Did Not Adequately Administer Its Housing Counseling Program

HUD did not adequately administer its Housing Counseling Program in accordance with Federal regulations and its requirements. Specifically, it (1) did not adequately perform its agency approval and performance review processes, (2) approved grant vouchers without ensuring that agencies provided sufficient supporting documentation to verify the related expenses, and (3) did not ensure that termination and posttermination processes were adequately performed. These conditions occurred because HUD did not have adequate controls over its program and due to weaknesses in its Housing Counseling System. As a result, HUD did not have assurance that (1) agencies classified as approved in its system were properly qualified to provide services, (2) more than \$1.3 million in grant funds disbursed to agencies was for eligible and supported costs, and (3) unqualified agencies stopped advertising and providing services as HUD-approved agencies in a timely manner.

Agency Approval and Performance Review Processes Were Not Sufficient

HUD did not adequately perform its agency approval and performance review processes. Our review of ten agencies listed as approved in HUD's system found that HUD did not (1) document eligibility before providing initial approval for one agency, (2) follow its reapproval procedures for two agencies, and (3) adequately conduct and document performance reviews for seven agencies.

HUD did not adequately document eligibility before providing initial approval

HUD did not adequately document that it had checked for ineligible participants before providing initial approval of an agency. When providing initial approval for agencies to participate in the program for up to 3 years, HUD is required to review application packages submitted and ensure that agencies meet the requirements in 24 CFR 214 and HUD Handbook 7610.1. Regulations at 24 CFR 214.103(c) and HUD Handbook 7610.1, paragraph 2-2(D), state that approved housing counseling agencies, including any of the agency's directors, partners, officers, principals, or employees, must not be (1) suspended, debarred, or otherwise restricted under any Federal regulations or (2) indicted for or convicted of a criminal offense that reflects upon the responsibility, integrity, or ability of the agency to participate in housing counseling activities. HUD indicated that it had performed checks on individuals before providing initial approval for one new agency reviewed as part of our sample. However, it did not provide documentation showing which individuals it had performed checks on or that the checks had been completed. Further, while a statement about verifying applicants were not debarred or otherwise restricted was marked completed on an internal checklist, the statement about performing a criminal background check was marked as not completed. As a result, we could not confirm whether HUD verified that participants were not ineligible.

HUD did not follow its reapproval procedures

HUD did not complete performance reviews before reapproving two agencies or document when it provided extensions of previous approvals. HUD Handbook 7610.1, section 2-6, states that at the end of the approval period, and upon completion of a successful performance review, HUD will reapprove agencies. Paragraph 1.3(B)(12) of its standard operating procedures further states that it will conduct performance reviews every one, two, or three years if there are available staff and resources. However, two of the agencies reviewed were classified as reapproved in HUD’s system when performance reviews were not conducted. While section 2.3 of HUD’s standard operating procedures allowed its staff to cancel or postpone the reviews and to issue certificates with extended approval dates, HUD did not provide documentation showing that staff had adequately followed these procedures. HUD acknowledged that it previously tied the approval and performance review processes together, but stated that it was researching what the regulations required¹ and deciding when to conduct performance reviews and how to perform and document reapprovals.

HUD did not adequately conduct and document performance reviews

HUD did not adequately conduct and document its performance reviews. While HUD had completed performance reviews for seven of the reapproved agencies sampled, it did not adequately conduct and document these reviews as shown below.

Agency sample no.	Deficiency				
	Did not check for ineligible participants	Did not conduct client surveys	Did not provide documents to verify counselor supervision	Did not provide documents to verify grant funds	Did not ensure that agency used an approved client management system
2	X	X	X		X
3	X	X	X	X	
5	X	X	X		
6	X	X	X	X	
7	X	X	X		
8	X	X	X	X	
9	X	X	X	X	
Totals	7	7	7	4	1

The following bullets provide additional details on the applicable requirements and the deficiencies identified.

- For seven agencies, HUD did not ensure that participants were eligible. Regulations at 24 CFR 214.103(c) and HUD Handbook 7610.1, paragraph 2-2(D), state that approved housing counseling agencies, including any of the agency’s directors,

¹ Regulations at 24 CFR 214.203 state that at the end of the approval period, and upon completion of a successful performance review, if conducted, HUD will reapprove agencies. Section 2-6 of HUD’s handbook mirrors this language, but does not contain the phrase “if conducted.”

partners, officers, principals, or employees, must not be (1) suspended, debarred, or otherwise restricted under any Federal regulations or (2) indicted for or convicted of a criminal offense that reflects upon the responsibility, integrity, or ability of the agency to participate in housing counseling activities. HUD stated that its practice is to perform checks for ineligible participants only during initial approval and not during reapproval. However, because the status of participants could change over time and there can be staff turnover at agencies, it should have a process in place to ensure that participants are eligible when conducting performance reviews.

- For seven agencies, HUD did not conduct surveys of housing counseling clients. HUD Handbook 7610.1, paragraph 6-3(C), required HUD staff to randomly select clients to be surveyed during performance reviews to confirm that services were provided. HUD explained that it no longer conducted the surveys because they were inefficient and the response rate from clients was low. However, while its standard operating procedures did not require the client surveys, this practice did not align with its handbook requirement.
- For seven agencies, HUD did not adequately document that it verified that the agencies provided adequate supervision of their housing counselors. Regulations at 24 CFR 214.303(h) and HUD Handbook 7610.1, paragraph 6-1(K), required supervisors to monitor the work of housing counselors at their agencies. However, HUD could not provide documentation showing that it verified counselor monitoring during its performance reviews and before classifying agencies as reapproved.
- For four agencies, HUD did not adequately document that it verified that grant funds disbursed were supported. HUD Handbook 7610.1, paragraph 6-3(A), required performance reviews to cover compliance with grant requirements when applicable. Further, HUD’s standard operating procedures required staff to verify grant costs using source documentation that agencies were required to maintain according to their grant agreements. For example, agencies were required to maintain source documentation of direct costs, such as invoices, receipts, canceled checks, documentation of personnel expenses, and indirect cost rate agreements. However, for four of the five counseling agencies in our sample that had received grant funds and had a performance review, HUD could not provide evidence showing that it had obtained all supporting documentation related to the grants and that the documentation received had been adequately reviewed. In total, as shown in the chart below, HUD could not show that it had verified \$217,773 in grant funds disbursed to the four agencies.

Agency sample no.	Unsupported grant funds
3	69,755
6	69,200
8	65,080
9	13,738
Total	217,773

- HUD did not ensure that one agency used an automated housing counseling client management system that satisfied certain requirements and interfaced with HUD’s databases as required by HUD Handbook 7610.1, paragraph 2-2(G). While HUD’s performance review cited the agency for not using an approved system, it did not ensure that the agency had resolved the issue before classifying the agency as reapproved.

These issues occurred because HUD did not have adequate controls over its agency approval and performance review processes. It failed to ensure that its standard operating procedures were complete and aligned with regulations and with its handbook, and it did not provide adequate oversight of staff to ensure that agency reviews were performed properly and consistently. Further, HUD did not have adequate controls to ensure that agency approvals and performance reviews were adequately tracked. For example, the system did not show when performance reviews were completed and was not built to show when approval dates had changed without a corresponding performance review. Because HUD staff relied on these data to identify agencies with expiring approvals, it was not aware² that the two agencies identified during our audit were overdue for performance reviews by 1 and 4 years.

As a result of the deficiencies identified, HUD did not have assurance that agencies classified as approved in its system were properly qualified to provide services to consumers and that \$217,773 in grant funds disbursed to four agencies was used for eligible and supported costs.

The Voucher Approval Process Was Not Sufficient

HUD approved three housing counseling grant vouchers without ensuring that agencies provided sufficient supporting documentation to verify the related expenses. Due to the volume of grant drawdowns it processed and limited staff resources available, HUD stated that it performed only a surface review³ during the voucher approval process to confirm that supporting source documentation was provided by the agency. However, three of the five vouchers selected for review did not contain sufficient documentation to support the full amount disbursed. For example, vouchers did not contain itemized information for some expenses and support for salaries and expenses that were classified as “other allowable expenses.” The chart below details the grant amounts that were not supported for each voucher reviewed.

Voucher sample no.	Voucher #	Unsupported grant funds
1	066-00047474	\$348,307
2	066-046961	483,455
3	066-00047391	261,184
Total		1,092,946

² After we requested documentation supporting the reapproval of these two agencies in HUD’s system, it determined that performance reviews had not been completed. While HUD later performed the reviews, we did not review the related documentation because they were completed outside our audit period.

³ HUD performed more detailed reviews of grant funds only during performance reviews of the agencies. As noted in the prior section, we also identified issues with the detailed reviews.

These issues occurred because HUD did not have adequate controls over its voucher approval process. HUD's housing counseling handbook and written standard operating procedures did not describe the process used for the surface reviews. Further, while staff used a checklist that described what to look for during the reviews, HUD did not have adequate oversight to ensure that voucher reviews were performed properly and consistently.

As a result of the deficiencies identified, HUD did not have assurance that more than \$1 million in grant funds disbursed to three agencies was for eligible and supported costs.

Termination and Posttermination Processes Were Not Sufficient

HUD did not adequately perform its termination and posttermination processes in accordance with applicable requirements. Specifically, for the 10 agency terminations sampled,

- HUD did not classify eight agencies as terminated in its system in a timely manner. These agencies were listed as being approved for 161 to 1,292 days after they became ineligible. This issue is significant because consumers can access the list of approved systems using an online query or through HUD's housing counseling hotline.
- HUD could not show that it had communicated terminations in writing for eight agencies as required by 24 CFR 214.201(c) and HUD Handbook 7610.1, section 6-8. HUD's files did not contain copies of the letters with all required information and signatures. While HUD stated that termination letters were not required for seven of the eight agencies because they were not direct-approval agencies, this process did not align with the regulations and its handbook.
- HUD did not request or obtain approval certificates from two agencies as required by 24 CFR 214.201(c) and HUD Handbook 7610.1, section 6-8.

These issues occurred because HUD did not have adequate controls over its termination and posttermination processes. HUD did not have written standard operating procedures for these processes and did not provide adequate oversight of staff to ensure that processes were conducted properly and consistently.

As a result of these deficiencies, HUD did not have assurance that unqualified agencies stopped advertising and providing services as HUD-approved housing counseling agencies in a timely manner, and consumers did not have assurance that agencies listed as approved in HUD's system were qualified to provide housing counseling services.

Conclusion

HUD did not adequately administer its program due to weaknesses in its controls. Specifically, HUD failed to ensure that its standard operating procedures for agency approvals and performance reviews were complete and aligned with regulations and with its handbook, and did not have adequate written procedures for its voucher approval and agency termination and posttermination processes. We also identified weaknesses with HUD's system for tracking agency approvals, performance reviews, and terminations. As a result of the deficiencies identified, HUD did not have assurance that (1) agencies classified as approved in its system were properly qualified to provide services, (2) more than \$1.3 million in grant funds disbursed

to agencies was for eligible and supported costs, and (3) unqualified agencies stopped advertising and providing services as HUD-approved agencies in a timely manner.

HUD stated that it planned to increase staffing,⁴ was researching what the regulations required, and planned to update its handbook and standard operating procedures. Further, due to the issues identified with its current system, it was developing a new system called the Housing Counseling Agency Management System. HUD stated that the new system will not replace the existing system, but will interface with it and allow staff to better use and analyze the data and increase oversight of the program. If HUD makes significant improvements to its policies and procedures and ensures that the new system allows it to adequately oversee the work of its staff and track important housing counseling agency milestones, HUD can improve its overall administration of its program.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Housing Counseling

- 1A. Identify additional housing counseling agencies that were classified as reapproved when it had not completed a performance review upon expiration of the approved period and determine whether they are properly qualified to provide counseling services to consumers.
- 1B. Obtain and provide documentation for the four housing counseling agency reapprovals and the three housing counseling agency voucher approvals to show that the \$1,310,719 in Housing Counseling Grant funds⁵ disbursed was for eligible and supported costs or repay from non-Federal funds any amount that cannot be supported.
- 1C. Update its policies and procedures to ensure consistency and adequacy of the agency approval, performance review, voucher approval, and termination and posttermination processes. Specifically, the updates should ensure that the deficiencies identified in this report are acknowledged and corrected going forward, including (1) updating the Housing Counseling Program handbook and developing or updating standard operating procedures for each of the key processes and (2) implementing controls to ensure that staff perform work properly and consistently, and maintain significant documentation provided by agencies, along with any analysis performed during reviews.

⁴ According to HUD, it can perform approximately 300 agency approval reviews per year with its current resources. Increasing staffing is significant because HUD's system shows that 461 agencies will need to be reviewed for reapproval in fiscal year 2019. HUD will also need to provide staffing resources to identify additional agencies with expired certifications and determine whether they are properly qualified to provide counseling services to consumers.

⁵ This includes \$217,773 in unsupported costs for the four agency reapprovals and \$1,092,946 in unsupported costs for the three agency voucher approvals.

- 1D. Ensure that the new Housing Counseling Agency Management System provides HUD with the ability to adequately oversee the work of its staff and track important housing counseling agency milestones, including HUD approval expirations and required terminations.

Scope and Methodology

We conducted our audit work from November 2017 through July 2018 at our Buffalo, NY, field office. The audit covered the period October 1, 2015, through September 30, 2017.

To accomplish our audit objective, we interviewed HUD officials, performed site visits at terminated housing counseling agencies, and reviewed

- relevant background information;
- applicable laws, regulations, HUD guidance, and grant agreements;
- data from HUD's Line of Credit Control System (LOCCS)⁶ and Housing Counseling System; and
- housing counseling agency program files maintained by HUD and the agencies.

To conduct our audit work, we selected four samples as detailed below.

Sample of Agency Approvals

HUD provided a list of 3,795 active agency records from our audit period. After removing records related to agencies approved or reapproved outside our audit period, we identified records for 1,424 unique active agencies receiving approval during our audit period. From this universe of 1,424 agencies, we selected a nonstatistical sample of 10 active agencies approved within our audit period using the random selection command in ACL Analytics. Our sample included nine reapprovals and one initial approval. We then reviewed HUD's program files to ensure that HUD followed applicable requirements when providing initial approvals and reapprovals, and when conducting performance reviews. For example, we checked HUD's program files for review checklists, proof of nonprofit status and financial audit reports, support for grant funds received, evidence of client surveys performed by HUD, employee monitoring performed by agencies, and ineligible participant checks performed by the agencies and HUD.

Sample of Voucher Approvals

HUD provided data for 472 housing counseling grants awarded to 256 approved housing counseling agencies during our audit period, with grants totaling almost \$92 million. From the universe of 256 agencies, we selected the 5 agencies that had been awarded the largest amount of grant funds. In total, these five agencies were awarded more than \$25 million during our audit period. We then selected the largest payment voucher for each of the five agencies for review, with grant funds totaling approximately \$6.1 million. We then reviewed HUD's program files for checklists, itemized details, and supporting

⁶ LOCCS is HUD's primary grant disbursement system, handling disbursements for most HUD programs.

documentation. We reviewed the sampled voucher payments compared to the surface review process described in the finding. We performed a more detailed review of grant funds for agencies that were part of our agency approval sample. (See the previous bullet.)

Sample of Agency Terminations and Withdrawals

HUD provided a list of 473 agencies that were terminated, inactive, or withdrawn during our audit period. From the universe of 473 agencies, we selected a nonstatistical sample of 10 agencies that were terminated, inactive, or withdrawn within our audit period using the random selection command in ACL Analytics. We then reviewed HUD's program files to ensure that valid termination letters were prepared and delivered; termination statuses were entered into HUD's system; approval certifications were returned; and any reinstatement, extension, or appeal documentation was present if applicable.

Sample of Terminated Agencies for Inspection

HUD provided a list of 473 agencies that were terminated, inactive, or withdrawn during our audit period. After removing inactive agencies, agencies that were terminated due to an office closure, and those that were terminated in error by HUD, we identified a universe of 285 terminated or withdrawn agencies. We selected the 30 agencies listed as most recently terminated that were within a 50-mile radius of a HUD Office of Inspector General (OIG) office. We then conducted site visits to determine whether these terminated agencies still represented themselves as HUD-approved agencies. For example, we checked for any signs or certificates referencing a HUD approval and spoke with staff, when available, regarding the agency's current status as a HUD-approved agency. We did not identify evidence of the 30 terminated agencies continuing to identify themselves as HUD-approved agencies.

Although our sampling methods did not allow us to make projections to the universes from which our samples were drawn, they were sufficient to meet our objective to evaluate HUD's administration of the program.

To achieve our objective, we relied in part on information maintained in LOCCS and HUD's Housing Counseling System. While we did not conduct a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequately reliable for our purposes. The testing consisted of comparing data in the supporting program files to information found in HUD's systems. Although we identified weaknesses with HUD's system, we verified all information for our samples using the supporting program files maintained by HUD.

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

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:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

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 did not have adequate controls to ensure that it adequately administered its Housing Counseling Program (finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1B	\$1,310,719

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

 U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Office of Housing Counseling
451 7th Street, SW
Suite 9224
Washington, DC 20410

TO: Kimberly S. Dahl, Regional Inspector General for Audit 2AGA

FROM: Sarah S. Geredon, Deputy Assistant Secretary, Office of Housing Counseling HC

SUBJECT: Response to Discussion Draft 08-22-18
HUD Did Not Adequately Administer Its Housing Counseling Program

Thank you for the review of HUD's administration of its Housing Counseling Program under 12 U.S.C. 1701x, as amended; 24 C.F.R. 214; 2 C.F.R. Part 200; and other guidance. We are committed to ensure HUD Housing Counseling Agencies meet program standards, demonstrate good stewardship of Federal funds and provide quality housing counseling to consumers.

The result of the audit is a finding: HUD Did Not Adequately Administer Its Housing Counseling Program. Overall, we agree with the audit finding, although there are some areas of disagreement and some need for further research outlined in the analysis below. Where possible, we have outlined the corrective actions HUD plans to take to address the finding. However, staffing and systems constraints may affect HUD's ability to implement these actions.

This memo begins by placing the audit in the context of those staffing and systems constraints. We then review each component of the finding, stating where we agree or disagree, and propose a response that will be more fully developed in the forthcoming Management Decision.

1. Background and Context

The underlying causes of the audit finding date to the statutory reorganization of the program and include the implementation of a large number of new statutory mandates at a time of staffing and systems insufficiencies.

A. Reorganization. As noted in the Discussion Draft, Congress authorized the Housing Counseling Program under The Housing and Urban Development Act of 1968 (Public Law 90-448). The Office of Housing Counseling (OHC) was authorized in 2010 by Public Law 111-203, in response to the importance of housing counseling to helping families avoid foreclosure during the financial crisis, and to Congressional concerns about HUD's operation of the program at that time. Prior to the creation of OHC, approximately 177 HUD Single Family staff in Headquarters and the four HUD Home Ownership Centers worked on the program along with other responsibilities.¹ The reorganization created a new program within HUD whose sole focus was the Housing Counseling Program.

¹ The other responsibilities included marketing, outreach and the non-profit approval program for the Single Family Mortgage Insurance Program.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 2

The statute creating OHC also included the following new mandates:

- time limits for awarding appropriated funds
- a more streamlined approach to grantmaking
- a new requirement to certify individual housing counselors, including the design and launch of a certification examination
- new definitions of homeownership and rental counseling, and
- the creation of a Federal Advisory Committee.

HUD's Office of Housing Counseling began operations in October 2012 with 59 employees.

B. Implementation of Statutory Mandates and HUD priorities. During the OIG audit period of FY 2017, HUD published and publicized the counselor certification Final Rule, launched the certification examination in English and Spanish, launched the Federal Advisory Committee, made grant awards within Congressional deadlines, and streamlined the grantmaking process substantially. New Uniform Grants Guidance requirements took effect, with significant changes in responsibilities for grant monitoring and oversight. The change of Administration in 2017 also added priorities including training HECM counselors on new product guidelines that went into effect in FY 2018, and the design and deployment of extensive tools for housing counselors to respond to disasters that were subsequently distributed to housing counseling agencies in areas affected by Hurricanes Irma, Harvey, and Maria, the California wildfires and other disasters.

C. Adequacy of Staffing. HUD engaged in numerous staffing studies, using both government workload measures (TEAM and REAPS) and outside consultants (NOVAD and KPMG). HUD made the case in 2013 for additional staff. During the audit period, OHC had 75 - 79 full time staff responsible for oversight of 1,827 housing counseling agencies in addition to the other responsibilities mentioned above. Every OHC staff member, including the Deputy Assistant Secretary, is responsible for oversight of a portfolio of housing counseling agencies including the re-approval, voucher, performance review, and termination procedures. Every staff member also has responsibility for the design and implementation of other statutory and administration priorities.

OHC has focused efforts to analyze risk, streamline requirements, and prioritize compliance in order to right-size the workload to available staffing. Several of the audit findings reflect risk-based decisions to balance oversight activities with available headcount and other responsibilities, within the legal framework of the program.

In response to continuing challenges with staff capacity, OHC has 1) engaged an outside CPA firm to support our grants administration efforts; 2) identified opportunities to further streamline and automate existing processes; 3) identified rules and regulations essential to the program and eliminated unnecessary requirements; and 4) prevented noncompliance through training, technical assistance and toolkits. These efforts are further described in Appendix A.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 3

D. Systems Limitations. As noted in the Discussion Draft report, the Housing Counseling System (HCS) is the main business system supporting the program. HCS was built on the Computerized Homes Underwriting Management System (CHUMS), a COBOL mainframe program created in 1986. OHC recognizes there is a need to replace HCS with a more modern database. As the audit noted, HCS has very limited fields, and cannot be used for most supervisory, compliance or analytic functions.

While OIG noted many system limitations, there are others. For example, removing a branch agency from a parent (if a branch closes, for example) will remove all activity associated with that branch in the parent's reporting. Removing a branch from HCS to reflect a timely termination will also remove activity conducted by that branch in the fiscal year prior to termination. The system leaves OHC with the choice of delayed termination or inaccurate data. In 2016, OHC worked with KPMG to create a Roadmap for a modernized business system. OHC has requested but has not received funding to implement the Roadmap.

Rather than remain dependent on an inadequate system, OHC identified talent within HUD to create an application at no cost (other than staff time) that would use HCS data to better serve program needs, reduce risk, increase efficiency and address several of the problems that surfaced in the audit. The new application, Housing Counseling Agency Management System (HCAMS) will be an integrated business solution developing an automated cloud-based platform to allow OHC to better align our primary business processes including program oversight, grant scoring, grants management, and processing of new applicants.

The first HCAMS module related to performance reviews is scheduled for release in early 2019. OHC intends to build into HCAMS functionality to allow OHC management and quality control teams the ability to track, review and approve staff work.

Despite competing priorities, staffing and systems limitations, OHC completed 339 performance reviews in 2017. The program delivered services to 1.1 million households with a high rate of consumer satisfaction. HUD received 24 complaints about program services in 2017; approximately half of those were validated.

2. OIG Audit Finding: HUD Did Not Adequately Administer Its Housing Counseling Program. HUD agrees with the finding in part; we have some disagreements on specific issues outlined below, and further research is needed on others. We have corrected or intend to correct lapses in processes identified by the audit. We also note that the OIG did not identify any actual instance of poor quality service to clients; agencies advertising HUD-approved status inaccurately; ineligible participants; or improper spending. Outlined below are the three sub-areas of the audit, along with HUD's response and proposed next steps.

A. OIG found that Agency Approval and Performance Review Processes Were Not Sufficient. There were three issues contributing to this sub-area. HUD agrees in part and disagrees in part.

Comments 1 and 4

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 5

1. HUD did not adequately document eligibility before providing initial approval.

The audit notes for one agency that "HUD did not provide documentation showing which individuals it had performed checks on or that the checks had been completed." HUD disagrees and believes that checks were in fact completed and were documented appropriately.

When an agency applies for approval to participate in the Housing Counseling Program, OHC conducts a search of the organization using SAM.gov to determine if the agency is delinquent on federal debt or if it has been suspended or disbarred. OHC also completes a search of the public record using Thomson Reuters CLEAR (CLEAR) for key personnel (e.g. directors, employees) to determine if the above stated requirement has been met. The CLEAR report includes a criminal background check for arrests and convictions. In addition, there is a search to determine if any of the individuals are on the Limited Denial of Participation list.

In the case of the new approval cited by the audit, the OHC reviewer checked for ineligible participants and documented on the New Application Approval checklist that all steps in the approval process were followed. In addition, a second reviewer followed the existing quality control process and confirmed that all steps in the approval process were completed correctly. In the case identified by the audit, OHC retained evidence of background checks' completion including a report of a potential ineligible applicant. The agency resolved the items and HUD approved the applicant. OHC does not retain source documentation of each individual background check due to privacy concerns. As part of the audit resolution process, OHC will research best practices for documenting the completion of background checks.

During 2017, after this application was approved, OHC introduced new tools to streamline the new agency approval process. The Housing Counseling Agency Eligibility Tool, <https://www.hudexchange.info/programs/housing-counseling/housing-counseling-agency-eligibility-tool/>, reduced staff time spent on reviewing ineligible applications and basic questions, and increased staff time available to review applications for compliance with HUD rules and regulations. Since OHC's launch of the tool in January 2017 through August 28, 2018, 390 organizations have completed the tool with savings in staff time estimated at 2,925 hours.

2. OIG next found that HUD Did Not Follow Reapproval Procedures.

HUD agrees in part. Regulations at 24 CFR 214.203 and 214.307 state that the performance review is an optional, not required, condition of reapproval. For example, 24 CFR 214.203 states "HUD **may** conduct periodic performance reviews for all agencies participating in the Housing Counseling program...At the end of the approval period, and upon completion of successful performance review, **if conducted**, HUD will reapprove agencies." (emphasis added)

Comment 6

Auditee Comments and OIG's Evaluation

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Auditee Comments

Comment 6

HUD agrees that certain sections of the HUD Housing Counseling Handbook 7610.1 REV-5 (Handbook) may be read in a manner that is inconsistent with the OHC regulations. For example, Handbook section 2-6 implies that a performance review is required before the reapproval of a new agency. However, section 6-3 expressly provides that performance reviews may be conducted by HUD and this section is consistent with 24 CFR 214.203 and 214.307.

HUD has the discretion to decide whether or not to conduct a performance review and the timing of any review. Nevertheless, OHC makes every attempt to conduct a performance review on-site or remotely before re-approving an agency and conducted 339 performance reviews in FY 2017. OHC intends to clarify its procedures to extend or re-approve an agency without a performance review.

Local Housing Counseling Agencies (LHCAs) currently receive a PDF of their HUD approval certificates once their initial application for participation in the program is approved as well as after a performance review is completed. The certificate includes the start and end date of the HUD approval which can be up to three years. For a low-risk agency, this is three years after the date of the most recent approval. OHC reviewers may extend the approval end date when they cannot conduct a performance review before the end date, often due to scheduling conflicts, workload, or illness. Extensions cannot be tracked in HCS and may be done as conditional or unconditional approvals.

The issue identified by OIG is a system as well as a staffing challenge. HCS cannot track and report on the date of each of the steps in the re-approval process. HCS does not generate or track the approval certificate, which is manually prepared and issued. We do not have the capability in HCS to run a report of agencies with time frames to show the expiration of a certificate and that a review is due. Performance reviews conducted prior to the reorganization of OHC cannot be tracked. HCAMS, when operational, will take HCS source data and track performance review dates and justifications for extending approval without a performance review. It will provide supervisors and staff with reports of agencies where performance reviews are needed.

OHC is manually reviewing and reconciling available data in HCS to identify LHCAs that have not had a performance review since 2015 (Audit Recommendation #1). OHC will work in cooperation with the Office of Housing's Office of Risk Management and Regulatory Affairs to develop a strategy that will allow us to incorporate the outstanding performance reviews with those required in 2019 and prioritize the performance reviews for those agencies that offer the greatest risk. The strategy will also address conditions to permit a re-approval without a full performance review as permitted by regulation depending on the volume, level of risk, staffing, etc. to allow us to accomplish our goals while ensuring program compliance.

Auditee Comments and OIG's Evaluation

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Auditee Comments

Comment 7

OHC is also exploring streamlined processes, including a regulatory change to permit a longer approval period for LHCAs. With the assistance of the Office of Risk Management we plan to develop guidelines for a process based on risk. A longer approval term for agencies that pose less risk would allow OHC to manage our workload more efficiently with more emphasis on those agencies that require greater oversight and technical assistance due to their risk level.

3. The OIG Audit next found that HUD did not adequately conduct and document performance reviews. HUD agrees in part. The audit's conclusion was based on five elements; HUD's analysis for each element is below.

- OIG found for seven agencies, HUD did not ensure that participants were eligible. HUD agrees in part. OHC confirms organizations are not delinquent with Federal debt or on the debar list using SAMS.gov for agencies applying for HUD housing counseling grants. OHC does not conduct a check for individual ineligible participants as part of the performance review. OHC's practice is driven in part by the intensity and cost of the search process, the frequency of false positives due to similar names, and the privacy law (key participants including board members and critical staff must provide social security numbers for OHC to complete the search).

OHC does initiate searches on the debar list and through Thomson Reuters CLEAR service prompted by external news articles, OIG referrals or complaints. HUD believes that at the re-approval stage there is no requirement under 12 USC 1701x and 24 CFR part 214 requiring HUD to do a search for ineligible participants. Nevertheless, OHC will research the best practice in this area to balance privacy, risk and cost to the program to fully comply with 2 CFR Parts 180 and 2424.

- OIG found that for seven agencies, HUD did not conduct surveys of housing counseling clients as part of the performance review. HUD disagrees because it believes that surveys were not required. The audit notes an inconsistency between handbook requirement and practice. Prior to 2014, performance reviews included sending surveys to an average of 10-20 clients to obtain feedback on counseling quality. The number of surveys sent were based on the number of clients served during the performance review period and covered the types of services provided during the period. In 2014, OHC removed the requirement to include client surveys in the performance review process. Management determined that few surveys were returned, and most were not returned timely. Although some surveys included useful information, most did not. When HUD's policy of using self-addressed envelopes was discontinued, even fewer surveys were returned.

OHC stopped conducting client surveys in 2014 and added a complaint/compliment button to its website and began tracking complaints in 2016. Refer to: <https://www.hudexchange.info/programs/housing-counseling/customer-service-feedback/#Feedback>. OHC is in the process of

Comment 8

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Comment 9

amending its Handbook to remove this provision. OHC will pursue the waiver of the Handbook provision requiring such surveys while in the process of formally removing this particular Handbook provision.

- The audit found that for seven agencies, HUD did not adequately document that it verified that the agencies provided adequate supervision of their housing counselors. HUD disagrees. During a performance review, agencies self-certify Question #73 on Form 9910: Do supervisors of housing counselors monitor their work and document these monitoring activities? OHC reviewers when conducting a performance review must verify this statement. OHC has accepted several ways to validate counselor supervision including verbal descriptions of the supervisory review, use of the annual personnel performance assessment, supervisor notes in files, descriptions of supervisory meetings, and written supervision policy. Several of these methods involve personally identifiable information or voluminous records such as supervisory annotations in individual case files.

OHC documents findings when counselor supervision is insufficient. However, OHC reviewers are not currently required to copy and retain all source documentation from a performance review, and agencies are not required to create a written supervision plan. OHC is concerned that the benefit of creating or retaining a written supervisory record will create undue burden and risk of disclosure of personally identifiable information with little additional benefit to the quality of the counseling program. OHC will research methods that might validate the reviewer's determination of adequate counselor supervision without unduly increasing risk or burden.

Comment 10

- The audit found for four agencies, HUD did not adequately document that it verified that grant funds disbursed were supported. HUD agrees.

The Housing Counseling Program uses a cost reimbursement contract, where agencies spend funds first and submit vouchers to be reimbursed that outline the name, rate, hours and services provided under the contract. The source documents (actual payroll records and case files documenting the work of the counselor, for example) are reviewed during the performance review when the reviewer requests a sample (usually one quarter) of source documentation. The source documentation is reviewed on-site. HUD does not retain the source documentation for several reasons: it involves payroll data; it often contains personally identifiable information including social security numbers and addresses; and because of space limitations on HUD's electronic storage system. OIG could not locate all of the source documentation to support four of the grants it selected.

OHC will gather 100% source documentation for the listed grants, and confirm all funds were used for allowable expenses. OHC has sent to OIG a sample template

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Comment 11

it will use. OHC will seek legal opinion and best practice to determine the volume of source documentation and proof of reviewer analysis to document that funds were used appropriately. OHC will modify the handbook, grant agreement and standard operating procedures accordingly. OHC will provide training to OHC staff and to agencies regarding our program requirements.

- The audit found that HUD did not ensure that one agency used an automated housing counseling client management system that satisfied HUD requirements. HUD agrees.

OHC documented a performance review finding on this issue for one agency but did not provide evidence to show that the finding was resolved. OHC has confirmed that the agency cited in the review is now compliant with this requirement and has submitted documentation to the OIG. When operational, HCAMS will provide reports showing open findings, information that is not available to the supervisor or the reviewer through HCS today.

Comment 12

B. The audit found that the Voucher Approval Process was not sufficient. HUD agrees.

OHC will validate that vouchers were properly paid for the agencies identified in the audit or recapture the funds. OHC has established an internal quality control team to review voucher payments and to identify the need for additional training or clarity within the standard operating procedures. OHC will research legal requirements and best practice for voucher payments. OHC will draft operating procedures governing the voucher payment process in addition to the instructions provided in the quarterly reporting checklist (which covers voucher payment approval). We will train OHC staff and housing counseling agencies on current procedures, and train again if there are changes to existing procedures.

Grants management is a planned module for HCAMS. OHC is exploring an interface between HCAMS and the LOCCS payment system to incorporate templates for agencies to submit supporting documentation and to process requests for drawing down funds.

C. The audit found that Termination and Post-Termination Procedures were insufficient. HUD agrees with this finding. This finding was made up of three elements.

- The audit found that HUD did not classify eight agencies as terminated in its system in a timely manner. HUD agrees.

The delay in documenting the termination status in HCS for four of the eight agencies appears to be staff error. An agency may be removed from the HUD website and publicly-accessible records in two ways. The OHC Point of Contact (POC) can: 1) change the HCS status to inactive or terminated, and/or 2) the POC can uncheck a box on HCS that permits public viewing. HUD cannot determine the date the public access box was unchecked, although this is often the first step when the POC learns that an agency may become inactive or terminated.

Comment 13

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Comment 13

There may also be delays in terminating an agency in the HCS because of the time it may take for OHC to complete due diligence to validate the termination or permit the appeals process to be completed. Where an affiliate changes its intermediary, the POC must confirm the changes, transfer oversight responsibilities and change the system from one intermediary to another.

The POC intentionally keeps the branch linked to the intermediary after the termination of the branch office to maintain accurate 9902 data activity. A termination of the branch in HCS will eliminate data that the branch generated if it is still active for its parent during that fiscal year. The agency can be removed from the HUD website during this period by changing the public viewing capability.

HCS does not have the ability to incorporate the history string of all status changes across fiscal years. HCAMS will date and time stamp all agency changes and justifications and incorporate managerial notification/approval prior to execution.

OHC will train all staff on proper procedures for termination and removal of terminated agencies from public access, including the requirement to obtain approval from management prior to termination decision and the requirements associated with timely changes to status. OHC will amend its standard operating procedures to clarify each termination step with HCS to align with various events and statuses and without eliminating data associated with the agency while it was active. OHC expects that HCAMS will provide a more robust method to track agency status and ensure that the HUD website, the data reporting and the agency status are aligned and properly reviewed at each step. HCAMS will be able to track and report any gaps in status, which will be reviewed by management.

- The audit found that HUD could not show it communicated terminations in writing for eight agencies. HUD agrees.

The audit reviewed ten terminated agencies; seven of the ten were branch offices with no termination letters issued by OHC. The eighth one was a POC error. Many HUD-approved agencies have branch offices or affiliates. These offices are not directly approved by HUD and to date HUD procedures have not included a formal termination letter, especially in the case of a voluntary withdrawal due to the closing of a branch office.

If an agency terminates or withdraws an office, the agency would typically inform OHC by email. OHC would not send a termination letter regarding the termination or withdrawal of a branch or an affiliate because the main office or parent of the agency remains an approved participant within the program. OHC also accepted withdrawal letters or emails as sufficient evidence to support a change in status to termination.

Current procedures for termination and withdrawal will be reviewed to address voluntary withdrawals and involuntary terminations in more detail. OHC is in the

Comment 14

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Comment 15

process of modifying the regulation and Handbook and will amend its standard operating procedures to align with any relevant regulatory and handbook revisions.

- The audit found that HUD did not request or obtain approval certificates from two terminated agencies. HUD agrees.

OHC policy requires by regulation approval certificates to be returned to the Department. Note that only LHCA's receive certificates from HUD. The OIG concluded in two of the ten terminated agencies reviewed, there should have been a request for the certificates to be returned.

OHC will train its staff on current termination policy including the request to return an unexpired approval certificate when agencies are terminated or withdraw. In 2019, OHC will research the current policy on certificates to see whether to eliminate the use of paper certificates altogether and rely instead on its public websites. OHC will amend its standard operating procedures to align with final policy.

3. Recommendations. The audit contained the four recommendations discussed below, along with HUD's preliminary response.

1A. Identify additional housing counseling agencies that were classified as re-approved when it had not completed a performance review upon expiration of the approved period and determine whether they are properly qualified to provide counseling services to consumers.

As noted above, HUD does not believe that statute or regulations require HUD to conduct a performance review to re-approve an agency, nor do they require HUD to independently assess every aspect of compliance every three years. HUD is determining manually which agencies have not had a performance review for more than three years and will propose a plan to conduct performance reviews based on staffing, risk and legal requirements.

1B. Obtain and provide documentation for the four housing counseling agency re-approvals, and the three housing counseling agency voucher approvals to show that the \$1,310,719 in Housing Counseling Grant funds disbursed was for eligible and supported costs or repay from non-Federal funds any amount that cannot be supported.

HUD agrees, and this is in process.

1C. Update its policies and procedures to ensure consistency and adequacy of the agency approval, performance review, voucher approval, and termination and post termination processes.

HUD agrees. OHC will propose a plan to revise standard operating procedures; make changes to Handbook provisions and regulation; design HCAMS to address shortcomings

Comment 6

Comments
10 and 12

Comment 16

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Comment 17

identified by the audit; review staffing and workloads; and research legal requirements and best practice regarding retention of documentation and analysis.

ID. Ensure that the new Housing Counseling Agency Management System provides HUD with the ability to adequately oversee the work of its staff and track important housing counseling agency milestones, including HUD approval expirations and required terminations.

HUD agrees contingent on approvals from the Chief Information Officer and staff resources assigned to this project.

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Comment 18

Appendix A Expanding HUD Capacity to meet program requirements

HUD has taken several steps to ensure that it can meet program requirements despite staffing and systems limitations. These are outlined below.

1. HUD has engaged a CPA Firm to Support Financial Compliance

We have provided extensive training for agencies and staff in compliance and engaged the services of a certified public accounting firm (currently Booth Management Consulting, or BMC) to conduct additional reviews of financial compliance. In 2017, HUD's consultant conducted 73 financial reviews under the supervision of HUD staff. During the performance of Financial & Administrative Reviews (FARs), BMC reviews reports and conducts interviews to determine whether agencies properly account for HUD funds in their Financial Management Systems accordance with regulatory requirements. Specifically, BMC:

- o Reviews agency's policies and procedures for cash receipts, disbursements and grant accounting to determine what policies exist to ensure that funds are properly accounted for, and what internal controls are in place to prevent costs from being submitted for reimbursement from multiple sources.
- o Requests documentation of all Housing Counseling Funding sources as well as the Client list, funding codes, and Chart of Accounts to verify that each federal grant is segregated and properly accounted for in their accounting system.
- The FAR also includes expenditure testing. BMC:
 - o Obtains quarterly financial reports which documents items/expenditures being submitted for reimbursement.
 - o Obtains receipts and expenditures related to the OHC grant for the fiscal period being tested.
 - o Obtains supporting documentation including; purchase orders, invoices, proof of payment, training certificates, etc. to verify whether expenses are reasonable and allocable to the grant. BMC also performs minimal test of controls to verify whether internal controls exist and are executed properly during the transaction cycle.

2. Streamlining and Automation

The design and launch of the HCAMS (further described below) is a major effort that will reduce inaccuracy and inconsistency, reduce the time to do core business processes, provide tools to supervise and oversee program execution, and reduce administrative burden on agencies and on HUD without increasing risk. OHC has also engaged KPMG to develop a Knowledge Management Program to make the extensive program guidance and training available just in time to HUD and agency staff. In addition, HUD has completed automation through Excel and Infopath tools of the following processes:

- New Agency Approvals

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Comment 19

- Notice of Funding Application (NOFA) application
- NOFA scoring
- Grant execution
- Voucher payment

3. Eliminate unnecessary regulation and processes

OHC has created teams to revise the regulation, Handbook and the performance review process to focus on actual risk and remove unnecessary burden. Standard Operating Procedures will be rewritten, programmed into HCAMS and aligned with revisions to rules and regulations. This process has already begun (as evidenced by the elimination of client surveys, for reasons listed in the Discussion Draft). Changes to the rule and Handbook are expected to go into clearance in 2019. The current performance review checklist, for example, covers 99 compliance items. HUD is considering eliminating those that do not increase risk for the Department. Changes to the rule and Handbook will go through Departmental clearance and a notice and comment process.

4. Preventing noncompliance through training and toolkits

During 2016 and 2017, OHC implemented new grant requirements under the Uniform Grant Guidance, 2 CFR Part 200. OHC provided 41 trainings to staff during 2016 and 2017 and deployed 13 toolkits over the same period. Many were focused on compliance and oversight issues identified by the Inspector General. Archived public webinars are available here: <https://www.hudexchange.info/programs/housing-counseling/webinars/>.

OIG Evaluation of Auditee Comments

- Comment 1 HUD generally agreed with the audit finding, but noted that there were some areas of disagreement and some areas that need further research as outlined in its comments. HUD stated that it outlined the corrective actions it plans to take to address the finding, and noted that staffing and system constraints may affect its ability to implement these actions. We acknowledge HUD's overall agreement and will make determinations on its proposed corrective actions as part of the normal audit resolution process.
- Comment 2 HUD stated that in response to continuing challenges with staff capacity, it had (1) engaged an outside accounting firm to support its grant administration efforts, (2) identified opportunities to further streamline and automate existing processes, (3) identified rules and regulations essential to the program and eliminated unnecessary requirements, and (4) prevented noncompliance through training, technical assistance, and toolkits. We acknowledge HUD's staffing challenges and that these actions are responsive to recommendation 1C. We will make a determination on its proposed corrective actions as part of the normal audit resolution process.
- Comment 3 HUD agreed that its system has limitations and recognizes there is a need to replace it with a more modern database. HUD stated that it worked with a consultant to create a plan for a modernized business system, but had not received the funding to implement it. As a result, HUD decided to develop the new Housing Counseling Agency Management System application in an effort to better align its program oversight, grant scoring, grant management, and new applicant processing. It planned to use the new system to allow management to track, review, and approve staff work. We acknowledge HUD's system issues and that HUD's planned actions are responsive to recommendation 1D. We will make a determination on its proposed corrective actions as part of the normal audit resolution process.
- Comment 4 HUD contended that the audit did not identify any actual instances of poor quality service to clients, agencies advertising HUD-approved status inaccurately, ineligible participants, or improper spending. Although we agree with this statement, our review was focused on gaining an understanding of the processes HUD had in place to determine if there were areas it could strengthen. For example, while we did not test for quality of service, we found that HUD no longer conducted client surveys and it did not have a similar control in place to evaluate the effectiveness of the services provided. Further, while we did not identify participation of ineligible participants, we found that HUD did not check for participant eligibility during performance reviews. In addition, because our review of program spending identified costs that were unsupported, we were unable to determine eligibility of these costs at the time of the audit.

- Comment 5 HUD contended that it completed and documented eligibility checks appropriately. HUD described the process used to complete eligibility checks and noted that it does not retain source documentation due to privacy concerns. Last, HUD stated that as part of the audit resolution process, it would research practices for documenting the completion of background checks. Based on the documentation provided during our review, we disagree that HUD appropriately documented background checks for the case reviewed. However, HUD's planned action is responsive to recommendation 1C. We will make a determination on its proposed corrective actions as part of the normal audit resolution process.
- Comment 6 HUD agreed in part that it did not follow reapproval procedures. It maintained that performance reviews were optional and not required as a condition of reapproval, but agreed that certain sections of the handbook may be read in a manner that is inconsistent with the regulations and stated that it intends to clarify its procedures. HUD contended that the issues identified in our report related to both system and staffing challenges, noted that the new system will help supervisors and staff identify where performance reviews are needed, and stated that it was in the process of identifying agencies that have not had a performance review since 2015 to address recommendation 1A. HUD further stated that it plans to work with the Office of Housing's Office of Risk Management and Regulatory Affairs to develop a strategy to incorporate outstanding performance reviews with those required in 2019, prioritize reviews for agencies that pose the greatest risk, and explore a streamlined process to provide reapprovals without a full performance review. We agree that the regulation implies that performance reviews are not required before reapproval, but that its handbook reads differently. Further, we acknowledge HUD's planned action and its responsiveness to recommendations 1A and 1C. If HUD makes significant improvements to its policies and procedures and ensures that the new system allows it to adequately oversee the work of its staff and track important housing counseling agency milestones, HUD can improve its overall administration of its program.
- Comment 7 HUD agreed in part that it did not ensure that participants were eligible. HUD stated that it confirmed organizations were not delinquent with Federal debt or on the debarred list if they applied for grants. However, its practice was to not perform checks for ineligible participants as part of performance reviews. HUD stated that it will research best practices for this concern going forward. We acknowledge that HUD's planned action is responsive to recommendation 1C. However, we contend that regulations at 24 CFR 214.303(a) state that in order to maintain HUD-approved status, participating agencies must continue to comply with approval requirements listed in 24 CFR 214.103, which include requirements related to ineligible participants. Further, we note that regulations at 24 CFR 214.307(b) state that performance reviews consist of a review of the participating agency's compliance with all program requirements.

- Comment 8 HUD contended that it did not conduct client surveys during performance reviews because it believed they were not required. HUD stated that it removed this requirement from its procedures in 2014 and was in the process of removing it from its handbook. We acknowledge that HUD's plan to improve consistency between its procedures and handbook and to formally document the change in this process is responsive to recommendation 1C. However, we also contend that regulations at 24 CFR 214.307 state that performance reviews include a review of the agency's level of success in delivering counseling services. Therefore, if HUD formalizes the removal of the client surveys from its performance reviews, it should ensure that it has steps to evaluate the counseling services delivered by agencies.
- Comment 9 HUD contended that it adequately documented that it verified agencies provided adequate supervision of their housing counselors. HUD stated that the agencies self-certified that they monitored counselors' work and that HUD reviewers verify this through a variety of methods including verbal descriptions. HUD acknowledged that while reviewers document findings when supervision is insufficient, they are not currently required to retain all source documentation and it is concerned that the benefit of retaining documentation would create undue burden and risk of disclosure of personally identifiable information. HUD stated that it will research methods to validate the reviewer's determination of adequate counselor supervision without unduly increasing risk or burden. HUD's planned action is responsive to recommendation 1C, and we will make a determination on its proposed corrective actions as part of the normal audit resolution process.
- Comment 10 HUD agreed that it did not adequately document that it verified grant funds disbursed were supported and indicated that it will gather 100 percent of the source documentation for the grants identified in the report and confirm all funds were used for allowable expenses. Further, HUD noted that it planned to seek a legal opinion and research best practices to determine the volume of source documentation and proof of reviewer analysis to document that funds were used appropriately. It will then modify its handbook, grant agreement, and standard operating procedures appropriately, and will provide training to staff and agencies regarding requirements. HUD's planned actions are responsive to recommendations 1B and 1C, and we will make a determination on its proposed corrective actions as part of the normal audit resolution process.
- Comment 11 HUD agreed that it did not ensure one agency used an automated client management system and noted that it had since confirmed that this agency is compliant with the requirement. HUD further stated that its new system will help track these issues going forward. HUD's planned action is related to recommendation 1D. However, it should also ensure that its policies and procedures include sufficient steps to determine that issues identified during performance reviews are resolved.

- Comment 12 HUD agreed that the voucher approval process was not sufficient. HUD stated that it had established an internal quality control team to review voucher payments and to identify the need for additional training or clarity within its standard operating procedures, and that system upgrades will improve the process going forward. Further, HUD stated it will validate that the vouchers identified in the report were properly paid or recapture the funds. HUD's planned actions are responsive to recommendations 1B and 1C.
- Comment 13 HUD agreed that it did not classify eight agencies as terminated in its system in a timely manner. HUD stated that this appeared to be due to staff error and system limitations, and indicated that it would train staff on the proper procedures and planned to use its new system to help with eliminating this issue. HUD's planned actions are related to recommendations 1C and 1D. However, it should also ensure that its policies and procedures include sufficient steps to detail how staff should handle the agency termination and post-termination processes.
- Comment 14 HUD agreed that it could not show it communicated terminations in writing for eight agencies. HUD contended that an error was made with one agency and that for the remaining seven agencies, it did not send letters because they were branches or affiliates that did not have direct HUD approval. HUD stated it was in the process of modifying the regulations and handbook and that it would amend its standard operating procedures to align with any relevant revisions. HUD's planned action is responsive to recommendation 1C. However, the current regulations, handbook, and standard operating procedures do not clearly differentiate between the processes for terminating a directly approved agency compared to a branch or affiliate. HUD should ensure that it adequately details the processes that staff should use, including any differences between processes when working with branch or affiliate agencies.
- Comment 15 HUD agreed that it did not request or obtain approval certificates from two terminated agencies. HUD stated that it will train staff on current termination policy and update procedures with any changes to policy that may occur. As part of its response to recommendation 1C, HUD should implement controls to ensure that staff perform work properly and consistently.
- Comment 16 HUD agreed to propose a plan to revise its standard operating procedures, handbook, and regulation; design its new system to address the issues identified by the audit; review staffing and workload; and research legal requirements and best practices regarding documentation retention. HUD's planned actions are responsive to recommendation 1C. HUD should also implement controls to ensure that staff perform work properly and consistently.
- Comment 17 HUD agreed with recommendation 1D contingent on approval from its Office of the Chief Information Officer and assigned staff resources. This is responsive to the recommendation, but we will make a determination on its proposed corrective actions as part of the normal audit resolution process.

Comment 18 HUD noted that it had engaged a certified public accounting firm to support financial compliance and assist with monitoring housing counseling agencies, and described the work performed by the firm. As part of its response to recommendation 1C, HUD should ensure that its policies and procedures discuss each of the key processes, including the work performed by the accounting firm, and it should implement controls to ensure that work is performed properly and consistently, and is adequately documented.

Comment 19 HUD stated that it created teams to revise the regulation, handbook, and performance review process to focus on actual risk and remove unnecessary burden. HUD's actions are related to recommendation 1C. As part of the normal audit resolution process, HUD will need to show that updates made to its policies and procedures help correct the deficiencies identified in this report. Further, it will need to implement controls to ensure that staff perform work properly and consistently, and maintain significant documentation provided by agencies, along with any analysis performed during reviews.