



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

Compliance With the Payment Integrity Information Act

**Office of Audit
Atlanta, GA**

**Audit Report Number: 2021-AT-0002
May 17, 2021**





OFFICE OF INSPECTOR GENERAL
U.S. Department of Housing and Urban Development

To: George J. Tomchick III
Deputy Chief Financial Officer, F

//signed//

From: Kilah S. White
Assistant Inspector General for Audit, GA

Subject: HUD Did Not Fully Comply With the Payment Integrity Information Act of 2019

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's fiscal year 2020 compliance with the Payment Integrity Information Act of 2019.

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, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call Nikita N. Irons, Audit Director, at (404) 331-3369.

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Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) fiscal year 2020 compliance with the Payment Integrity Information Act of 2019 (PIIA) and other Office of Management and Budget guidance. PIIA was enacted to prevent and reduce improper payments and requires each agency's inspector general to perform an annual review of the agency's compliance with PIIA. Our audit objective was to determine whether HUD complied with PIIA reporting and improper payments reduction requirements according to guidance from the OMB.

HUD Did Not Fully Comply With the Payment Integrity Information Act of 2019

What We Found

HUD did not fully comply with PIIA reporting and improper payments reduction requirements for fiscal year 2020. Of the six requirements, HUD did not comply with one requirement, and one requirement was not applicable. Specifically, HUD did not use a comprehensive sampling and estimation methodology for publishing an improper payments estimate for three of four reported programs. Due to the impacts of the COVID-19 pandemic, HUD did not test the complete payment cycle, to include payments issued by State, local, or other agencies, which was not made clear in its reporting of improper payments estimates. Instead, HUD was limited to the extent that the documentation and information were readily available to it without burdening the direct recipients of funds. As a result, HUD's programs were vulnerable to the adverse effects of improper payments, and HUD will likely continue to miss opportunities to prevent, identify, reduce, and recover improper payments unless it fully complies with PIIA reporting and reduction requirements. However, we recognize that HUD is making progress in being fully compliant with PIIA and acknowledge its plan to execute a comprehensive sampling and estimation methodology in the coming year.

Fiscal year 2020 PIIA compliance reporting table					
Published an agency financial report	Conducted a risk assessment	Published an improper payments estimate	Published corrective action plans	Published reduction targets	Reported an improper payments rate of less than 10 percent
Yes	Yes	No	NA	Yes	Yes

What We Recommend

We recommend that HUD use a comprehensive sampling and estimation methodology for all reported programs and disclose in its reporting any limitations imposed or encountered.

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Background and Objective

The Improper Payments Information Act of 2002 (IPIA) required the head of each agency to annually review all programs and activities administered by the agency, identify all such programs and activities that may be susceptible to significant improper payments, estimate the annual amount of improper payments for each program or activity identified as susceptible, and report those estimates. For programs with estimated improper payments exceeding \$10 million, IPIA required agencies to report the causes of the improper payments, actions taken to correct those causes, and results of the actions taken. The Improper Payments Elimination and Recovery Act of 2010 (IPERA) decreased the frequency with which each agency was required to review all of its programs but increased the responsibilities and reporting requirements. IPERA also required each agency inspector general to determine whether the agency complied with IPIA as amended by IPERA. IPIA was further amended by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) and Payment Integrity Information Act of 2019 (PIIA), enacted in March 2019.

PIIA repealed IPERIA and other laws but set forth similar improper payment reporting requirements, including an annual compliance report by inspectors general. In accordance with PIIA, the Office of Management and Budget (OMB) issued guidance for implementing PIIA on March 5, 2021.¹ Because this guidance was not effective for this review, we initiated our fiscal year 2020 annual compliance review using a combination of the requirements in OMB A-123, appendix C (Memorandum M-18-20), OMB Circular A-136 (August 2020), OMB Annual Data Call Instructions, the OMB Payment Integrity Question and Answer Platform, and the CIGIE (Council of the Inspectors General on Integrity and Efficiency) guidance issued under PIIA.

To achieve compliance with PIIA, OMB Circular A-123, appendix C, provides the following steps. Step 1 is to review all programs and activities and identify those that are susceptible to significant improper payments. OMB defined “significant improper payments” as gross annual improper payments² in the program exceeding (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payments percentage of total program outlays). Step 2 is to obtain a statistically valid estimate of the annual amount of improper payments in programs and activities for those programs identified in step 1 as susceptible to significant improper payments.³ The agency has to ensure that the gross improper payments rate is less than 10 percent for each program and activity for which an improper payments estimate was published. Then, all programs and activities determined to have significant improper payments must implement a plan to prevent and reduce improper payments. In addition, the agency has to publish and meet annual reduction targets for each program assessed to

¹ PIIA and OMB Memorandum M-21-19, Transmittal of Appendix C to OMB Circular A-123

² Gross annual improper payments are the total amount of overpayments and underpayments.

³ According to OMB Circular A-123, appendix C, part I, section (D)(1)(e), agencies are required to produce statistically valid estimates of improper payments (or use a non-statistically valid methodology approved by OMB)

be at risk and estimated for improper payments. Finally, an agency reports this information annually in the agency financial report (AFR) or the performance and accountability report (PAR). As stated above, each agency's inspector general is tasked with annually reviewing the agency's improper payments reporting in the agency's annual AFR or PAR and accompanying materials to determine whether the agency is complying under PIIA.

The U.S. Department of Housing and Urban Development's (HUD) Office of the Chief Financial Officer is the lead office overseeing HUD's actions to address improper payments issues and compliance with the requirements of PIIA. For fiscal year 2020, HUD identified four programs as susceptible to significant improper payments in the AFR, including the Government National Mortgage Association (Ginnie Mae) contractor payments, Office of Multifamily Housing Programs' Project-Based Rental Assistance Program (MF-RAP), Office of Public and Indian Housing's Tenant-Based Rental Assistance Program (PIH-TBRA),⁴ and the Office of Community Planning and Development's (CPD) Disaster Recovery Assistance - Hurricanes Harvey, Irma, Maria (CPD-HIM).⁵

Our audit objective was to determine whether HUD complied with PIIA reporting and improper payments reduction requirements according to guidance from OMB.

⁴ HUD previously combined PIH-TBRA and MF-RAP under a single program, the Rental Housing Assistance Program. These programs are now separated.

⁵ According to OMB Memorandum M-18-14, all programs or activities spending more than \$10 million, as provided in division A of Public Law 115-72, in any one fiscal year are considered susceptible to significant improper payments and are required to calculate and report an improper payments estimate.

Results of Audit

Finding: HUD Did Not Fully Comply With PIIA

HUD did not fully comply with PIIA reporting and reduction requirements for fiscal year 2020. Of the six requirements, HUD did not comply with one requirement, and one requirement was not applicable. Specifically, for publishing an improper payments estimate for three of four reported programs, HUD did not use a comprehensive sampling and estimation methodology to test the complete payment cycle, to include payments issued by State, local, or other agencies. In addition, HUD did not disclose limitations encountered in the AFR. Due to the impacts of COVID-19, HUD was limited in executing the originally planned sampling and estimation methodology it had developed with comprehensive testing procedures. Instead, HUD limited itself to the extent that the documentation and information were readily available to it without burdening the direct recipients of funds. As a result, HUD's programs were vulnerable to the adverse effects of improper payments, and HUD will likely continue to miss opportunities to prevent, identify, reduce, and recover improper payments unless it fully complies with PIIA reporting and reduction requirements. However, we recognize HUD's ongoing efforts to achieve full compliance with PIIA and look forward to working with it on PIIA-related matters in 2021.

HUD Did Not Fully Comply With PIIA

In fiscal year 2020, HUD did not comply with one of the six PIIA requirements.⁶ Specifically, HUD did not comply with the requirement for publishing improper payments estimates (item c below). Under PIIA, compliance means that an agency must have met all of the following six requirements:

- a. *Published an agency financial report* – HUD complied with this requirement. HUD published an AFR for the most recent fiscal year and posted the report and accompanying materials as required by OMB.
- b. *Conducted a compliant program-specific risk assessment process* – HUD complied with this requirement and conducted risk assessments for 32 of its programs and activities as listed in appendix B. Further, in compliance with OMB's guidance, HUD did not perform a risk assessment for its CPD-Community Development Block Grant (CDBG)

⁶ We reported in last year's audit report, 2020-AT-0001, dated May 14, 2020, that fiscal year 2019 marked the third consecutive year in which HUD did not comply with the improper payments reduction requirements for the MF-RAP and PIH-TBRA programs. Further, according to PIIA and prior relevant statutory authorities, if an agency was not in compliance for 3 or more consecutive fiscal years for the same program or activity, the agency must submit to Congress and OMB a reauthorization proposal or a description of the actions, along with a timeline that the agency is undertaking to bring the program or activity into compliance, as appropriate. However, OMB issued guidance that due to the timing of its revising its Circular A-123, programs that are found noncompliant in fiscal year 2020 reporting will be treated as deficient for a stand-alone year and that fiscal year 2021 will be treated as the first year for any noncompliance under PIIA. Therefore, we did not associate the noncompliance in fiscal year 2020 reporting with consecutive noncompliance in previous years.

and Emergency Solutions Grants programs, which experienced a significant increase in funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act funding, appropriated during fiscal year 2020.⁷ These programs should be risk assessed in the next fiscal year due to the increase in funding.

- c. *Published improper payments estimates* – HUD did not comply with this requirement. Although HUD published an improper payments estimate, it did not use a comprehensive sampling and estimation methodology for publishing an improper payments estimate for three programs, MF-RAP, PIH-TBRA, and CPD-HIM. With regard to the fourth program, Ginnie Mae contractor payments, for which HUD published an improper payment, HUD used an appropriate sampling and estimation methodology, given program characteristics. In addition, HUD did not publish improper payments estimates for CPD’s Disaster Relief Appropriations Act (DRAA)-Hurricane Sandy⁸ because OMB relieved HUD from reporting on this program starting in fiscal year 2019.⁹ Further, the publishing of an improper payments estimate was not applicable for the CPD disaster recovery assistance (Louisiana, Texas, West Virginia, Ike, or other disasters) because this program was not legislatively required to report an improper payments estimate annually.
- d. *Published programmatic corrective action plans* – At this time, we consider this criterion to be not applicable for one program. For the Ginnie Mae contractor payments program, corrective actions were not reported because the estimated improper payments did not exceed the statutory thresholds of OMB Circular A-123, appendix C, part I, section (B)(1).¹⁰ Also, HUD did not report corrective actions for the remaining three programs, MF-RAP, PIH-TBRA, and CPD-HIM, stating that its estimated improper payments for the programs did not exceed the statutory threshold.¹⁰ However, as stated under item c above, the sampling and estimation methodology used for publishing the improper payments estimates for the three programs was not comprehensive. Therefore, this criterion may have been applicable for the three programs if comprehensive testing had been used.

⁷ OMB’s Payment Integrity Question and Answer Platform clarifies requirements for a risk assessment in relation to the CARES Act funding that for a program on a 3-year rotation cycle, which has a significant increase in funding, the program should be risk assessed in the next annual cycle.

⁸ In accordance with OMB Memorandum M-13-07, all Federal programs or activities receiving funds under DRAA-Sandy are automatically considered susceptible to significant improper payments, regardless of any previous improper payments risk assessment results, and are required to calculate and report an improper payments estimate.

⁹ In fiscal year 2018, HUD requested relief from reporting an annual improper payments estimate for the CPD DRAA-Sandy program because it stated that the program had documented four consecutive years of improper payments below the statutory threshold of either (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payments percentage of total program outlays). Following OMB’s approval, HUD included the Sandy program in its risk assessment for fiscal year 2020 and deemed the program not susceptible to improper payments.

¹⁰ OMB Circular A-123, appendix C, part I, section (B)(1), provides the statutory threshold and defines significant improper payments as estimated improper payments that exceed (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payment percentage of total program outlays).

- e. *Published and is meeting improper payments reduction targets* – HUD complied with this requirement for one of the four programs, Ginnie Mae contractor payments. The criterion was not applicable for the remaining three programs because a baseline was not established for these programs as fiscal year 2020 was the first year of reporting improper payments estimates.¹¹
- f. *Reported a gross improper payments rate of less than 10 percent* – HUD complied with this requirement. HUD reported improper payments estimates below 10 percent for all four programs. However, as stated under item c above, the sampling and estimation methodology used for publishing the improper payments estimates for three of the programs was not comprehensive. Therefore, this criterion may not have been met for the three programs if comprehensive testing was used.

Below is a discussion of the one noncompliance area. In addition, appendix B of our report includes the results of the programs reviewed.

HUD Used Limited Testing Procedures for Publishing Improper Payments Estimates

HUD used limited testing procedures for publishing improper payments estimates for the MF-RAP, PIH-TBRA, and CPD-HIM programs. Specifically, HUD did not develop and, therefore, did not execute a sampling and estimation methodology with comprehensive testing procedures for publishing the improper payments estimate for two programs, MF-RAP and CPD-HIM.¹² Further, although HUD had developed a comprehensive sampling and estimation methodology for the PIH-TBRA program, it did not use this methodology for estimating the improper payments estimate for the program. As an alternative, HUD used a methodology that did not include comprehensive testing procedures. For estimating improper payments, HUD did not test the complete payment cycle, to include payments issued by State, local, or other agencies.

Instead, HUD limited its testing for improper payments to the extent that documentation and information were readily available to it without contacting the direct recipients of HUD funds. For example, for the CPD-HIM program, HUD ensured that a grant agreement was executed with the grantee, the issued payment selected for review was within the grant performance period, and that the drawdown amount from the grantee matched the amount issued by HUD. In taking this approach, HUD noted zero deficiencies for all of the sampled payments; therefore, it estimated the improper payments for the program to be \$0 for fiscal year 2020. Similar sampling

¹¹ HUD published and established improper payments and a reduction target for its PIH-TBRA program in its fiscal year 2018 reporting. However, it did not publish or establish a reduction target for the program in its fiscal year 2019 reporting. Therefore, we considered that a baseline over a 24-month period was not yet established for the program to establish a reduction target in the fiscal year 2020 reporting.

¹² According to OMB Circular A-123, appendix C, part IV, section (A)(4), in determining compliance, the agency inspector general should evaluate the accuracy and completeness of agency reporting and evaluate agency performance in reducing and recapturing improper payments. For example, when determining compliance, the agency inspector general should evaluate whether the program improper payments rate estimates are accurate and whether the sampling and estimation plan used is appropriate, given program characteristics.

and estimation methodologies of matching the amount requested or calculated to the amount paid were used for publishing improper payments for the MF-RAP and TBRA programs.

PIIA required that the head of each executive agency take into account those risk factors that are likely to contribute to a susceptibility to significant improper payments; for example, whether payments or payment eligibility decisions are made outside the executive agency, such as by a State or local government.¹³ Further, PIIA defined an improper payment as any payment that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement.¹⁴ Additionally, OMB clarified that the term “payment” means any disbursement or transfer of Federal funds (including a commitment for future payment, such as cash, securities, loans, loan guarantees, and insurance subsidies) to any non-Federal person, non-Federal entity, or Federal employee that is made by a Federal agency, a Federal contractor, a Federal grantee, or a governmental or other organization administering a Federal program or activity.¹⁵ Therefore, HUD’s methodology for publishing improper payments estimates for the PIH-TBRA, MF-RAP, and CPD-HIM programs was not comprehensive when it did not consider payments issued by non-Federal entities.

Further, HUD did not disclose any limitations imposed or encountered in estimating and publishing the improper payments estimates in its AFR. Although beginning with fiscal year 2020, OMB required only certain information to be disclosed in the AFR,¹⁶ it encouraged agencies to include in the AFR additional information, including graphs, charts, and tables, to further explain or expand the information required under PIIA.¹⁷ Therefore, although HUD was not required to, it had the opportunity to disclose the limitations it encountered, to a degree that fairly informed users of the respective reported information.

COVID-19 Posed Limitations for HUD

Due to the impacts of COVID-19, HUD limited itself in executing a sampling and estimation methodology it had developed with comprehensive testing procedures. The Assistant Chief Financial Officer for Financial Management stated that due to the dangers of COVID-19, HUD’s management was unwilling to risk the health and safety of HUD’s employees, grantees, and public housing agencies’ staff to perform onsite testing, which would have been needed to fully carry out HUD’s planned, comprehensive sampling and estimation methodology. As part of dealing with the limitations in completing and executing its planned statistical sampling and estimation methodology, HUD communicated with OMB about its limitations and proposed an alternative plan. Specifically, HUD submitted to OMB on June 2, 2020, its request to use an alternate methodology and identified changes to the originally planned improper payments estimation methodology. HUD proposed to use an alternate methodology to lessen the

¹³ PIIA (31 U.S.C. (United States Code) 3351(3)(B))

¹⁴ PIIA (31 U.S.C. 3351(4)(A))

¹⁵ OMB Circular A-123, appendix C, part I, section (A)(1)

¹⁶ According to OMB Circular A-136 (August 2020), part II, section 4.5, beginning with fiscal year 2020 reporting, information that is not explicitly required in the AFR will be reported on <https://paymentaccuracy.gov/> through the annual OMB payment integrity data call.

¹⁷ OMB Circular A-136, part II, section 4.5

significant burden that would otherwise be needed to obtain information from the HUD program offices, public housing agencies (PHA), and auditors.¹⁸ HUD further noted to OMB that it proposed these changes so that these parties could focus on the COVID-19 response and CARES Act activities during an unprecedented time.

On August 3, 2020, OMB approved¹⁹ HUD's request to use an alternate methodology to a comprehensive testing plan for fiscal year 2020; specifically, to use a temporary non-statistically valid estimation plan for three programs, PIH-TBRA, MF-RAP, and CPD-HIM. OMB approved the request based on the appendix C guidelines for non-statistically valid sampling plans and stated that the non-statistically valid plans should be temporary, not permanent, plans with frequent investigation into whether a non-statistically valid plan was still necessary. Although OMB approved HUD's alternate sampling and estimation methodology for all three programs in question, we evaluated whether the program improper payments rate estimates were accurate and whether the sampling and estimation plan used was appropriate, given program characteristics. On this basis, we determined that the evidence provided by HUD for our review an instance of noncompliance.

However, we recognize HUD's ongoing efforts to achieve full compliance with PIIA. In preparation for its next year's reporting under PIIA, HUD personnel responsible for overseeing HUD's improper payments program stated that they were making progress for fiscal year 2021 reporting. Specifically, they stated that (1) a support contract was awarded in mid-December 2020;²⁰ (2) they had reconciled the data needed and were gathering a population for selecting samples; and (3) for the MF-RAP, PIH-TBRA, and CPD-HIM programs, they were discussing sampling procedures with the program offices and expected to execute a comprehensive sampling and estimation methodology, to include testing of payments issued by non-Federal entities.

Conclusion

In fiscal year 2020 HUD encountered limitations in executing its originally planned sampling and estimation methodology with comprehensive testing procedures because of the impacts of COVID-19. However, as a result of HUD's not fully complying with PIIA requirements, HUD's programs were vulnerable to the adverse effects of improper payments, and HUD's reporting on improper payments in the AFR was limited and did not necessarily fairly represent the likelihood or level of improper payments in at least some of the reported programs. Until the PIIA issue related to testing has been remedied, HUD will likely continue to miss opportunities to prevent, identify, reduce, and recover improper payments.

¹⁸ In accordance with the Single Audit Act of 1984, independent auditors conduct audits to determine the PHA's compliance with applicable laws and regulations.

¹⁹ See footnote 3.

²⁰ HUD has routinely used support contracts for performing work related to the reporting of improper payments and reduction requirements.

Recommendations

We recommend that the Office of the Chief Financial Officer

- 1A. For the MF-RAP, PIH-TBRA, and CPD-HIM programs, ensure that the program improper payments rate estimates adequately test for and include improper payments of Federal funding that are made by State, local, and other organizations administering these programs and adequately disclose any limitations imposed or encountered when reporting on improper payments, to a degree that fairly informs users of the respective reported information.

Scope and Methodology

We conducted our audit of HUD's compliance with PIIA for fiscal year 2020 from November 2020 through April 2021 in Atlanta, GA and Knoxville, TN. At the direction of OMB, we followed OMB Circular A-123 (M-18-20) guidance on the Office of Inspector General's (OIG) responsibility in determining compliance with PIIA, OMB Circular A-136 (August 2020), OMB Annual Data Call Instructions, the OMB Payment Integrity Question and Answer Platform, and the CIGIE guidance required under PIIA. OMB Circular A-123, appendix C, part IV, section (A)(3), states the following:

To determine compliance with reporting and improper payments reduction requirements, the agency inspector general should review the agency's AFR or PAR (and any accompanying information) for the most recent fiscal year. Compliance means that the agency has

- a. Published an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.
- b. Conducted a program-specific risk assessment for each program or activity that conforms with section 3352(a) of PIIA.
- c. Published improper payments estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).
- d. Published programmatic corrective action plans in the AFR or PAR (if required).
- e. Published and is meeting annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable).
- f. Reported a gross improper payments rate of less than 10 percent for each program and activity for which an improper payments estimate was obtained and published in the AFR or PAR.

If an agency does not meet one or more of these requirements, it is not compliant under PIIA. In addition, as part of its review of these improper payments elements, the agency inspector general should evaluate the accuracy and completeness of agency reporting and evaluate agency performance in reducing and recapturing improper payments.

To accomplish our audit objective, we reviewed

- Requirements contained in the applicable Federal laws and OMB Circular A-123, (M-18-20) appendix C, and OMB Circular A-136 (August 2020), part II.4.5, as they relate to improper payments, OMB Annual Data Call Instructions, the OMB Payment Integrity

Question and Answer Platform, and guidance in the CIGIE guide (November 2020) for improper payments audits.

- HUD's
 - 2020 AFR and the supplemental data to understand and identify all relevant PIIA reporting components.
 - policies and procedures to understand the controls in place for reporting, preventing, reducing, and recovering improper payments.
 - fiscal year 2020 improper payments risk assessments, which identified the programs that were risk assessed and those that were considered susceptible to improper payments.
 - improper payments methodologies used to select samples for testing and the results of its testing.
 - records and documents to support information published in the AFR.

We also met with the appropriate personnel responsible for overseeing HUD's improper payments program. We did not assess the reliability of computer-processed data provided by HUD because the data were not used to materially support our audit findings and conclusions.

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

Based on our review of the AFR and documents to support it, policies and procedures, and communication with HUD, we determined that the following internal controls were relevant to our audit objective:

- HUD's design and implementation of controls to prevent, detect, report, and recover improper payments.

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 items are significant deficiency:

- The sampling and estimation methodology that HUD used for compliance with PIIA for fiscal year 2020 did not comprehensively test the primary aspects of improper payments, such as the eligibility and supportability of the programs' disbursements, due to limitations imposed by COVID-19 (finding).

Follow up on Prior Audits

Last year's improper payments audit report, 2020-AT-0001, found that for the seventh consecutive year, HUD was not in compliance with Improper Payments Elimination and Recovery Act (IPERA) requirements.²¹ However, no recommendations were made because open recommendations from prior years would help HUD remediate the repeat finding(s). All eight recommendations were closed either by HUD's audit liaison officer(s) or HUD OIG as of September 30, 2020.²²

²¹ IPERA was amended by PIIA in March 2019. See the Background and Objective section of this report for a history of the legislative enactments related to improper payments.

²² Under this audit, we did not test the validity of closing the recommendations.

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

OFFICE OF THE CHIEF FINANCIAL OFFICER

HUD OCFO MEMO 21-34

MEMORANDUM FOR:

FROM:

SUBJECT:

DATE:

Steven M. Begg, Deputy Inspector General, OA

George Tomchick

George J. Tomchick, Deputy Chief Financial Officer, HUD, F

Response to FY 2020 Payment Integrity Draft Audit Report

May 14, 2021

Thank you for the opportunity to review and comment on the draft report for HUD's fiscal year 2020 compliance with the Payment Integrity Information Act of 2019. HUD made significant Payment Integrity progress in FY 2020 and, for the first time, HUD conducted all activities necessary for compliance. HUD also resolved all prior year Payment Integrity OIG audit recommendations by providing evidence-based documentation to satisfy the OIG. We have concerns with OIG's conclusion of non-compliance, suggestions that HUD should have placed its employees in harm's way when Office of Management and Budget (OMB) provided alternatives that keep everyone safe, contradiction in the report as to when the OMB guidance should be relied upon, and suggestions to comingle fiscal year funds for risks assessments.

We do not agree with the non-compliance finding related to sampling and estimating improper payments given the complexity of the past year. The agency did use an alternative sampling and estimation methodology for improper payment, which was allowable. OMB recognized the health risks associated with the COVID-19 pandemic and allowed federal agencies to use OMB-approved alternative approaches for fiscal year 2020 instead of on-site sampling at the grantees. Performing on-site visits to execute comprehensive testing was inconsistent with the OMB guidance and an unreasonable expectation. In addition, the stay-at-home orders established in the DC metro area limited options and required use of an OMB-approved alternative method. The methodologies described the limitations and HUD published the estimates in the Agency Financial Report with a footnote that HUD utilized non-statistically valid plans. HUD should not be penalized for using an approved method.

HUD is committed to fulfilling its requirements for Payment Integrity.

OIG Evaluation of Auditee Comments

Comment 1 We appreciate HUD's cooperation during the review. We recognize HUD's efforts to be compliant in fiscal year 2020 with PIIA. We also acknowledge that HUD faced difficult circumstances with the situation created by the COVID-19 pandemic and have noted in the report that all prior recommendations are closed. We added a section in the report to show that the previous recommendations are closed; however, under this audit, we did not test the validity of closing the recommendations.

We disagree that our report suggests that HUD should have placed its employees in harm's way. Our conclusions state that in fiscal year 2020 HUD encountered limitations in executing its originally planned sampling and estimation methodology with comprehensive testing procedures because of the impacts of COVID-19. Specifically, HUD limited itself to the extent that the documentation and information were readily available to it without burdening the direct recipients of funds. As a result of HUD not fully complying with PIIA requirements, its programs were vulnerable to the adverse effects of improper payments, and HUD's reporting on improper payments in the AFR was limited and did not necessarily fairly represent the likelihood or level of improper payments in at least some of the reported programs.

We acknowledge the comment regarding risk assessments. It was not our intent to suggest commingling of years. We have revised the wording in the report to clarify our position that the two risk assessments in question should be completed during next fiscal year.

Comment 2 We acknowledge that HUD had approved sampling and estimation plans by OMB for its susceptible programs. We also acknowledge that this may have given HUD the impression that the plans were sufficient to be in compliance with PIIA requirements. However, OMB does not determine compliance with PIIA. OMB stated that the OIG should evaluate and take into account the adequacy of the improper payment sampling and estimation methodology plans when determining program compliance. The OIG should review the accuracy of the improper payment estimates and whether the sampling and estimation methodology plan used is appropriate given program characteristics. Ultimately, the determination with PIIA compliance is left up to the OIG.

We also disagree that our report suggests that HUD should choose when to rely on OMB guidance. It is our position that HUD should take a comprehensive approach to its reporting of improper payments and rely on OMB guidance, Federal regulations, and input from the OIG in compiling its AFR and the associated statistics therein.

Appendix B

PIIA Compliance Reporting Table

	Program name	Published an AFR	Conducted a risk assessment	Published an improper payments estimate ²³	Published corrective action plans	Published and is meeting reduction targets	Reported an improper payments rate of less than 10 percent
	Compliance requirement	a	b	c	d	e	f
<i>Programs susceptible to significant improper payments</i>							
1	Ginnie Mae – contractor payments	Yes	NA ²⁴	Yes ²⁵	NA ²⁶	Yes	Yes
2	PIH – TBRA	Yes	NA ²⁴	No	NA ²⁶	NA ²⁷	Yes
3	MF – RAP	Yes	NA ²⁴	No	NA ²⁶	NA ²⁷	Yes
4	CPD – HIM	Yes	NA ²⁴	No	NA ²⁶	NA ²⁷	Yes
<i>Programs not susceptible to significant improper payments</i>							
5	CPD – Economic Development Initiative-Brownfields Redevelopment Economic Development Initiatives	Yes	Yes	NA	NA	NA	NA
6	CPD – Capacity Building	Yes	Yes	NA	NA	NA	NA
7	CPD – CDBG-DRAA-Sandy	Yes	Yes	NA	NA	NA	NA

²³ Only the programs and activities identified as susceptible to significant improper payments under its risk assessment are required to report on improper payments estimates, unless the program was specifically required such as the CPD-CDBG-DRAA-Sandy program.

²⁴ Not applicable because programs already identified as susceptible to significant improper payments are not required to undergo an additional risk assessment

²⁵ In accordance with OMB Circular A-123, appendix C, part I, section (D)(1), HUD resubmitted to OMB the updated sampling plan for the Ginnie Mae – contractor payments program, which it had failed to do in the previous 2 years.

²⁶ Not applicable because the estimated improper payments did not exceed the statutory thresholds (Results of Audit)

²⁷ According to OMB Circular A-123, appendix C, part III, section (A)(3), a baseline for reduction targets is established over a 24-month period. Previously, HUD published and established improper payments and a reduction target for its PIH-TBRA program in its fiscal year 2018 reporting. However, it did not publish or establish a reduction target for the program in its fiscal year 2019 reporting. Therefore, we considered that a baseline over a 24-month period was not yet established for the program for establishing a reduction target in the fiscal year 2020 reporting.

8	CPD – Community Development Loan Guarantees-Section 108	Yes	Yes	NA	NA	NA	NA
9	CPD – Congressional Earmarks-Economic Development Initiative-Special Projects-Neighborhood Initiatives	Yes	Yes	NA	NA	NA	NA
10	CPD – Neighborhood Stabilization	Yes	Yes	NA	NA	NA	NA
11	CPD – Rural Innovation Fund	Yes	Yes	NA	NA	NA	NA
12	Housing – Contracts-Grants (includes Single Family Upfront Grants)	Yes	Yes	NA	NA	NA	NA
13	Federal Finance Bank Direct Loans	Yes	Yes	NA	NA	NA	NA
14	Housing – Other Disbursements	Yes	Yes	NA	NA	NA	NA
15	Housing – Single Family Notes	Yes	Yes	NA	NA	NA	NA
16	Housing – Single Family Property (Single Family Acquired Asset Management System)	Yes	Yes	NA	NA	NA	NA
17	Housing – Title I Claims	Yes	Yes	NA	NA	NA	NA
18	Housing – Title I Notes	Yes	Yes	NA	NA	NA	NA
19	Housing – Section 811 Housing for Persons With Disabilities (Project-Rental Assistance Contract and Capital Advance)	Yes	Yes	NA	NA	NA	NA
20	Housing – Manufactured Housing	Yes	Yes	NA	NA	NA	NA
21	Fair Housing and Equal Opportunity(FHEO) – Fair Housing Assistance Program	Yes	Yes	NA	NA	NA	NA
22	FHEO – Fair Housing Initiative Program	Yes	Yes	NA	NA	NA	NA
23	Ginnie Mae – Refunds Program	Yes	Yes	NA	NA	NA	NA
24	Ginnie Mae – Soldiers’ and Sailors’ Civil Relief Act-Program Reimbursement and MF 1 Percent Reimbursement Program	Yes	Yes	NA	NA	NA	NA
25	Healthy Homes and Lead Hazard Control – Lead Hazard Reduction	Yes	Yes	NA	NA	NA	NA
26	Policy Development and Research – Research and Technology	Yes	Yes	NA	NA	NA	NA
27	PIH – Choice Neighborhoods Initiative	Yes	Yes	NA	NA	NA	NA

28	PIH – Indian CDBG	Yes	Yes	NA	NA	NA	NA
29	PIH – Native American Housing Block Grants	Yes	Yes	NA	NA	NA	NA
30	PIH – Native Hawaiian Housing Block Grants	Yes	Yes	NA	NA	NA	NA
31	PIH – Native Hawaiian Housing and Indian Home Loan Guarantee-Section 184 Program Account	Yes	Yes	NA	NA	NA	NA
32	PIH – Public Housing Operating Fund	Yes	Yes	NA	NA	NA	NA
33	PIH – Title VI Indian Federal Guarantees	Yes	Yes	NA	NA	NA	NA
34	Salaries & Expenses -Biweekly Pay & Retirement and Benefits	Yes	Yes	NA	NA	NA	NA
35	Salaries & Expenses -Purchase Cards	Yes	Yes	NA	NA	NA	NA
36	Salaries & Expenses -Travel	Yes	Yes	NA	NA	NA	NA
Overall		Yes	Yes	No	N/A	Yes	Yes