OFFICE of INSPECTOR GENERAL
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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

**Audit Report Number: 2023-FO-0009**

**May 22, 2023**


**Office of Audit | Office of Inspector General**
**U.S. Department of Housing and Urban Development**

To: Vinay V. Singh
Chief Financial Officer, F

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From: Kilah S. White
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Subject: HUD Did Not Comply With the Payment Integrity Information Act of 2019, Washington, DC

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of HUD's 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, as amended, 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 Brittany Wing, Audit Director, at (202) 320-7296.

# Highlights

## HUD Did Not Comply With the Payment Integrity Information Act of 2019 | 2023-FO-0009

### What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) fiscal year 2022 compliance with the Payment Integrity Information Act of 2019 (PIIA) and implementation of Office of Management and Budget (OMB) guidance. PIIA was enacted to prevent and reduce improper payments and require each agency's inspector general to perform an annual review of the agency's compliance with PIIA. Our objectives were to assess (1) whether HUD had met all requirements of PIIA and OMB Circular A-123, Appendix C, Requirements for Payment Integrity Improvement, and (2) HUD's efforts to prevent and reduce improper and unknown payments.

### What We Found

HUD did not comply with PIIA because it did not report improper and unknown payment estimates for the Office of Public and Indian Housing's Tenant Based Rental Assistance (PIH-TBRA) program and the Office of Multifamily Housing's Project-Based Rental Assistance (PBRA) program, which spent $41 billion in fiscal year 2022 and represented 61.6 percent of HUD's total expenditures. This noncompliance is significant because this was the sixth consecutive year in which HUD was unable to produce PIH-TBRA and PBRA improper and unknown payment estimates and that has contributed to HUD's not complying with improper payment laws for 10 consecutive years.

HUD did not report improper and unknown payment estimates for the PIH-TBRA and PBRA programs because it was not successful in planning and developing a platform to collect and secure supporting documentation that contained personally identifiable information (PII). Although HUD has systems that maintain PIH-TBRA and PBRA program PII data, the systems do not collect or maintain the supporting documentation from tenants and third parties that is needed to verify tenant income, including medical and other allowances, assets, number of household members, and other information used in the calculation of the housing assistance payments. Because HUD was unable to collect this information, it could not determine whether its improper and unknown payment estimate was below or above the statutory threshold. Without an estimate, HUD could not implement corrective actions to improve payment accuracy for programs above the statutory threshold.

In addition, we found opportunities for HUD to enhance its process for assessing improper payment risk. HUD could better identify high-risk programs by updating its risk assessment methodology to adequately consider fraud and the risks associated with having its programs implemented by non-Federal administrators, consistent with OMB guidance. This condition occurred because HUD's programs delegate significant authority within the payment cycle to non-Federal administrators and assessing risk outside HUD is challenging. HUD could also improve its application of the risk assessment methodology. HUD's risk scoring for one of its factors depends on its having completed fraud risk assessments and questionnaires. However, HUD was in the early stages of developing a Fraud Risk Management Program and had not yet completed program-specific risk assessments for 10 of the 11 programs. By addressing weaknesses in its risk assessment process, HUD can more reasonably assess whether its programs are susceptible to significant improper payments.

We also found that the Office of Public and Indian Housing did not conduct monitoring reviews to detect, prevent, and recover improper payments in the PIH-TBRA program. HUD suspended these reviews in fiscal year 2021 in response to the COVID-19 pandemic and related waivers. However, those waivers expired on December 31, 2021, and the Office of Field Operations (OFO) did not resume its monitoring because it was working on updating its monitoring procedures. If HUD resumed OFO monitoring, it could better detect and prevent improper housing assistance payments from public housing agencies to landlords under the PIH-TBRA program, which spent $27.1 billion and accounted for 41 percent of HUD's total expenditures.

Overall, while HUD made some progress in fiscal year 2022, additional efforts are needed to bring HUD into compliance with PIIA. From an agencywide perspective, HUD is in compliance with the risk assessment requirements and has assessed all of its programs within the last 3 years; however, we found opportunities to strengthen this process. HUD also made progress this year in its Office of Community Planning and Development's Hurricanes Harvey, Irma, and Maria program testing, and we found that it was compliant with PIIA. In its PIH-TBRA and PBRA programs, HUD could not provide detailed evidence to support that it was making substantive progress toward compliance. Since developing a secure platform to collect supporting documentation is only the first step in developing an estimate and HUD could not implement this in fiscal year 2022, significant efforts are needed to bring HUD into compliance with PIIA.

## What We Recommend

Several recommendations and two priority open recommendations from prior-year audits remain open and will help to address the current-year findings. Most significantly, in 2021 we recommended that HUD ensure that the program improper payment 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.

As discussed above, this is the sixth consecutive year in which HUD has not been able to produce PIIA-compliant PIH-TBRA and PBRA improper payment estimates. This year, we recommend that HUD establish an improper payment council within HUD that consists of senior accountable officials from across the Department with a role in the effort that would work to identify risks and challenges to compliance and identify solutions as a collaborative group. We also recommend that HUD (1) develop a timeline, detailed plan, and secure storage information technology solution for completing compliant PIH-TBRA and PBRA program estimates and (2) make changes to its risk assessment to ensure that it adequately addresses the risk of non-Federal program administrators and fraud risk.

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# Background and Objectives

An improper payment is a payment that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. The term improper payment includes, for example, any payment to an ineligible recipient; any payment for an ineligible good or service; any duplicate payment; any payment for a good or service not received, except for those payments authorized by law; and any payment that does not account for credit for applicable discounts. According to the U.S. Government Accountability Office (GAO), reducing improper payments is critical to safeguarding Federal funds.

The Payment Integrity Information Act of 2019 (PIIA),[1] enacted in March 2020, requires agencies to 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. PIIA also requires each agency inspector general to determine whether the agency complied with PIIA, including improper payment reporting requirements. In accordance with PIIA, the Office of Management and Budget (OMB) issued guidance for implementing PIIA through OMB Circular A-123, appendix C, issued March 5, 2021.

OMB requires that agencies review all programs and activities and identify those that are susceptible to significant improper and unknown payments. Programs are considered susceptible to significant improper payments if they are likely to have an annual amount of improper payments plus unknown payments above the statutory threshold, which is (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 and unknown payments' percentage of total program outlays). Programs above the statutory threshold have additional requirements, such as reporting an annual improper and unknown payment estimate. Agencies should obtain a statistically valid estimate of the annual amount of improper and unknown payments in such programs and activities and ensure that the improper and unknown payment rate is less than 10 percent for each program and activity. For all programs and activities determined to have significant improper and unknown payments, agencies must publish corrective action plans to prevent and reduce improper and unknown payments, meet annual reduction targets, and report this information annually in their agency financial statements and to OMB's website, PaymentAccuracy.gov. Programs resulting in monetary loss that exceeds $100 million are considered high-priority programs and are designated as such by OMB. These programs have further reporting requirements, such as reporting an annual improper and unknown payment estimate.

The U.S. Department of Housing and Urban Development's (HUD) Office of the Chief Financial Officer (OCFO) has been responsible for producing a statistically valid estimate of the improper and unknown payments made for programs that HUD determines are susceptible to significant improper and unknown

[1] Statutory improper payment reporting requirements have undergone a number of amendments over the past two decades, including with the enactment of the Improper Payments Information Act of 2002 (IPIA) and the Improper Payments Elimination and Recovery Act of 2010 (IPERA). IPERA decreased the frequency with which each agency was required to review all of its programs, increased the responsibilities and reporting requirements, and required and inspectors 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, enacted January 10, 2013, and PIIA.

payments and is responsible for the information required in the accompanying materials to the financial statements. While OCFO is the lead office overseeing HUD's actions to address improper payment issues and compliance with the requirements of PIIA, program offices are responsible for implementing and monitoring controls that ensure payment integrity and providing OCFO with the information it needs. OCIO is responsible for providing leadership over the development and implementation of information technology solutions for client offices.

Under PIIA, the HUD Office of Inspector General (OIG) must annually review HUD's assessment of the level of risk, the quality of the improper payment estimates and methodology, and financial controls in place to identify and prevent improper payments and make recommendations, if any, for improving agency plans and reporting related to its programs and activities, to include improvements for determining and estimating improper payments. Ultimately, OIG determines whether HUD does not meet one or more of the requirements, at which point it is considered to be noncompliant under PIIA.

During fiscal year 2022, HUD identified three programs as susceptible to significant improper and unknown payments. The first is the Office of Multifamily Housing's Project-Based Rental Assistance (PBRA) program, including the Section 202 Supportive for Housing for the Elderly Program and Section 811 Supportive Housing for Persons with Disabilities. Under this program, HUD enters into housing assistance payments contracts with multifamily rental property owners to provide subsidized housing assistance for all or some of the units within a property. HUD pays the difference between the approved rent and what low-income tenants can afford. The contracts can be administered on behalf of HUD by performance-based contract administrators (PBCA), traditional contract administrators (TCA), or State housing finance agencies (HFA).

The second program is the Office of Public and Indian Housing's Tenant-Based Rental Assistance program (PIH-TBRA). Under PIH-TBRA, HUD provides local public housing agencies (PHA) with funding for rental subsidies so eligible families can afford safe and sanitary housing. The local PHAs determine the eligibility of families that apply for tenant-based vouchers, execute a housing assistance payments contract with property owners, and make subsidy payments on behalf of HUD and the family.

The third program is the Office of Community Planning and Development's (CPD) Hurricanes Harvey, Irma, and Maria program (CPD-HIM). Under CPD-HIM, HUD provided $28 billion in block grant disaster recovery funding to address unmet disaster recovery needs following Hurricanes Harvey, Irma, and Maria to assist States and local communities with long-term recovery, restoration of infrastructure and housing, economic revitalization, and mitigation in the most impacted and distressed areas.

As noted in our prior-year report,[2] HUD has broken its improper payment testing into two tiers: tier 1 and tier 2. HUD defines tier 1 as payments between the

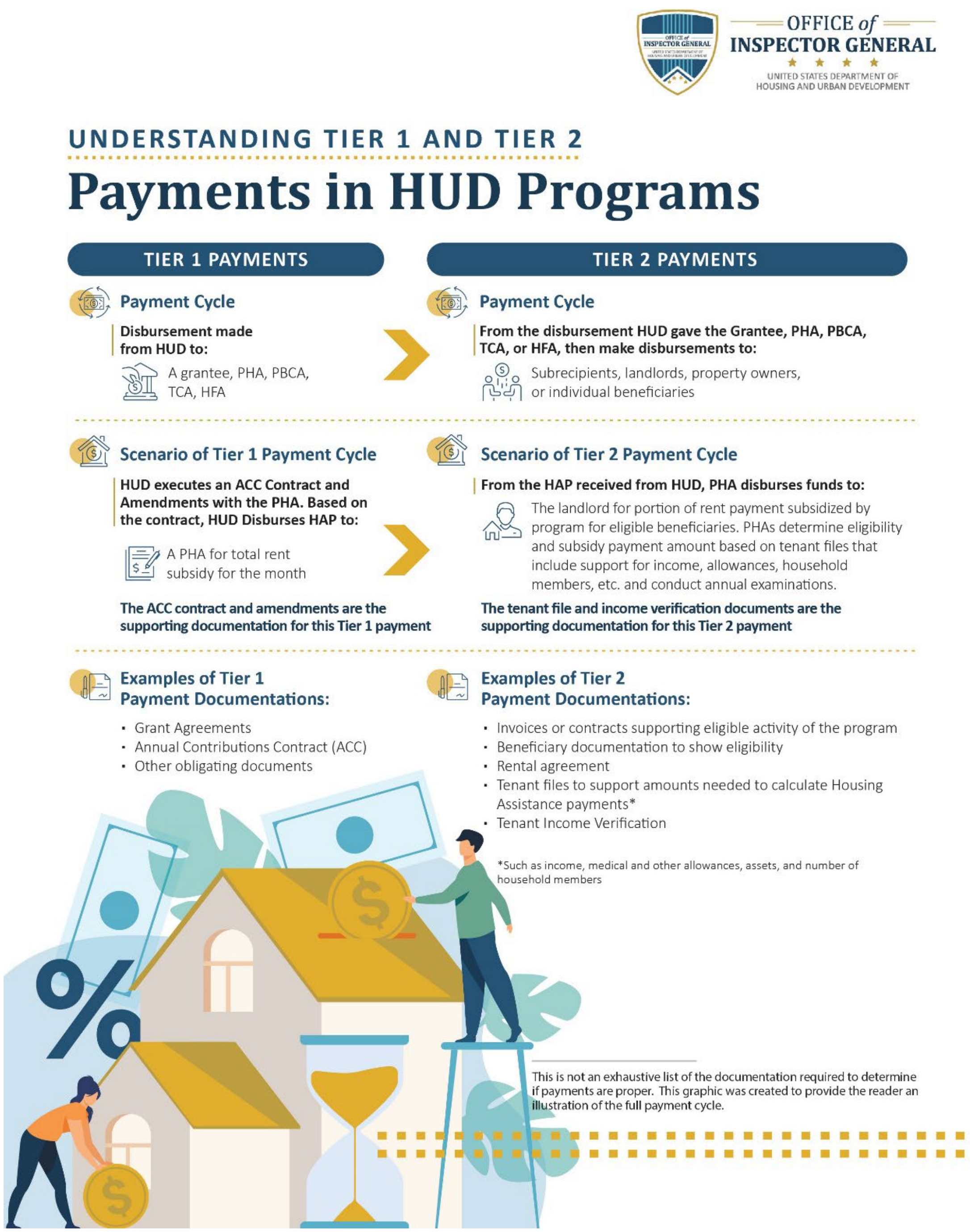
- CPD-HIM program – HUD and the grantee for CPD-HIM,
- PIH-TBRA program – HUD and the PHA, and
- PBRA program – HUD and the PBCA, TCA, or HFA for properties not managed by HUD or payments between HUD and the property owner when the properties are managed directly by HUD.

[2] 2022-FO-0005 – HUD Did Not Comply with the Payment Integrity Information Act of 2019

HUD defines tier 2 testing as payments between the

- CPD- HIM program – the grantee and the recipient or subrecipient for CPD-HIM,
- PIH-TBRA program – the PHA and landlords, and
- PBRA program – PBCA, TCA, or HFA and property owners.

For more information on Tier 1 and Tier 2 payments, see the graphic below-



For example, in the TBRA program, HUD's fiscal year 2021 tier 1 testing ensured that there was a valid annual contributions contract and amendment between HUD and the PHA and HUD paid the PHA the proper amount based on PHA-reported expenses. Tier 2 testing would ensure that the PHA paid landlords correctly, based on support and verification of tenant income required by statutory program requirements.

The PIH-TBRA and PBRA programs have a history of significant improper payments and unreliable estimates. In fiscal year 2000, HUD reported an estimated $3.2 billion in improper payments for these programs, and in fiscal year 2016, which was the last year HUD reported an estimate that included the testing of tier 2 payments, HUD reported an estimated $1.7 billion in improper payments for this program. Further, these were designated as high-priority programs by OMB in fiscal year 2016. Although the last estimate was in fiscal year 2016, these programs have been designated as risk susceptible every year and, therefore, subject to testing and reporting improper payment estimates.

Our objectives were to assess (1) whether HUD had met all requirements of PIIA and OMB Circular A-123, Appendix C, Requirements for Payment Integrity Improvement, and (2) HUD's efforts to prevent and reduce improper and unknown payments.

# Results of Audit

## HUD Did Not Comply With PIIA

HUD did not comply with PIIA because it did not report improper and unknown payment estimates for its PIH-TBRA and PBRA programs. HUD was unable to produce estimates because it was again not successful in planning and developing a method to obtain the supporting documentation needed for testing in a timely manner for fiscal year 2022 reporting. Without estimates, HUD could not determine whether its improper payment plus unknown payment estimate was below or above the statutory threshold. As a result, HUD could not implement corrective actions and other OMB requirements for programs above the statutory threshold that are designed to improve payment accuracy. This noncompliance is significant because the PIH-TBRA and PBRA programs have a history of significant improper payments[3] and spent $41 billion in fiscal year 2022, which represents 61.6 percent of HUD's total expenditures.

### HUD's Overall Compliance Status

Overall, in fiscal year 2022, HUD did not comply with PIIA because it did not produce or report improper and unknown payment estimates for its PIH-TBRA and PBRA programs. HUD did comply with PIIA in all of its programs other than PIH-TBRA and PBRA, as detailed in appendix A. Below is a table showing the PIIA compliance criteria and the compliance status for HUD's two noncompliant programs.

**Fiscal year 2022 compliance status table – noncompliant programs**

| Criteria | PIH-TBRA | PBRA |
|---|---|---|
| 1a. Published payment integrity information | Yes | Yes |
| 1b. Posted the annual financial statement and accompanying materials | Yes | Yes |
| 2a. Conducted improper payment risk assessments | Yes | Yes |
| 2b. Adequately concluded on the risk assessment | Yes | Yes |
| 3. Published improper and unknown payment estimates | No | No |
| 4. Published corrective action plans | N/A* | N/A* |
| 5a. Published an improper and unknown payment reduction target | N/A* | N/A* |
| 5b. Demonstrated improvements | N/A* | N/A* |
| 5c. Developed a plan to meet the reduction target | N/A* | N/A* |
| 6. Reported an improper and unknown payment estimate of less than 10% | N/A* | N/A* |
| *Note: "N/A" denotes that OIG was unable to assess these requirements because HUD's noncompliance with criterion 3 has prevented it from assessing and reporting on the other OMB requirements in this table that are designed to improve payment accuracy for programs above the statutory threshold. | | |

[3] See the Background and Objectives section for further information on the history of improper payments in these programs.

## HUD Did Not Report Improper and Unknown Payment Estimates for the PIH-TBRA and PBRA Programs

Although deemed susceptible to significant Improper and unknown payments, during fiscal year 2022, HUD did not perform or report improper or unknown payment estimates for the PIH-TBRA and PBRA programs in its accompanying materials to its annual financial statement as required by OMB Circular A-123, appendix C (M-21-19). While HUD submitted sampling and estimation methodology plans to OMB for these programs, it did not use the plans in fiscal year 2022 and instead reported no estimates for these programs.[4] In its fiscal year 2022 agency financial report (AFR), HUD self-reported its noncompliance, stating, "HUD management identified noncompliance with the Payment Integrity Information Act of 2019. Specifically, HUD was unable to complete testing over the full payment lifecycle in support of statistically valid improper payment estimates."

HUD did not report estimates for the PIH-TBRA and PBRA programs because it was not successful in planning and developing a platform to collect and secure supporting documentation that contained personally identifiable information (PII), including protected health information. While HUD program offices have systems that maintain PIH-TBRA and PBRA PII data, those systems do not collect or maintain the supporting documentation from tenants and third parties that is needed to verify tenant income, including medical and other allowances, assets, number of household members, and other information used to calculate the housing assistance payments. Therefore, HUD could not use the data stored in program office systems to perform the PIIA testing. Further, although program offices could collect these data and provide the data to OCFO for testing, HUD was unable to develop a system to collect, share, and store the information. When PII data are stored outside an established system, HUD cannot rely on existing system controls and must implement new controls around the data in the storage space. OCFO did not fully appreciate the amount of time and coordination required to develop a secure storage space with the necessary controls. For example, the data administrator must be trained and qualified to collect, store, and monitor PII data, and HUD's OCFO staff did not have the required training and qualifications. Further, a privacy impact assessment was required, which took coordination and approvals from following: the System Manager, Information System Security Officer, Privacy Liaison Officer, Records Management Liaison Officer, Paperwork Reduction Act Liaison Officer, HUD Records Officer, Chief Privacy Officer, and the Senior Agency Official for Privacy.

OCFO projected that a secure data storage solution would be available in time for fiscal year 2023 testing. However, OCFO could not provide its project plan, timeline, or other documentation to support that it had made progress in implementing a secure data storage solution. It stated that the plan was outside the scope of this year's audit. HUD provided its completed privacy impact assessment, which was signed by all applicable parties, in March 2023. HUD stated that with this completed document, it would be able to collect all necessary information for tier 2 testing. However, due to the timing of this document and because it was only a privacy impact assessment and not a full testing and estimation plan, we were unable to evaluate HUD's progress in this area.

This is the sixth consecutive year in which HUD has been unable to produce and report reliable improper payment estimates that comply with PIIA. To come into compliance, senior officials across the

[4] Since HUD did not use the sample and estimation methodology plan submitted to OMB for its fiscal year 2022 reporting, we did not review it during this audit.

Department need to ensure that staff has the tools, skills, and resources needed to develop and implement the PIH-TBRA and PBRA testing project.  While HUD reported on PaymentAccuracy.gov that accountable officials are incentivized to develop and implement an organizational vision that integrates key organizational and program goals, priorities, values, and other factors and implement organizational improvements, HUD did not report specific accountability mechanisms that are tied to the success of the accountable officials leading the efforts to come into compliance.

## Conclusion

For the sixth consecutive year, OCFO was unable to produce PIH-TBRA and PBRA program improper and unknown payment estimates, causing HUD to not comply with PIIA.  HUD was unable to produce estimates because it was not successful in planning and developing a method to obtain the supporting documentation needed for testing in a timely manner for fiscal year 2022 reporting.  Without estimates, HUD does not know whether its improper payment rate for these programs is below or above the statutory threshold.  Therefore, HUD could not implement OMB requirements for programs above the statutory threshold, such as corrective actions, reduction targets, and demonstrating improvements. Further, without valid improper and unknown payment estimates, OMB cannot determine whether these programs should be designated as high-priority programs, which would require additional actions and reporting requirements.  Finally, not reporting an estimate reduces accountability and transparency to Congress and the public.

## Recommendations

We recommend that the Chief Financial Officer

1A.  Establish an improper payment council within HUD that consists of senior accountable officials from across the Department with a role in the effort that would work to identify risks and challenges to compliance and identify solutions as a collaborative group.

1B.  Develop and complete a detailed plan and timeline for completing compliant PIH-TBRA and PBRA program estimates and ensure that the improper payment council prioritizes completion of the plan in time for fiscal year 2023 reporting.

1C.  Develop a secure platform for the collection and storage of PIIA data that contain PII and formally assign a staff with adequate training and skillsets to administer the data and application (including maintaining and managing access controls of a chosen application that will be used to store the PIIA data with PII).

Prior-year recommendations from audit reports 2021-AT-0002[5] and 2022-FO-0005[6] remain open.  These can be found in the Followup on Prior Audits section of this report.  Implementing recommendation 1A from both of these reports will help HUD remediate this finding.  We have previously designated both of these recommendations as priority open recommendations.

[5] 2021-AT-0002, Compliance With the Payment Integrity Information Act of 2019

[6] 2022-FO-0005, Compliance With the Payment Integrity Information Act of 2019

## Opportunities Exist To Improve the Effectiveness of Improper Payment Risk Assessments

HUD could improve its methodology for assessing the risk of improper payments, as well as how it applies the methodology to obtain a risk score. Specifically, HUD's fiscal year 2022 risk assessments may have missed opportunities to identify high-risk programs with improper payments because its risk assessment methodology did not adequately address the risk of non-Federal program administrators or fraud. Although most of HUD's funds are administered by non-Federal administrators,[7] its risk assessment methodology did not fully consider the impact of non-Federal administrator risk. Additionally, the accuracy of HUD's risk scoring for one factor was dependent upon HUD's completing program-specific fraud risk assessments, which it did not perform on 10 of the 11 programs assessed. This condition occurred because HUD's programs delegate significant authority within the payment cycle to non-Federal program administrators and assessing risk outside HUD is challenging. Further, HUD was in the early stages of developing a Fraud Risk Management Program and had not completed program-specific risk assessments.[8] As a result, HUD's risk assessment may not identify all of HUD's programs that are susceptible to significant improper payments.

### HUD's Risk Factor Assessment Methodology Did Not Fully Consider Non-Federal Administrator Risks

According to OMB Circular A-123, appendix C, the agency should develop an improper payment risk assessment methodology that is appropriate to ensure that the result of the improper payment risk assessment reasonably supports whether the program is or is not susceptible to significant improper payments. OMB further states that an agency that makes payments primarily to non-Federal entities, such as a benefit-paying agency, has a higher risk for making improper payments than an agency that rarely pays non-Federal entities. However, we determined that HUD's risk assessment did not fully consider the non-Federal administrator risks even though most of HUD's program funds are administered by non-Federal administrators.

To develop its risk assessment, HUD leveraged the 11 improper payment risk factors listed in the OMB Circular A-123 guidance. Each risk factor was assigned a weighted percentage based on how much each factor would increase the probability of significant improper payments. When individual risk factors are totaled together, an overall score would classify a program as "low," "medium," or "high." A "high" score means a program is susceptible to significant improper payments, necessitating that HUD perform a statistically valid estimate of the annual amount of improper payments, implement corrective actions to reduce improper payments, and report annually in the AFR and accompanying materials.

HUD could improve its risk assessment methodology and application to better address risk associated with programs making payment primarily to non-Federal entities. Based on the factor description and the information documented in the risk assessment, we identified that only three risk factors adequately

[7] During our audit, we noted that 8 of the 11 programs assessed were identified as programs with payments or payment eligibility made not by HUD but by non-Federal administrators of HUD funding (for example, grantees, subgrantees).
[8] Open recommendation 2022-FO-0801-001-B from Audit Report 2022-FO-0801, Fraud Risk Inventory for the CDBG and ESG CARES Act Funds, issued October 12, 2021, recommends that HUD complete a program-specific fraud risk assessment and risk profile for CPD programs. We have designated this as a priority open recommendation.

considered non-Federal administrator risk. We found a significant number of factors that should have considered non-Federal-entity risks consistent with OMB's guidance that payments processed through non-Federal entities are higher risk. See appendix C for details on the breakout for each of HUD's risk factors.

While some of the risk factors are not intended to capture non-Federal risk, others could have evaluated non-Federal risk but did not. For example, HUD did not consider the level, experience, and quality of training for non-Federal administrator personnel (risk factor 6) or consider payments by non-Federal administrators when determining whether the program or activity lacked information or data systems to ensure payment integrity (risk factor 10). For both factors, HUD considered risk at the Federal level but not both Federal and non-Federal administrator risk. Not evaluating the entire payment cycle could skew the weights and scores assigned to each risk factor, as well as the results of the risk assessment.

While not every program was this close to the threshold, the Homeless Assistance Grants risk assessment was a good example of how the gaps in considering non-Federal administrator risk can affect risk assessments. The Homeless Assistance Grants program[9] scored 23 of 30 points,[10] which is just below the high-risk threshold of 25 points. This program also had questioned costs from single audits, GAO, and OIG reports totaling $117 million, which is above the statutory threshold of $100 million. However, since it did not reach the 25-point threshold, it was not rated as high risk and, therefore, not deemed susceptible to significant improper payments. Reassessing the number of risk factors that consider non-Federal administrator risk and fully considering non-Federal administrator risks in the following could have changed the overall program rating to high risk:

- Risk factor 4 (payments or payment eligibility decisions are made outside the agency) – HUD acknowledged that payment eligibility decisions would be made by non-Federal administrators, but its narrative describing procedures to ensure that the correct payment decision was made focused on maintaining sufficient records that could be reviewed by HUD, not an evaluation of the non-Federal administrator's processes or HUD's controls. This factor was rated as medium risk.

- Risk factor 6 (level, experience, and quality of training for payment personnel) – HUD did not consider the experience or quality of training to non-Federal administrators of Homeless Assistance Grant funds, and this factor was rated as medium risk.

- Risk factor 10 (program or activity lacks information or data systems to ensure payment integrity) – HUD did not consider the risk related to information and data systems at the non-Federal administrator level, and this factor was rated as medium risk. We believe HUD's risk

[9] Our audit included all 11 programs included in HUD's risk assessment cycle. Further, we selected the four highest scoring programs to do additional testing. These four programs were Homeless Assistance Grants, Public Housing Capital Fund, Home Equity Conversion Mortgage Claims, and Community Development Fund – Disaster Recovery Assistance.
[10] HUD's risk assessment plan uses a scale from 10 to 30 to calculate the program risk score. The score range is as follows: low – 10 to 14, medium – 15 to 24, and high – 25 to 30.

determination for this factor should have been high[11] because HUD does not have access to the data that are used to make eligibility decisions or HUD must take additional steps to acquire eligibility information that is maintained by the grantee.

While the impact of this is greatest for programs like Homeless Assistance Grants that scored close to high risk, there is a potential that other programs could be impacted as well. In our fiscal year 2021 audit of HUD's PIIA compliance,[12] we noted issues with the design of HUD's risk assessment related to the consideration of non-Federal administrator risk in two CPD programs (Community Development Block Grant (CDBG) and Homeless Assistance Grant) and made recommendations to CPD. However, in fiscal year 2022, we have determined that this issue could impact all of HUD's programs that rely on non-Federal administrators.

HUD could improve its risk assessments by better addressing the risks associated with having its programs implemented by non-Federal administrators. HUD's risk assessment methodology did not adequately consider the impact of non-Federal administrator risk because HUD's programs delegate significant authority within the payment cycle to non-Federal administrators and assessing risk outside HUD is challenging. While program offices perform monitoring, which is an important tool, HUD is responsible for assessing the risk of improper and unknown payments for all transfers of Federal funds; therefore, this risk should be fully considered and appropriately weighted in the payment integrity risk assessment.[13] The results produced by the improper payment risk assessments may not provide a reasonable assessment of whether each program is susceptible to significant improper payments; therefore, HUD may have missed opportunities to implement corrective actions to enhance payment integrity.

## One of HUD's Risk Factors May Not Be Effective Due to a Lack of Completed Fraud Risk Assessments

HUD's design of fraud risk factor 11A (risk of fraud as assessed by the agency under Green Book standards) relies on HUD's conducting program-specific fraud risk assessments and questionnaires completed by program offices. While program offices completed the questionnaires, they did not complete program-specific risk assessments for 10 of the 11 programs assessed, limiting the usefulness of the questionnaires in determining whether a program is not susceptible to significant improper payments. HUD's risk factor 11A is scored by whether the program has recently assessed the potential of fraud under GAO Green Book standards and the number of negative responses from the relevant program office on a fraud risk self-assessment questionnaire for each program. However, only 1 of the

[11] According to HUD's risk assessment, the rating of high for this factor is defined as significant challenges with the program's ability to confirm eligibility and access to eligibility data sources is limited and impedes the program's ability to satisfactorily validate eligibility as part of making payment determinations; however, this factor was rated as medium risk.
[12] 2022-FO-0005, Compliance With the Payment Integrity Information Act of 2019, issued June 27, 2022
[13] According to OMB Circular A-123, appendix C, when identifying payment integrity risks within a program, it is important to determine and understand the inherent vulnerabilities that a program faces based on the types of payments the program makes and how the payment process is structured. Programs should consider the causes of improper and unknown payments and the likelihood of their occurrence in their process for identifying and monitoring payment integrity risks to the program. Isolating the components of the payment process can be an effective way to identify payment integrity risks. The use of data analytics to identify trends, patterns, anomalies, and exceptions within data to identify indicators of improper payments is an example of an effective means of identifying payment integrity risks.

11 programs included in HUD's risk assessment process had completed a fraud risk assessment. For the other 10 programs, HUD did not identify, analyze, or respond to fraud risks as required by Green Book Principle 8. Without the fraud risk assessments, HUD scored these programs as medium risk based on the fraud risk self-assessment questionnaire. However, relying on the self-assessments limits the effectiveness of the fraud risk process, considering how difficult it is to determine the extent to which HUD is exposed to fraud without the program-specific fraud risk assessments, the lack of documentation supporting the self-assessment responses, and the inherent lower reliance associated with self-assessments in general.

HUD's risk assessment methodology did not adequately consider the impact of program-specific fraud risk assessments because HUD was in the early stages of developing a Fraud Risk Management Program and had not completed program-specific risk assessments. However, OCFO was working toward this goal according to management decisions made for a prior HUD OIG audit.[14] As a result, the scoring of risk factor 11A was not designed in a way to ensure that the results reasonably supported whether the program was or was not susceptible to significant improper payments.

## Conclusion

While HUD has demonstrated a commitment to improve its risk assessment process through updates to its risk assessment plan, opportunities exist to enhance its risk assessment process to identify programs susceptible to improper payment risk. Specifically, HUD can improve its risk assessment process by fully considering and properly weighing the risks associated with non-Federal administrators and program-specific fraud risks. If HUD made improvements to this process, it could better assess whether a program is susceptible to significant improper payments, resulting in an enhanced ability to report improper and unknown payment estimates and develop corrective actions to mitigate the improper payments. The inability to adequately assess improper payment risk could lead to lost credibility in program management, which could damage HUD's reputation, create distrust by the public, and hinder HUD's efforts to provide services to public beneficiaries. The improvements captured in our recommendations aim to prevent these harms and help HUD meet its PIIA goals.

## Recommendations

We recommend that the Chief Financial Officer

2A. Reevaluate the methodology and reassess the weight assigned to each risk factor to ensure that appropriate weight is given to risks associated with non-Federal administrators or consider doing one risk assessment for HUD's internal payment cycle and another risk assessment for the non-Federal entities that administer HUD's program funds.

2B. Until program-specific fraud risk assessments are completed, revise the PIIA fraud risk questionnaire process to compensate for the lack of program-specific fraud risk assessments.

2C. Reassess the Homeless Assistance Grants program as part of the fiscal year 2023 risk assessment.

[14] 2023-FO-0001, Improvements Are Needed in HUD's Fraud Risk Management Program, issued October 26, 2022

Additionally, two recommendations from our fiscal year 2021 audit of HUD's PIIA risk assessment remain open. They can be found in the Followup on Prior Audits section of this report.

## HUD Had Not Resumed Monitoring of the PIH Tenant-Based Rental Assistance Program

PIH had not resumed one of its major controls to detect, prevent, and recover improper payments in the PIH-TBRA program that it suspended in response to the COVID-19 pandemic. Specifically, the PIH Office of Field Operations (OFO) continued to not conduct onsite or remote comprehensive monitoring reviews (CMR) of PHAs in fiscal year 2022. HUD suspended these reviews in fiscal year 2021 in response to the COVID-19 pandemic and related waivers. However, those waivers expired on December 31, 2021, and OFO did not resume its monitoring because it was working on updating its monitoring procedures. HUD did resume using Enterprise Income Verification (EIV) as a control in fiscal year 2022, but this control is most effective when used together with OFO monitoring. If HUD resumed OFO monitoring, it could better detect and prevent improper housing assistance payments from PHAs to landlords under the PIH-TBRA program, which spent $27.1 billion and accounted for 41 percent of HUD's total expenditures.

### PIH's OFO Did Not Perform Monitoring Reviews in Fiscal Year 2022

Beginning in fiscal year 2020 during the pandemic, HUD personnel did not travel to PHAs to conduct monitoring reviews; therefore, OFO was unable to review tenant files and verify the accuracy of the housing assistance payment calculation because tenant files were maintained only at PHAs. OFO did not collect or store this information because many tenant files are still paper-based and contain PII and OFO did not want to take on the responsibility of collecting and protecting this information electronically.

Then, starting in fiscal year 2021, OFO suspended monitoring reviews because it procured a contractor to develop new monitoring procedures for Coronavirus Aid, Relief, and Economic Security (CARES) Act funds. The Deputy Assistant Secretary for Field Operations thought CARES Act reviews would start up during fiscal year 2021 once the new monitoring procedures were completed and, therefore, decided not to perform regular CMRs and instead provide technical assistance to PHAs. However, the development of new monitoring procedures took much longer than expected, and neither monitoring nor CARES Act reviews were conducted during fiscal year 2021.

In fiscal year 2022, OFO reported that it needed to ensure that CARES funds were spent appropriately and, therefore, made that the sole focus of all fiscal year 2022 reviews. Further, OFO reported that it needed time to update its monitoring guidance and train staff on its new monitoring procedures. As a result, OFO did not perform any monitoring reviews in fiscal year 2022. While monitoring CARES Act funds is important, monitoring reviews are the only mechanism that OFO has to ensure that PHAs are using EIV and correctly calculating the subsidy payment in accordance with statutory requirements. As of March 2023, OFO said that it had completed its updates to the monitoring procedures, developed a monitoring plan, trained staff, and asked field offices to monitor at least 5 percent of its PHAs' portfolio for fiscal year 2023.

While OFO monitoring controls are not the only controls PIH has in place to ensure that PHA subsidy calculations are accurate, they are critical to the control structure and ensuring accurate payments. For example, although HUD did resume EIV office controls in fiscal year 2022, the EIV office did not work with PHAs to ensure that the discrepancies it identified in EIV had been corrected. This is done during OFO monitoring. Therefore, without the support from OFO monitoring, the EIV office controls are not fully effective. PIH-OFO is responsible for monitoring PHAs' compliance with EIV and subsidy calculation requirements,[15] but since it had not performed its monitoring reviews, it did not perform any compliance and monitoring regarding subsidy calculation accuracy in fiscal year 2022.

Further, while PIH's Quality Assurance Division (QAD) performed reviews of the subsidy calculations during calculation of housing assistance payments, adjusted income, and rent (CHAIR) reviews, these reviews are conducted on only a small percentage of HUD's PHAs. First, a PHA must be identified as high risk, and then PIH's QAD must determine which of those PHAs can be reviewed based on other priorities, goals, and travel funds. In fiscal year 2022, QAD reviewed 2 percent of the 2,134 PHAs, and 69 percent of those reviews resulted in corrective action plans and repayment to HUD. The limited number of reviews performed and the high percentage of errors identified during those reviews indicate that routine, comprehensive monitoring is needed.

In fiscal year 2021, we recommended that PIH develop and implement a plan that ensures the continuity of adequate internal controls over the PIH-TBRA program to detect and prevent improper payments, which can be implemented in a virtual environment. In response, PIH stated that it was planning to modernize EIV. PIH stated, "EIV modernization is critical for testing, analyzing, and validating income and asset self-reporting by tenants." However, PIH had not outlined a plan to achieve EIV modernization or presented to us what EIV modernization would entail and fix. Further, PIH indicated that while it was allocated $2.5 million for EIV modernization in fiscal year 2023, additional funding would be needed. Even if it obtained the additional funding, the necessary work on EIV could not be completed until June 2026. We agree that EIV is critical and modernization could help enhance PIH's internal controls. Completing modernization will take several years and is dependent on additional funding; therefore, we urge PIH to consider other interim options that will allow the detection and prevention of improper payments. We did note that QAD's CHAIR reviews are conducted remotely in a virtual environment rather than at the PHA onsite and QAD already has protocols in place that require the use of encrypted files when exchanging tenants' information to protect PII. OFO could adopt a similar approach to address our prior-year recommendation[16] to develop and implement monitoring plans remotely and without compromising PII.

## Conclusion

In the absence of comprehensive monitoring reviews, HUD could not adequately ensure that housing assistance payments were made to the correct recipient and for the correct amount under the PIH-TBRA program. HUD was still updating its CMR monitoring guidance and training staff on its new monitoring procedures; therefore, OFO did not perform any CMRs in fiscal year 2022. While HUD has said it will initiate these reviews in fiscal year 2023, the longer HUD goes without conducting these reviews, the

[15] Notice PIH 2018-18, Administrative Guidance for Effective and Mandated Use of Enterprise Income Verification (EIV) System, requires HUD staff monitoring and oversight of PHA compliance with HUD program requirements. Additionally, HUD will monitor each PHA's effective and mandated use of EIV with analysis of data in the following EIV reports: Deceased Tenants Report, IVT (Income Verification Tool) Report, Multiple Subsidy Report, Identity Verification Report, Immigration Report, and Failed Effective Date Check Report (Overdue Reexams) in the Identity Verification Report.

[16] Audit Report 2022-FO-0005, Recommendation 2A, Develop and implement a plan that ensures the continuity of adequate internal controls over the PIH-TBRA program to detect and prevent improper payments, which can be implemented in a virtual environment. This plan should include how HUD can review tenant files or other information that validates tenant data remotely without compromising PII.

greater will be the risk of improper payments' not being prevented and detected. As a result, there was an increased risk of improper payments in the PIH-TBRA program, which spent $27.1 billion and accounted for 41 percent of HUD's total expenditures in fiscal year 2022.

## Recommendations

Prior-year recommendation 2A from 2022-FO-0005[17] remains open. It can be found in the Followup on Prior Audits section of this report. Implementing this recommendation will help HUD remediate this finding.

[17] 2022-FO-0005, Compliance With the Payment Integrity Information Act of 2019

## Agency's Overall Efforts To Prevent and Reduce Improper and Unknown Payments

HUD made some progress in fiscal year 2022; however, additional efforts are needed to bring HUD into compliance with PIIA. From an agencywide perspective, HUD is in compliance with the risk assessment requirements and has assessed all of its programs within the last 3 years; however, we did note some areas for improvement (as discussed in finding 2). The risk assessment identified the following three programs as susceptible to significant improper payments: the PIH-TBRA, PBRA, and CPD-HIM grant programs. Therefore, these programs were the focus of our audit.

We found that the CPD-HIM grant program is compliant with PIIA requirements. However, fiscal year 2022 marks the 6th year in which the PIH-TBRA and PBRA programs have not had compliant estimates and the 10th year of noncompliance with improper payment laws. These programs spent $41.0 billion in fiscal year 2022 and represented 61.6 percent of HUD's total annual expenditures. However, in fiscal year 2022, HUD could not provide detailed evidence to support that it was making substantive progress toward compliance in these programs. These programs were still noncompliant because HUD could not develop a process or secure storage space to collect and store the documentation needed to test its payments throughout the payment cycle, causing HUD to not produce improper and unknown payment estimates. Because these are such large programs with a history of significant improper payments, this continued noncompliance is troubling.

Further, HUD had not resumed one of the major controls that was suspended during the pandemic, which was previously used to detect and prevent improper payments in the PIH-TBRA program. Although controls in the PBRA programs were not suspended and appeared to be reasonably designed and implemented, it was difficult for us to assess their effectiveness without a reliable estimate, which is the cornerstone of PIIA compliance and payment integrity.

# Scope and Methodology

We conducted our audit of HUD's compliance with PIIA for fiscal year 2022 (October 1, 2021-September 30, 2022) from November 2022 through March 2023 in Washington, DC. At the direction of OMB, we followed OMB Circular A-123 (M-21-19) guidance on OIG's responsibility in determining compliance with PIIA, OMB Circular A-136, and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) guidance required under PIIA. OMB Circular A-123, appendix C, part VI, states the following:

Each fiscal year, the agency is responsible for ensuring it has met the requirements to achieve compliance with PIIA. The OIG is responsible for evaluating the agency's compliance and efforts to prevent and reduce improper and unknown payments. The IG [inspector general] is responsible for submitting a report on its compliance determination, recommendations for improvement, and evaluation of the agency's efforts to prevent and reduce improper and unknown payments.

If a program does not meet one or more of the following requirements, then it is not compliant under PIIA. An agency is considered to be not in compliance under PIIA if it has one or more programs that are found non-compliant with PIIA.

1a. Published Payment Integrity information with the annual financial statement

1b. Posted the annual financial statement and accompanying materials on the agency website

2a. Conducted IP [improper payment] risk assessments for each program with annual outlays greater than $10,000,000 at least once in the last three years

2b. Adequately concluded whether the program is likely to make IPs and UPs [unknown payments] above or below the statutory threshold

3. Published IP and UP estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the annual financial statement

4. Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement

5a. Published an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement

5b. Demonstrated improvements to payment integrity or reached a tolerable IP and UP rate

5c. Developed a plan to meet the IP and UP reduction target

6. Reported an IP and UP estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement

To accomplish our audit objective, we reviewed

- Requirements contained in the applicable Federal laws; regulations; OMB Circular A-123 (M-21-19), appendix C; the Payment Integrity Information Act of 2019 (Pub. L. 116-117); and guidance in the CIGIE guide for improper payment audits.

- HUD’s fiscal year 2022 AFR and the accompanying materials (paymentaccuracy.gov).
- HUD’s policies and procedures to understand the controls in place for preventing, reducing, recovering, and accurately reporting on improper payments. We also reviewed documentation to support that these controls were in place during fiscal year 2022.
- HUD’s fiscal year 2022 improper payments risk assessments, which identified the programs that were risk assessed and those that were considered susceptible to improper payments.
- HUD’s improper payment sampling and estimation plans used to select samples for the CPD-HIM testing and the results of its testing.
- HUD’s responses to our questions regarding the process used to comply with PIIA for the two noncompliant programs: PBRA and PIH-TBRA.
- HUD’s records and documents to support information published in the AFR and accompanying materials (paymentaccuracy.gov).

The scope of our internal control testing included (1) internal controls over the preparation of the payment integrity section of HUD’s AFR and accompanying materials (paymentaccuacy.gov) and (2) internal controls to identify, prevent, detect, and recapture improper payments in the three programs HUD deemed susceptible to significant improper payments.

We also met with appropriate personnel within (1) OCFO responsible for overseeing HUD’s improper payments program and (2) program offices responsible for internal controls over the three programs deemed susceptible to improper payments.

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

# Followup on Prior Audits

## HUD Did Not Fully Comply With the Payment Integrity Information Act of 2019, 2021-AT-0002, Issued May 17, 2021

We recommend that the Office of the Chief Financial Officer

1A. For the MF-RAP,[18] PIH-TBRA, and CPD-HIM programs, ensure that the program improper payment 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. (Final action target date: May 16, 2022)

This recommendation is still open and is a priority open recommendation. As stated in our report above, HUD was unable to produce PBRA and PIH-TBRA estimates because it was not successful in planning and developing a method to obtain the supporting documentation needed for testing in a timely manner for fiscal year 2022 reporting.

## HUD Did Not Comply With the Payment Integrity Information Act of 2019, 2022-FO-0005, Issued June 27, 2022

We recommend that the Deputy Chief Financial Officer

1A. In collaboration with all involved program offices, develop and implement a sampling methodology that allows for a sample size that reasonably allows for the testing of the complete payment cycle within the PIIA reporting timeframe. (This is a priority open recommendation. Final action target date: September 30, 2023)

We recommend that the General Deputy Assistant Secretary for Public and Indian Housing

2A. Develop and implement a plan that ensures the continuity of adequate internal controls over the PIH-TBRA program to detect and prevent improper payments, which can be implemented in a virtual environment. This plan should include how HUD can review tenant files or other information that validates tenant data remotely without compromising PII. (A final action target date has not been established for this recommendation because PIH has not provided an acceptable proposed management decision. See additional details in finding 3.)

We recommended that the Principal Deputy Assistant Secretary from Community Planning and Development

3A. Collaborate with the Deputy Chief Financial Officer to work with grantees in identifying where improper and unknown payments could occur in the CPD-HIM program throughout the payment

[18] In this report, we changed the acronym for Multifamily Housing's Subsidy Programs from MF-RAP to PBRA programs to better reflect the multifamily housing programs included in this estimate. The programs have not changed; the only change is the acronym used in this report.

cycle, to include the risks associated with subgrantee billing, and document this analysis. (Final action target date: November 17, 2023)

3B. Collaborate with the Deputy Chief Financial Officer and use the analysis developed in 3A to ensure that HUD's improper and unknown payment testing procedures are (1) designed to test the full payment cycle and (2) include the review of documentation that supports that final beneficiaries were eligible, goods and services were received, and payments went to the correct final beneficiaries and were for the correct amount. (Final action target date: November 30, 2023)

3C. Work with the Office of Community Planning and Development's Chief Risk Officer and grantees to better identify the risks of improper payments and unknown payments throughout the payment cycle, to include the risks associated with grantees and subgrantees, and consider these risks when performing the CDBG and Homeless Assistance Grant risk assessments. (Final action target date: November 17, 2023)

We recommend that the Office of Community Planning and Development's Chief Risk Officer

3D. Work with the Deputy Chief Financial Officer to develop and design a process to ensure that each attribute evaluated during the PIIA risk assessment is evaluated at all levels of the full payment cycle. (Final action target date: April 24, 2024)

# Appendixes

## Appendix A – Compliance Status Table

| Program name | Published payment integrity information | Posted the annual financial statement and accompanying materials | Conducted improper payment risk assessments | Adequately concluded on the risk assessment | Published improper and unknown payment estimates | Published corrective action plans | Published improper and unknown payment reduction target | Demonstrated improvements | Developed a plan to meet the reduction target | Reported an improper and unknown payment estimate of less than 10% |
|---|---|---|---|---|---|---|---|---|---|---|
| *Noncompliant programs* | | | | | | | | | | |
| PIH-TBRA | Yes | Yes | Yes | Yes | No | N/A* | N/A* | N/A* | N/A* | N/A* |
| PBRA | Yes | Yes | Yes | Yes | No | N/A* | N/A* | N/A* | N/A* | N/A* |
| *Note: As described in finding 1, although these programs were deemed susceptible to significant improper payments, HUD did not publish improper and unknown payments estimates. As a result, HUD and OIG were not able to determine whether HUD needed to implement corrective plans and reduction targets or fulfill the criterion of achieving an improper payment rate of less than 10 percent. Based on the history of improper payments in these programs, we believe there is a high likelihood that HUD's improper and unknown payments are above the statutory threshold. However, HUD's noncompliance with criterion 3 has prevented it from assessing and reporting on the other OMB requirements in this table that are designed to improve payment accuracy for programs above the statutory threshold. | | | | | | | | | | |
| *Compliant programs* | | | | | | | | | | |
| CPD | | | | | | | | | | |
| CPD-HIM | Yes | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | Yes |
| Capacity building | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| CDBG, CDBG Insular Areas, entitlement & nonentitlement | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Home Investment Partnerships | Yes | Yes | Yes | Yes* | N/A | N/A | N/A | N/A | N/A | N/A |

| Program name | Published payment integrity information | Posted the annual financial statement and accompanying materials | Conducted improper payment risk assessments | Adequately concluded on the risk assessment | Published improper and unknown payment estimates | Published corrective action plans | Published improper and unknown payment reduction target | Demonstrated improvements | Developed a plan to meet the reduction target | Reported an improper and unknown payment estimate of less than 10% |
|---|---|---|---|---|---|---|---|---|---|---|
| Homeless Assistance Grants | Yes | Yes | Yes | Yes* | N/A | N/A | N/A | N/A | N/A | N/A |
| Housing Opportunities for Persons With AIDS | Yes | Yes | Yes | Yes* | N/A | N/A | N/A | N/A | N/A | N/A |
| Housing Trust Fund | Yes | Yes | Yes | Yes* | N/A | N/A | N/A | N/A | N/A | N/A |
| CDBG Disaster Recovery (DR)-Sandy | Yes | Yes | Yes | Yes* | N/A | N/A | N/A | N/A | N/A | N/A |
| CDBG-DR (Louisiana, Texas, West Virginia, Hurricane Ike, Other Disasters) | Yes | Yes | Yes | Yes* | N/A | N/A | N/A | N/A | N/A | N/A |
| Neighborhood Stabilization Program | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Project-Based Section 8-Renewal of Expiring Sec. 8 Mod Rehab Single Room Occupancy | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Self-Help Homeownership Opportunity Program | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| **Housing – Federal Housing Administration** | | | | | | | | | | |
| Single-family claims | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |

| Program name | Published payment integrity information | Posted the annual financial statement and accompanying materials | Conducted improper payment risk assessments | Adequately concluded on the risk assessment | Published improper and unknown payment estimates | Published corrective action plans | Published improper and unknown payment reduction target | Demonstrated improvements | Developed a plan to meet the reduction target | Reported an improper and unknown payment estimate of less than 10% |
|---|---|---|---|---|---|---|---|---|---|---|
| Federal finance bank direct loans | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Home Equity Conversion Mortgage (HECM) claims | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| HECM notes | Yes | Yes | Yes | Yes* | N/A | N/A | N/A | N/A | N/A | N/A |
| Multifamily insurance claims | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Multifamily notes | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Multifamily premium refunds | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Single-family property | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Fair Housing and Equal Opportunity | | | | | | | | | | |
| Fair Housing Assistance Program | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Fair Housing Initiative Program | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| | | | | | | | | | | |
| Government National Mortgage Association | | | | | | | | | | |
| Pass-Through Assistance Program | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |

| Program name | Published payment integrity information | Posted the annual financial statement and accompanying materials | Conducted improper payment risk assessments | Adequately concluded on the risk assessment | Published improper and unknown payment estimates | Published corrective action plans | Published improper and unknown payment reduction target | Demonstrated improvements | Developed a plan to meet the reduction target | Reported an improper and unknown payment estimate of less than 10% |
|---|---|---|---|---|---|---|---|---|---|---|
| Master subservicer default activity | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Contractor payments | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Housing – Multifamily | | | | | | | | | | |
| Section 811 Housing for Persons With Disabilities (Project Rental Assistance Contract and Capital Advance) non-project-based rental assistance portion | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Rental Housing Assistance Program - Section 236 interest reduction payments (non-project-based rental assistance portion) | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Housing counseling assistance | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Housing for Special Populations-Capital Advance portion of expenditures, Section 202 | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Office of the Chief Procurement Officer | | | | | | | | | | |

| Program name | Published payment integrity information | Posted the annual financial statement and accompanying materials | Conducted improper payment risk assessments | Adequately concluded on the risk assessment | Published improper and unknown payment estimates | Published corrective action plans | Published improper and unknown payment reduction target | Demonstrated improvements | Developed a plan to meet the reduction target | Reported an improper and unknown payment estimate of less than 10% |
|---|---|---|---|---|---|---|---|---|---|---|
| Office of the Chief Procurement Officer-Payments to Federal Contractors-Transformation Initiative | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Administrative | | | | | | | | | | |
| Salaries & expenses - biweekly pay & retirement and benefits | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| | | | | | | | | | | |
| Office of Healthy Homes and Lead Hazard Control | | | | | | | | | | |
| Lead hazard reduction | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Office of Policy Development and Research | | | | | | | | | | |
| Research and technology | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| PIH | | | | | | | | | | |
| Project-Based Rental Assistance, Section 8 Moderate Rehabilitation | Yes | Yes | Yes | Yes* | N/A | N/A | N/A | N/A | N/A | N/A |

| Program name | Published payment integrity information | Posted the annual financial statement and accompanying materials | Conducted improper payment risk assessments | Adequately concluded on the risk assessment | Published improper and unknown payment estimates | Published corrective action plans | Published improper and unknown payment reduction target | Demonstrated improvements | Developed a plan to meet the reduction target | Reported an improper and unknown payment estimate of less than 10% |
|---|---|---|---|---|---|---|---|---|---|---|
| Choice Neighborhoods Initiative | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Family Self-Sufficiency Program | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Indian Community Development Block Grants | Yes | Yes | Yes | Yes* | N/A | N/A | N/A | N/A | N/A | N/A |
| Native American Housing Block Grants | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Native Hawaiian Housing and Indian Home Loan Guarantee- Section 184 Program account | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |
| Public Housing Capital Fund | Yes | Yes | Yes | Yes* | N/A | N/A | N/A | N/A | N/A | N/A |
| Public Housing Operating Fund | Yes | Yes | Yes | Yes | N/A | N/A | N/A | N/A | N/A | N/A |

*Note: In fiscal year 2022, HUD performed improper payment risk assessments on eight programs administrated by non-Federal entities. As described in finding 2, we have noted that HUD risk assessments are not designed to fully consider the risks associated with non-Federal administrators. As a result, for the programs reviewed this year that involve non-Federal administrators, HUD may not have reached an adequate conclusion on the results produced by the improper payment risk assessments under the current methodology.

# Appendix B – Auditee Comments and OIG's Evaluation

## Ref to OIG Evaluation – Auditee Comments

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

OFFICE OF THE CHIEF FINANCIAL OFFICER

**HUD OCFO MEMO 23-59**

May 15, 2023

MEMORANDUM FOR: Rae Oliver Davis, Inspector General, OA

FROM: Vinay V. Singh, Chief Financial Officer, F

VINAY SINGH Digitally signed by: VINAY SINGH DN: CN = VINAY SINGH C = US O = U.S. Government OU = Department of Housing and Urban Development, Office of Chief Financial Officer Date: 2023.05.15 12:17:49 -04'00'

Dominique Blom, ~~General~~ Deputy Assistant Secretary, Public and Indian Housing, P

Claudette Fernandez, General Deputy Assistant Secretary, Community Planning and Development, D

JEFFREY LITTLE Digitally signed by JEFFREY LITTLE Date: 2023.05.15 13 17:46 -04'00'

Jeffrey D. Little, General Deputy Assistant Secretary, Housing, H

SUBJECT: Response to FY 2022 Payment Integrity Draft Audit Report

Thank you for the opportunity to review and comment on the draft report and your willingness to consider our feedback as you finalize the report. HUD is committed to fulfilling its mission to providing every person in America the opportunity to live in strong, sustainable communities with quality, affordable homes. This starts with disbursing funds correctly and supported by evidence.

**Comment 1 >**

Each year, HUD has consistently moved programs into compliance with payment integrity. This year our Community Planning and Development Disaster Recovery HIM program achieved full compliance, a huge win for the Department. This leaves two rental assistance programs in a non-compliance status. Our rental assistance programs are complicated and complex and crossover into privacy concerns.

We are dedicated to demonstrating HUD's funding is spent as intended at all levels and are focusing our efforts on payment testing including the use of data analytics to reach full compliance for all HUD programs.

We invite OIG to participate in our effort to develop a sustainable data analytic solution for payment integrity testing.

www.hud.gov espanol.hud.gov

## OIG Evaluation of Auditee Comments

Comment 1 We appreciate HUD's commitment to payment integrity and agree that HUD's rental assistance programs are complex and complicated. We agree that data analytics may contribute towards a sustainable payment integrity solution for these programs. We look forward to working with HUD during the audit resolution process and in future efforts to move HUD forward to full payment integrity compliance.

## Appendix C – HUD's Risk Assessment Risk Factors and Weights

| # | Risk factors | Weight | Risk factor weights that do not consider non-Federal administrator risk | Risk factor weights that consider non-Federal administrator risk | Risk factor score if assessed as high risk |
|---|---|---|---|---|---|
| 1 | Program or activity is new to the executive agency | 10.0% | 10.0% | | 3 |
| 2 | Complexity of program or activity | 8.0% | 8.0% | | 2.4 |
| 3 | Volume of payments made through the program or activity | 10.0% | 10.0% | | 3 |
| 4 | Payments or payment eligibility decisions are made outside the executive agency | 8.0% | | 8.0% | 2.4 |
| 5 | Changes in program funding, authorities, practices, or procedures | 9.0% | 9.0% | | 2.7 |
| 6 | Level, experience, and quality of training for payment personnel | 7.0% | 7.0% | | 2.1 |
| 7 | Significant deficiencies in audit reports or other management findings | 9.0% | 9.0% | | 2.7 |
| 8 | Similarities to other programs or activities with improper payments or deemed susceptible to improper payments | 8.0% | 8.0% | | 2.4 |
| 9A | Accuracy and reliability of improper payment estimates previously reported | 7.0% | 7.0% | | 2.1 |
| 9B | Other indicator of potential susceptibility to improper payments Identified by the Inspector General, GAO, or other regulatory entities | 8.0% | | 8.0% | 2.4 |
| 10 | Program or activity lacks information or data systems to ensure payment integrity | 8.0% | 8.0% | | 2.4 |

| # | Risk factors | Weight | Risk factor weights that do not consider non-Federal administrator risk | Risk factor weights that consider non-Federal administrator risk | Risk factor score if assessed as high risk |
|---|---|---|---|---|---|
| 11A | Risk of fraud as assessed by the agency under Green Book standards | 4.0% | 4.0% | | 1.2 |
| 11B | Risk of fraud based on percentage of fraud identified by OIG compared to the overall fiscal year 2021 program outlays | 4.0% | | 4.0% | 1.2 |
| | Total | 100% | 80% | 20% | 30 |