



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

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

Audit Report Number: 2024-FO-0006

May 17, 2024

To: Vinay V. Singh  
Chief Financial Officer, F

**//signed//**  
From: Kilah S. White  
Assistant Inspector General for Audit, Office of Inspector General, GA

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 | 2024-FO-0006

#### What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD or the Department) fiscal year 2023 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. Payment integrity is important to ensure the integrity of government programs, such as overpaying or underpaying rental subsidies on behalf of HUD-assisted families. 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 Programs' Project-Based Rental Assistance (PBRA) program, HUD's largest rental assistance programs. These programs were assessed to be susceptible to significant improper and unknown payments based on HUD's own risk assessment and spent \$45.3 billion in fiscal year 2023 which represented 67.5 percent of HUD's total expenditures. This noncompliance is significant because this is the seventh consecutive year in which HUD has been unable to produce PIH-TBRA and PBRA improper and unknown payment estimates, and that deficiency has contributed to HUD's noncompliance with improper payment laws for 11 consecutive years. The OCFO also indicated to OMB and OIG that it may be unable to produce a compliant estimate until fiscal year 2027.

For several years, we have reported that HUD was unable to test for improper payments in its largest rental assistance programs because the Office of the Chief Financial Officer (OCFO) was unsuccessful in working with the Offices of Public and Indian Housing, Multifamily Housing Programs, and the Chief Information Officer to securely collect program files needed to test payments. This year, OCFO reported that HUD was again unable to complete improper payment testing because it was delayed in implementing a secure platform designed to collect supporting data and documentation and also because of limited staffing resources with technical knowledge of the payment cycles. The lack of proper planning and coordination from leadership in HUD's program and support offices has prevented HUD from addressing the root causes behind the failure to comply with improper payment laws.

We also found that while PIH has resumed key monitoring controls that were suspended in prior years, HUD has not fully implemented a monitoring plan that can be implemented in a virtual environment to detect and prevent improper payments in its PIH-TBRA program. As a result, HUD's monitoring is still heavily dependent on onsite reviews that require extensive resources to conduct. While onsite reviews are important, without complementary virtual monitoring, PIH cannot perform a sufficient level of oversight of its large public housing agency portfolio. PIH has developed a plan to address our prior-year recommendation; however, the plan is not expected to be fully implemented until fiscal year 2026.

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## What We Recommend

We are not making any new recommendations in this report because three recommendations from prior reports remain open and will help to address the current year's findings. Most recently, we issued a management alert to HUD's Deputy Secretary in January 2024, and recommended that HUD develop and execute a detailed plan and timeline for both testing and reporting estimates of improper payments in the PIH-TBRA and PBRA programs in compliance with Federal law and OMB guidance.

On April 10, 2024, the Chief Financial Officer, Assistant Secretary for Housing, and Principal Deputy Assistant Secretary for PIH stated their respective executives have been working together to develop a plan to accelerate HUD's ability to produce statistically valid estimates. With respect to PBRA, HUD plans to use ongoing data collection for FY2023 tier 1 and tier 2 payments to develop a statistical estimate in fiscal year 2024. With respect to PIH-TBRA, in lieu of pursuing an estimate for the FY 2024 reporting cycle, PIH will focus on "its existing efforts to enhance PIH [IT] systems", which HUD considers to be a more strategic use of resources. It is not clear from HUD's response what PIH will do differently than it already had planned prior to the management alert as HUD did not provide a detailed plan or timeline for OIG review. It remains unclear how HUD will produce an estimate in the PBRA programs in 2024 and when it will be able to produce an estimate for PIH-TBRA. For HUD to close this recommendation, it must finish testing the full life cycle of payments in these programs and publicly report estimates of the improper payments in them. Merely producing a plan with future action target dates is not sufficient to meet the spirit of this recommendation.

Additionally, we recommended in our prior year compliance report that HUD establish an improper payment council within HUD that consists of senior accountable officials from across the Department. The council would work to identify risks and challenges to compliance and identify solutions as a collaborative group.

Lastly, we recommended in a prior year compliance report 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.

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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. Improper payments erode public trust in government, waste taxpayer dollars, and hinder agencies' efforts to execute their missions and program objectives effectively and efficiently.<sup>1</sup> Improper payments include overpayments, such as overpaying for a good or service, and underpayments, such as not paying the full amount of benefits to, or on behalf of, an eligible family. The term improper payment includes, for example, any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, and any payment that does not account for credit for applicable discounts. An unknown payment is a payment that could be either proper or improper, but the agency is unable to discern whether it is proper or improper as a result of insufficient or lack of documentation.

The Payment Integrity Information Act of 2019 (PIIA), enacted in March 2020, requires agencies to review all programs that outlay more than \$10 million annually and identify those that are susceptible to significant improper and unknown 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 are required to produce a statistically valid estimate of the annual improper and unknown payments in such programs 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](https://www.paymentaccuracy.gov). Programs resulting in monetary loss that exceeds \$100 million are considered high-priority programs and are designated as such by OMB. High-priority programs have further reporting requirements, such as providing quarterly Payment Integrity Scorecard reports.

HUD's 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 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, HUD's program offices are responsible for implementing and monitoring controls that ensure

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<sup>1</sup> Improper Payments and Fraud: How They are Related but Different, published December 7, 2023.

payment integrity and providing OCFO with the information it needs to complete testing and reporting requirements. The Office of the Chief Information Officer is responsible for providing leadership over the development and implementation of information technology solutions for HUD's program offices.

Under PIIA, the HUD Office of Inspector General (OIG) must annually issue a report on HUD's compliance with PIIA. The compliance report must evaluate and consider the adequacy of HUD's risk assessments and the accuracy of the rate estimates and whether the sampling and estimation plan is appropriate given the program characteristics. For programs over the statutory threshold, OIGs are required to determine compliance with other requirements, such as corrective actions and reduction targets. However, in 2023 HUD did not report any estimates; therefore, we could not evaluate HUD's corrective actions and reduction targets. 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 2023, HUD identified two programs as susceptible to significant improper and unknown payments. The first is the Office of Multifamily Housing Programs' Project-Based Rental Assistance (PBRA) program, including the Section 202 Supportive 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.

HUD has broken its improper payment testing into two tiers: tier 1 and tier 2. HUD defines tier 1 testing as payments between the following:

- 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.
- PIH-TBRA program – HUD and the PHA.

HUD defines tier 2 testing as payments between the following:

- PBRA program – PBCA, TCA, or HFA and property owners.
- PIH-TBRA program – the PHA and landlords.

For more information on tier 1 and tier 2 payments, see the infographic below.



## Understanding tier 1 and tier 2

# Payments in HUD programs

### Tier 1 payments



#### Payment cycle

Disbursement made from HUD to



A grantee, PHA, PBCA, TCA, HFA



#### Scenario of tier 1 payment cycle

HUD executes an annual contributions contract (ACC) and amendments with the PHA. Based on the contract, HUD disburses housing assistance payments (HAP) to



A PHA for total rent subsidy for the month

The ACC and amendments are the supporting documentation for this tier 1 payment



#### Examples of tier 1 payment documentations:

- Grant agreements
- ACCs
- Other obligating documents

### Tier 2 payments



#### Payment cycle

From the disbursement HUD gave the grantee, PHA, PBCA, TCA, or HFA, then make disbursements to



Subrecipients, landlords, property owners, or individual beneficiaries



#### Scenario of tier 2 payment cycle

From the HAP received from HUD, PHA disburses funds to



The landlord for portion of rent payment subsidized by program for eligible beneficiaries. PHAs determine eligibility and subsidy payment amount based on tenant files that include support for income, allowances, household members, etc., and conduct annual examinations.

The tenant file and income verification documents are the supporting documentation for this tier 2 payment



#### Examples of tier 2 payment documentations:


- Invoices or contracts supporting eligible activity of the program
- Beneficiary documentation to show eligibility
- Rental agreement
- Tenant files to support amounts needed to calculate HAP\*
- Tenant income verification

\*Such as income, medical and other allowances, assets, and number of household members



This is not an exhaustive list of the documentation required to determine whether payments are proper. This graphic was created to provide the reader an illustration of the full payment cycle.





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. This estimate included \$1.24 billion in overpayments that the government should not have paid and \$466.9 million in underpayments that the government should have paid for rental assistance on behalf of beneficiaries. 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 of improper payment estimates.

Our objectives were to assess (1) whether HUD has 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 payments.

## Results of Audit

### HUD Did Not Comply With PIIA Because It Did Not Report Improper or Unknown Payment Estimates

HUD did not comply with PIIA because it was not successful in obtaining the supporting documentation needed for testing its PIH-TBRA and PBRA programs, which were assessed to be susceptible to significant improper and unknown payments, and therefore, did not report improper and unknown payment estimates. A lack of proper planning and coordination from leadership in HUD’s program and support offices prevented HUD from addressing the root causes behind this failure. Because OCFO was unable to complete its PIH-TBRA and PBRA testing over the full payment life cycle in support of statistically valid improper payment estimates for fiscal year 2023, HUD did not comply with the requirements of PIIA. Without estimates, HUD does not know what the improper payment rates are within PIH-TBRA and PBRA, and whether the rate is below or above the statutory threshold. Therefore, HUD is at risk of not implementing OMB requirements for programs above the statutory threshold, such as corrective actions, reduction targets, and demonstrating improvements to payment integrity.

### HUD’s Overall Compliance Status

In fiscal year 2023, HUD did not comply with PIIA because it did not produce or report improper and unknown payment estimates for its programs assessed to be susceptible to significant improper and unknown payments; the 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 2023 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 reduction target	N/A*	N/A*
6. Reported an improper and unknown payment estimate of less than 10%	N/A*	N/A*

\*N/A: We were unable to assess these criteria because HUD’s noncompliance with criterion 3 prevented it from assessing and reporting on the other OMB requirements in this table, which are designed to improve payment accuracy for programs above the statutory threshold.

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

Although deemed susceptible to significant improper and unknown payments, during fiscal year 2023, 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 statements. This year, OCFO reported to OIG and OMB that it is unable to complete improper payment testing because (1) it was delayed in implementing a secure platform designed to collect supporting data and documentation and (2) limited staffing resources with the technical knowledge of the payment cycles. This is the 7th consecutive year that HUD will be unable to report improper payment estimates for the PIH-TBRA and PBRA programs and the 11th consecutive year that we have found HUD not to be compliant with improper payment laws.

In its fiscal year 2023 agency financial report, HUD self-reported its noncompliance, stating that it was unable to perform testing for its PIH-TBRA and PBRA programs due to the lack of available supporting documentation at the tier 2 level and, therefore, would not report error rates in the fiscal year 2023 reporting cycle. The OCFO also indicated to OMB and OIG that it may not be able to produce estimates in these programs until 2027. As a result of HUD's continued noncompliance with PIIA, we elevated this issue through a management alert<sup>2</sup> to HUD's Deputy Secretary requesting immediate action from HUD leadership.

In response to the management alert, on April 10, 2024, HUD stated that executives from MF-Housing, PIH, and CFO offices have been working together to develop a plan and accelerate HUD's ability to produce statistically valid estimates. With respect to PBRA, HUD plans to use ongoing data collection for fiscal year 2023 tier 1 and tier 2 payments to develop a statistical estimate in fiscal year 2024. With respect to PIH-TBRA, in lieu of pursuing an estimate for the fiscal year 2024 reporting cycle, PIH will focus on "its existing efforts to enhance PIH [IT] systems", which HUD considers to be a more strategic use of resources. It is not clear from HUD's response what PIH will do differently than it already had planned prior to the management alert. HUD did not provide a detailed plan or timeline for OIG review and it is unclear how HUD will produce an estimate in the PBRA programs in 2024 and when it will be able to produce an estimate for PIH-TBRA.

As we reported in the management alert, the size and structure of the PIH-TBRA and PBRA programs make testing complex. These programs account for approximately two-thirds of HUD's expenditures and have complex payment structures. Both programs have complex eligibility requirements, and substantial parts of program administration are delegated to thousands of non-Federal administrators.<sup>3</sup> The greatest risk to payment integrity occurs at the PHA and PBCA level, when those entities determine which renters are eligible to receive rental assistance from HUD and then make payments to landlords directly on HUD's behalf. However, HUD's methodology and testing execution have not been able to gather the information needed to test the payments that PHAs and PBCAs make on HUD's behalf (also known as tier

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<sup>2</sup> 2024-IG-0001, Action Is Needed From HUD Leadership To Resolve Systemic Challenges With Improper Payments, issued January 23, 2024

<sup>3</sup> HUD provides blocks of funding to PHAs and PBCAs to execute its PIH-TBRA and PBRA programs, which then determine tenant eligibility and are responsible for making payments to landlords and owners on behalf of HUD to subsidize millions of tenants.

2 payments). The complex nature of the payment structure that makes testing for improper payments complex is the reason why it is so important that HUD perform this testing to maintain the integrity of these programs.

With such large and complex payment cycles, detailed planning and coordination across HUD and with applicable non-Federal entities is critical. The lack of proper planning and coordination from leadership in HUD's program and support offices prevented HUD from addressing the root causes behind its failure to complete this testing. For 6 years, we have reported that HUD was unable to test for improper payments in its largest rental assistance programs because OCFO was unsuccessful in working with the Offices of Public and Indian Housing, Multifamily Housing Programs, and the Chief Information Officer to securely collect program files needed to test payments.

We also found that OCFO's approach to improper payments is fundamentally flawed because for 7 years, OCFO failed to (1) develop an approach that would allow it to make a valid statistical projection of improper payments and (2) account for the resources necessary to gather the documentation in the timeframe required. First, OCFO's sampling approach is to select a statistical sample of HUD's general ledger disbursements instead of statistically sampling payments made from PHAs and PBCAs to landlords and owners. Using this method, the number of individual payments made by PHAs and PBCAs in the sample is so large that HUD is forced to apply judgmental sampling, which is not statistical, and therefore does not comply with PIIA. The PIIA statute states, that for all programs identified as susceptible to significant improper payments, "the head of the relevant executive agency shall produce a statistically valid estimate or an estimate that is otherwise appropriate using a methodology approved by the Director of OMB, of the improper payments made under the program or activity."<sup>4</sup> However, HUD's methodology was not statistical, nor was it approved by OMB. Second, when HUD changed its estimation approach in 2017, it hired a new contractor and decided to collect the data itself but did not adequately plan for this data collection effort. Under the previous contract, this data collection effort was a substantial part of the contract and included creating and automating more than 30 data collection instruments, contacting and obtaining information from PHA and owner staff, and hiring and training 73 field interviewers. HUD did not have dedicated resources to inherit this data collection effort and has not been able to collect the necessary data since the change.

## Conclusion

For the seventh consecutive year, OCFO was unable to produce PIH-TBRA and PBRA improper and unknown payment estimates, causing HUD to not comply with PIIA. HUD was unable to produce estimates because it was not successful in obtaining the supporting documentation needed for testing in a timely manner for fiscal year 2023 reporting due to delays in implementing a secure platform designed to collect supporting data and documentation and limited staffing resources with the key technical knowledge. Without estimates, HUD does not know what the improper payment rates are for PIH-TBRA and PBRA and whether the 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 in reducing the risk of, or actual, IP and UPs. 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

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<sup>4</sup> Public Law 116-117- Payment Integrity Information Act of 2019- Section 3352- (c) Estimation of Improper Payments

actions and reporting requirements. Finally, not reporting an estimate reduces accountability and transparency to Congress and the public.

## **Recommendations**

The recommendation from Management Alert 2024-IG-0001 remains open, along with one recommendation from audit report 2023-FO-0009. These recommendations can be found in the Followup on Prior Audits section of this report. Implementing these recommendations will help HUD remediate this finding.

## HUD Did Not Fully Implement Internal Controls Over the PIH Tenant-Based Rental Assistance Program During Fiscal Year 2023 (Modified Repeat)

In our prior-year audit reports,<sup>5</sup> we reported that PIH suspended two of its major controls to detect, prevent, and recover improper payments in the PIH-TBRA program due to the COVID-19 pandemic. Specifically, HUD waived the requirement for PHAs to use Enterprise Income Verification (EIV)<sup>6</sup> and the PIH Office of Field Operations (OFO) did not conduct Comprehensive Monitoring Review (CMRs). The controls were suspended primarily because HUD's monitoring relied heavily on onsite reviews, which were not possible during the COVID pandemic, and HUD was not able to pivot to virtual or remote monitoring. PIH has reinstated both controls, but it has not implemented new controls that can be conducted in a virtual environment. HUD's monitoring is still heavily dependent on onsite reviews, which do not allow PIH to adequately monitor its large PHA portfolio or prepare it for other expected events that prevent onsite monitoring. PIH has acknowledged the need for virtual monitoring and is working through a corrective action plan, which includes system modernization plans that will allow it to use data exchanges and analytics for virtual monitoring; however, it is not expected to be complete until 2026 and is dependent on funding. Virtual monitoring is important because it allows HUD to increase the number of PHAs reviewed, without the burden and cost of travel. Further, the use of data analytics can help PIH identify issues earlier and effectively target its reviews and outreach to make the most impact. In the case of another unexpected event that makes onsite reviews difficult, virtual monitoring also allows PIH to be more adaptable and agile in meeting its oversight responsibilities.

### Onsite Monitoring Controls Have Improved, but More Progress Is Needed for Virtual Monitoring

In our fiscal year 2021 audit report, we reported that HUD suspended two of the major controls, which ensured that housing assistance payments were made to the correct recipient and for the correct amount under the PIH-TBRA program, thus increasing the risk of improper payments. Specifically, HUD waived the requirement for PHAs to use EIV and the Office of Field Operations (OFO) did not conduct comprehensive monitoring reviews (CMR). The controls were suspended primarily because HUD's monitoring relied heavily on onsite reviews, which were not possible during the COVID pandemic, and HUD was not able to pivot to virtual or remote monitoring. 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 fiscal year 2022, PIH reinstated the EIV requirement, and during fiscal year 2023, PIH resumed its monitoring controls and made some improvements. PIH revamped its monitoring procedures and

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<sup>5</sup> 2023-FO-0009, HUD Did Not Comply With The Payment Integrity Information Act of 2019, issued May 22, 2023; 2022-FO-0005, HUD Compliance With the Payment Integrity Information Act of 2019, issued June 27, 2022

<sup>6</sup> Enterprise Income Verification maintains two computer matching agreements with the U.S Department of Health and Human Service and the Social Security Administration for the purpose of verifying the employment and income information of participants in certain HUD rental assistance programs.

performed 192 monitoring reviews, which covered 139 PHAs that received PIH-TBRA funding<sup>7</sup>. It revamped its monitoring procedures by developing a Comprehensive Compliance Monitoring Review Plan, effective January 2023. The plan established a national protocol for OFO employees to assess PHAs' program performance in compliance with HUD requirements and regulations by setting monitoring priorities for onsite and remote reviews. The plan also provided a consistent methodology for analyzing PHA risk by integrating performance data from PIH systems, including the Financial Data Schedule (FDS), Public Housing Assessment System (PHAS), Housing Information Portal (HIP, formally Inventory Management System/PIH Information Center (IMS/PIC)), Section 8 Management Assessment Program (SEMAP), and the Voucher Management System (VMS/Enterprise VMS). CMRs review several aspects of the PHA's operations, including the HAP calculation, and review of tenant files to determine whether the rental payments from PHAs to landlords are correct.

While HUD has resumed performing its key monitoring controls and made some improvements, we found that HUD has not made much progress toward implementing a plan for monitoring controls that can be implemented in a virtual environment. The monitoring plan that PIH developed included limited guidance on conducting remote reviews, and 151 of the 192 reviews performed were conducted onsite. While onsite reviews are important, they are time intensive and costly. Without robust virtual monitoring controls to complement onsite reviews, PIH cannot adequately monitor its large PHA portfolio of approximately 2,158 PHAs that received PIH-TBRA funding. The PIH-TBRA program spent \$30.7 billion in fiscal year 2023 and accounted for 43.1 percent of HUD's total expenditures. However, the CMRs completed during fiscal 2023 covered only about 6.4 percent of PHAs that received PIH-TBRA funding of \$3.6 billion. Further, for each PHA reviewed during a CMR, OFO's policy is to review payments to only 10 or fewer families.

In response to our prior-year recommendation, PIH has acknowledged the need for virtual monitoring and has developed a corrective action plan. As part of PIH's plan, it has agreed to EIV modernization, which will include (1) integration with the Housing Information Portal, (2) new application programming interfaces that will enable real-time and bidirectional data exchanges with partner Federal agencies that provide income and asset data used for income verification, and (3) predictive analytics to spot trends and changes in income. The plan also includes completing the Enterprise Voucher Management System project, which will tie housing assistance payments and administrative fees to household data, including income and asset data. We believe that these system improvements will help PIH implement a sustainable virtual monitoring solution. However, these efforts have not been completed, and the estimated completion date is June 2026, dependent on funding.

## Conclusion

We commend HUD for resuming its controls and conducting 192 CMRs in fiscal year 2023, and we believe that continuing this comprehensive, onsite work is very important to protecting the integrity of the program. However, without robust virtual monitoring controls to complement onsite reviews, PIH cannot adequately oversee the PIH-TBRA program that spent \$30.7 billion in fiscal year 2023 and accounted for 43.1 percent of HUD's total expenditures. The CMRs completed during fiscal 2023 covered only about 6.4 percent of PHAs in the PIH-TBRA program that received \$3.6 billion. Virtual or remote monitoring allows HUD to increase the number of PHAs reviewed, as well as the quality and efficiency of the reviews,

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<sup>7</sup> 53 of the PHAs reviewed did not receive PIH-TBRA funding, they only received PIH Capital and Operating funds.

without the burden and cost of travel. Further, in the case of another unexpected event that makes conducting onsite reviews difficult, virtual monitoring allows PIH to be more adaptable and agile in meeting its oversight responsibilities.

## **Recommendations**

Prior-year recommendation 2A from audit report 2022-FO-0005<sup>8</sup> 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.

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<sup>8</sup> 2022-FO-0005, Compliance With the Payment Integrity Information Act of 2019



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

From an agencywide perspective, HUD is compliant with the risk assessment requirements and has assessed all of its programs within the last 3 years. HUD also closed all prior year OIG recommendations related to its risk assessment process. The risk assessment identified the following programs as susceptible to significant improper payments: the PIH-TBRA and PBRA programs. Therefore, these programs were the focus of our audit.

In fiscal year 2023, HUD could not provide detailed evidence to support that it was making substantive progress toward compliance in these programs. As reported throughout this report, these programs were still noncompliant because HUD could not produce improper and unknown payment estimates. HUD developed a secure site to obtain the documentation needed to test its payments throughout the payment cycle but was unable to obtain all of the documentation from the PHAs and PBCAs. Because these are such large programs with a history of significant improper payments, this continued noncompliance is concerning and needs immediate action from HUD leadership.

HUD has resumed both of the major controls previously used to detect and prevent improper payments in the PIH-TBRA program, which it suspended during the pandemic. However, it is still at least 2 years away from being able to implement virtual monitoring that would assist in preventing and detecting improper payments, which is needed to ensure that PIH adequately monitors its large PHA portfolio. Although controls in the PBRA programs appeared to be reasonably designed and implemented, it was difficult for us to assess the effectiveness of the programs internal controls to prevent improper payments without a reliable estimate. A reliable estimate 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 2023 (October 1, 2022 – September 30, 2023) from October 2023 through March 2024 in Washington, DC. At the direction of OMB, we followed OMB Circular A-123 (M21-19) 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 noncompliant 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 objectives, 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 2023 Annual Financial Report (AFR) and the accompanying materials ([paymentaccuracy.gov](https://www.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 2023.
- HUD’s fiscal year 2023 improper payments risk assessments, which identified the programs that were risk assessed and those that were considered susceptible to improper payments.
- 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](https://www.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 ([paymentaccuracy.gov](https://www.paymentaccuracy.gov)) and (2) internal controls to identify, prevent, detect, and recapture improper payments in the two programs HUD deemed susceptible to significant improper payments (PIH-TBRA and PBRA). Our testing in these two programs consisted of gaining an understanding of the controls in place, requesting evidence of implementation, and evaluating the reasonableness of the controls. However, since both of these programs did not produce an improper payment estimate, we were not required to test corrective actions, and we could not determine whether the controls in these programs were adequate.

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 two 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

### Action Is Needed From HUD Leadership To Resolve Systematic Challenges With Improper Payments, 2024-IG-0001

We recommend that the Deputy Secretary

Develop and execute a detailed plan and timeline for both testing and reporting estimates of improper payments in the PIH-TBRA and PBRA programs in compliance with Federal law and OMB guidance.

For HUD to close this recommendation, it must finish testing the full life cycle of payments in these programs and publicly report estimates of the improper payments in them. Merely producing a plan with future action target dates is not sufficient to meet the spirit of this recommendation.

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

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. (This is a priority open recommendation. A final action target date has not been established for this recommendation because OCFO has not provided an acceptable proposed management decision.)

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

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 [personally identifiable information]. (Final action target date: June 30, 2026)

# Appendixes

## Appendix A – Compliance Status Table

<i>Program name</i>	<i>Published payment integrity information</i>	<i>Posted the annual financial statement and accompanying materials</i>	<i>Conducted improper payment risk assessments</i>	<i>Adequately concluded on the risk</i>	<i>Published improper and unknown payment estimates</i>	<i>Published corrective action plans</i>	<i>Published improper and unknown payment reduction target</i>	<i>Demonstrated improvements</i>	<i>Developed a plan to meet the reduction target</i>	<i>Reported an improper and unknown payment estimate of less than 10%</i>
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### 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 payment 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 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

#### Office of Community Planning and Development (CPD)

CPD-HIM	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Capacity building	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Community Development Block Grant (CDBG)	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
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 (DRAA)-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
<b>Housing – Federal Housing Administration</b>										
Single-family claims	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
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
Single-family property	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Title I notes	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Other disbursements	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
<b>Fair Housing and Equal Opportunity</b>										
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
<b>Government National Mortgage Association</b>										
Master servicer 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
<b>Housing – Multifamily</b>										
Section 811 Housing for Persons With Disabilities (project rental assistance contract and capital advance)	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

Rental Housing Assistance Program - Section 236	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
<b>Salaries &amp; expenses</b>										
Salaries & expenses (agency level)	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
<b>Administrative</b>										
Information Technology Fund – other contractual services	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Program offices – other contractual services	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of Inspector General – other contractual services	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
<b>Office of Healthy Homes and Lead Hazard Control</b>										
Lead hazard reduction	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
<b>Office of Policy Development and Research</b>										
Research and technology	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
<b>PIH</b>										
Project-Based Rental Assistance, Section 8 Moderate Rehabilitation	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
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
Indian Home Loan Guarantee	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

## Appendix B – Auditee Comments and OIG’s Evaluation

### Ref to OIG Evaluation – Auditee Comments

Copy the auditee’s comments in a text box and number the various comments that require a response.



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

May 7, 2024

**MEMORANDUM FOR:** Kilah S. White, Assistant Inspector General for Audit, GA

**FROM:** Vinay V. Singh, Chief Financial Officer, F  
**VINAY SINGH**  
Approved on behalf of 20247 E2261  
HUD Civil Rights Director, U.S. Department of Housing and Urban Development, Office of Chief Financial Officer  
Date: 05/07/2024 09:59

*Richard J. Monocchio*  
Richard J. Monocchio, Principal Deputy Assistant Secretary, PIH, H

*Julia R. Gordon*  
Julia R. Gordon, Assistant Secretary Housing - FHA Commissioner, H

**SUBJECT:** Response to FY 2023 Payment Integrity Draft Audit Report

Thank you for the opportunity to review and comment on the draft report. HUD is focused on housing and community development and dedicated to equity, inclusive communities, and quality, affordable homes for all. Collaboration with HUD and HUD OIG is essential as we work to meet these goals.

The draft audit report reflects HUD’s progress toward achieving payment integrity with OIG noting compliant risk assessments, OMB reporting, and compliance for HUD for all but two programs with the Payment Integrity Information Act. Complicated and complex work remains with the final two HUD programs. As payment integrity is key in ensuring our funds achieve the intended purpose now and, in the future, we are dedicated to demonstrating HUD’s funding is spent as intended at all levels and will focus our efforts on enhancing payment testing and strengthening detection and prevention controls.

Given progress towards privacy and access issues, we look forward to working with OIG as we shepherd a joint solution that moves HUD forward to full payment integrity compliance and mission success.

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 **Comment 1 >**



## OIG Evaluation of Auditee Comments

Comment 1            We appreciate HUD’s commitment to payment integrity and agree that complicated and complex work remains to bring HUD’s two largest rental assistance programs into compliance. We continue to stress the importance for OCFO, Housing, PIH, and OCIO to coordinate on developing a comprehensive plan to address HUD’s challenges in testing its rental assistance programs for improper payments. Doing so is critical to making a valid improper payment estimate and developing appropriate corrective actions to mitigate root causes. Only through immediate action from HUD leadership across multiple offices will the Department be able to resolve the systemic challenges that it has in estimating and reporting on improper payments. 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.