



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

## Compliance With the Improper Payments Elimination and Recovery Act

**Office of Audit, Region 4  
Atlanta, GA**

**Audit Report Number: 2020-AT-0001  
May 14, 2020**

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**To:** Irving Dennis, Chief Financial Officer, F

**//Signed//**

**From:** Nikita N. Irons, Regional Inspector General for Audit, 4AGA

**Subject:** HUD Did Not Always Comply With the Improper Payments Elimination and Recovery Act of 2010

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 fiscal year 2019 compliance with the Improper Payments Elimination and Recovery Act of 2010.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



Audit Report Number: 2020-AT-0001

Date: May 14, 2020

HUD Did Not Always Comply With the Improper Payments Elimination and Recovery Act of 2010

## Highlights

### What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) fiscal year 2019 compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). IPERA was enacted to eliminate and recover improper payments and requires each agency's inspector general to perform an annual review of the agency's compliance with IPERA. Our audit objective was to determine whether HUD complied with IPERA reporting and improper payments reduction requirements according to guidance from Office of Management and Budget (OMB) Circular A-123, appendix C.

### What We Found

Fiscal year 2019 marked the seventh consecutive year in which HUD did not comply with IPERA. In fiscal year 2019, HUD did not comply with two requirements, and one requirement was not applicable. Specifically, HUD did not (1) always publish improper payments estimates for all required programs and (2) meet the reduction targets for its Federal Housing Administration-Single-Family Insurance Claims (FHA-SFIC) program. (See the table below.) These conditions occurred because HUD did not yet have an effective process to comply with all IPERA requirements, although it acquired help from a contractor. Until all of the prior- and current-year issues have been remedied, HUD will likely continue to miss opportunities to prevent, identify, reduce, and recover improper payments. However, we recognize HUD's ongoing efforts and look forward to working with it on IPERA-related matters in 2020.

Fiscal year 2019 IPERA compliance reporting table					
Published an agency financial report	Conducted a risk assessment	Published an improper payments estimate	Published corrective action plans	Published and is meeting reduction targets	Reported an improper payments rate of less than 10 percent
Yes	Yes	No	NA	No	Yes

### What We Recommend

No recommendations were made because (1) open recommendations from prior years will help HUD remediate the repeat finding of not always publishing improper payments estimates if implemented and (2) OMB relieved HUD from reporting improper payments, which included meeting a reduction target for the FHA-SFIC program beginning next fiscal year.

# Table of Contents

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<b>Background and Objective.....</b>	<b>3</b>
<b>Results of Audit .....</b>	<b>5</b>
<b>Finding: HUD Did Not Always Comply With IPERA .....</b>	<b>5</b>
<b>Scope and Methodology.....</b>	<b>11</b>
<b>Internal Controls.....</b>	<b>13</b>
<b>Followup on Prior Audits.....</b>	<b>14</b>
<b>Appendixes.....</b>	<b>16</b>
<b>A. Auditee Comments and OIG’s Evaluation.....</b>	<b>16</b>
<b>B. IPERA Compliance Reporting Table .....</b>	<b>18</b>

# Background and Objective

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

Under IPERIA, the inspector general is required to review the assessed level of risk associated with high-priority programs as determined by the Office of Management and Budget (OMB), the quality of the improper payments estimates and methodology for high-priority programs, and the oversight of financial controls to identify and prevent improper payments under high-priority programs. The inspector general must then submit recommendations to Congress for modifying any agency plans relating to improper payments determination and estimation methodology. OMB further amended requirements with the issuance of appendix C to Circular A-123, Requirements for Payment Integrity Improvement, on June 26, 2018, to provide guidance for agencies in implementing IPIA, IPERA, and IPERIA requirements.

To achieve compliance with IPERA, OMB Circular A-123, appendix C, provides the following steps. Step 1 is to review all programs and activities and identify those that are susceptible to significant improper payments. OMB defined “significant improper payments” as gross annual improper payments<sup>1</sup> in the program exceeding (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payments percentage of total program outlays). Step 2 is to obtain a statistically valid estimate of the annual amount of improper payments in programs and activities for those programs identified in step 1 as susceptible to significant improper payments. The agency has to ensure that the gross improper payments rate is less than 10 percent for each program and activity for which an improper payments estimate was published. Then, all programs and activities determined to have significant improper payments must implement a plan to prevent and reduce improper payments. In addition, the agency has to publish and meet annual reduction targets for each program assessed to be at risk and estimated for improper payments. Finally, an agency reports this information annually in the agency financial report (AFR) or the performance and accountability report (PAR). Each agency’s inspector general is tasked with annually reviewing the agency’s improper payments reporting in the agency’s annual AFR or PAR and accompanying materials to determine whether the agency is in compliance under IPERA.

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<sup>1</sup> Gross annual improper payments are the total amount of overpayments and underpayments.

The U.S. Department of Housing and Urban Development's (HUD) Office of the Chief Financial Officer is the lead office overseeing HUD's actions to address improper payments issues and compliance with the requirements of IPERA. HUD identified four programs as susceptible to significant improper payments in the AFR, including the Federal Housing Administration-Single-Family Insurance Claims (FHA-SFIC), Government National Mortgage Association (Ginnie Mae) contractor payments, Office of Multifamily Housing Programs-Project-Based Rental Assistance Program (MF-RAP), and Office of Public and Indian Housing-Tenant-Based Rental Assistance program (PIH-TBRA).<sup>2</sup>

Our audit objective was to determine whether HUD complied with IPERA reporting and improper payments reduction requirements according to guidance from OMB Circular A-123, appendix C.

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<sup>2</sup> HUD previously combined the PIH-TBRA and MF-RAP under a single program, the Rental Housing Assistance Program. These programs are now separated.

# Results of Audit

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## **Finding: HUD Did Not Always Comply With IPERA**

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Fiscal year 2019 marked the seventh consecutive year in which HUD did not comply with IPERA. HUD did not comply with two of the six IPERA requirements. Specifically, it did not (1) publish improper payments estimates for all programs it identified as susceptible to significant improper payments and (2) meet annual reduction targets for each program assessed to be at risk and estimated for improper payments. Despite continued efforts, this condition occurred because HUD did not have an effective process to comply with all IPERA requirements. Until all of the prior- and current-year IPERA issues have been remediated, HUD will likely continue to miss opportunities to prevent, identify, reduce, and recover improper payments.

### **HUD Did Not Always Comply With IPERA**

HUD did not comply with two (c and e) of the six IPERA requirements in fiscal year 2019. According to OMB Circular A-123, appendix C, part IV, section (A)(3), compliance with IPERA means that an agency must have met all of the following six requirements:

- a. *Published an agency financial report* – HUD complied with this requirement. The agency published an AFR for the most recent fiscal year and posted the report and accompanying materials required by OMB on the agency website.
- b. *Conducted a compliant program-specific risk assessment process* – HUD complied with this requirement and conducted risk assessments for 17 of its programs as listed in appendix B. Last year HUD did not risk-assess its Nehemiah Housing Opportunity Grant Program (NHOP) but planned to complete it in 2019. During our review, we found that HUD completed the planned risk assessment of NHOP in fiscal year 2019.
- c. *Published improper payments estimates* – HUD did not comply with this requirement. HUD did not publish annual improper payments estimates for two programs, MF-RAP and PIH-TBRA. In addition, HUD did not publish improper payments estimates for the Office of Community Planning and Development (CPD) Disaster Relief Appropriations Act of 2013 (DRAA) – Sandy program<sup>3</sup> because OMB relieved HUD from reporting on this program in fiscal

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<sup>3</sup> In accordance with OMB Memorandum M-13-07, all Federal programs or activities receiving funds under DRAA-Sandy are automatically considered susceptible to significant improper payments, regardless of any previous improper payments risk-assessment results, and are required to calculate and report an improper payments estimate.

year 2019.<sup>4</sup> With regard to the other two programs, FHA-SFIC and Ginnie Mae contractor payments, HUD supported the improper payments estimates reported in the AFR.

d. *Published corrective action plans* – At this time, we consider this criterion to be not applicable for four programs. For the FHA-SFIC and Ginnie Mae contractor payments<sup>5</sup> programs, corrective actions were not reported because the estimated improper payments did not exceed the statutory thresholds of OMB Circular A-123, appendix C, part I, section (B)(1).<sup>6</sup> In addition, HUD provided justifications for not developing corrective actions for the MF-RAP and PIH-TBRA programs as required.<sup>7</sup> Specifically, HUD stated that it was in the process of developing a methodology for estimating the improper payments for these two programs. Further, improper payments testing was not performed for the MF-RAP and PIH-TBRA programs in fiscal year 2019; therefore, corrective actions could not be and were not established. For these reasons, we consider this criterion to be not applicable.

e. *Published and met reduction targets* – HUD did not comply with this requirement for one program, FHA-SFIC, which it assessed to be at risk and measured for improper payments. For the Ginnie Mae contractor payments program, HUD met the published reduction target rate for fiscal year 2019.

f. *Reported an estimate below 10 percent* – HUD complied with this requirement. HUD's improper payments rates for its FHA-SFIC and Ginnie Mae contractor payments programs were below 10 percent. In addition, HUD reported corrective actions for its Ginnie Mae contractor payments program, which it stated had significantly improved the program's improper payments rate, which exceeded the 10 percent threshold last year. The corrective actions included adding a contracting officer representative (COR) advocate to the staff to serve as a senior analyst and acquisition advisor, completing mandatory COR training sessions, and beginning to develop an improved method of verifying invoices for mortgage subservicers. HUD planned to implement a statistical sampling methodology to review a large number of underlying invoices related to mortgage subservicer reimbursable costs.

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<sup>4</sup> HUD requested relief from reporting an annual improper payments estimate for the CPD DRAA-Sandy program for fiscal year 2019 because it stated that the program had documented four consecutive years of improper payments below the statutory threshold of either (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payments percentage of total program outlays).

<sup>5</sup> HUD published corrective actions for the Ginnie Mae contractor payments program related to fiscal year 2018 when the improper payments had exceeded the statutory threshold of either (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payments percentage of total program outlays).

<sup>6</sup> OMB Circular A-123, appendix C, part I, section (B)(1), provides the statutory threshold and defines significant improper payments as estimated improper payments that exceed (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payments percentage of total program outlays).

<sup>7</sup> According to OMB Circular A-136, section 4.5(1)(f), if the agency does not have a corrective action for a particular root cause, it must provide a justification for not having a corrective action.



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

### **HUD’s Improper Payments Estimates Were Not Published for Two Programs**

Fiscal year 2019 was the third consecutive fiscal year in which HUD did not comply with this requirement. HUD did not comply with the requirement to publish an improper payments estimate for all of its programs that were susceptible to significant improper payments. Specifically, HUD did not produce and publish an improper payments estimate for the MF-RAP and PIH-TBRA programs<sup>8</sup> because it was in the process developing a statistically valid sampling and estimation methodology for reporting these two programs. With no improper payments estimate, HUD was not able to establish corrective actions, reduction targets, and an improper payments rate below 10 percent for MF-RAP and PIH-TBRA.

### **HUD Did Not Meet Its Fiscal Year 2019 Reduction Target for Its Federal Housing Administration-Single-Family Insurance Claims Program**

Although HUD published an annual improper payments reduction target for its program susceptible to significant improper payments, FHA-SFIC, it missed its reduction rate goal for fiscal year 2019.<sup>9</sup> HUD’s annual reduction target for fiscal year 2019 was 0.14 percent, compared to its actual rate of 0.91 percent reported in the AFR.<sup>10</sup> HUD explained that using a slightly different approach in sampling and estimating the improper payments resulted in the increase in improper payments and rates. The table below details the sampling and estimation method used for establishing the reduction target in fiscal year 2018 and reporting the actuals in fiscal year 2019.

Fiscal year	Achieved reduction target rate for current year (percentage)	Established reduction target rate for following year (percentage)	Sampling and estimation method used
2018	0.15	0.14	HUD used a nonstatistically valid sampling and estimation plan approved by OMB, <sup>11</sup> estimated the improper payments rate for FHA-SFIC as 0.15 percent in fiscal year 2018, and established 0.14 as its target for fiscal year 2019.

<sup>8</sup> In 2017 and 2018, HUD did not publish an improper payments estimate or provide an estimate based on a statistically valid sampling method for the same programs.

<sup>9</sup> The improper payments reduction target in HUD’s fiscal year 2019 AFR is based on fiscal year 2018 data.

<sup>10</sup> According to OMB Circular A-123, appendix C, part III, section (A)(3), a baseline for reduction targets is established over a 24-month period. HUD explained that there was a change in OMB’s requirements in fiscal year 2018. Previously, OMB required establishment of a reduction target over a 12-month period. Therefore, last year, HUD reported a reduction target rate for FHA-SFIC over a 12-month period.

<sup>11</sup> According to OMB Circular A-123, appendix C, part I, section (D)(1)(e), IPERA requires agencies to produce statistically valid estimates of improper payments (or use a nonstatistically valid methodology approved by OMB).

Fiscal year	Achieved reduction target rate for current year (percentage)	Established reduction target rate for following year (percentage)	Sampling and estimation method used
			<p>Specifically, in fiscal year 2018, HUD used the Stratified Ratio Estimator extrapolation method. This method calculates the ratio of improper payments amount in the sample divided by claim amount in the sample (within each stratum), then multiplies these ratios with the population claim amounts (within each stratum). Stratum-level projections are then summed to arrive at total projected improper payments for the entire population. HUD then extrapolated the improper payments identified in the sample to each targeted lender's population of claims (factoring in the stratification design and population weights within each stratum). Then HUD summed all projected errors across the targeted lenders and divided this sum by the total claims amount across the lenders.</p>
2019	0.91	0.85	<p>HUD used a nonstatistically valid sampling and estimation plan approved by OMB,<sup>12</sup> estimated the improper payments rate for FHA-SFIC as 0.91 percent in fiscal year 2019, and established 0.85 as its target for fiscal year 2020.</p> <p>Specifically, HUD implemented a stratified random sampling approach to select claims for each of the targeted lenders. Strata were defined based on the claim type and high-risk identifier for the claims within each targeted lender. High-risk claims<sup>13</sup> were isolated into their own stratum to ensure that they were reviewed. HUD also considered further stratifying the claims by total claim amount (dollars) to separate claims into homogenous groups. Further, the claims population to be reviewed within each lender included only the relevant claim types that may be associated with improper payments. Validated errors for claims paid identified during</p>

<sup>12</sup> See footnote 11.

<sup>13</sup> Claims are deemed high risk due to documented operational deficiencies.

Fiscal year	Achieved reduction target rate for current year (percentage)	Established reduction target rate for following year (percentage)	Sampling and estimation method used
			testing were extrapolated to the total amount of claims paid by the targeted lenders. HUD then extrapolated the improper payments identified in the sample to each targeted lender’s population of claims (factoring in the stratification design and population weights within each stratum).

Although HUD received OMB’s approval to use a nonstatistically valid sampling and estimation method, the use of a statistically valid sampling and estimation method across fiscal years would have required HUD to use the same variables or to properly adjust the sampling plan for any changes, thus reducing the risk of not meeting an established target. OMB’s approval for fiscal year 2019 was conditional in that it required HUD to produce and execute a statistically valid sampling and estimation plan in fiscal year 2020. However, based on HUD’s request,<sup>14</sup> OMB further approved and relieved HUD from reporting improper payments for the FHA-SFIC program beginning in fiscal year 2020. Specifically, because of this approval, which was granted in February 2020, reporting on this program is triggered again only if the next risk assessment indicates that the program is once again susceptible to significant improper payments. According to OMB, the next risk assessment must occur within 3 years; however, if significant legislative changes occur, program funding is significantly increased, or any other change results in substantial program impact, HUD should perform a risk assessment of this program as part of its next reporting cycle, even if it has been less than 3 years since the last risk assessment. Therefore, whether HUD will meet its published reduction target rate for the FHA-SFIC program in fiscal year 2020 is not applicable.

**HUD Was Working To Address IPERA Issues**

HUD did not always publish improper payments estimates for all required programs and meet the reduction targets for its FHA-SFIC program. This condition occurred because HUD was in the process of developing new statistically valid sampling and estimation methodologies for three programs susceptible to significant improper payments.<sup>15</sup> In addition, HUD had not completed and continued with its plans from last year to address many of the prior-year IPERA compliance issues. Specifically, in fiscal year 2018, HUD hired a contractor to help bring the program into compliance within the next 2 years.

<sup>14</sup> HUD requested relief from reporting an annual improper payments estimate for the FHA-SFIC program for fiscal year 2020 because it stated that the program had documented two consecutive years of improper payments below the statutory threshold of either (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payments percentage of total program outlays).

<sup>15</sup> The MF-RAP and PIH-TBRA programs were identified by risk assessments to be susceptible to significant improper payments, and the CPD disaster funds (Harvey, Irma, and Maria) program was designated by law as a program susceptible to significant improper payments.

**Conclusion**

In fiscal year 2019, HUD continued to address many of the prior-year compliance issues to meet with OMB requirements and thus remained noncompliant with IPERA. Despite continued efforts, this condition occurred because HUD did not have an effective process to comply with all IPERA requirements. As a result of HUD's noncompliance with IPERA, two of HUD's programs, MF-RAP and PIH-TBRA, continued to be potentially vulnerable to the adverse effects of improper payments. Until all of the prior- and current-year IPERA issues have been remediated, HUD will likely continue to miss opportunities to prevent, identify, reduce, and recover improper payments.

**Recommendation**

New recommendations were not made because implementing the prior-year audit recommendation that remain open (see recommendation 2014-FO-0004-001-G in Followup on Prior Audits section) will help HUD remediate the repeat finding of not always publishing improper payments estimates. In addition, OMB relieved HUD from reporting improper payments for the FHA-SFIC program beginning next fiscal year.

# Scope and Methodology

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We conducted our audit of HUD's compliance with IPERA for fiscal year 2019 from November 2019 through March 2020 at HUD headquarters in Washington, DC, and our office in Atlanta, GA. We followed OMB Circular A-123 guidance on the Office of Inspector General's (OIG) responsibility in determining compliance with IPERA. OMB Circular A-123, appendix C, part IV, section (A)(3), states the following:

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

- a. Published an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.
- b. Conducted a program-specific risk assessment for each program or activity that conforms with the Section 3321 note in 31 U.S.C. (United States Code) (if required).
- c. Published improper payments estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).
- d. Published programmatic corrective action plans in the AFR or PAR (if required).
- e. Published and is meeting annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable).
- f. Reported a gross improper payments rate of less than 10 percent for each program and activity for which an improper payments estimate was obtained and published in the AFR or PAR.

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

To accomplish our audit objective, we reviewed

- Requirements contained in the applicable Federal laws and OMB Circular A-123, appendix C, and OMB Circular A-136, part II.4.5, as they relate to improper payments.
- HUD's 2019 AFR to understand and identify all relevant IPERA reporting components.

- HUD’s policies and procedures to understand the controls in place for reporting, preventing, reducing, and recovering improper payments.
- Fiscal year 2019 improper payments risk assessments, which identified the programs that were risk assessed and those that were considered susceptible to improper payments.
- Improper payments methodologies used to select samples for testing and the results of its testing.
- Records and documents to support information published in the AFR.

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

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

# Internal Controls

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

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

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

## **Relevant Internal Controls**

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

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

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## **Significant Deficiency**

Based on our review, we believe that the following item is a significant deficiency:

- Although HUD had hired a contractor and was working on its 2-year plan to address its noncompliance, it did not yet have an effective process to comply with all six IPERA requirements (finding).

# Followup on Prior Audits

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Last year's improper payments audit report, 2019-AT-0001, found that HUD was not in compliance with IPERA. Additional recommendations were not made because prior-year audit recommendations remained opened. We reviewed the recommendations from our prior audits regarding HUD's compliance with improper payments regulations. According to HUD's Audit Resolution and Corrective Action Tracking System, as of March 2020, eight recommendations remained open.<sup>16</sup> These open recommendations included three recommendations from audit report 2014-FO-0004 and five recommendations from audit report 2016-FO-0005. Based on our review, this is the seventh year that HUD did not meet IPERA requirements (see finding). HUD continued planning to address many of the prior-year IPERA compliance issues noted below. HUD stated that in fiscal year 2018, it hired a contractor to help bring the program into compliance within the next 2 years and address prior-year recommendations.

The eight open recommendations are listed below.

We recommended that the Chief Financial Officer

1. Report on Multifamily, Public Housing, and Section 8 program improper payment rates separately in the agency financial report (recommendation 2014-FO-0004-001-G).
2. Work with PIH and Multifamily Housing to determine annual improper payments HUD made to deceased tenants and report this amount as an additional source of improper payments in the agency financial report (recommendation 2014-FO-0004-002-H).
3. Consider stratifying the population of RHAP<sup>17</sup> [rental housing assistance programs] tenant cases between income-based and non-income-based rents going forward in determining the population of cases for the QC [quality control] study and determine whether it is appropriate to include only the income-based tenants in the population (recommendation 2016-FO-0005-001-C).
4. Develop, document, and implement formal policies and procedures to ensure that (1) all programs or activities that expend \$1 million or more annually for each program office identified are included in either the program office's payment recapture audit plan or provide a justification and analysis showing why a payment recapture audit would not be cost effective for that program or activity and (2) justifications and analyses showing why a payment recapture audit would not be cost effective are maintained and adequately described in the AFR, in accordance with OMB Circular A-123, appendix C (recommendation 2016-FO-0005-002-A).

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<sup>16</sup> According to audit report 2019-AT-0001, as of March 2019, there were 17 recommendations that remained open from prior audit reports, including 2014-FO-0004, 2016-FO-0005, and 2017-FO-0006.

<sup>17</sup> See footnote 2.



5. Revisit the existing recovery audit plan and update as needed to ensure that all programs and activities that expended more than \$1 million annually were included in the recovery audit plan or excluded from the recovery audit plan and maintain the corresponding cost-benefit and analyses supporting their exclusion (recommendation 2016-FO-0005-002-B).
6. Resubmit the justification for why a payment recapture audit would not be cost effective for each program that expended over \$1 million or more to OMB and [HUD-OIG]<sup>18</sup> for programs that were not already identified under a separate recovery audit plan (recommendation 2016-FO-0005-002-C).
7. Establish and implement a process to identify high-dollar overpayments and report them quarterly to OMB and us or submit a written request to OMB for an alternative reporting structure (recommendation 2016-FO-0005-004-C).

We recommended that the Deputy Assistant Secretary for Multifamily Housing Programs

8. Reassess existing supplemental measures and corrective actions and enhance or develop new supplemental measures and corrective actions to ensure that they target the root causes of errors identified in the improper payment studies (recommendation 2014-FO-0004-002-D; agreed-upon management decision action not completed. The targeted completion date was July 7, 2017).

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<sup>18</sup> According to OMB Circular A-123, appendix C, part III, section (C)(6), if an agency determines that it would be unable to conduct a cost-effective payment recapture audit program for certain programs and activities that expend more than \$1 million, then it should notify OMB and the agency's Inspector General of this decision and include any analysis used by the agency to reach this decision.


# Appendixes

## Appendix A

### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments



**U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**  
WASHINGTON, DC 20415-3000

CHIEF FINANCIAL OFFICER

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**HUD OCFO MEMO 20-39**

**MEMORANDUM FOR:** Kimberly Randall, Acting Assistant IG for Audit, OA  
**FROM:** GEORGE TOMCHICK  
Digital signed by GEORGE TOMCHICK  
Date: 2020.04.29 15:10:45 EDT  
George J. Tomchick, Deputy Chief Financial Officer, HUD, F  
**SUBJECT:** Response to Draft OIG IPERIA Audit Report  
**DATE:** April 29, 2020

HUD is committed to fulfilling its mission to create strong, sustainable, inclusive communities and quality affordable homes for American families and individuals. The work of HUD's Office of Inspector General (OIG) helps to ensure that HUD programs and employees work to successfully accomplish these goals.

We thank OIG for reporting on HUD's IPERIA sustained progress to include complying with four out of the six compliance criteria:

- Published a compliant AFR
- Implemented a compliant IPERIA Risk Assessment approach
- Justified why the corrective action requirement was not applicable
- Report an improper payment rate of less than 10 percent

The Department's goal to reach full IPERIA compliance in FY 2020 has not changed. Our path to get there will be adjusted to account for the global COVID-19 pandemic's effects, as well as the recent passage of the Payment Integrity Improvement Act.

Comment 1

Comment 2

## OIG Evaluation of Auditee Comments

- Comment 1 HUD agreed with our assessment of its fiscal year 2019 compliance with IPERA requirements. We appreciate HUD's cooperation during the review. We recognize that HUD has made improvements since its fiscal year 2018 reporting.
- Comment 2 HUD stated that its goal for reaching full compliance by fiscal year 2020 has not changed. We acknowledge HUD's continued efforts to reach full compliance with IPERA requirements.

## Appendix B

### IPERA Compliance Reporting Table

	Program name	Published an AFR	Conducted a risk assessment	Published an improper payments estimate <sup>19</sup>	Published corrective action plans	Published and is meeting reduction targets	Reported an improper payments rate of less than 10 percent
	Compliance requirement	a	b	c	d	e	f
<b><i>Programs susceptible to significant improper payments</i></b>							
1	MF-RAP	Yes	NA <sup>20</sup>	No	NA <sup>21</sup>	NA <sup>21</sup>	NA <sup>21</sup>
2	PIH-TBRA	Yes	NA <sup>20</sup>	No	NA <sup>21</sup>	NA <sup>21</sup>	NA <sup>21</sup>
3	Ginnie Mae – contractor payments	Yes	NA <sup>20</sup>	Yes <sup>22</sup>	NA <sup>23</sup>	Yes	Yes
4	FHA-SFIC	Yes	NA <sup>20</sup>	Yes	NA <sup>23</sup>	No	Yes
<b><i>Programs not susceptible to significant improper payments</i></b>							
5	NHOP	Yes	Yes	NA	NA	NA	NA
6	CPD – Community Development Block Grants (CDBG) – CDBG Insular Areas, Entitlement, Nonentitlement	Yes	Yes	NA	NA	NA	NA
7	CPD – HOME Investment Partnerships program	Yes	Yes	NA	NA	NA	NA

<sup>19</sup> Only programs and activities identified as susceptible to significant improper payments under its risk assessment are required to report on improper payments estimates.

<sup>20</sup> Not applicable because programs already identified as susceptible to significant improper payments are not required to undergo an additional risk assessment.

<sup>21</sup> Not applicable because HUD was unable to establish an improper payments estimate (Results of Audit).

<sup>22</sup> Although we took no exception to the sampling methodology used, we suggest that if HUD continues to use its revised plan next year, it should submit it to OMB for review as required by OMB Circular A-123, appendix C, part I, section (D)(1). HUD revised the original plan submitted to OMB by breaking each of the original eight strata into three parts. Therefore, this change in strata variable requires the updated plan to be resubmitted to OMB.

<sup>23</sup> Not applicable because the estimated improper payments did not exceed the statutory thresholds (Results of Audit).

8	CPD – Hosing Opportunities for Persons With AIDS	Yes	Yes	NA	NA	NA	NA
9	CPD – Housing Trust Fund	Yes	Yes	NA	NA	NA	NA
10	CPD – Disaster Recovery Assistance (Harvey, Irma, Maria)	Yes	Yes	NA <sup>24</sup>	NA	NA	NA
11	CPD – Disaster Recovery Assistance (Louisiana, Texas, West Virginia, Ike, other disasters)	Yes	Yes	NA <sup>25</sup>	NA	NA	NA
12	CPD – Rural Housing and Economic Development	Yes	Yes	NA	NA	NA	NA
13	Housing – Multifamily Housing (MFH) – Rent Supplement	Yes	Yes	NA	NA	NA	NA
14	Housing – MFH – Flexible Subsidy	Yes	Yes	N/A	NA	NA	NA
15	Housing – single-family premium refunds – Distributive Shares and Refund System	Yes	Yes	NA	NA	NA	NA
16	Housing – home equity conversion mortgage (HECM) claims	Yes	Yes	NA	NA	NA	NA
17	Housing – HECM notes	Yes	Yes	NA	NA	NA	NA
18	Ginnie Mae – unclaimed security holder payments	Yes	Yes	NA	NA	NA	NA
19	Office of the Chief Procurement Officer – payments to Federal contractors	Yes	Yes	NA	NA	NA	NA
20	PIH – Project-Based Rental Assistance Section 8 Moderate Rehabilitation	Yes	Yes	NA	NA	NA	NA
21	PIH – Public Housing Capital Fund	Yes	Yes	NA	NA	NA	NA
<b>Overall</b>		<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>No</b>	<b>Yes</b>

<sup>24</sup> Not applicable because the program did not spend more than \$10 million; thus, HUD performed a risk assessment for the program, which did not result in an improper payments estimate to be published for this program. According to OMB Memorandum M-18-14, all programs or activities spending more than \$10 million, as provided in division A of Public Law 115-72, in any one fiscal year are considered susceptible to significant improper payments and are required to calculate and report an improper payments estimate starting with the fiscal year 2019 reporting period, to the extent possible.

<sup>25</sup> Not applicable because the program was not legislatively deemed susceptible; thus, HUD performed a risk assessment, which did not result in an improper payments estimate to be published for this program.