



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

Public Housing and Voucher Programs

Office of Audit, Region 7
Kansas City, KS

Audit Report Number: 2019-KC-0002
June 25, 2019



To: Danielle Bastarache
Deputy Assistant Secretary, Office of Public Housing and Voucher Programs, PE

Donald LaVoy
Deputy Assistant Secretary, Departmental Real Estate Assessment Center, PX

From: //signed//
Ronald J. Hosking
Regional Inspector General for Audit, 7AGA

Subject: HUD Paid Rental Subsidies To Benefit Public Housing and Voucher Tenants
Reported as Excluded From Federal Programs or Deceased

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD to ensure that public housing agencies have access to information in the Federal Do Not Pay system.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at 913-551-5870.



Audit Report Number: 2019-KC-0002

Date: June 25, 2019

**HUD Paid Rental Subsidies To Benefit Public Housing and Voucher Tenants
Reported as Excluded From Federal Programs or Deceased**

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development (HUD) to ensure that public housing agencies (PHA) have access to information in the Federal Do Not Pay system. We performed this audit because the Housing Opportunity Through Modernization Act of 2016 requires HUD to ensure that PHAs have access to information contained in the Bureau of Fiscal Services' Do Not Pay system established by the Improper Payments Elimination and Recovery Improvement Act of 2012. Our objective was to determine whether HUD provided PHAs with access to the information contained in the Do Not Pay system.

What We Found

HUD did not provide PHAs with access to the information contained in the Do Not Pay system. HUD paid an estimated \$19.8 million in annual rental subsidies to PHAs to benefit 2,278 tenants who were reported in Do Not Pay as excluded from Federal programs or deceased.

What We Recommend

We recommend that HUD (1) issue guidance to PHAs to ensure any applicant for or tenant of public or assisted housing whose name appears on the SAM excluded parties list are reviewed by PHAs to determine eligibility in a manner consistent with the regulations in 2 CFR 180 and 2424 so that ineligible applicants or tenants are not admitted or recertified to put up to \$13.7 million to better use, (2) take corrective actions for the 729 tenants reported as deceased to put \$6.1 million to better use, and (3) establish a method to provide information in the Do Not Pay system to PHAs.

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Background and Objective

The U.S. Department of Housing and Urban Development (HUD) is responsible for national policy and programs that address America's housing needs to improve and develop the Nation's communities. HUD's Office of Public and Indian Housing administers HUD's public housing programs, which provide direct payments to public housing agencies (PHA) to develop and operate housing for low-income families. HUD provides financial assistance to about 3,350 PHAs, which provide public housing to 1.3 million households. Additionally, HUD provides funding to PHAs to administer the Housing Choice Voucher Program. Participants with a voucher are free to choose any housing that meets the requirements of the program and are not limited to units located in subsidized housing projects. This program serves approximately 2.2 million households renting units in the private market.

PHAs are responsible for the management and operation of their local public housing programs. Their responsibilities include (1) assuring compliance with leases, which must be signed by both parties; (2) setting other charges (for example, security deposit, excess utility consumption, and damages to unit); (3) performing periodic reexaminations of the family's income at least once every 12 months; (4) transferring families from one unit to another to correct overcrowding or undercrowding, repair or renovate a dwelling, or honor a resident's request to be transferred; (5) terminating leases when necessary; and (6) maintaining the development in a decent, safe, and sanitary condition.

The Housing Opportunity Through Modernization Act of 2016 (HOTMA) requires HUD to ensure that PHAs have access to information contained in the Do Not Pay system. The Do Not Pay Business Center, also known as Do Not Pay, was established to help Federal agencies seamlessly comply with the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) by supporting their efforts to prevent and detect improper payments. Do Not Pay is a collection of data sources established to protect the integrity of the Federal Government's payment processes by assisting the agencies in mitigating and eliminating improper payments.

HUD requires PHAs to use the Enterprise Income Verification (EIV) system. EIV provides PHAs with a suite of tools (reports) for reducing improper payments in HUD rental housing subsidy programs. EIV is not a direct replacement for the broader information included in the Do Not Pay list.

Our objective was to determine whether PHAs that administer rent subsidy programs have access to the information contained in the Do Not Pay system.

Results of Audit

Finding 1: HUD Did Not Provide Public Housing Agencies With Access to Do Not Pay

HUD did not provide PHAs with access to the information contained in the Do Not Pay system. This condition occurred because HUD believed that by providing access to the EIV system it complied with the requirement to provide PHAs with access to the information in the Do Not Pay system. As a result, HUD paid \$19.8 million in potentially improper rental subsidies to benefit 2,278 tenants who were reported as excluded from Federal programs or deceased.

Do Not Pay Information Not Provided

HUD did not provide PHAs with access to the information contained in the Bureau of the Fiscal Services' Do Not Pay system. HOTMA required HUD to provide the information in the Do Not Pay System to PHAs. The Do Not Pay system was established by IPERIA (appendix C).

The Do Not Pay system contains data that are relevant for screening and recertifying tenants, such as excluded parties and death information. This information would assist PHAs in identifying tenants who are not eligible for rental subsidies. It includes lists of deceased individuals and excluded parties reported in the General Services Administration's (GSA) System for Award Management (SAM) database.

HUD had not established a process to obtain information from Do Not Pay and provide it to its PHAs, nor did PHAs have direct access to Do Not Pay. HUD requires PHAs to use the EIV system, which provides PHAs with a suite of tools for reducing improper payments in HUD rental housing subsidy programs. However, EIV does not contain excluded parties' information. This omission is significant because Federal regulations require that if any Federal agency excludes a person under the Federal Acquisition Regulation, the excluded person is also ineligible to participate in other Federal transactions. An excluded individual may not act as a principal in a covered transaction. HUD's regulations define subsidized tenants as principals in the transaction. In addition, while EIV identifies deceased tenants by periodic matching with the Social Security Administration's Death Master File, the Do Not Pay system identifies additional deceased tenants by including the Social Security Administration's Death Master File plus American InfoSource death data. This fact is significant because PHAs are required to take action upon the death of a tenant.

HOTMA Section Not Implemented

HUD believed by providing access to the EIV system it complied with the HOTMA requirement to provide PHAs with access to the information in the Do Not Pay system. HUD made the use of EIV mandatory and continued to improve the system to make it comply with new Federal requirements, including IPERIA that established the Do Not Pay initiative. Our testing found that there is information available in the Do Not Pay system, which is not available in EIV. Therefore, HUD did not fully comply with the HOTMA requirement. HUD also stated that the

Do Not Pay system was a complement to HUD's existing system. We agree that the Do Not Pay system may be used as a complement to EIV. HUD also stated that it had always understood GSA's excluded parties list to be primarily procurement related and believed the information contained in it did not rise to the level of providing information that would be relevant to tenants. HUD further believed GSA's excluded parties list was not relevant to the tenant income verification process as provided under section 102(a)(E) of HOTMA. However, HUD had adopted Office of Management and Budget (OMB) guidance regarding nonprocurement debarment and suspension. OMB guides agencies to check the governmentwide System for Award Management Exclusions (SAM Exclusions) to determine whether a person is excluded, and agencies may not renew or extend covered transactions with any excluded person. HUD regulations define subsidized tenants as being covered by this restriction.

Improper Rental Subsidies Paid

HUD paid an estimated \$19.8 million in annual rental subsidies to PHAs to benefit 2,278 tenants who were reported in Do Not Pay as excluded from Federal programs or deceased. We based these estimates on a direct match of information in HUD's systems for current tenants on December 31, 2017, and information from the Do Not Pay system identifying individuals reported as deceased or excluded from Federal programs. (See the Scope and Methodology section of this report.)

HUD paid \$13.7 million in potentially improper rental subsidies to benefit 1,550 tenants who were reported as excluded from Federal programs. These people were excluded due to circumstances such as convictions for program related crimes. Most of these matches, 1,287 of 1,550, had been reported in the Do Not Pay system for more than 3 years before our test date. Only nine cases were reported within 3 months of our test date.

HUD paid \$6.1 million in improper rental subsidies to benefit 729 tenants who were reported as deceased. These 729 tenants reported as deceased had not been identified on the deceased tenant report produced by HUD using data from other sources. Most of these deaths, 623 of 729, occurred during 2017. The combined deceased individuals lists and excluded parties list contained 2,278 unique tenants, as one tenant was reported as both deceased and excluded.

Conclusion

HUD paid an estimated \$19.8 million in annual subsidies to PHAs on behalf of excluded and deceased tenants reported in the Do Not Pay system. Providing information from the Do Not Pay system to PHAs will help to identify these possibly ineligible tenants more quickly and put \$19.8 million in HUD funds to better use.

Recommendations

We recommend that the Deputy Assistant Secretary for Public Housing and Voucher Programs

- 1A. Issue guidance to PHAs to ensure any applicant for or tenant of public or assisted housing whose name appears on the SAM excluded parties list are reviewed by PHAs to determine eligibility in a manner consistent with the regulations in 2 CFR 180 and 2424 so that ineligible applicants or tenants are not admitted or recertified to put up to \$13.7 million to better use.

- 1B. Take corrective actions for the 729 tenants reported as deceased to put \$6.1 million to better use.

We recommend that the Deputy Assistant Secretary for the Real Estate Assessment Center

- 1C. Establish a method to provide information in the Do Not Pay system to PHAs and require its use.

Scope and Methodology

We performed our audit between April 2018 and April 2019. Our audit period was January 1 through December 31, 2017. We conducted onsite work at HUD headquarters at 451 7th Street SW, Washington, DC.

To accomplish our objective, we

- reviewed HOTMA and IPERIA, Federal regulations, the Housing Choice Voucher Guidebook, the Public Housing Occupancy Guidebook, and public and Indian housing notices;
- interviewed HUD staff;
- completed the authorization process to access the Do Not Pay data; and
- analyzed computer-processed data contained in HUD's Public and Indian Housing Information Center (IMS-PIC).

Using data from IMS-PIC, we identified an audit universe of nearly 6.5 million tenants receiving rent subsidies under the low-rent public housing program or the Housing Choice Voucher Program as of December 31, 2017. We transferred the tax identification numbers for these tenants to the Do Not Pay Business Center to be matched against multiple data sources to determine any tenants that were deceased or excluded from receiving housing subsidies. Do Not Pay is a collection of data sources established to protect the integrity of the Federal Government's payment processes by assisting agencies in mitigating and eliminating improper payments. Do Not Pay matched the data against the Social Security Administration's death master file, the U.S. Department of Defense and U.S. Department of State death data files, American InfoSource death data, and the SAM Exclusion records-restricted file. Do Not Pay provided Excel files identifying deaths and exclusions for the tax identification numbers of tenants as of December 31, 2017.

We also obtained the December 31, 2017, deceased tenant report generated by HUD. This report is based on the Social Security death master file. Information from the Social Security death master file is entered into the EIV system, which is used by PHAs to screen tenants. We compared this report to the results of the Do Not Pay deceased tenants match. We analyzed the resulting records and excluded any that did not have matching names and dates of birth, as these represented instances of two people reported under the same Social Security number and we could not be certain which individual was deceased. We also removed any tenants who had a move out processed before our data download in February 2018. Through this process, we determined that the Do Not Pay match results contained 729 tenants reported as deceased who had not been identified on the deceased tenant report produced by HUD.

The Do Not Pay match also identified 1,550 tenants reported as excluded from Federal programs at the time of admission or recertification. We determined that number after analyzing the records and removing any that did not have matching names, as these represented instances of

two people reported under the same Social Security number and we could not be certain which individual was an excluded party. We also removed any tenants who had a move out processed before our data download in February 2018.

We estimated the value of the rental subsidies paid to benefit these tenants. For ineligible voucher tenants, we multiplied their monthly voucher subsidy amounts by 12 months to get the financial impact. The monthly subsidy amount was taken from the total voucher subsidy field in the PIC system as of February 27, 2018. Tenants in low-rent units do not receive a direct subsidy payment as is the case for voucher tenants. We computed the subsidy amount for these tenants by dividing the 2017 annual Public Housing Operating Fund amount that their respective PHA received by the number of low-rent units in its inventory. To accomplish this task, we used PHA consolidated data as of June 26, 2018.

We relied in part on data maintained by HUD in its IMS-PIC system. Specifically, we relied on this system to identify all tenants receiving rental assistance during our audit period. We also relied in part on data from Do Not Pay to identify deceased and excluded individuals. Although we did not perform a detailed assessment of the reliability of the data, we determined that the computer-processed data were sufficiently reliable for our purposes by verifying the data with other data sources. We verified deceased tenant information with the LexisNexis service and the excluded parties information with SAM.gov. We verified the subsidy amounts overall with other sources and found that they generally agreed. Since we are not recommending repayment and are only estimating the impact of the issue, we believe the amounts are generally reliable for our purposes.

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

Internal Controls

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

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

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

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Controls to prevent rental payments to tenants reported as excluded parties or deceased.

We assessed the relevant controls identified above.

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

Significant Deficiency

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

- HUD did not have adequate controls to prevent rental subsidy payments to benefit tenants reported as excluded parties or deceased. (See Finding.)

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use 2/
1A	\$13,669,007
1B	6,094,183
Totals	19,763,190



- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. We believe that if HUD implements our recommendations, PHAs will quickly identify excluded or deceased tenants and discontinue subsidies for these tenants.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

	<p>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, DC 20410-5000</p> <p>OFFICE OF PUBLIC AND INDIAN HOUSING</p>
	<p>June 06, 2019</p>
MEMORANDUM FOR:	Ronald J. Hosking, Regional Inspector General for Audit, 7AGA
FROM:	 Danielle Bagstrache, Deputy Assistant Secretary for Public Housing and Voucher Programs, PE
SUBJECT:	Comments on Office of Inspector General Draft Report: HUD Paid Rental Subsidies to Benefit Public Housing and Voucher Tenants Reported as Excluded From Federal Programs or Deceased OIG Audit Report Number: 2019-KC-000X
<p>This memorandum is in follow-up to the exit conference that was held with your team on May 22, 2019. The Office of Public and Indian Housing has reviewed your Discussion Draft Audit Report and the Office of Public Housing and Voucher Programs (OHVP) and the Office of Real Estate Assessment Center (REAC), hereby provides the attached for your consideration.</p> <p>We in PIH appreciate the discussions that were provided during the conduct of this audit from your staff. Your staff was very professional in the handling of all aspects of this audit.</p> <p>If you have any questions, please don't hesitate to contact me at 202-402-5264.</p>	
<p>Attachments</p>	
<p>ATTACHMENT</p>	
<p>www.hud.gov espanol.hud.gov</p>	

**Ref to OIG
Evaluation**

Auditee Comments

ATTACHMENT

PIH Consolidated Comments on the OIG Draft Report:
HUD Paid Rental Subsidies To Benefit Public Housing and Voucher Tenants
Reported as Excluded From Federal Programs or Deceased
OIG Audit Report Number: 2019-KC-000X

PIH provides the following comments:

During the conference call, PIH requested a breakdown by program area (Excluded or Deceased):

1. As a general comment, OPHVP thanks the OIG for providing a rapid response email with the information on the finding which provided a breakdown by Voucher Units and Public Housing Units.

Our comments on the Draft Report are:

2. Recommendation 1A:

Recommendation: Issue Guidance to PHAs to ensure that excluded parties are not admitted or recertified to put \$13.7 million to better use.

Response: Since the initial conversation with OIG regarding whether persons included on the excluded parties list are eligible for PIH rental assistance, PIH has indicated that such persons are eligible for admission to, and continued occupancy of public housing and housing choice voucher programs. PIH maintains that persons included on the excluded parties list are eligible for assistance. Given the findings in the draft audit report, PIH requested an opinion from HUD's Office of the General Counsel (OGC) regarding whether families that find themselves on the excluded parties list are eligible for assistance. Please find the attached memorandum from OGC that reinforces PIH's understanding. In light of the information contained in this OGC memorandum, PIH requests that OIG revise the audit report in several places to remove any references to excluded parties, including the cost analysis, and revise the recommendations to remove recommendation 1A.

3. Recommendation 1B:

Take corrective actions for the 729 tenants reported as deceased to put \$6.1 million to better use.

Response: PIH generally agrees with this recommendation. We continue to request more specific information related to the 729 families so that we may determine specific corrective actions necessary.

2

Comment 1

Comment 2

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Comment 3

ATTACHMENT

4. Recommendation 1C:


Establish a method to provide information in the Do Not Pay system to PHAs and require its use.

Response: PIH IT is currently engaged with Treasury in exploring the technical aspects of providing this information to PHAs and what that would entail. A Computer Matching Agreement would most likely be required in order to provide this information.

3

Ref to OIG
Evaluation

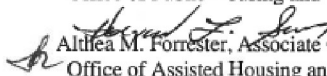
Auditee Comments


OFFICE OF GENERAL COUNSEL

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-0300

June 6, 2019

MEMORANDUM FOR: Danielle Bastarache, Deputy Assistant Secretary
Office of Public Housing and Voucher Programs, PE

FROM: 
Aithlea M. Forrester, Associate General Counsel
Office of Assisted Housing and Community Development, CAHB

SUBJECT: Proposed OIG Recommendation: HUD Paid Rental Subsidies to
Benefit Public Housing and Voucher Tenants Reported as Excluded
from Federal Programs or Deceased
Number and Date: 2019-KC-000X, May 9, 2019
Recommendation Numbers: 1A

This is in regards to your request that we respond to Office of Public and Indian Housing (PIH) concerns with respect to the above-referenced draft audit report.

OIG Recommendation 1A: Issue guidance to PHAs to ensure that excluded parties are not admitted or recertified to put \$13.7 million to better use.

OGC Opinion

In its draft report, OIG alleges that HUD paid rental subsidies to benefit public housing and section 8 tenants reported as excluded from Federal programs or deceased. OIG argues that section 102(a)(E) of the Housing Opportunity Through Modernization Act of 2016 (HOTMA), requires HUD to provide PHAs with access to all of the information in the Do Not Pay (DNP) system, and also arguably requires HUD to deny admission to applicants and evict tenants whose names appear in the System of Award Management (SAM) Excluded Parties List (EPL). The EPL is a list of businesses or individuals that a government agency has excluded (i.e. suspended or debarred) from "receiving contracts or assistance for various reasons, such as a conviction of, or indictment for, a criminal or civil offense or a serious failure to perform to the terms of a contract." *U.S. Gov't Accountability Office, GA0-09-174, Excluded Parties List System: Suspended and Debarred Businesses and Individuals Improperly Receiving Federal Funds*. The EPL has been consolidated into "SAM exclusion Records." SAM Exclusion Records consolidates four awardee verification registry systems: Central Contractor Registry, Federal Agency Registration, Online Representations and Certifications Application, and GSA Excluded Parties List system. See System for Award Management User Guide, Gen. Services Admin.: Ss. For Award Mgmt.,

https://www.sam.gov/sam/SAM_Guide/SAM_User_Guide.htm (last visited June 5, 2019).

While the OIG draft report mentions OMB Guidelines to Federal agencies on non-

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procurement Government-wide Debarment & Suspension, the OIG fails to provide an analysis explaining the rationale behind why the application of these regulations at 2 CFR Parts 180 and 2424 supports the report's claim that individuals whose names appear on the SAM EPL are prohibited from being assisted under HUD's rental programs. For reasons further explained below, we disagree with OIG's recommendation.

1. Housing Opportunity Through Modernization Act of 2016 (HOTMA) does not require HUD to integrate SAM EPL into EIV.

The Housing Opportunity Through Modernization Act of 2016 (HOTMA), enacted on July 29, 2016, amends the U.S. Housing Act of 1937 (1937 Act) and other housing laws covering multiple HUD programs.¹ In its initial implementation guidance, published on October 24, 2016, HUD outlined the statutory provisions which are self-implementing and the provisions that will require further action by HUD to be effective.² The implementation guidance specifically identifies section 102(a) as one of the provisions which requires rulemaking prior to implementation.³ HUD is currently drafting a proposed rule implementing sections 102, 103, and 104 of HOTMA and expects to publish it in the summer of 2019.

Section 102(a)(E)

Section 102(a) amends section 3(a) of the 1937 Act to revise the frequency of family income reviews and the calculation of income. Section 102(a)(E) mandates HUD to develop a mechanism for disclosing information to PHAs for the purpose of verifying the employment and income of individuals and families. The section reads as follows:

ELECTRONIC INCOME VERIFICATION.—The Secretary shall develop a mechanism for disclosing information to a public housing agency for the purpose of verifying the employment and income of individuals and families in accordance with section 453(j)(7)(E) of the Social Security Act (42 U.S.C. 653(j)(7)(E)), and shall ensure public housing agencies have access to information contained in the 'Do Not Pay' system established by section 5 of the Improper Payments Elimination and Recovery Improvement Act of 2012 (Public Law 112—248; 126 Stat. 2392).

Section 102(a)(E) also mentions the DNP system established by section 5 of the Improper Payment Elimination and Recovery Improvement Act of 2012 (IPERIA), as amended,⁴ but only in

¹ Housing Opportunity Through Modernization Act of 2016, Pub. L. 114-201, 130 Stat. 782 (July 29, 2016).

² Housing Opportunity Through Modernization Act of 2016: Initial Guidance, 81 Fed. Reg. 73030 (Oct. 24, 2016).

³ Id.

⁴ Improper Payments Elimination and Recovery Improvement Act of 2012, Pub. L. No. 112-248, 126 Stat. 2390, 2395 (2013). IPERA was amended by the Bipartisan Budget Act of 2013 and the Federal Improper Payments Coordination Act of 2015 (FWCA), requires [Federal] agencies to ensure that a thorough review of available databases occurs prior to the release of Federal funds to

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the context of income and employment verification of tenants. In other words, HUD is required to ensure that PHAs have access to information contained in the DNP system to the extent such information is relevant to income and employment verification.

HUD's existing EIV system, aimed at reducing improper payments in its public housing and section 8 programs, works to implement IPERIA's mandate of reducing improper payments by allowing PHAs to verify tenants' income and employment information. The EIV system contains various modules, including a deceased tenant report, to ensure that eligible tenants receive the appropriate assistance. The EIV system does not currently have a module linking it to SAM EPL because that dataset does not offer information relevant to income verification. Nonetheless, HUD regularly updates the EIV system. As recently as December 28, 2018, HUD published a FR Notice re-establishing a matching program with the U.S. Department Health and Human Services to further comply with various statutory mandates, including IPERIA.⁵ Such efforts will enhance the effectiveness of the EIV system in identifying improper payments occurring at the tenant level.

The OIG draft report erroneously argues that HUD failed to comply with HOTMA's requirement because there is information in the DNP system, particularly the SAM EPL that is not included in the EW system. OIG's position is not supported by HOTMA. Section 102, which has not yet been implemented, mentions the DNP system only in the context of income verification, and allows HUD the discretion to determine the mechanism and the scope of the information it provides to PHAs. As stated in the OIG draft report, the program office has determined that SAM EPL is not included in EIV because it does not contain information that is relevant to tenants' income verification. It is our opinion that the OIG draft report analysis requiring that HUD's EIV system incorporate the entirety of DNP system is outside the scope of the statutory language. As further explained below, by requiring that the EIV system incorporate the DNP system, the draft OIG report conflates HUD's pre-payment and pre-award procedures, which utilize the DNP system, with the HUD EIV system. These two systems serve different purposes and allow HUD to check for improper payments through different methods. While it may be true that the EIV system could be improved upon by adding more functionalities and modules, the possibility for improvement cannot be used as an indication that HUD is not compliant with section 102(a)(E) of HOTMA.

2. HUD is compliant with IPERIA and has integrated the DNP system into its pre-payment and pre-award procedures.

The IPERIA aims to prevent and recover payment error, fraud, and abuse in Federal spending and codifies previous efforts to limit improper payments⁶ Section 5 of IPERIA requires Federal agencies to adjust their *pre-payment and pre-award procedures* by reviewing payee eligibility against the databases contained in the DNP system.⁷ The stated purpose of the DNP system is to

help verify eligibility and prevent certain improper payments.

⁵ Privacy Act of 1974; Matching Program, FR-7009-N-06, 12.28.2018, available at: <https://www.govinfo.gov/content/pkg/FR-2018-12-28/pdf/2018-28361.pdf> (last visited June 5, 2019).

⁶ Improper Payments Elimination and Recovery Act of 2012, Pub. L. No. 112-248, 126 Stat. 2390, 2395 (2013).

⁷ Improper Payment Elimination and Recovery Improvement Act of 2012 § 5. Privacy Act of 1974,

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“assist Federal agencies in verifying that individuals are eligible to receive Federal payments by allowing the Department of the Treasury/Bureau of Fiscal Service to collect, maintain, analyze, and disclose records that will assist Federal agencies in identifying, preventing, and recovering payment error, waste, fraud, and abuse within Federal spending.”⁸ The DNP system encompasses all the datasets required for pre-payment checks and several of the datasets used in pre-award. These datasets include central portals, such as the Treasury Working System and the SAM EPL, as well as agency-specific datasets that serve particular program needs.

OMB Memorandum M-18-20 (OMB Memorandum), issued on June 26, 2018, and OMB Circular No. A-136, revised on July 30, 2018 (collectively referred to as OMB guidance) provide the most updated requirements for the implementation of IPERIA.⁹ Given the sheer amount of data available in the DNP system, in its guidance, OMB encourages agencies to identify specific data sources that are relevant to their needs, as well as identify “false positives” or “improper matches.”¹⁰ Furthermore, OMB Memorandum clearly indicates that the “system does not tell an agency whether a payment is proper or improper.”¹¹ Rather, agencies are encouraged to leverage and incorporate the system into their own “end-to-end internal control and risk management processes and practices.”¹² More specifically, the Memorandum requires agencies to “apply their internal policies, regulatory requirements, legal obligations, and procedures to adjudicate findings and ultimately determine whether payees are eligible, and payments are proper.”¹³ In other words, the DNP system does not supplant agency requirements and policies; rather OMB requires Federal agencies to integrate the DNP systems into their existing procedures and tailor the results of matching to agencies’ program requirements.¹⁴

Following OMB’s guidance, on June 4, 2015, HUD published its policy on the DNP system, in which it directs its program offices to use the DNP system for purposes of verifying payment or award eligibility.¹⁵ HUD employees and contractors who are responsible for paying vouchers or awarding grants have access to the DNP system to review awardees and payees for eligibility. This review is done at the agency level, prior to funds being disbursed to PHAs and grantees, as part of HUD pre-payment and pre-award procedures. Similar to the guidance provided in OMB

as Amended; System of Records, 78 Fed. Reg. 73923, 73925 (Dec. 9, 2013).

⁸ Id.

⁹ O.M.B. Memorandum M-18-20 modified “Appendix C to Circular No. A-123, Requirements for Payment Integrity Improvement” and provides comprehensive information regarding Improper Payments Acts processes and requirements. OMB Circular No. A-136 provides detailed instructions for the reporting of improper payments.

¹⁰ OMB Memorandum M-18-20; Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement, at 61, available at: <https://www.whitehouse.gov/wp-content/uploads/2018/06/M-18-20.pdf> (last visited June 4, 2019).

¹¹ OMB Memorandum M- 18-20, at 61.

¹² Id.

¹³ Id.

¹⁴ Id. at 63.

¹⁵ U.S. Dep’t of Housing and Urban Dev. Do Not Pay Policy, <https://www.hud.gov/sites/documents/190040CFOH.PDF> (last visited June 4, 2019).

**Ref to OIG
Evaluation**

Auditee Comments

Memorandum,¹⁶ HUD’s DNP policy requires its program offices to review all positive matches of potential payees or grantees for disbursement approval by OGC and management,¹⁷ as there may be circumstances under which the law requires a payment or award to be made to a recipient, regardless of whether that recipient is identified as potentially ineligible under the DNP system.¹⁸

Given that HUD’s pre-payment and pre-award procedures are undertaken at the agency level, those procedures do not extend to the tenants. HUD uses the DNP system, including SAM EPL, at the agency level, and is therefore compliant with section 5 of IPERIA.

3. 2 CFR Parts 180 and 2424 do not require HUD to terminate the assistance to tenants whose name appear on SAM EPL.

To further advance its argument that SAM EPL is relevant and its use required for purposes of income verification of public housing and section 8 tenants, the OIG draft report mentions OMB’s and HUD’s specific regulations on Government-wide non-procurement debarment and suspension. Particularly, the OIG draft report emphasizes 2 CFR 2424.1017, which defines ultimate beneficiary as including “subsidized tenants and subsidized mortgagors, such as those assisted under section 8 Housing Assistance Payment contracts, by Section 236 Rental Assistance, or by Rent Supplement payments.”

By way of background, the non-procurement debarment and suspension regulations apply to a participant or principal in a covered transaction.¹⁹ for purposes of debarment and suspension analysis, “participant” is any person who submits a proposal for, or who enters into, a covered transaction, including an agent, or representative of a participant.²⁰ The term “person” refers to any individual, corporation, partnership, association, unit of government, or legal entity, however organized.²¹ A “principal” is defined as a person who has a critical influence on, or substantive control over, a covered transaction, whether or not employed by the participant.²² The regulation at 2 CFR 2424.995 provides that a participant could be “an ultimate beneficiary of HUD programs”²³ where “ultimate beneficiary” includes, among others, a subsidized tenant.²⁴ A “covered transaction” consists of any contract that is awarded by a contractor, subcontractor, supplier, consultant, or its agent or representative in any transaction, if the contract is to be funded or provided by HUD under a covered non-procurement transaction and the amount of the contract is expected to equal or exceed \$25,000,²⁵ where the term “non-procurement transaction” includes contracts of assistance.²⁶

¹⁶ O.M.B. Memorandum M-18-20, § 5(d) Tailoring the results of matching to program requirements, at 63.

¹⁷ U.S. Dep’t of Housing and Urban Dev, at 2.

¹⁸ Id. §4.1.3. at 2.

¹⁹ 2 CFR 2424.20.

²⁰ 2 CFR 180.980.

²¹ 2 CFR 180.985.

²² 2 CFR 2424.995.

²³ Id.

²⁴ 2 CFR 2424. 1017.

²⁵ 2 CFR 2424.220.

²⁶ 2 CFR 180.970.

Auditee Comments

The non-procurement debarment and suspension regulations do not impose any duties on individuals other than those specified above. In other words, these regulations would not apply to tenants just because “subsidized tenant” is identified as a person who could be a “principal” in a covered transaction. In order for the regulations to apply to a tenant, that tenant would have had to be a participant or a principal in a covered transaction. OIG’s draft report lacks the analysis showing that the list of tenants it generated fits the regulatory framework laid out in 2 CFR Parts 180 and 2424. The report also fails to identify whether the list includes Limited Denial of Participation, which is an agency and program specific enforcement action, limited in scope to the specific agency and program in which the matter arose.²⁷

We find no legal basis in 2 CFR Parts 180 or 2424 that would justify that tenants whose names simply appear on SAM EPL should be terminated. OIG’s recommendation is even more incredulous because its own report recognizes that the auditors “did not perform a detailed assessment of the reliability of the data.” OIG’s fails to recognize the potential and likely unreliability of its data, which is inconsistent with OMB’s guidance encouraging agencies to undertake their own due diligence in identifying improper matches and false positives.

OIG’s recommendation to terminate tenants whose names appear on SAM EPL is also not supported by any of the statutory and regulatory framework of the U.S. Housing Act of 1937. With a few exceptions, PHAs have broad discretion in evaluating current and prospective tenants for rental assistance.²⁸ PHAs are required to check applicants’ criminal record history in evaluating their eligibility for occupancy. They are also required to develop policies in their annual plans and section 8 administrative plan, outlining their admission and occupancy policies, including the causes for termination. Indeed, HUD’s regulations at 24 CFR 966.4(1) and 24 CFR 982.3 10 indicate that a PHA or owner may not terminate except for a serious and repeated violations of the lease; violation of federal, state, or local law that imposes obligations on the tenant in connection with the occupancy or use of the premises; or other good cause. Without further evidence of wrongdoing amounting to a violation of the lease, as provided in the regulations, a PHA cannot evict a tenant simply because his or her name appears on SAM EPL. PHAs still have to follow existing statutory and regulatory framework for terminating tenancy, including allowing proper due process to tenants.

²⁷ 24 CFR 2424.1100.

²⁸ See section 16(f) of the 1937 Act, which provides a statutory prohibition against applicants who have been convicted of methamphetamine production on the premises of federally assisted housing must be denied admission. See also section 578 of Quality Housing Work Responsibility Act of 1996 (QHWRA) requires PHAs to deny admission to a family if any member of the household is subject to a lifetime registration requirement under a state sex offender registration program. See also section 6(1) of the 1937 Act, which mandates PHAs to (a) prohibit the admission of applicants if any member of the household is “currently engaging in” the illegal use of a drug, or if there is cause to believe that a household member’s illegal use or patter of illegal use may interfere with the health, safety or right to peaceful enjoyment of the premises by other tenants/residents; and (b) prohibit admission if a household member’s abuse or pattern of abuse of alcohol will interfere with the health, safety or right to peaceful enjoyment of the premises by other tenants/residents.

Auditee Comments

4. Conclusion

OIG's draft report argues that section 102 of HOTMA and HUD's and OMB's nonprocurement debarment and suspension regulations require HUD to incorporate the entirety of DNP system into HUD's EIV system. The report also argues that HUD must terminate the assistance to tenants whose names appear in SAM EPL. As discussed above, we disagree.

Section 102(a)(E) of HOTMA, which is not yet implemented, requires HUD to provide PHAs with information in the DNP system for purposes of income verification. Section 102 of HOTMA does not require HUD to incorporate the entirety of the DNP system, including SAM EPL, into the EIV system. HUD's EIV system, which has been in place for over 10 years now, adequately allows PHAs to undertake tenants' income verification. The EIV system includes various modules and functionalities, including the deceased tenants file, to limit improper payments made at the tenant level. HUD regularly updates the EIV system and has recently published an FR Notice re establishing a matching program with the U.S. Department of Health and Human Services to further comply with various statutory mandates, including IPERIA. OMB guidance, implementing IPERIA's mandate, allows Federal agencies to use their discretion in determining which DNP system dataset is relevant to their needs. Therefore, HUD has the discretion to determine which datasets to incorporate into its EIV system and can still comply with section 102 of HOTMA without having to incorporate SAM EPL.

Finally, neither HOTMA, IPERIA, nor HUD's and OMB's non-procurement debarment and suspension regulations require HUD to terminate tenants whose names appear in SAM EPL. As explained above, the statutory and regulatory requirements relate to ensuring that HUD's pre-payment and pre-award procedures incorporate the DNP system. HUD's pre-payment and pre-award procedures are separate and apart from HUD's EIV system. The pre-payment and pre-award procedures are triggered at the agency level, whereas the EIV system is used by PHAs to verify tenants' income information. In addition, HUD's non-procurement debarment and suspension regulations apply to a principal or participant in a covered transaction and provide a thorough analysis for determining whether an individual is a principal or participant in a covered transaction prior to taking an agency enforcement action in the form of debarment, suspension or LDP. Without such analysis, HUD cannot take any enforcement action. Finally, HUD's existing statutory and regulatory framework for occupancy in public housing and section 8 provide PHAs with broad discretion in developing their admission and occupancy policies, which must be reflected in the leases they enter into with tenants. Tenants can only be evicted for grounds that are provided in the regulations. We therefore disagree that tenants whose name appear on SAM EPL must be terminated, without a showing that they in fact served as a principal or participant in a covered transaction or without a showing that they've violated the terms of their lease.

OIG Evaluation of Auditee Comments

Comment 1 HUD indicated that excluded parties are eligible for PIH rental assistance. HUD OGC's attached opinion acknowledges the nonprocurement debarment and suspension regulations apply to a participant or principal in a covered transaction, but states our draft report lacks the analysis showing that the list of tenants generated fits the regulatory framework laid out in 2 CFR Parts 180 and 2424.

It is our position that the cited regulations apply to the list of tenants in the report. OMB guidance does not limit the reach of its debarment and suspension provisions to procurement transactions. The purpose of the nonprocurement debarment and suspension system is to protect the public interest by ensuring the integrity of Federal programs by conducting business only with responsible persons. In this regard, contracts of assistance and subsidies are considered nonprocurement covered transactions under OMB regulations; and, HUD regulations define subsidized tenants as being covered by this restriction. OMB guides agencies to check the governmentwide SAM exclusions to determine whether a person is excluded, and whether that person is ineligible as a result. HUD's regulations define recipients under HUD assistance agreements as well as ultimate beneficiaries of HUD programs as principals or participants in the transaction. Assisted or subsidized tenants are either recipients under HUD assistance agreements or ultimate beneficiaries of HUD programs, or both. In establishing the Do Not Pay system in IPERIA, Congress recognized there may be circumstances under which the law requires a payment or award to be made to a recipient, regardless of whether that recipient is identified as potentially ineligible under the Do Not Pay Initiative. No single data available in the Do Not Pay system would require a PHA to reject an applicant, except where the particular delinquent Federal debt or adverse information is, itself, a bar to participation. Rather, the information would be available, and should be available, for the PHA to consider to determine whether such tenants or applicants are ineligible, in a manner consistent with the eligibility, screening and selection criteria set out in the relevant HUD regulation, including the regulations in 2 CFR 180 and 2424. According to these regulations, a person who has been added to the excluded parties list is not eligible to be a principal in a nonprocurement transaction with another agency. Since a subsidized tenant qualifies as a participant in a nonprocurement transaction, they are not eligible for PIH rental assistance if they are an excluded party.

We added "potentially" to our finding and added verbiage to our recommendation to acknowledge that certain tenants may not be ineligible once the housing authority reviews their particular situation. Because this data was neither reviewed by HUD nor made available to the relevant PHAs via the Do Not Pay system as required by HOTMA, a determination as to whether the circumstances of the individual debarment or suspension exclusions would render the individual ineligible for public or assisted housing was not made.

HUD indicated in its comments that HOTMA only required access to Do Not Pay as it pertained to income and employment. However, a review of the information provided by Do Not Pay indicates that none of its data relates to income or employment. HUD's position therefore renders that provision in HOTMA meaningless. Rather, HOTMA simply states that HUD shall "ensure public housing agencies have access to information contained in the 'Do Not Pay' system established by section 5 of the Improper Payments Elimination and Recovery Improvement Act of 2012," and imposed no such limitations.

- Comment 2 HUD generally agreed with the recommendation to take corrective actions for the 729 tenants reported as deceased to put \$6.1 million to better use. HUD will provide details and target completion dates in its Management Decision.
- Comment 3 HUD agreed to establish a method to provide information in the Do Not Pay system to PHAs and require its use. HUD will provide details and target completion dates in its Management Decision.

Appendix C

Criteria

Laws

Housing Opportunity Through Modernization Act of 2016, Dated July 29, 2016

SEC. 102. INCOME REVIEWS.

(a) Income Reviews for Public Housing and Section 8 Programs. – Section 3 of the United States Housing Act of 1937 (42 U.S.C. [United States Code] 1437a) is amended--

(1) in subsection (a)--

(B) by adding at the end the following new paragraphs:

“(7) CALCULATION OF INCOME. -

(E) ELECTRONIC INCOME VERIFICATION.-The Secretary shall develop a mechanism for disclosing information to a public housing agency for the purpose of verifying the employment and income of individuals and families in accordance with section 453(j)(7)(E) of the Social Security Act (42 U.S.C. 653(j)(7)(E)), and shall ensure public housing agencies have access to information contained in the ‘Do Not Pay’ system established by section 5 of the Improper Payments Elimination and Recovery Improvement Act of 2012 (Public Law 112-248; 126 Stat. 2392).”

Federal Register Docket No. FR-5976-N-01, Housing Opportunity Through Modernization Act of 2016: Initial Guidance, Dated October 24, 2016

IV. Provisions That Require Rulemaking or Guidance by HUD

There are several provisions in HOTMA that amend HUD statutes but, under their own terms, are not effective until HUD issues a notice or regulation. Other provisions make changes to HUD statutes that, while effective upon enactment of HOTMA, require HUD rulemaking or the issuance of detailed guidance for implementation. This section addresses both types of HOTMA provisions requiring further HUD action. For these provisions, PHAs, multifamily owners, or grantees may not use the provisions of HOTMA until HUD issues a rule or notice.

Sections 102(a), (c), and (e). Income Reviews

Section 102(a) of HOTMA amends section 3(a) of the 1937 Act to revise the frequency of family income reviews and the calculation of income. Specifically, this section requires that reviews of family income must be conducted upon admission and annually thereafter, depending on certain decreases or increases in annual adjusted income. This section also requires HUD, in consultation with other appropriate Federal agencies, to develop electronic procedures enabling PHAs to access income determinations for other Federal means-tested programs.

Implementation action: HUD has the ability to implement these changes by notice or by regulation, and the statutory amendments are not effective until the beginning of the calendar year after the notice or regulation is issued. HUD is considering the appropriate method for implementation.

**Improper Payments Elimination and Recovery Improvement Act of 2012,
Dated January 10, 2013**

SEC. 5. DO NOT PAY INITIATIVE.

(a) PREPAYMENT AND PREAWARD PROCEDURES.—

(1) **IN GENERAL.**— Each agency shall review prepayment and preaward procedures and ensure that a thorough review of available databases with relevant information on eligibility occurs to determine program or award eligibility and prevent improper payments before the release of any Federal funds.

(2) **DATABASES.**— At a minimum and before issuing any payment and award, each agency shall review as appropriate the following databases to verify eligibility of the payment and award:

(A) The Death Master File of the Social Security Administration.

(B) The General Services Administration's Excluded Parties List System.

(C) The Debt Check Database of the Department of the Treasury.

(D) The Credit Alert System or Credit Alert Interactive Voice Response System of the Department of Housing and Urban Development.

(E) The List of Excluded Individuals/Entities of the Office of Inspector General of the Department of Health and Human Services.

(b) DO NOT PAY INITIATIVE.—

(1) **ESTABLISHMENT.**— There is established the Do Not Pay Initiative which shall include—

(A) use of the databases described under subsection (a)(2); and

(B) use of other databases designated by the Director of the Office of Management and Budget in consultation with agencies and in accordance with paragraph (2).

(2) **OTHER DATABASES.**—In making designations of other databases under paragraph (1)(B), the Director of the Office of Management and Budget shall—

(A) consider any database that substantially assists in preventing improper payments; and

(B) provide public notice and an opportunity for comment before designating a database under paragraph (1)(B).

(3) **ACCESS AND REVIEW BY AGENCIES.**—For purposes of identifying and preventing improper payments, each agency shall have access to, and use of, the Do Not Pay Initiative to verify payment or award eligibility in accordance with subsection

(a) when the Director of the Office of Management and Budget determines the Do Not Pay Initiative is appropriately established for the agency.

(4) **PAYMENT OTHERWISE REQUIRED.**—When using the Do Not Pay Initiative, an agency shall recognize that there may be circumstances under which the law requires a payment or award to be made to a recipient, regardless of whether that recipient is identified as potentially ineligible under the Do Not Pay Initiative.

(5) **ANNUAL REPORT.**—The Director of the Office of Management and Budget shall submit to Congress an annual report, which may be included as part of another report submitted to Congress by the Director, regarding the operation of the Do Not Pay Initiative, which shall—

(A) include an evaluation of whether the Do Not Pay Initiative has reduced improper payments or improper awards; and

(B) provide the frequency of corrections or identification of incorrect information.

Regulations

2 CFR [Code of Federal Regulations] PART 180—OMB GUIDELINES TO AGENCIES ON GOVERNMENTWIDE DEBARMENT AND SUSPENSION (NONPROCUREMENT)

§ 180.155 How do I know if a person is excluded?

Check the Governmentwide System for Award Management Exclusions (SAM Exclusions) to determine whether a person is excluded. The General Services Administration (GSA) maintains the SAM Exclusions and makes it available, as detailed in Subpart E of this part. When a Federal agency takes an action to exclude a person under the nonprocurement or procurement debarment and suspension system, the agency enters the information about the excluded person into the SAM Exclusions.

§ 180.310 - What must I do if a Federal agency excludes a person with whom I am already doing business in a covered transaction?

(b) You may not renew or extend covered transactions (other than no-cost time extensions) with any excluded person, unless the Federal agency responsible for the transaction grants an exception under § 180.135.

§ 180.970 Nonprocurement transaction.

(a) Nonprocurement transaction means any transaction, regardless of type (except procurement contracts), including, but not limited to the following:

- (1) Grants.
- (2) Cooperative agreements.
- (3) Scholarships.
- (4) Fellowships.
- (5) Contracts of assistance.
- (6) Loans.
- (7) Loan guarantees.
- (8) Subsidies.
- (9) Insurances.
- (10) Payments for specified uses.
- (11) Donation agreements.

(b) A nonprocurement transaction at any tier does not require the transfer of Federal funds.

2 CFR PART 2424 –NONPROCUREMENT DEBARMENT AND SUSPENSION

§ 2424.10 What does this part do?

In this part, HUD adopts, as HUD policies, procedures, and requirements for nonprocurement debarment and suspension, the OMB guidance in subparts A through I of 2 CFR part 180, as supplemented by this part. This adoption thereby gives regulatory effect for HUD to the OMB guidance, as supplemented by this part. This part satisfies the requirements in section 3 of Executive Order 12549, “Debarment and Suspension” (3 CFR 1986 Comp., p. 189), Executive Order 12689, “Debarment and Suspension” (3 CFR 1989 Comp., p. 235) and 31 U.S.C. 6101 note (Section 2455, Pub. L. 103-355, 108 Stat. 3327).

§ 2424.20 Does this part apply to me?

This part and, through this part, pertinent portions of subparts A through I of 2 CFR part 180 (see table at 2 CFR 180.100(b)), apply to you if you are a -

- (a) Participant or principal in a “covered transaction” (see subpart B of 2 CFR part 180 and the definition of “nonprocurement transaction” at 2 CFR 180.970, as supplemented by § 2424.970 of this part);
- (b) Respondent in a HUD suspension or debarment action;
- (c) HUD debarment or suspension official; or
- (d) HUD grants officer, agreements officer, or other official authorized to enter into any type of nonprocurement transaction that is a covered transaction.

§ 2424.995 - Principal (HUD supplement to governmentwide definition at 2 CFR 180.995). A person who has a critical influence on, or substantive control over, a covered transaction, whether or not employed by the participant. Persons who have a critical influence on, or substantive control over, a covered transaction may include, but are not limited to:

- (h) Ultimate beneficiaries of HUD programs;

§ 2424.1017 - Ultimate beneficiary.

Ultimate beneficiaries of HUD programs include, but are not limited to, subsidized tenants and subsidized mortgagors, such as those assisted under Section 8 Housing Assistance Payment contracts, by Section 236 Rental Assistance, or by Rent Supplement payments.