

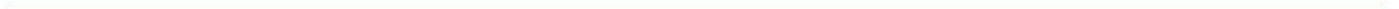


U.S. Department of Housing and Urban Development, Washington, DC

Compliance With the Improper Payments Elimination and Recovery Act

**Office of Audit, Financial Audits Division
Washington, DC**

**Audit Report Number: 2017-FO-0006
May 11, 2017**





To: Courtney B. Timberlake, Deputy Chief Financial Officer, F

//signed//

From: Thomas R. McEnanly, Director of Financial Audits Division, GAF

Subject: HUD Did Not 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 2016 compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA).

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 202-402-8216.



Audit Report Number: 2017-FO-0006

Date: May 11, 2017

HUD Did Not Comply With 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 2016 compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). IPERA was enacted to eliminate and recover improper payments by requiring agencies to identify and report on programs that are susceptible to significant improper payments. IPERA also requires each agency's inspector general to perform an annual review of the agency's compliance with IPERA. Our audit objectives were to (1) determine HUD's compliance with IPERA reporting and improper payment reduction requirements; (2) determine whether HUD's reporting of improper payment data, including the agency's performance in reducing and recapturing improper payments, was complete and accurate; and (3) determine whether HUD's assessment of the level of risk associated with high-priority programs and the quality of the improper payment estimates and methodology were reasonable and reliable.

What We Found

In fiscal year 2016, we determined that HUD did not comply with IPERA. Of the six requirements, HUD complied with four (compliance determinations a, c, d, and f) and did not comply with the remaining two (compliance determinations b and e). HUD also did not comply with IPERA in fiscal years 2013, 2014, and 2015. Specific areas of noncompliance for fiscal year 2016 were related to HUD's failure to (1) conduct an annual risk assessment in accordance with the Office of Management and Budget guidance and (2) meet its annual improper payment reduction target. This was the same issue we noted in our fiscal year 2015 audit report. Additionally, we found similar issues again in fiscal year 2016 concerning (1) the completeness and reliability of HUD's improper payment data reporting, including payment recapture audit plans, and (2) the reliability of HUD's improper payment estimate for its Rental Housing Assistance Programs. We recognize HUD's ongoing efforts and plans that are being developed to remediate many of the improper payment related issues mentioned in this report. We look forward to working with HUD in fiscal year 2017 on these matters.

What We Recommend

OIG made five new recommendations in this year's report to address new issues identified. We expect these recommendations will help remediate issues identified in HUD's payment recapture audit plans and reporting of improper payment information in the agency financial report.

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Background and Objectives

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 payment estimates and methodology for high-priority programs; and the oversight or 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. IPERIA also established the Do Not Pay Initiative, requiring each agency to review prepayment and preaward procedures to ensure that a thorough review of available databases with relevant information on eligibility is completed and used to determine program or award eligibility before the release of any Federal funds. OMB issued appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments, on October 20, 2014, to provide guidance for agencies in implementing IPIA, IPERA, and IPERIA requirements.

OMB Circular A-123, appendix C, requires agencies to follow a four-step process. Step 1 is to review all programs and activities and identify those that are susceptible to significant improper payments. Beginning with fiscal year 2014 reporting, “significant improper payments” are defined as gross annual improper payments (that is, the total amount of overpayments and underpayments) 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 payment 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. Step 3 is to implement a plan to reduce improper payments, and step 4 is to report annually in the agency financial report (AFR) or the performance and accountability report (PAR).

IPERA requires agencies to conduct recovery audits for each program and activity that expends \$1 million or more annually if conducting such audits would be cost effective. Under OMB Circular A-123, appendix C, all programs and activities that expend \$1 million or more annually – including grant, benefit, loan, and contract programs – must be considered for payment recapture audits. If an agency determines that it will be unable to conduct a cost-effective payment recapture audit

program for certain programs and activities that expend more than \$1 million, it must notify OMB and the agency's inspector general of this decision and include any analysis used by the agency to reach this decision. In addition, the agency must report in its annual AFR or PAR (1) a list of programs and activities for which it has determined that conducting a payment recapture audit program would not be cost effective and (2) a description of the justifications and analyses that it used to determine that conducting a payment recapture audit program for these programs and activities was not cost effective.

The U.S. Department of Housing and Urban Development's (HUD) Secretary designated the Chief Financial Officer as the lead official for overseeing HUD's actions to address improper payment issues and complying with the requirements of IPERA. HUD's Office of the Chief Financial Officer (OCFO) identified and reviewed HUD programs that exceeded \$40 million in expenditures in its risk assessment, with the exception of its rental housing assistance programs (RHAP) and Federal Housing Administration (FHA) programs, to determine whether they were susceptible to significant improper payments. FHA performed a separate risk assessment for its programs. Based on the fiscal year 2016 risk assessments and prior-year OIG recommendations, HUD identified three new programs susceptible to significant improper payments. These programs included the Office of Community Planning and Development's Entitlement Grants Program, the HOME Investment Partnerships Program, and the Single Family Claims Program. Since these new programs were identified for the first time in fiscal year 2016, HUD disclosed in its fiscal year 2016 AFR that it will not begin reporting improper payment estimates for these programs until fiscal year 2018.

HUD reported improper payment rates in its AFR for two programs: RHAP and the Disaster Relief Appropriations Act supplemental appropriations (Disaster Relief). RHAP consists of three high-risk program areas – public housing, Section 8 Housing Choice Voucher and Moderate Rehabilitation programs, and Owner-administered Project-based Assistance programs. HUD has reported an improper payment rate for RHAP since 2000. Three studies were undertaken to estimate the improper payment rate for RHAP. These studies were the quality control study, the income match study, and the billing study. Because RHAP has been designated as a high-priority program by OMB, HUD developed supplemental measures on which it reports quarterly to OMB's Payment Accuracy website.¹ The Disaster Relief Appropriations Act of 2013 designated the Disaster Relief program as susceptible to significant improper payments. On that basis, HUD is required to report an improper payment rate. HUD uses an alternative estimation approach approved by OMB to estimate improper payments for the Disaster Relief program.

Our objectives were to (1) determine HUD's compliance with IPERA reporting and improper payment reduction requirements; (2) determine whether HUD's reporting of improper payment data, including the agency's performance in reducing and recapturing improper payments, was complete and accurate; and (3) determine whether the HUD's assessment of the level of risk associated with the high-priority programs and the quality of the improper payment estimates and methodology were reasonable and reliable.

¹ <https://paymentaccuracy.gov>

Results of Audit

Finding 1: HUD Did Not Comply With IPERA

Fiscal year 2016 marked the fourth consecutive year in which we determined that HUD did not comply with IPERA. During our review of HUD's fiscal year 2016 AFR, we assessed HUD's compliance with six IPERA criteria. Of the six criteria, HUD failed to comply with two. Areas of noncompliance were related to HUD's failure to (1) conduct its annual risk assessment in accordance with OMB guidance and (2) meet its annual improper payment reduction target. This condition occurred because of HUD's failure to mitigate continued weaknesses in its risk assessment processes and ineffective strategies in addressing all of the root causes of improper payments for RHAP. As a result, HUD will likely continue to miss opportunities to prevent, identify, reduce, and recover improper payments.

HUD Did Not Comply With IPERA

According to OMB Circular A-123, part II, section A-3, an agency must meet all six requirements to comply with IPERA. Based upon our review of the six requirements, HUD did not comply with IPERA because it failed to meet two (b and e below) of the six requirements.

- a. Published agency financial report – HUD complied with this requirement. It published an AFR for the most recent fiscal year and posted that report and accompanying materials required by OMB on the agency website. However, some of the information published in the AFR did not fully adhere to the reporting requirements of OMB Circulars A-123 and A-136. These deficiencies are discussed in finding 4.
- b. Conducted compliant risk assessment process – HUD did not comply with this requirement. See the body of this finding for further details of HUD's noncompliance.
- c. Published estimate – HUD complied with this requirement by publishing improper payment estimates for all programs and activities identified as susceptible to significant improper payments. While no estimation and methodology issue came to our attention after reviewing HUD's Disaster Relief program, its estimate and methodology for RHAP continued to have deficiencies. These deficiencies are discussed in finding 3.
- d. Published corrective action plan – HUD complied with this requirement by publishing corrective actions for RHAP. However, HUD's disclosures were not adequate and did not fully adhere to reporting requirements of OMB Circular A-136. These deficiencies are discussed in finding 4.
- e. Published and met reduction targets – HUD did not comply with this requirement. Although HUD published its annual reduction targets in its AFR, it missed its reduction target for fiscal year 2016. See the body of this finding for further details of HUD's noncompliance.

- f. Reported an estimate below 10 percent— HUD complied with this requirement. HUD’s improper payment rates for its RHAP and Disaster Relief programs were below 10 percent.

In accordance with OMB guidance, HUD submitted a letter to Congress, dated June 14, 2016, since fiscal year 2016 marks the fourth consecutive year in which we reported HUD’s noncompliance with IPERA on the same program. Additionally, in April 2017, HUD provided us with its high-level planned strategies and project plans for bringing the agency into compliance with IPERA by fiscal year 2018.

Since all of HUD’s remediation plans were underway during our fiscal year 2016 audit, several prior-year audit recommendations, including the issues responsible for HUD’s noncompliance with IPERA, remained open and unimplemented as of the end of fiscal year 2016. Therefore, these issues were carried forward in this year’s audit report.

OCFO’s and FHA’s Risk Assessments Were Not Performed in Accordance With OMB Guidance

Although OCFO and FHA conducted specific program risk assessments, they did not (1) assess all low-risk programs on a 3-year cycle and (2) rate risk factors in accordance with their own risk rating criteria due to a lack of proper review procedures, thus making the review incomplete and noncompliant with section 3(a)(3)(B) of IPERA. HUD’s noncompliance was due to a risk assessment process established by OCFO and FHA that did not follow the requirements in OMB Circular A-123 for risk assessments.² According to HUD, it is modifying its risk assessment program to comply with governmentwide IPERA requirements, including updating its risk assessment templates and revising its policies and procedures. HUD’s final action target dates for implementing these revisions will be in fiscal year 2018.

² OMB Circular A-123, appendix C, part I.A.10, states that IPERA required agencies to conduct risk assessments for all programs starting in fiscal year 2011, unless they received a waiver from OMB. For programs that are determined to be at low risk of significant improper payments, agencies must perform risk assessments at least once every 3 years. The Circular, defines “significant erroneous payments” as annual erroneous payments 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 payment percentage of total program outlays). As part of the risk assessment, agencies shall take into account the following risk factors likely to contribute to improper payments: (i) Whether the program or activity reviewed is new to the agency; (ii) The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts; (iii) The volume of payments made annually; (iv) Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office; (v) Recent major changes in program funding, authorities, practices, or procedures; (vi) The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; (vii) Inherent risks of improper payments due to the nature of agency programs or operations; (viii) Significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certification; and (ix) Results from prior improper payment work.

OCFO's Risk Assessments Were Not Performed in Accordance With OMB Guidance and Its Own Internal Procedures. We identified a number of issues related to HUD's risk assessment processes as shown in detail below.

As reported in fiscal year 2015, OCFO continued to exclude programs with expenditures below \$40 million from its risk assessment because it did not believe that any of HUD's programs were susceptible to having an error rate in excess of 25 percent (that is, 25 percent of \$40 million = \$10 million). Additionally, although HUD incorporated all nine required risk factors listed in OMB Circular A-123 as recommended in our fiscal year 2015 audit report, OCFO failed to assign the correct risk assessment rating for some programs in accordance with its internal risk assessment criteria.

We also identified certain HUD programs and activities that were not risk assessed at least once every 3 years, including Government National Mortgage Association (Ginnie Mae) programs and payments to Federal employees for all program offices within a 3-year cycle as required. OMB Circular A-123, part I, section A-10 states that for programs that are determined to be low risk for significant improper payments, risk assessments must be performed at least once every 3 years and OMB Circular A-123, part I, section A-5 requires agencies to include payments made to federal employees.³ In regards to HUD's 3-year cycle schedule, we determined that HUD did not implement this schedule and excluded some programs that were scheduled to be risk assessed in fiscal year 2016.

FHA's Risk Assessments Were Not Performed in Accordance With OMB Guidance. In 2016, FHA made significant progress in addressing some of our fiscal year 2015 risk assessment audit recommendations. Specifically, we noted that FHA (1) no longer used the \$40 million expenditure threshold to identify programs for review, (2) had assessed the Single Family Claims program as high risk, and (3) incorporated the nine required risk factors from OMB Circular A-123 within its risk assessment. While these actions were steps in the right direction, FHA's noncompliance with OMB's risk assessment requirements continued because it did not properly perform its risk assessment for some programs in fiscal year 2016 according to the required risk factors. For example, in 2016, we noted again that some programs were not risk assessed according to the nine required risk factors over the last 3 years. These programs included Single Family Notes and Other Disbursements. As noted above, low-risk programs must be assessed at least once every 3 years. FHA staff could not provide adequate evidence to support that it had considered all nine required risk factors for each program assessed for fiscal year 2016. Another issue that we found was the inconsistencies between the fiscal year 2016 AFR disclosures and FHA's risk assessment for fiscal year 2016. For example, the disclosure of programs assessed in the AFR did not agree with the FHA programs assessed, based on the support we obtained from FHA.

These deficiencies occurred because HUD's policies and procedures for its OCFO and FHA risk assessments are currently being revised to align with OMB requirements. A number of our audit

³ OMB Circular A-123, Appendix C revised prior guidance included in OMB Memorandum M-11-16 issued in April 2011 which also required the inclusion of payments to federal employees and reviews of low risk programs once every 3 years.

recommendations⁴ associated with these deficiencies remained unimplemented. As a result, significant improper payments within HUD programs may not be prevented or detected, which could lead to the unnecessary waste of government resources.

HUD Did Not Meet Its Fiscal Year 2016 Improper Payment Reduction Target for Its Rental Housing Assistance Programs

Although HUD published an annual improper payment reduction target for its high-priority program, RHAP, it missed its reduction rate goal for fiscal year 2016.⁵ HUD's annual reduction target for fiscal year 2016 was 3.90 percent, compared to its actual rate of 5.20 percent reported in the AFR. HUD told us that the updated billing study,⁶ conducted in fiscal year 2016, reported an increase⁷ in billing overpayments and underpayments, which resulted in the increase in improper payments and rates. However, we determined that improper payments increased not only in the billing error rates, but also in overpayments reported in the income match study.

As reported in prior years,⁸ HUD's ineffective strategy in addressing the root causes of its RHAP improper payments was the underlying cause of HUD's continued challenges in achieving its annual reduction targets. For example, we determined that HUD was unable to effectively reassess its root cause for the RHAP improper payments due to the consistent increase in the estimates over the last 3 years. Further, instead of reassessing its corrective action plans, HUD continued to report the same corrective actions, which focused on the use of the Enterprise Income Verification system. These corrective actions were not effective because HUD did not include specific metrics for measuring the performance of the processing entities⁹ in mitigating processing errors in RHAP and did not include actions to hold these processing entities accountable for not doing so. As a result, improper payments continued to increase. According to HUD, as part of its process improvement to its improper payment program, it is currently looking into whether existing corrective action plans were effective in addressing the true root causes of improper payments for RHAP.

Conclusion

HUD failed to meet two of the six compliance determination requirements, which were related to risk assessments and annual improper payment reduction targets. HUD's failure to properly conduct its risk assessments increases its risk of not identifying programs that are susceptible to significant improper payments for further review, and as a consequence, preventing HUD from taking the necessary steps to address significant improper payments. HUD also missed its fiscal year 2016 annual reduction target for RHAP. This was due to HUD's ineffective corrective

⁴ See Followup on Prior Audits, recommendations 2016-FO-0005-1A, 2016-FO-0005-1B, and 2016-FO-0005-1E.

⁵ The improper payment reduction target in HUD's fiscal year 2016 AFR is based on fiscal year 2015 data. In addition, fiscal year 2016 was the second consecutive year in which HUD missed its annual reduction target.

⁶ HUD's last billing studies were conducted in 2009 for the Office of Multifamily Housing Programs and in 2004 for the Office of Public Housing.

⁷ This increase was primarily due to HUD's use of inaccurate inflation rate adjustments during periods when no billing study was being conducted.

⁸ Audit reports 2014-FO-0004 and 2016-FO-0005

⁹ Processing entities are public housing agencies for tenant-based Section 8 and public housing programs and owners or management agents for multifamily housing owner-administered projects.

action plan, which resulted in unfavorable actual improper payment rate performance for the past 3 years.

Recommendations

We recommend that the Office of the Chief Financial Officer

- 1A. Ensure that all payments to Federal employees are included in HUD's periodic risk assessment cycle.
- 1B. Establish and implement procedures and controls, in coordination with FHA, to ensure that FHA information reported in the AFR is accurate and consistent with supporting documents.

Finding 2: HUD's Scope for Payment Recapture Audits Was Incomplete and Its Disclosures Were Misleading

The scope of HUD's agencywide payment recapture audits was incomplete, and its disclosures, in some instances, were misleading. In fiscal year 2015, we reported that HUD lacked support to show that all of its programs and activities that expended \$1 million or more during the fiscal year were either considered for payment recapture audits or excluded based on cost-benefit considerations. This issue continued in fiscal year 2016. In addition, we determined that the cost justifications disclosed were not reasonable or valid. This condition occurred because updated policies and procedures had not been developed and implemented to ensure compliance with OMB regulations and OCFO failed to provide adequate oversight of its payment recapture audit process. As a result, HUD may have missed the opportunity to recover funds from those excluded programs that made improper payments, and HUD's stakeholders may not have been fully informed of the extent of HUD's implementation of the payment recapture audit program. During our audit, HUD informed us of its remediation plans to address OIG's ongoing concerns regarding payment recapture audits.

Current-Year Status of Prior-Year Audit Matters

In fiscal year 2016, HUD made progress in remediating prior-year audit recommendations related to disclosures of excluded programs but not our concern regarding how HUD performed its cost justifications for programs that were excluded from the recapture audits by program office instead of by individual programs. Additionally, in 2016, we noted inconsistencies in the number and scope of programs included in the payment recapture audits for fiscal year 2016 between HUD's AFR disclosure and the supporting documents. We also have concerns regarding the appropriateness of the analysis that HUD used to support its cost-benefit justifications.

AFR Disclosures Were Not Consistent With Supporting Documents and Cost-Benefit Justifications Were Not Reasonable or Valid

We identified inconsistencies between HUD's supporting documents and the AFR disclosures in the number and scope of programs covered in the recapture audits for fiscal year 2016. For example, there were more programs that met the \$1 million threshold limit disclosed in the AFR than were included in the program listing support maintained by OCFO. Additionally, there were programs scheduled for recapture audit in fiscal year 2016, according to HUD's supporting documents, but some of these programs were excluded according to the AFR disclosures. For example, HUD was scheduled to review the Fair Housing Assistance Program according to the program listing maintained by OCFO. However, this program was excluded from the payment recapture audits according to the AFR disclosures. These inconsistencies occurred due to lack of effective controls to ensure that the payment recapture audit disclosure information in the AFR was adequately reviewed for accuracy before publishing it.

In addition, we found that the cost justifications, disclosed in HUD's AFR, for excluding certain programs from payment recapture audits were unreasonable and therefore misleading to the reader. For example, HUD excluded programs it determined were low risk based on risk assessments, OMB Circular A-123 reviews, and other monitoring reviews. However, we were unable to validate this analysis. During our review of supporting documentation for some

programs excluded from the payment recapture audits, we were unable to validate that the agency conducted further analysis to appropriately exclude these programs, such as determining the likelihood of collection, as required by OMB Circular A- 123, Part I.D.5 We were also unable to validate whether excluded programs were included in the OMB Circular A-123 reviews and other monitoring reviews to ensure that HUD's conclusion was supported. Additionally, for purposes of assessing the cost-benefit consideration of performing a recapture audit, we do not agree with HUD's approach of applying costs to 100 percent of the population when a recapture audit should involve only a fraction of the total population. For example, HUD calculated the costs to conduct recapture audits for its RHAP based on reviewing 100 percent of households involved. However, HUD should have limited the scope of this review to ensure that it was cost effective.

Overall, most of the issues we identified in 2015 were repeated in fiscal year 2016 because corrective measures had not been fully developed or implemented during our fiscal year 2016 audit. Until HUD's updates are implemented, it is likely that HUD will continue to miss opportunities to recover improper payments from programs and activities that expend \$1 million or more annually.

Conclusion

HUD did not (1) maintain adequate documentation to support its AFR disclosures and ensure that all programs were appropriately assessed or excluded from the payment recapture audit and (2) provide reasonable and valid cost-benefit justifications and analyses for all programs excluded from the payment recapture audit plan in the AFR. These actions are required under OMB Circular A-123, and, more importantly, because of these shortcomings it is possible that there may have been some missed opportunities to recover funds from those excluded programs.

Recommendations

Because this is an update of a prior year finding, we are not making additional audit recommendation this year. See the Follow Up on Prior Year Audits section of this report for a status on open audit recommendations made in prior years.

Finding 3: HUD’s Improper Payment Estimate and Reporting for Its High-Priority Program Remained a Concern

HUD’s RHAP improper payment estimate reported in the fiscal year 2016 AFR may not have been reliable. Specifically, our concerns stemmed from HUD’s reporting of a combined RHAP improper payment rate, instead of separate improper payment rates for each of the three RHAP components, and improper categorization of its RHAP improper payment estimates, including the lack of an improper payment estimation of payments made to deceased tenants. These issues were repeat findings from prior-year audits. We attributed these deficiencies to HUD’s failure to (1) implement prior-year audit recommendations, (2) revise its procedures to report separate estimates for all components of RHAP as required, and (3) modify its methodology for identifying and categorizing improper payments. According to HUD, they are currently working on revising the estimation and reporting approach of its RHAP improper payments. For these reasons, the concerns we expressed in our fiscal year 2015 audit report about the reliability of HUD’s fiscal year 2016 RHAP improper payment estimate had not been addressed.

Significant Improper Payment Rates May Be Masked Under One Combined Rate

As reported in fiscal year 2015, HUD continued to disclose a combined improper payment rate for the three components of RHAP in the fiscal year 2016 AFR, which may have masked increases in the improper payment rate for one or more of the components. OMB Circular A-123, part I, section A-4 prohibits agencies from grouping programs or activities in a way that masks significant improper payment rates. In audit report 2014-FO-0004, we recommended that OCFO report on multifamily housing, public housing, and Section 8 improper payment rates separately in the AFR. As of May 2017, this recommendation¹⁰ remained open because HUD continued to disagree with us on this issue.

HUD’s Methodology Used To Identify Improper Payment Estimates Did Not Include the OMB Required Improper Payment Categories

As reported in fiscal year 2015, HUD continued to inappropriately categorize its improper payment estimates reported in the fiscal year 2016 AFR because it failed to modify its contract with its independent contractor to conform to new OMB requirements. Specifically, HUD uses an independent contractor to conduct quality control, income match, and billing studies to identify overpayments and underpayments used to calculate HUD’s improper payments estimates. During our review of these studies, we determined that the contractor’s current methodology did not consider the required OMB improper payment categories as listed in the revised guidance. In accordance with OMB Circular A-123, part I, section C-1, beginning in fiscal year 2015, agencies are required to report their improper payments based on the revised and expanded categories established by OMB. However, HUD continued to inappropriately report its improper payment estimates (based on prior guidance) under one category, which was “administrative or process errors made by: other party.” We identified at least two new categories in which HUD should be reporting improper payments including the “failure to verify

¹⁰ See Followup on Prior Audits, recommendation 2014-FO-0004-1G.

death data”¹¹ and “failure to verify financial data.”¹² Our prior-year recommendation¹³ that addressed this issue was closed by HUD, but based on our review, the suggested actions were not implemented to reassess its improper payment categories. Therefore, we will ask HUD to reopen this recommendation in the system.

We expect that these deficiencies will recur until updated policies and procedures are developed and implemented to conform to the revised OMB requirements for improper payment estimates. HUD told us that it had discussed with OMB its planned changes in its IPERIA process, including updates to incorporate all of the categories required by OMB. The planned completion date is fiscal year 2018.

In addition to inappropriately categorizing its improper payments, we determined that HUD’s studies did not take into account improper payments made to deceased tenants. HUD established supplemental measures to identify payments made to deceased tenants as one of the sources of improper payments in the fiscal 2016 AFR. However, HUD failed to quantify the amount of improper payment estimates that it was exposed to from this activity. According to HUD’s records, the number of properties that reflected payments to deceased single-member households was 564 as of September 30, 2015. With the assistance of its contractor, HUD could have estimated its improper payments made to deceased tenants as part of the study.

Conclusion

HUD’s combined RHAP improper payment rate could be masking significant improper payment rates for one or more RHAP components, and failing to properly categorize its improper payments leads to concerns with the reliability of the estimates.

Recommendations

Because this is an update of a prior year finding, we are not making additional audit recommendation this year. See the Follow Up on Prior Year Audits section of this report for a status on open audit recommendations made in prior years.

¹¹ Failure to verify death data is the failure to verify that an individual is deceased, and the agency (Federal, State, or local) or another party administering Federal dollars pays that individual.

¹² Failure to verify financial data is the failure to verify that an individual’s or household’s financial resources do not meet the threshold to qualify for a benefit, and the agency (Federal, State, or local) or another party administering Federal dollars makes a benefit payment to that individual or household.

¹³ See Followup to Prior Audits, recommendation 2015-FO-0005-4A.

Finding 4: HUD Did Not Fully Adhere to OMB's Improper Payment Reporting Requirements

In fiscal year 2015, HUD's reporting for supplemental measures, corrective actions, and accountability for RHAP was not in accordance with OMB Circular A-136 requirements. HUD also did not report its high-dollar overpayments in accordance with Executive Order 13520. These issues continued in fiscal year 2016. In addition, we identified instances in which HUD deviated from OMB Circulars A-123 and A-136 requirements, including adequate disclosures for not reporting future-year reduction targets lower than the current improper payment estimates for its Disaster Relief program and not maintaining sufficient support for supplemental measure targets. This condition occurred because efforts to address our audit recommendations from previous years remained ongoing and HUD's updated policies and procedures were still being developed. According to HUD, they are revising the improper payment program to improve its quarterly supplemental measures and AFR disclosures. As a result, all relevant information regarding HUD's agencywide improper payment initiatives was not adequately disclosed in the AFR.

HUD's Reporting for Supplemental Measures, Corrective Actions, Accountability, and Future-Year Reduction Targets Was Not in Accordance With OMB Reporting Requirements

HUD's fiscal year 2016 AFR did not report on supplemental measures, corrective actions, accountability, and future-year reduction targets in accordance with the reporting requirements of OMB Circulars A-123 and A-136. Our review determined that HUD did not fully adhere to the following reporting requirements and some information reported in the AFR was unsupported or insufficient. Specifically,

- HUD failed to reassess its supplemental measures to address its root cause to reduce improper payments and disclose adequate reasons for meeting, exceeding, or failing to meet the supplemental targets for RHAP as required by OMB Circular A-123, part III, section B.6. This issue was reported in fiscal year 2015, and we noted the same issue in fiscal year 2016. Also, HUD was unable to provide sufficient supporting analytics to identify how the supplemental measure targets reported in the AFR were chosen as required by OMB Circular A-123, part III, section B.4.
- Although HUD stated that its corrective actions for RHAP were ongoing, it did not (1) highlight current efforts, including key milestones and (2) explain in the AFR how it specifically tailored its corrective actions to better reflect the unique processes, procedures, and risks involved with RHAP as required by OMB Circular A-136, part II.5.8, section V. This was a new issue identified in fiscal year 2016.
- HUD failed to establish future-year reduction targets that were lower than the current-year improper payments for its Disaster Relief program in AFR table 1 as required. We determined that HUD's current-year Disaster Relief improper payment rate was 0.38 percent, but its future-year reduction target was 0.80 percent. For transparency, HUD should have clearly explained in the footnote to AFR table 1 the underlying reasons or

basis for establishing a higher reduction target as required by OMB Circular A-136, part II.5.8, section III. The footnote to the table was vague as it stated only that the Disaster Relief reduction targets reflected the relatively abbreviated period in which funds would be expended. This was a new issue identified in fiscal year 2016.

- Although HUD stated that it was holding officials accountable for reducing improper payments, HUD was not transparent in disclosing how these officials were made accountable for not meeting the improper payment reduction targets in fiscal year 2016 and not controlling the increasing trend of the improper payment rate estimates each year. As mentioned earlier, HUD not only missed its reduction target of 3.9 percent, its improper payment estimate in fiscal year 2016 increased to 5.2 percent. As required by OMB Circular A-136, part II.5.8, section VII, agencies must describe the steps the agency has taken and plans to take, including a timeline, to ensure that agency managers and accountable officers are held accountable for reducing improper payments and meeting applicable reduction targets. Failing to hold officials accountable for reducing and recapturing improper payments could only hinder HUD's efforts in reducing its improper payment rates.
- HUD was not explicit in its AFR that it missed its fiscal year 2016 improper payment reduction targets. According to the internal controls disclosed in the AFR, HUD reviews its progress against program-specific improper payment reduction targets and posts the results in the annual AFR. However, we determined that these results were not included in the AFR. Not reporting this information will make it impossible for the public or any of HUD's stakeholders to determine whether the agency met its goal for the year and is not consistent with promoting and ensuring proper accountability.

HUD's comprehensive efforts to bring the agency into compliance with OMB improper payment requirements were underway. As of May 2017, there were eight recommendations¹⁴ from our prior audits regarding the completeness of HUD's reporting for improper payments that remained open and unimplemented. The final action target date had passed on four of the eight open recommendations. This issue caused most of the conditions we identified in fiscal year 2015 to recur in fiscal year 2016. In April 2017, HUD provided us with high-level documentation of its project plan and strategy for bringing the agency into compliance with IPERA going forward. Some details of the project plan included efforts to update HUD's policies and procedures for reporting and reassessing its supplemental measures, which are expected to be implemented by September 2017.

HUD Did Not Identify or Report High-Dollar Overpayments

As reported in fiscal year 2015, HUD continued to have no system in place to capture high-dollar overpayments for its high-priority program, RHAP. As a result, no high-dollar overpayments were captured and reported by HUD at the end of fiscal year 2016 as required. HUD told us that it was in the process of updating its methodology for capturing and reporting this data. This

¹⁴ See Followup on Prior Audits, recommendations 2014-FO-0004-1L, 2014-FO-0004-1M, 2014-FO-0004-2A, 2014-FO-0004-2D, 2014-FO-0004-2F, 2014-FO-0004-2G, 2016-FO-0005-4A and 2016-FO-0005-4B.

updated methodology is due to OMB by June 2017. Therefore, the prior-year recommendation¹⁵ related to this issue remained open. As a result, HUD will continue to miss opportunities to mitigate the impact of high-dollar overpayments for RHAP.

Conclusion

The improper payment reporting issues we identified in fiscal year 2015 continued in fiscal year 2016. This deficiency also includes not capturing and reporting high-dollar overpayments as required by OMB. We recognize HUD's ongoing efforts to address these reporting issues and many other issues mentioned in our report. We look forward to working with the agency in fiscal year 2017 in evaluating the efforts that HUD is planning to put into place to bring it into compliance with IPERA.

Recommendations

We recommend that the Office of the Chief Financial Officer

- 4A. Develop and implement steps to ensure that the description of corrective actions highlights current efforts and key milestones for ongoing efforts and explain in the AFR how it specifically tailored its corrective actions to better reflect the unique processes, procedures, and risks involved with RHAP as required by OMB.
- 4B. Develop and implement steps to ensure that adequate disclosures are made when future-year reduction targets for improper payments reported in the AFR are higher than the current-year improper payment estimates.
- 4C. Disclose in the AFR the results of HUD's review concerning its current performance against program-specific improper payment reduction targets to promote transparency.

¹⁵ See Followup on Prior Audits, recommendation 2016-FO-0005-4C.

Scope and Methodology

We conducted our audit of HUD's compliance with IPERA for fiscal year 2016 from December 2016 through April 2017 at HUD headquarters in Washington, DC, and followed OMB Circular A-123 guidance on the Office of Inspector General's (OIG) responsibility. OMB Circular A-123, appendix C, II, 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 Web site;
- 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 payment 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); and
- f. Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment 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 payment elements, the agency inspector general may evaluate the accuracy and completeness of agency reporting and evaluate agency performance in reducing and recapturing improper payments.

Finally, as part of the annual compliance review, for agencies that have high-priority programs, the agency inspector general must: evaluate the agency's assessment of the level of risk associated with the high-priority programs and the quality of the improper payment estimates and methodology; determine the extent of oversight warranted; and provide the agency head with recommendations, if any, for modifying the agency's methodology,

promoting continued program access and participation, or maintaining adequate internal controls.

To accomplish our audit, we reviewed (1) relevant supporting documentations and cost-benefit analyses used to support HUD's payment recapture audit plan and (2) OCFO's and FHA's fiscal year 2016 improper payment risk assessments, which identified three new programs susceptible to significant improper payments. These new programs included the Office of Community Planning and Development's Entitlement Grants Program, HOME Investment Partnerships Program, and Single Family Claims Program. HUD plans to report improper payment estimates for these programs beginning in fiscal year 2018.

HUD reported improper payments for two programs in its fiscal year 2016 AFR: RHAP and Disaster Relief. We reviewed the improper payment estimation methodologies, including supporting documentation and other information that HUD reported for these two programs in the AFR; met with the appropriate personnel from OCFO, the Office of Public and Indian Housing, the Office of Multifamily Housing Programs, and the Office of Community Planning and Development; and reviewed HUD's internal controls, policies, procedures, and practices for preventing, reducing, and recovering improper payments. We also reviewed the quality control, income match, and billing studies conducted by the contractor for the RHAP improper payment estimate to assist us in evaluating HUD's methodology and the results of the study. Lastly, we reviewed the requirements contained in the applicable Federal laws, Executive Order 13520, implementation guidance found in OMB Circular A-123, and reporting guidance found in OMB Circular A-136 that govern actions needed by the agency to address the issue of improper payments.

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

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 objectives:

- HUD's design and implementation of controls to prevent, detect, and recover improper payments.
- HUD's reporting processes between program offices and OCFO.

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 Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- HUD's improper payments risk assessment process did not ensure that all low-risk programs were assessed on a 3-year cycle and the risk factors were appropriately ranked following its own risk rating criteria (finding 1).
- HUD did not have an effective process in place to ensure that all programs that expended \$1 million or more during the fiscal year were either considered for payment recapture audits or excluded because it was determined that these audits would not be cost effective (finding 2).
- HUD failed to report separate improper payment rates for each of the three RHAP components and properly categorize its improper payment estimate in accordance with OMB guidance (finding 3).
- HUD did not fully implement its internal control procedures to ensure complete and accurate reporting of improper payment information in its AFR (finding 4).

Followup on Prior Audits

We reviewed the recommendations from our prior audits regarding HUD's compliance with improper payment regulations, including audit reports 2014-FO-0004, 2015-FO-0005, and 2016-FO-0005. As of May 2017, 9 of the 21 recommendations from audit report 2014-FO-0004; 2 of the 6 recommendations from audit report 2015-FO-0005; and 11 of the 13 recommendations from audit report 2016-FO-0005 remained open with final action target dates between April 30, 2015, and December 31, 2018. Of these 22 open recommendations, management decisions had not been reached on 2. Additionally, we reopened four recommendations (items 4, 9, 10 and 22), which were previously closed by HUD in the departmental audit resolution tracking system, because OIG disagreed that these recommendations were implemented based on the results of our audit. The 22 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-0004-1G: no agreed-upon management decision or final action target date).
2. Work with PIH [the Office of Public and Indian Housing] 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-0004-2H: no agreed-upon management decision or final action target date).
3. Reassess the susceptibility of significant improper payments for the Office of Community Planning and Development entitlement, non-entitlement, HOME Investment Partnerships Program, and other formula grant programs based on the results of audit report 2014-FO-0003, as well as the community service and self-sufficiency requirement in public housing subsidiaries identified in audit report 2015-KC-0001 (recommendation 2015-FO-0005-3C: final action target date: August 31, 2018).
4. For HUD's high-priority programs, reevaluate the types of errors previously identified to determine whether new causes of errors exist that would lead to significant improper payments and require reporting in accordance with the improper payment categories outlined in OMB Circular A-123, appendix C, for fiscal years 2015 and beyond (recommendation 2015-FO-0005-4A: final action target date: December 31, 2015).
5. Revise its risk assessment process to ensure that all HUD programs, including Ginnie Mae programs, are (1) initially risk assessed for improper payments or request a waiver from OMB, and if programs are determined to be low risk, reassess them on a 3-year cycle; and (2) risk assessed against all of the required risk factors (recommendation 2016-FO-0005-1A: final action target date: September 30, 2017).

6. Establish policies and procedures to ensure that adequate documentation of the risk assessment process is maintained to facilitate an independent third party's review of OCFO's compliance with the requirements of OMB Circular A-123, appendix C, for risk assessments (recommendation 2016-FO-0005-1B: final action target date: September 30, 2017).
7. Consider stratifying the population of RHAP 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-0005-1C: final action target date: September 30, 2017).
8. 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-0005-2A: final action target date: September 30, 2017).
9. 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-0005-2B: final action target date: January 16, 2017).
10. 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 us for programs that were not already identified under a separate recovery audit plan (recommendation 2016-FO-0005-2C: final action target date: January 16, 2017).
11. Develop and document a methodology for adjusting the billing error for factors that may change the billing error previously reported if a billing study is not performed annually (recommendation 2016-FO-0005-2C: final action target date: January 16, 2017).
12. Amend the checklist to ensure that description of corrective actions in the AFR includes an explanation of how the corrective actions address the root causes reported in table 2 and all required timelines (recommendation 2016-FO-0005-4A: final action target date: January 15, 2018).
13. Establish and implement procedures to ensure that the required information specified in the checklist is adequately and specifically addressed and is included in the published AFR (recommendation 2016-FO-0005-4B: final action target date: January 15, 2018).

14. 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-0005-4C: final action target date: September 30, 2018).

We recommended that the Assistant Secretary for Public and Indian Housing

15. 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-0004-2A: final action target date: December 31, 2018).¹⁶

We recommended that the Deputy Assistant Secretary for Multifamily Housing Programs

16. Coordinate with all appropriate program officials when responding to OCFO's information requests to ensure that all statements are accurate for the current fiscal year, to include but not be limited to updates to corrective action plans, internal controls in place, and information on any barriers the agency is experiencing (recommendation 2014-FO-0004-1L: final action target date: August 31, 2016).
17. Develop and execute formal plans to hold accountable program officials and processing entities (owners or administrators) responsible for improper payments (recommendation 2014-FO-0004-1M: final action target date: September, 30, 2016).
18. 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-0004-2D: final action target date: April 30, 2015).
19. Periodically reevaluate the supplemental measures and corrective actions so that new and innovative ways to reduce improper payments are identified and implemented (recommendation 2014-FO-0004-2E: final action target date: August 31, 2016).
20. Work with the Real Estate Assessment Center to develop management-level reports in the Enterprise Income Verification system that will allow Multifamily Housing management to efficiently and effectively identify processing entities that are responsible for improper payments and develop policies and procedures to hold owners/administrators identified accountable (recommendation 2014-FO-0004-2F: final action target date: April 30, 2017).

¹⁶ A revised management decision was submitted on February 1, 2017, resetting the final action target date from December 31, 2016.

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

21. Work with PIH and Multifamily Housing management to develop management-level reports in the Enterprise Income Verification system that will allow PIH and Multifamily Housing management to efficiently and effectively identify processing entities that are responsible for improper payments (recommendation 2014-FO-0004-2G: final action target date: December 31, 2018).¹⁷

We recommended that the FHA Comptroller

22. Revise its risk assessment process to (1) ensure that all FHA programs are assessed for significant improper payments or request a waiver from OMB, (2) establish a 3-year cycle to reassess all low-risk programs, and (3) ensure that consideration of all of the required risk factors is clearly documented (recommendation 2016-FO-0005-1E: final action target date: October 31, 2016).

¹⁷ Ibid.

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

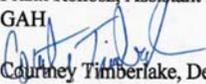
Ref to OIG Evaluation

Auditee Comments

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

May 8, 2017

MEMORANDUM FOR: Frank Rokosz, Assistant Inspector General for Audits, HUD, GAH

FROM: 
Courtney Timberlake, Deputy Chief Financial Officer, HUD, F

SUBJECT: Response to Draft OIG IPERIA Audit Report

Thank you for the opportunity to review and comment upon the subject report. We hope our responses serve as another opportunity for coordination toward sound financial management and are considered in OIG's final report. The Department is committed to strengthening our internal control framework to ensure payments are made in the right amount, to the right entity, and for the right purpose.

As we have discussed with you, we are working to fully reset our improper payment program. We have shared our remediation plan, are executing the plan, and expect to demonstrate measurable progress this year, with full realization and compliance next year. As we briefed you, we are analyzing and redefining payment programs to reflect common payment activities, conducting a risk assessment of all HUD programs to establish a three-year cycle, documenting program operations, refocusing the improper payment estimates on HUD process disbursement controls, and revising reporting disclosures and corrective action plans to address underlying causes of improper payments. We are unable to fully harmonize with OIG's assessment of the issues, conclusions, or resulting recommendations because they are based on our previous program.

The past IPERIA methodology had constraints, including using anonymous data, which resulted in some potential limitations in payment recaptures. The full program reset gives us an opportunity to focus our resources on identifying the common themes of the findings, recommendations, and observations; developing strategies to tackle those common themes to remediate complex overarching issues; and leveraging commonalities to tailor solutions.

Since we are resetting the entire program, we request recommendations related to past deficiencies be crafted to reflect the program reset or be eliminated, and any recommendations beyond the Federal requirements be labeled as optional or suggestions.

Taking this opportunity to apply more holistic solutions to address improper payment risk will allow HUD to demonstrate sound stewardship over Federal dollars. We look forward to a productive and fruitful year working with OIG as we reset the program and work towards compliance.

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Comment 1

Comment 2

Comment 3

OIG Evaluation of Auditee Comments

HUD generally agreed with our overall conclusion about HUD's noncompliance with IPERA.

- Comment 1: We recognized HUD's efforts in 2017 to restructure its IPERA compliance processes to address many of the repeat issues we identified in our audit reports. We also believe this will ensure HUD's compliance with IPERA in the future. To this end, according to HUD, it is in the process of (1) analyzing and redefining its payment programs to reflect common payment activities, (2) conducting a risk assessment of all HUD programs to establish a three-year cycle, (3) documenting program operations, refocusing the improper payment estimates on HUD process disbursement controls, and revising reporting disclosures and corrective action plans to address underlying causes of improper payments. However, since many of the benefits from these changes are not expected to take effect until fiscal year 2018, we plan to continue reviewing the implementation of these changes in our future year audits.
- Comment 2: The audit, including our conclusions, was intended to assess the current and not the future state of HUD's IPERA program. Therefore, the findings and recommendations as reported, which were based on audit issues identified during our fiscal year 2016 audit and disclosures reported in the current year AFR, were appropriate.
- Comment 3: As noted earlier, we support HUD's efforts in restructuring its IPERA program this year and look forward to working with the Department on this effort next year. While we agree that this effort was a step in the right direction, we cannot close any open fiscal year 2016 and prior year IPERA audit recommendations until we obtain sufficient appropriate evidence to support that appropriate processes and controls are in place to remediate the deficiencies identified in our report. As a result, we plan to validate the implementation of HUD's remediation plan as part of next year's work.