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Audit Report Number 2006-NY-0001

TO: Margaret Burns, Director, Office of Single Family Program Development, HUP

FROM: *Edgar Moore*
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: HUD's Controls over the Reporting, Oversight, and Monitoring of the Housing Counseling Assistance Program Were Not Adequate

HIGHLIGHTS

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) Housing Counseling Assistance Program (Program) as administered by the Philadelphia Homeownership Center. This review was performed based on the Office of Inspector General's (OIG) annual audit plan and the OIG's strategic plan to help HUD improve the execution of its fiscal responsibilities. The objectives of our audit were to determine whether HUD 1) ensures the accuracy and reliability of the data reported on fiscal year activity reports (HUD form-9902), and has a system in place to measure the impact that the grants have on the performance measurements of the Program, and 2) has implemented a monitoring system that adequately accounts for and safeguards funds that HUD provides grantees.

What We Found

HUD's controls do not allow adequate reporting on Program performance or relate to Program objectives. Specifically, a) the data reported on the HUD-9902 activity reports were inaccurate and not current, b) performance goals did not

measure the effects of grant funds on the Program objectives, and c) some departmental Program objectives were not being measured. We attribute these conditions to HUD's failure to establish controls to effectively measure the number of clients counseled each year with grant funds, and track the impact of the housing services provided.

In addition, HUD's oversight and monitoring of local housing counseling agencies was not adequate to ensure that the agencies were conducting activities in accordance with HUD requirements and grant agreements. We attribute this to HUD's failure to establish and implement necessary written procedures to properly monitor and administer the Program.

What We Recommend

We recommend that the director of HUD's Office of Single Family Program Development establish controls that will ensure accurate and reliable fiscal year activity reports. Further, we recommend that the office implement procedures for reporting that provide for more timely information and the reporting of actual results in later reports when estimates are used. In addition, we recommend that the office implement a system that measures all Program objectives and goals. We also recommend that the office establish and implement written procedures to ensure that HUD provides adequate oversight and monitoring of the Program.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the results of our review during the audit and at an exit conference held on May 18, 2006. HUD Office of Single Family Program Development officials provided their written comments during the exit conference. Appendix A of this report contains HUD's comments, along with our evaluation of the comments.

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BACKGROUND AND OBJECTIVES

Section 106 of the Housing and Urban Development Act of 1968 provides the U.S. Department of Housing and Urban Development (HUD) general counseling authority. Section 106(a)(1)(iii) prescribes that the secretary of HUD is authorized to provide counseling and advice to tenants and homeowners with respect to property maintenance, financial management, and such other matters as may be appropriate to assist them in improving their housing conditions and in meeting the responsibilities of tenancy or homeownership. Section 106(a)(2) provides that the secretary may provide these services directly or may enter into contracts with, make grants to, and provide other types of assistance to private or public organizations with special competence and knowledge in counseling low and moderate-income families to provide such services.

Through its Housing Counseling Assistance Program (Program), HUD both approves and provides grants to housing counseling agencies nationwide. These agencies provide a variety of counseling services, including homebuyer, mortgage delinquency, postpurchase, home equity conversion, mobility and relocation assistance, renter assistance, money management, fair housing assistance, and homeless services. Since 1969, HUD has certified agencies as “HUD-approved housing counseling agencies.” There are three different categories of HUD-approved agencies:

1. Local housing counseling agencies represent agencies that are directly approved by HUD. These agencies may have local branch offices in different geographic areas. As of May 2005, there were 838 approved local housing counseling agencies. These agencies were approved for \$43.4 million in funding during our audit period.
2. National and regional intermediaries (intermediaries) represent national, multistate, regional, and local entities that have affiliate member organizations over which the intermediary exercises some control regarding services rendered and the quality of those services. The intermediaries must confirm that their affiliates meet certain standards to obtain HUD-approved status. In addition, intermediaries may have local branch offices in different geographic areas. In May 2005, there were 16 national intermediaries and 2 regional intermediaries. These agencies were approved for \$61.4 million in funding during our audit period.
3. State housing finance agencies represent state agencies that participate in the Program without prior approval from HUD. State housing finance agencies may provide direct counseling services or subgrant housing counseling to local housing counseling agencies within the state. In May 2005, 18 state housing finance agencies provided housing counseling services. These agencies were approved for \$7.3 million in funding during our audit period.

An organization approved by HUD does not automatically receive HUD funding. Funding depends upon two factors: (1) appropriations by Congress and (2) the award of grants by HUD on a competitive basis according to criteria published in a notice of funding availability in the *Federal Register*. HUD funding is not intended to cover all counseling costs incurred by the agency in delivering counseling services; agencies must seek additional funding from other sources. Funding

from multiple sources is the best way to ensure a counseling agency's continued operation. HUD's funding has had three significant appropriation changes:

1. In fiscal year 1977, regular funding for counseling began in response to high delinquency and default rates in the Section 221 and 235 mortgage insurance programs. Throughout the 1980s, funding for the Program remained constant at around \$3.5 million.
2. In fiscal year 1991, the Program was rolled into the HOME program appropriation as a set-aside and increased to around \$8 million. The Program gradually grew to approximately \$20 million in fiscal year 2002.
3. In fiscal year 2003, the appropriation doubled to approximately \$40 million. This was in response to the president's challenge to expand minority homeownership by 5.5 million new homeowners by the year 2012, concerns about predatory lending, and to support the new voucher homeownership program.

Our objectives were to determine whether HUD 1) ensures the accuracy and reliability of the data reported on fiscal year activity reports (HUD form-9902), and has a system in place to measure the impact that the grants have on the performance measurements of the Program, and 2) has implemented a monitoring system that adequately accounts for and safeguards funds that HUD provides grantees.

RESULTS OF AUDIT

Finding 1: HUD's Reporting of Housing Counseling Performance Is Inaccurate and Does Not Relate to Program Objectives

HUD's controls do not allow adequate reporting on Program performance or relate to Program objectives. Specifically, a) the data reported on the HUD-9902 activity reports were inaccurate and not current, b) performance goals did not measure the effects of grant funds on the Program objectives, and c) some departmental Program objectives were not being measured. These deficiencies occurred because HUD had not established controls to effectively measure the number of clients counseled each year with grant funds and did not adequately track the impact of the housing services. As a result, HUD was not able to demonstrate whether the Program has accomplished its objectives or whether the funds allocated to the Program have been an efficient use of resources.

Program Goals

The primary objectives of the Program are to expand homeownership opportunities and improve access to affordable housing. The specific departmental objectives are to 1) increase participation of first-time homebuyers in the homeownership market, 2) reduce losses to single-family mortgage insurance funds by reducing the number of foreclosures and their costs, 3) reduce mortgage defaults and their servicing costs to HUD under HUD-insured and secretary-held single-family mortgages, and 4) reduce losses to the multifamily mortgage insurance funds caused by rent delinquencies and evictions and their creation of cash-flow problems in multifamily project management that adversely affect HUD.

The Government Performance on Results Act of 1993 requires each agency to prepare an annual performance plan covering each program activity set forth in the budget of such agency. The plan should establish performance goals to define the level of performance to be achieved by a program activity; express such goals in an objective, quantifiable, and measurable form; establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity; provide a basis for comparing actual program results with the established performance goals; and describe the means to be used to verify and validate measured values.

The Program's performance goals for fiscal year 2004 were as follows:

- Housing counseling was to be provided to 137,000 more homebuyers in fiscal year 2004,

- The share of housing counseling clients who are minorities was to increase by 113,000 to support HUD's goal of increasing minority homeownership,
- The number of households receiving housing counseling from HUD-approved housing counseling agencies to assist them in using their housing vouchers to become homeowners was to increase by 900, and
- Housing counseling provided to clients receiving homeless counseling was to increase by 7,000 clients.

HUD-9902 Activity Report Data Is Inaccurate and Not Current

The data that support whether HUD is meeting its performance goals are collected on activity reports (HUD 9902), which are prepared by housing counseling agencies. These activity reports are the critical component for measuring the achievement of HUD-established Program goals. However, our review of several HUD-9902 activity reports found that the data reported on performance measures were not accurate [see finding 2]. The majority of our testing was within the HUD Philadelphia Homeownership Center jurisdiction; however, the inaccuracies made by these housing counseling agencies would be expected as commonplace among the local housing counseling agencies. Ultimately, this affected HUD's ability to effectively report on the Program's performance.

We also noted that the information reported on activity reports (HUD 9902) related to HUD's performance goals was not current. Accordingly, the performance and accountability reports do not reflect a true picture of housing counseling activity because HUD relied upon data from previous fiscal years to make estimates when reporting the achievement of its goals instead of using actual figures. For example, in the performance and accountability report for fiscal year 2004, HUD stated that an estimated 739,589 homebuyers and homeowners were expected to receive housing counseling services. However, these figures were projections based on actual housing counseling data collected for the grant period ending September 2003, not 2004. The actual number of clients counseled during the period ending September 2004 was 456,807, which was far fewer than the estimate reported. Further, although the actual figures were tallied for fiscal year 2004, there was no provision to report these 2004 actual figures in the fiscal year 2005 performance and accountability report.

Effect of Grant Funds Not Measured

HUD's performance goals do not provide an indication of the impact of HUD funding on the Program. For the fiscal year 2005 performance and accountability report, HUD did not report on the number of clients counseled. Instead, it reported on the percentage of clients meeting a particular goal. The performance goals in the fiscal year 2005 performance and accountability report were to obtain

- At least 30 percent of clients receiving prepurchase counseling to purchase a home or become mortgage ready within 90 days.
- At least 50 percent of the total clients receiving housing counseling in fiscal year 2005 to be minority clients.
- More than 50 percent of total borrowers seeking help with resolving or preventing mortgage delinquency to avoid foreclosure.
- At least 70 percent of clients receiving rental or homeless counseling to either find suitable housing or receive social service assistance to improve their housing situation.

These goals do not measure the effect of grant funds on the Program, nor do they account for the total number of clients counseled. As such, there is no measurable basis for HUD's continued requests for increases in funding for the Program. HUD's budget submissions for the Program provide that funding was increased because the Program significantly contributes to the president's goal of expanding homeownership. However, since the goals of the Program do not measure the increase in homeownership, HUD cannot support this statement.

Further, as explained above, since the HUD 9902 activity report data were not accurate, HUD cannot accurately measure whether the Program is meeting its performance goals, nor can it determine the effect of the increase in funding on the performance goals of the Program. Over the years, funding for the Program has increased significantly, from \$3.5 million in the 1980s to more than \$40 million in fiscal year 2003 and after. HUD estimated that increases in the number of clients counseled were in direct relation to the increase in funding. However, this was not the case. For example, although funds were increased in fiscal year 2003 for use in 2004 by 98 percent, the actual number of clients that were counseled only increased by 14 percent. Despite not meeting its expectations, HUD continued to propose increases in funding for future budgets with no viable basis other than to state that it wanted to increase homeownership. Without properly gathering Program statistics that accurately measure performance goals on a consistent basis, there is no viable evidence to support HUD's continued increases in Program funding.

Program Objectives Not Measured

Because of the conditions described above, HUD could not measure how the Program met the objectives to expand homeownership opportunities and improve access to affordable housing. Likewise, HUD did not measure the impact of the Program on its objectives to reduce 1) losses to the single-family mortgage insurance funds by reducing the number of foreclosures and their costs, 2) mortgage defaults and their servicing costs to HUD under HUD-insured and secretary-held single-family mortgages, and 3) losses to the multifamily mortgage insurance funds caused by rent delinquencies and evictions and their creation of cash-flow problems in multifamily project management that adversely affect HUD. Accordingly, HUD should establish procedures on how to measure these objectives or consider revising them.

Conclusion

HUD did not accurately report on the achievements of Program goals due to its failure to establish the necessary controls to accurately account for the number of clients counseled each year with grant funds, and to track the impact of housing services provided. As a result, HUD cannot determine whether the Program has accomplished its objectives and whether the funds allocated to the Program are an efficient use of resources. HUD needs to establish controls for housing counseling agencies that will ensure an accurate account of clients counseled, establish controls for current reporting of performance goals, establish performance goals that measure the effects of the grant funds on the Program objectives, and ensure that all Program objectives are measured.

Recommendations

We recommend that the director of HUD's Office of Single Family Program Development

- 1A. Establish controls for housing counseling agencies that will ensure an accurate account of clients counseled with HUD funds and the outcome of this counseling.
- 1B. Implement procedures for HUD's reporting that provide for more timely information and the reporting of actual results in later reports when estimates are used.

- 1C. Provide justifications that the funds allocated to the Program are an efficient use of resources. The justification should include measurements of the impact that the grant funds have on achieving Program goals.
- 1D. Establish a system that effectively measures all Program objectives and goals and ensures that the system can provide the information necessary to determine whether the Program is meeting its objectives and achieving its goals.

Finding 2: HUD's Oversight and Monitoring of Local Housing Counseling Agencies Was Not Adequate

HUD's oversight and monitoring of local housing counseling agencies was not adequate to ensure that the agencies were conducting activities in accordance with HUD requirements and grant agreements. Improvement is needed in the following areas: 1) verifying the accurate completion of the HUD-9902 activity reports; 2) monitoring of the grant-funded housing counseling agencies for compliance with their grant agreements, specifically, the cost reimbursement principles; and 3) providing training opportunities and technical assistance to counseling agencies regarding the administrative functions of the Program. These weaknesses can be attributed to HUD's failure to establish and implement the necessary written procedures to properly monitor and administer the Program. As a result, the data collected by local housing counseling agencies for the HUD-9902 activity report have been incomplete and erroneous. In addition, HUD cannot be assured that grant funds are appropriately safeguarded and used as required by the grant agreements.

Verifying the Accuracy of HUD-9902 Activity Reports

As discussed in finding 1 of this report, HUD has placed great emphasis and importance on the HUD-9902 activity reports. The data from this form are compiled to measure counseling activity levels and the achievement of HUD's performance goals. Despite the importance of this data, HUD has not issued written procedures for its personnel to use in reviewing HUD-9902 activity reports for accuracy and completeness on an annual basis or during the biennial review of the housing counseling agencies. As a result, this has had a negative impact on HUD's ability to measure the Program's accomplishments. HUD Handbook 7610.1, REV-4, CHG-2, paragraph 5-2, provides that HUD staff must monitor the activities of the HUD-approved housing counseling agencies. Paragraph 5-2G describes the HUD-9902 activity reports as one of the items within each agency's file that provides the groundwork for desk monitoring. However, the handbook does not provide additional details on how to monitor or what to review on the HUD-9902 activity reports.

The lack of detailed instructions on verifying the accurate completion of the HUD-9902 activity reports contributed to a number of mathematical errors and activity reports that were improperly completed. For example, although there were local housing counseling agencies that received funding from HUD as well as from other sources, some of these agencies reported that 100 percent of their clients were assisted with HUD grant funds. Conversely, while there were agencies that did not receive HUD grant funds, their HUD-9902 activity reports included clients counseled with HUD grant funds. In both instances, the number of clients that were counseled with HUD grant funds was overstated. In addition, some agencies did not collect the demographic information of their group

education clients or failed to record the information on their HUD-9902 activity reports. The scope of monitoring performed by Single Family Program specialists regarding the accuracy of the HUD-9902 activity reports varies. Some specialists follow only the items in the monitoring checklist, whereas others also include a review of the HUD-9902 data. One advisor stated that he recently felt the need to examine the numbers on the report for the housing counseling agencies assigned to him. However, this was based on his conviction of the importance of the numbers on the report and not on any required monitoring guidelines. Further, we found no evidence from the biennial reviews that the HUD-9902 activity reports were reviewed for inaccuracies. HUD officials acknowledged that there are no written procedures for verifying the reports.

Discussions with housing counseling agency officials confirmed that biennial reviews did not include a review of HUD-9902 activity reports. Moreover, during our local housing counseling agency site visits, we found that two grantees did not maintain a client management system that could accurately identify the number of clients counseled and reported on the HUD-9902 activity report submitted to HUD. The lack of an adequate client management system impedes HUD from ensuring the validity of the clients counseled.

HUD is revising the HUD-9902 activity reports and working on implementing electronic client management systems for its housing counseling agencies. We recognize that the revised form and electronic client management systems, once fully implemented, could resolve many of the data problems in the reports. However, until that time, it is critical for HUD to verify the accurate completion of the HUD-9902 activity reports. Once the new systems are fully implemented, HUD will need to continue validating the information in the system.

Monitoring for Compliance with Grant Agreements and Cost Reimbursement Principles

HUD-funded housing counseling agencies are required to comply with their grant agreements, which specify that they are cost reimbursement grants. Therefore, no profit above allowable and eligible costs shall be paid by HUD to a grantee. Further, the grant agreements require the housing counseling agencies to maintain and operate financial management systems that meet or exceed federal requirements for funds control and accountability as established by the applicable regulations in 24 CFR [*Code of Federal Regulations*] 84.21 and 85.20. Further, HUD Handbook 7610.1, REV-4, CHG-2, paragraph 5.2I, requires HUD to monitor grantees for compliance with the grant agreement, reports, and invoices.

Despite these requirements, HUD has not established procedures to adequately safeguard the grant funds and review grantee financial systems and costs. When grantees request funds through the Line of Credit Control System, they are not required to submit supporting documentation to justify the costs incurred. More

importantly, HUD did not establish any monitoring or review procedures to assess the grantee's financial systems and costs.

Our audit work at three local housing counseling agencies that received grant funds disclosed that the accounting related to the costs for clients counseled under HUD grant activities varies among the three agencies. One agency did not track any costs related to the grant but, rather, billed HUD based upon the number of counseling cases completed and not on the costs incurred to administer the Program. This method violated the grant agreement because the grant funds are provided for reimbursable costs incurred. Upon our request, the other two housing counseling agencies were able to support the grant fund requests with actual costs. However, one of these agencies did not maintain an accounting system that charges off the costs against the grant; instead, the funds were drawn down quarterly in equal installments unrelated to costs incurred. The remaining housing counseling agency had an accounting system that charges the costs against the grant; however, our review noted deficiencies with its accounting method pertaining to timing and classification.

All of the housing counseling agencies, as well as HUD personnel, confirmed that HUD did not review financial systems or supporting costs for eligibility. The current biennial review checklist does not contain provisions for review of costs or financial systems.

Training and Technical Assistance for Administrative Functions of the Program

There is a need for training and technical assistance on various programmatic issues. Some of the more significant needs are as follows:

1. Training and technical assistance for housing counseling agencies on the proper completion of the HUD-9902 activity reports. Many agencies continue to find the form confusing and difficult to complete.
2. Technical assistance for housing counseling agencies receiving grants on the expectations and requirements for financial systems and cost-reimbursement principles.
3. Training for Single Family Program advisors/specialists conducting biennial reviews in the area of financial management and support for costs incurred.

The annual Program budget authority includes several million dollars that can be used by HUD for training or technical assistance. On April 11, 2005, HUD entered into a cooperative agreement with the Neighborhood Reinvestment

Corporation to provide training to counselors of HUD-approved counseling agencies through courses offered at national, regional, and local training sessions around the country through March 31, 2007. However, housing counseling agency officials indicated that the training has been mainly geared toward counseling techniques and not for the administrative functions of the Program.

Conclusion

Based on the above, it is clear that improvements are needed in oversight and monitoring of housing counseling agencies. HUD's failure to establish and implement the necessary written procedures to properly monitor and administer the Program contributed to housing counseling agencies submitting incomplete and erroneous HUD-9902 activity reports. This failure has had a negative impact on HUD's ability to measure Program accomplishments. In addition, HUD cannot be assured that grant funds are appropriately safeguarded and used as required by the grant agreements. HUD needs to establish and implement written procedures for verifying the HUD-9902 activity reports and grantee financial management systems. In addition, given the importance of the issues discussed in this finding, HUD needs to provide additional focused training and technical assistance to improve Program operations and grant management.

Recommendations

We recommend that the director of HUD's Office of Single Family Program Development

- 2A. Establish and implement appropriate written procedures for HUD to ensure that data on the HUD-9902 activity reports are accurate, complete, and, therefore, useful as a management tool.
- 2B. Establish and implement written procedures for reviewing grantee financial management systems and grant costs for compliance with Program requirements.
- 2C. Provide necessary training regarding the administrative functions of the Program. The training should be provided to both housing counseling agencies and HUD program specialists. It should include, but not be limited to, proper reporting on HUD-9902 activity reports, client management systems, and grant accounting.

SCOPE AND METHODOLOGY

Our review focused on housing counseling procedures administered by the Philadelphia Homeownership Center and housing counseling agencies within the Region 2, New York/New Jersey jurisdiction.

To accomplish our objectives, we

- Reviewed the applicable HUD regulations, including the notice of funding availability, relating to administration of the Program.
- Obtained an understanding of the Program through interviews with Office of Single Family Program Development staff.
- Obtained an understanding of Program goals through a review of the annual performance plans and the performance and accountability reports.
- Examined 10 local housing counseling agencies from the Philadelphia Homeownership Center that were awarded housing counseling grants in either fiscal year 2003 or 2004.
- Performed on-site reviews at three local housing counseling agencies within the Region 2, New York/New Jersey, jurisdiction, which included reviewing costing systems, reviewing the HUD-9902 activity reports for mathematical accuracy and validity, and interviewing agency staff regarding the administration of the Program.
- Interviewed local housing counseling agencies from the Philadelphia Homeownership Center that were not awarded housing counseling grants in either fiscal year 2003 or 2004.
- Performed an analysis of the HUD-9902 activity reports in the housing counseling system.
- Interviewed individuals that were identified as being Program counseled.

The review covered the period from October 1, 2002, through September 30, 2005, and was extended as necessary. We performed our audit work from August 2005 through March 2006 at HUD Headquarters and various office locations of housing counseling grantees. The review was conducted in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal controls are an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Controls over the validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

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

- HUD has not established policies and procedures to ensure that the performance goals are measured and program objectives are met (see finding 1).

- HUD has not implemented a system to ensure that HUD-9902 activity reports used to report program goals are accurate, valid, and reliable (see findings 1 and 2).
- HUD has not established policies and procedures to monitor compliance with regulations and grant agreements to ensure that grant funds are adequately safeguarded (see finding 2).


Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments


Comment 1


OFFICE OF HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

MAY 18 2006

MEMORANDUM FOR: Edgar Moore, Regional Inspector General for Audit, 2AGA

FROM: Margaret Burns, Director, Office of Program Development
Single Family Housing, HU 

SUBJECT: Response to HUD's Office of Inspector General (OIG) Draft Audit Report on the Housing Counseling Program

The Office of Single Family Housing appreciates the opportunity to comment on the OIG's draft audit report entitled, "HUD's Controls over the Reporting, Oversight, and Monitoring of the Housing Counseling Assistance Program Were Not Adequate." Overall, management believe that the findings in this report do not accurately reflect the steady progress the Housing Counseling Program has made to strengthen its program operations and achieve program goals. Over the past four years the Housing Counseling Program has focused a tremendous amount of time and resources on: developing a federal regulation to codify the program, refining its annual performance measures, developing initiatives to improve the quality of data collection, strengthening its performance review process of agencies and advocating for the commissioning of a formal and independent long term evaluation of the impact of the Housing Counseling Program. Below is a summary of the major milestones of program accomplishments:

- In FY 2002 the HUD-9902 Activity Report was revised to focus reporting on counseling outcomes
- In FY 2004 and FY 2005 the Housing Counseling Program's annual performance indicators were revised with OMB approval
- In FY 2004 the Housing Counseling Program received a Rating of "Adequate" from the Office of Management and Budget (OMB)'s Program Assessment Rating Tool (PART)
- In FY 2004 HUD issued a proposed regulation for the Housing Counseling Program. A final rule is scheduled to be published by September 2006.
- In FY 2006 obtained a contract to develop and build a database, the Client Activity Reporting Systems (CARS) to collect client level data from HUD-Approved housing counseling agencies.
- In FY 2006 initiated a pilot with four client management systems (CMS) to build an interface to CARS to collect client level data from housing counseling agencies. CARS will begin to be phased in FY 2007.
- In FY 2006 revised the HUD-9902 Activity Report. The form was approved by OMB and will be used by counseling agencies in FY 2007.

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Ref to OIG Evaluation

Auditee Comments

Comment 1

- In FY 2006, program staff undertook a revision of the Housing Counseling Handbook. The handbook is scheduled to go into Departmental Clearance in September 2006.
- In FY 2006 the Office of Single Family Housing commissioned HUD's Office of Policy Development and Research to evaluate the program's impact, performance and ability to achieve established goals. A request for proposals was issued and contract award will take place by September 2006.
- In FY 2006 program staff initiated a project to revise and strengthen its performance reviews of housing counseling agencies.

Program staff have prepared the following comment regarding the draft audit:

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"Specifically: a) the data reported on the HUD-9902 activity reports were inaccurate and not current...." (line 6)

Comment 2

OIG only reviewed HUD-9902 activity reports from several locally approved housing counseling agencies in the Philadelphia Homeownership Center and this is not a large enough sample to then conclude as the OIG does that the inaccuracies can be expected as commonplace throughout the Program.

National and regional HUD-approved intermediary organizations play an important role in providing quality control related to the outcomes their member agencies report on the HUD-9902 activity reports. However, OIG did not interview representatives of these intermediaries or take into consideration the role they play in providing quality control for HUD-9902 activity reports.

As the OIG states on page four, HUD partners and provides funding to a network of national and regional intermediaries in the Housing Counseling Program. In fact, HUD awards the majority of its grant funds to these national and regional intermediaries to support the housing counseling activities of their members agencies. For example, in FY 2006 HUD will award \$39.08 million in grant funds. Fifty-eight percent of these grant funds or \$22.8 million will be awarded to national and regional intermediary organizations. Each intermediary reviews the HUD-9902 activity report data for each member agency before it is submitted to HUD. In addition, some intermediaries request that agencies report their 9902 activity data on a quarterly basis which indicates that the intermediaries are reviewing the data and providing quality control throughout the fiscal year.

Comment 3

The above statement in the report also implies that the program office could collect the 9902 activity reports in a more timely fashion from grant recipients. However, this is not the case. All grant recipients of the Department, including those organizations awarded grants through the Housing Counseling Program, are allowed by regulation Title 24 Part 85.40 to provide performance data up to 90 days after the end of the grant period. While grant awards are typically done on a fiscal year basis (October 1-September 31st), HUD-9902 activity reports are due ninety days after the end of the grant which typically is December 31st or the end of the calendar year.

Ref to OIG Evaluation

Auditee Comments

Comment 3

In addition, complete housing counseling data is unavailable at the point in time (October/November) that the HUD Performance and Accountability Report is submitted. This is an issue that affects all grant programs across the Department. Since approved agencies are allowed by regulation to submit complete housing counseling program activity data to HUD 90 days after the end of the fiscal year, actual information on the number of clients counseled or the results of counseling provided in a given fiscal year is not available until the second quarter of the following fiscal year. This timeframe therefore necessitates the use of estimates for year-end publications such as HUD's Performance and Accountability Report.

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"HUD's performance goals do not provide an indication of the impact of HUD funding on the Program. For the fiscal year 2005 performance and accountability report, HUD did not report on the number of clients counseled. Instead, it reported on the percentage of clients meeting a particular goal...These goals do not measure the effect of grant funds on the Program, nor do they account for the total number of clients counseled. (line 4)

Comment 4

The Program Office has worked closely over the past several years with the Office of Management and Budget (OMB) to develop meaningful and appropriate annual performance measures that can demonstrate progress toward the program's long-term goals. With the full support of OMB, the Program Office has eliminated the use of the number of clients counseled as an annual performance measurement for the Housing Counseling Program. OMB agrees with the Program Office that the number of clients counseled is not a useful performance measure for this grant program.

The reason that the number of clients counseled is not a useful performance measure is that in order for counseling to be effective, the type of counseling service offered must be geared to the needs of the client. The fact is that different counseling services take different time periods to complete. In general there are two main types of counseling services, one-on-one counseling and group education. One-on-one counseling is more time intensive than group education and is more geared to meeting the individual housing assistance needs of a particular client. While an agency can certainly counsel many more people with group education, an agency can be more effective at helping many of their clients meet their goals of homeownership by providing one-on-one counseling. While they serve fewer clients by providing one-on-one counseling, it is a more effective method to meet the individual needs of the clients. Therefore, a simple increase in the number of clients counseled is not necessarily the best measure of performance of the agencies or the Housing Counseling Program.

As a result of the Program Office's discussions with OMB, the program's annual performance measures were revised to capture program outcomes and HUD revised 3 of its 4 housing counseling performance indicators during the mid-year revision of the FY 2005 Annual Performance Plan. Program activity is now evaluated in terms of the share of clients receiving certain types of assistance that achieve a particular counseling outcome, rather than the number of clients served.

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“We also noted that the information reported on activity reports (HUD-9902) related to HUD’s performance goals was not current. Accordingly, the performance and accountability reports do not reflect a true picture of housing counseling activity because HUD relied on data from previous fiscal years to make estimates when reporting the achievement of its goals instead of using actual figures.”(Line 23)

Comment 3

Complete housing counseling data is unavailable at the point in time (October/November) that the HUD Performance and Accountability Report is submitted. This is an issue that affects all grant programs across the Department. Approved agencies are given up to 90 days after the end of a fiscal year to submit complete housing counseling program activity data to HUD through Fiscal Year Activity Reports. As a result, actual information on the number of clients counseled or the results of counseling provided in a given fiscal year is not available until the second quarter of the following fiscal year. This timeframe therefore necessitates the use of estimates for year-end publications such as HUD’s Performance and Accountability Report. This is true for all grant programs across the Department.

For example, in the Performance and Accountability Report for fiscal year 2004, HUD stated that an estimated 739,589 homebuyers and homeowners were expected to receive housing counseling services. However, these figures were projections based on actual housing counseling data collected for the grant period ending September 2003, not 2004. The actual number of clients counseled during the period ending September 2004 was 456,807, which was far fewer than the estimate reported. Further, although the actual figures were tallied for fiscal year 2004, there was no provision to report these figures in the 2005 Performance and Accountability Report.

Comment 5

The original projections for FY 2004 were based in part on actual counseling activity that took place in FY 2003. Staff make projections for future activity based on actual activity from the previous year. However, given the fluctuations in the mortgage market and the larger economy it is difficult for staff to predict what the actual activity will be with any precision.

In addition, differences in the projected number of homebuyers and homeowners counseled (739,589) versus the actual number counseled (456,807) may be explained by the focus of many housing counseling agencies have begun to place on in-depth, one-on-one counseling practices versus group education. Lower numbers of homebuyers and homeowners than projected may take into account the greater weight that the NOFA award process has placed on agency practices that emphasize individual client counseling.

Another contributing factor may be instructions published in the FY 2004 Notice of Funding Availability (NOFA) for the Housing Counseling Program which instructed applicants to calculate the total number of clients served under the HUD Grant Activities column of the HUD-9902 by pro-rating their response to a figure representing services provided only with funding from a HUD Housing Counseling grant. This instruction may have led to lower numbers being reported in the HUD-9902 in FY 2004.

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Comment 5

To comply with OMB recommendations to develop performance indicators that capture program outcomes, HUD revised 3 of its 4 housing counseling performance indicators during the mid-year revision of the FY 2005 Annual Performance Plan. Program activity is now evaluated in terms of the share of clients receiving certain types of assistance that achieve a particular counseling outcome, rather than the number of clients served.

The statement that there is no provision in the Performance and Accountability Report for reporting actual housing counseling data for previous fiscal years is incorrect. Actual data for fiscal year 2004 is given in the "Results and Analysis" section of each performance indicator narrative. Examples of this are shown on pages 69, 77, 86 and 101 of the 2005 Performance and Accountability Report for performance indicators H.1.7, H.2.5, H.6.2 and A.1.10 respectively. To be consistent with the current reporting methodology, FY 2004 data is discussed in terms of the share of clients receiving assistance that achieve particular counseling outcomes, rather than the number of clients served.

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Comment 4

" These goals do not measure the effect of grants funds on the Program, nor do they account for the total number of clients counseled. (Line 18)

See response on Page 3.

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Likewise, HUD did not measure the impact of the Program on its objectives to reduce 1) losses to the single family mortgage insurance funds by reducing the number of foreclosures and their costs; 2) mortgage defaults and their servicing costs to HUD under HUD-insured and secretary-held single family mortgages, and 3) losses to the multifamily mortgage insurance funds caused by rent delinquencies and evictions and their creation of cash-flow problems in multifamily project management that adversely affect HUD. Accordingly, HUD should establish procedures on how to measure these objectives or consider revising them. (line 6)

Comment 6

Federal interest in housing counseling was first generated by a need to reduce the risk of various FHA mortgage insurance funds. This interest is reflected in the program objectives that are listed in the report and are stated in the Housing Counseling Program's handbook. With changes in federal policy and the mortgage industry, the housing counseling industry has evolved over the years with an increasing focus on repurchasing counseling. While default counseling remains an important part of HUD's counseling program, FHA has developed other tools like loss mitigation which FHA lenders are required to offer to borrowers in default to help them avoid foreclosure. Program staff intend to revise program objectives in the Program Handbook in light of the evolution of the program. As mentioned previously, the scheduled release date for this HB is September 2006.

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Despite the importance of this data, HUD has not issued written procedures for its personnel to use in reviewing HUD 9902 activity reports for accuracy for completeness on an annual basis or during biennial review of the housing counseling agencies. (Line 21)

Comment 7

Program staff in headquarters host biweekly conference calls with staff in the Homeownership Centers and field offices to discuss policy and program matters. Many decisions are made during these calls regarding program implementation. The collection and accuracy of HUD 9902 activity reports is a high priority for staff and has been a central theme in many conference calls on an annual basis. In FY 2005 an email was issued to the field with specific instructions regarding the review of HUD 9902 for accuracy. Handbooks are the standard form for issuing guidance to the field as well as HUD business partners. Instruction on reviewing HUD 9902 activity reports will be included in a new handbook once it is released. However, it can take several years to revise a handbook within the Department so it would not be practical to issue all program guidance to staff in the form of a handbook. Furthermore, HUD has a contact with the NCHC to offer training to counselors. A new course has just been added on HUD Record-keeping regulations which will include instruction on completing the 9902.

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“Despite these requirements, HUD has not established procedures to adequately safeguard the grant funds and review grantee financial systems and costs. When grantees request funds through the Line of Credit Control System, they are not required to submit supporting documentation to justify the costs incurred. More importantly, HUD did not establish any monitoring or review procedures to assess the grantee’s financial systems and costs.” (line 2)

Comment 8

In FY 2005 the Program office initiated a project to revise its performance review procedures. The revised performance review procedures will contain procedures for staff to review an agency’s policy and procedures regarding a grantee’s financial systems and documentation supporting program costs incurred and use of HUD grant funds. This project also included developing written policy for housing counseling agencies regarding record keeping which will be included in FY 2006 grant agreement.

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“However, housing counseling agency officials indicated that the training has been mainly geared toward counseling techniques and not for the administrative functions of the Program.” (line 10)

Comment 9

As part of its training initiative with HUD, Neighborhood Reinvestment Corporation is developing new courses for housing counselors that include administrative functions of the Program. A 1-day course targeted at Executive Directors and Program Managers who are interested in becoming a HUD Approved Counseling Agency is being developed and will debut in August, 2006.

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Comment 9

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A second course, envisioned to be a 2-day format and designed for primarily Executive Directors and Program Managers who are existing HUD-Approved Counseling Agencies, focused on effective tips for management and implementation of the HUD Housing Counseling program will be developed later in 2006 and likely introduced in February 2007.

OIG Evaluation of Auditee Comments

Comment 1 Officials of the Office of Single Family Program Development state that the findings in this report do not accurately reflect the steady progress the Housing Counseling Program has made to strengthen its program operations and achieve program goals.

The conclusions made in our report are based on the information obtained at the time of our review to answer our audit objectives. As such, our conclusions address the deficiencies and weaknesses in the internal controls of HUD's Housing Counseling Assistance Program as they relate to these objectives. Thus, although Program progress has occurred over the years, our report disclosed that more improvements are needed to ensure that accurate and reliable data is reported on fiscal year activity reports, to measure the impact that grants have on the performance measurements of the Program, and to effectively monitor and provide oversight for the program.

Comment 2 Officials of the Office of Single Family Program Development contend that the review of HUD-9902 activity reports from only local housing counseling agencies in the Philadelphia Homeownership Center, and not including national and regional HUD-approved intermediary organizations, is not a large enough sample to then conclude that the inaccuracies can be expected as commonplace throughout the Program. Since the local housing agencies represent 38% of the total program funding, any level of inaccuracy with local housing agency data affects HUD's ability to effectively and accurately report on the Program's performance. However, since our review consisted of HUD-9902 activity reports from only locally approved housing counseling agencies in the Philadelphia Homeownership Center, we have revised the wording in our report to reflect that the inaccuracies made by these housing counseling agencies would be expected as commonplace among the local housing counseling agencies.

Comment 3 Officials of the Office of Single Family Program Development contend that Title 24 Part 85.40 allows HUD grant recipients up to 90 days after the end of the grant period to provide performance data. While grant awards are typically done on a fiscal year basis (October 1st – September 31st), HUD-9902 activity reports are due ninety days after the end of the grant, which is typically December 31st or the end of the calendar year. In addition, complete housing counseling data is unavailable at the point in time that the HUD Performance and Accountability Report is submitted. As a result, actual information on the number of clients counseled or the results of counseling provided in a given fiscal year is not available until the second quarter of the following year. This timeframe necessitates the use of estimates for year-end publications.

While it is true that all grant recipients of the Department are allowed by regulation to provide performance data up to 90 days after the grant period, the

Office of Single Family Program Development should implement procedures to obtain performance data throughout the fiscal year, perhaps quarterly, in managing the Program. As such, relatively current data would be available and only a small amount of data (one quarter) would be based on estimates, thus providing a more accurate account of Program information for use in reporting Program accomplishments.

- Comment 4** Officials of the Office of Single Family Program Development state that the number of clients counseled is not a useful performance measure for this grant program; thus, a simple increase in the number of clients counseled is not necessarily the best measure of performance. Accordingly, the program performance measures were revised to capture program outcomes. Program activities are now evaluated in terms of the share of clients (percentage) receiving certain types of assistance that achieve a particular counseling outcome rather than the number of clients served. However, this too is not a viable measure of performance without first reporting the number of clients counseled during the period. As such, the Office of Single Family Program Development should consider either measuring both items or developing a more accurate measure of performance to indicate the impact of HUD funding on the Program.
- Comment 5** For reporting purposes, Office of Single Family Program Development staff make projections for future activity based on actual activity from the previous year. The original projections for FY 2004 were based in part on actual counseling activity that took place in FY 2003. However, as a true measurement of the goal that was in effect at the time, the actual results of the clients counseled in FY 2004 should have been reported and any variances between the estimated and actual activity should have been explained in the FY 2005 Performance and Accountability Report.
- Comment 6** Office of Single Family Program Development staff intend to revise the program objectives in the Program Handbook scheduled for release in September 2006.
- Comment 7** Officials of the Office of Single Family Program Development state that although program staff discuss policy and program matters via biweekly conference calls and emails with homeownership centers and field offices, written instructions on reviewing HUD-9902 activity reports will be included in a new handbook. Further, training on record keeping and completing the 9902-activity report is under contract.
- Comment 8** Officials of the Office of Single Family Program Development state that in FY 2005, a project was initiated to include procedures for staff to review a grantee's financial system and documentation supporting program costs. The FY 2006 grant agreement will also include a written policy for housing counseling agencies regarding record keeping.

Comment 9 As part of its training initiative with HUD, Neighborhood Reinvestment Corporation is developing new courses for housing counselors that include administrative functions of the Program.