Office of Finance and Budget, Washington, DC

HUD's Use of Nonpayment Orders on FHA Loans

To: Susan A. Betts
Deputy Assistant Secretary for Finance and Budget, HW

//SIGNED//
From: Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

Subject: HUD's Use of Nonpayment Orders Adequately Prevented Claims on FHA Loans From Being Paid

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's use of nonpayment orders on Federal Housing Administration (FHA) loans.

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 Web site. Accordingly, this report will be posted at http://www.hudoig.gov. Please note that OIG determined some contents of this audit report would not be appropriate for public disclosure and those items have been redacted from this report.

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.

Highlights

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) process for ensuring that nonpayment orders[1] adequately prevented the payment of claims on Federal Housing Administration (FHA) loans. The audit was initiated in response to an Office of Inspector General preaudit analysis of HUD data, which determined that nonpayment orders may not always prevent claims from being paid. Our audit objective was to determine whether HUD had adequate controls to prevent improper claims from being paid.

What We Found

HUD's use of nonpayment orders adequately prevented claims on FHA loans from being paid. Our review of 17 claims that had an active nonpayment order and 10 claims that had an inactive nonpayment order for the first entry did not identify any improper claims that were paid.

What We Recommend

There are no recommendations.

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[1] Nonpayment orders are also known as claim blocks.

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Background and Objectives

The Federal Housing Administration (FHA) was created by Congress in 1934 and provides mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. Under the FHA program, lenders bear less risk because FHA will pay a claim to the lender in the event of a homeowner's default; however, loans must meet certain requirements established by FHA to qualify for insurance.

The Office of Finance and Budget, within the Office of Housing, oversees the FHA claims process and the Single Family Insurance System – Claims Subsystem, which processes single-family insurance claims against defaulted loans. The claims process is initiated when a servicing lender completes and submits an application for single-family insurance benefits (form HUD-27011) to the U.S. Department of Housing and Urban Development (HUD). Claims can be submitted through Electronic Data Interchange (EDI), FHA Connection (FHAC), or a paper submission; however, the most common format for claim submission is EDI. EDI and FHAC are online systems through which lenders can electronically file claims or communicate to HUD.

HUD will generate a payment to the lender only if the claim submission passes all system edits and control checks.

Once a claim passes all of the Claims Subsystem edits, it is moved forward in the electronic processing cycle, and payment is authorized. The Claims Subsystem receives, edits, controls, monitors, and pays mortgage insurance claims benefits in excess of $15 billion annually.

During the period January 1, 2013, to August 31, 2017, there were 32,028 case numbers and 28 lenders that had an active nonpayment order.

The objective of the audit was to determine whether HUD had adequate controls to prevent improper claims from being paid.

Results of Audit

Finding 1: HUD's Use of Nonpayment Orders Adequately Prevented Claims on FHA Loans From Being Paid

HUD's use of nonpayment orders adequately prevented claims on FHA loans from being paid. Our review of 17 loans that had a claim with an active nonpayment order and 10 loans that had a claim paid with an inactive nonpayment order for the first entry did not identify any improper claims that were paid.

Claims Paid With an Active Nonpayment Order Were Appropriate
From January 1, 2013, to August 31, 2017, we identified 97 loans that had a claim paid and an active nonpayment order for the case number or lender. We reviewed a nonstatistical sample of 17 loans that had a claim paid when it had an active nonpayment order and determined that for 12 loans, the claims were submitted to HUD before the nonpayment order was entered. HUD's Claims Subsystem reviews loans for nonpayment orders when they are submitted by lenders. Therefore, for these 12 loans, the claims were paid because there was no nonpayment order entered to prevent the claim from being paid. HUD recovered the claim payments for 5 of the 12 loans, and for the remaining 7 loans, no recovery was required.

For the remaining 5 of the 17 loans, the claims were submitted to HUD after the nonpayment order was entered; however,

- for 4 loans, the claims were appropriately suspended due to the nonpayment order until they were approved for payment and

- for 1 loan, the nonpayment order appropriately prevented a duplicate claim from being paid.

Claims Paid With an Inactive Nonpayment Order Were Appropriate
From January 1, 2013, to August 31, 2017, we identified 1,146 loans that had a nonpayment order entered with an inactive status for the first entry. Of these loans, 65 had a claim paid after the nonpayment order was created. We reviewed a nonstatistical sample of 10 loans that had a claim paid after the nonpayment order was created with an inactive status for the first entry to determine whether the nonpayment orders were entered correctly and whether any improper claims were paid. We determined that one nonpayment order was improperly entered as inactive but no improper claims were paid. Specifically, for the 10 loans reviewed, we determined that

- for 7 loans, the inactive status was appropriately entered,

- for 2 loans, the nonpayment orders should not have been entered because they were not necessary, and

- for 1 loan, HUD stated that the nonpayment order was improperly entered as inactive but the lender that requested the nonpayment order stated that it was not necessary because it would resolve the issue with a corrected claim.

When a new nonpayment order is entered for a case number, the status should not be inactive. As a result, HUD stated that it would correct the programming in the Claims Subsystem, scheduled for January 2018, so that the only available entry allowed for a new nonpayment order would be "active."

Conclusion

HUD's use of nonpayment orders adequately prevented claims from being paid. Our review of 17 claims that had an active nonpayment order and 10 claims that had an inactive nonpayment order for the first entry did not identify any improper claims that were paid.

Recommendations

There are no recommendations.

Scope and Methodology

We performed our audit fieldwork from October to December 2017 at our offices in Phoenix, AZ, and San Francisco, CA. Our audit period covered FHA-insured single-family loans that had a nonpayment order and a claim paid from January 1, 2013, to August 31, 2017.

To accomplish our objective, we

- reviewed applicable HUD requirements and internal procedures,

- interviewed appropriate HUD personnel from the Office of Finance and Budget,

- reviewed nonpayment orders and claim payment data from HUD's Single Family Data Warehouse[2] and HUD's Claims Subsystem, and

- reviewed a sample of 27 nonpayment orders entered for loans that had a claim paid.

We used claim payment data obtained from the Single Family Data Warehouse and nonpayment order data provided by HUD to identify

- loans that had a claim paid from January 1, 2013, to August 31, 2017, and an active nonpayment order and

- loans that had a claim paid from January 1, 2013, to August 31, 2017, and a nonpayment order entered with an inactive status for the first entry.

Using these data, we identified 97 loans that had a claim paid after an active nonpayment order was created for the case number or lender. We selected a nonstatistical sample of 17 loans to determine whether the nonpayment orders effectively prevented the payment of claims. This sample was selected based on factors such as whether an inactive nonpayment order was entered on the same date as the active nonpayment order, comments entered for the nonpayment order, and the claim payment amounts. We also identified 65 loans that had a claim paid after an inactive nonpayment order was created with an inactive status for the first entry. We selected a nonstatistical sample of 10 loans to determine whether the nonpayment orders were entered correctly and whether any improper claims were paid. This sampling method did not allow us to make a projection to the universe, but it was sufficient to meet the audit objective.

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[2] The Single Family Data Warehouse is a large collection of database tables dedicated to support analysis, verification, and publication of FHA single-family data.

Although we did not perform a detailed assessment of the reliability of the data, we determined that the data were sufficiently reliable for the purposes of our review because the data in the sampled items were supported by documentation supplied by HUD's Single Family Claims Branch.

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

Internal Controls

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

- effectiveness and efficiency of operations,

- reliability of financial reporting, and

- compliance with applicable laws and regulations.

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

Relevant Internal Controls
We determined that the following internal controls were relevant to our audit objectives:

- Controls to ensure that HUD does not pay claims for loans with an active nonpayment order.

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.

We evaluated the internal controls related to the audit objective in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of HUD's internal control.

Appendix

Appendix A

<p align="center">Auditee Comments and OIG's Evaluation</p>

**Ref to OIG
Evaluation**

Auditee Comments

Comment 1

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

OFFICE OF HOUSING

FEB 0 9 2018

MEMORANDUM FOR: Tanya E. Schultze, Regional Inspector General for Audit, 9DGA

FROM: Susan Betts, Deputy Assistant Secretary for Finance and Budget, HW

SUBJECT: Response to the draft audit report on HUD's Use of Nonpayment Orders Adequately Prevented Claims on FHA Loans from Being Paid

Thank you for providing us the opportunity to respond to your draft audit report resulting from the completed review of HUD's use of nonpayment orders. We appreciate your acknowledgement that HUD's use of nonpayment orders adequately prevented claims on FHA loans from being paid.

Please contact Arthur Chin at 202-402-6076 if you need additional assistance with regards to the draft audit report.

www.hud.gov   espanol.hud.gov

OIG Evaluation of Auditee Comments

Comment 1   We appreciate the Office of Finance and Budget taking the time to review and respond to the audit report.