



U. S. Department of Housing and Urban Development
Office of Inspector General
New York-New Jersey Office
26 Federal Plaza – Room 3430
New York, NY 10278-0068

MEMORANDUM NO: 2012-NY-0801

May 8, 2012

MEMORANDUM FOR: Charles Coulter, Deputy Assistant Secretary, Single Family Housing,
HU

FROM: *Edgar Moore*
Edgar Moore, Regional Inspector General for Audit, New York/New Jersey, 2AGA

SUBJECT: Corrective Action Verification
Office of Single Family Program Development
Housing Counseling Assistance Program
Audit Report 2006-NY-0001

INTRODUCTION

We completed a corrective action verification regarding the recommendations made to the U.S. Department of Housing and Urban Development's (HUD) Office of Single Family Program Development pertaining to our review of HUD's monitoring of the Housing Counseling Assistance Program, Audit Report 2006-NY-0001, issued June 8, 2006. The purpose of the corrective action verification was to determine whether the audit recommendations had been implemented and the deficiencies cited in the report had been corrected.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-4. Please furnish us copies of any correspondence or directives issued because of the review.

METHODOLOGY AND SCOPE

The corrective action verification focused on the seven recommendations from the subject audit report. To accomplish our objective, we reviewed the audit report and associated supporting documentation, as well as the HUD management decisions and the supporting documentation used by HUD to close the recommendations. In addition, we interviewed officials from HUD's Single Family Housing, Office of Single Family Program Development. A non-statistical sample was selected from housing counseling grants awarded to more than 500 national, regional, and local organizations in fiscal year 2010. In addition, we selected a sample that included grantees from each of the four homeownership centers. We selected five national and

regional intermediaries and five local agencies awarded grants from each of the four homeownership centers for a total of 25 grantees. The total amount of the grant awards was almost \$73 million awarded to national and regional intermediary housing counseling agencies, local housing counseling agencies, multi-State agencies and State housing finance agencies. The amount awarded to the selected grantees was more than \$12 million, or more than 16 percent of the total grants awarded. To complete our corrective action verification, we reviewed form HUD-9902, Housing Counseling Agency Activity Report, and form HUD-96010, Logic Model, submissions from the sampled agencies. In addition, we reviewed four agencies' monitoring files from our sample to determine whether the management decisions had been implemented.

BACKGROUND

Finding 1 of the subject audit report noted that HUD's controls did not allow adequate reporting on Program performance or relate to Program objectives. Specifically, (1) the data reported on the form HUD-9902 activity reports¹ were inaccurate and not current, (2) performance goals did not measure the effects of grant funds on the Program objectives, and (3) some departmental Program objectives were not measured. These deficiencies occurred because HUD officials 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. Finding 2 of the report noted that HUD's oversight and monitoring of local housing counseling agencies was not adequate to ensure that the agencies conducted activities in accordance with HUD requirements and grant agreements. Therefore, improvement was needed in the following areas: (1) verifying the accurate completion of the form 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 were attributed to HUD officials' failure to establish and implement the necessary written procedures to properly monitor and administer the Program. The audit report contained recommendations for the Director of HUD's Office of Single Family Program Development to

- 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.

¹ The HUD form 9902 is used to records the amount of housing counseling and education activities conducted or services performed by agencies participating in HUD's Housing Counseling Program.

- 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.

Finding 1 Proposed Management Decisions

In response to recommendation 1A, HUD was to revise the form HUD-9902 activity report and the form HUD-9910 performance review checklist. In addition, HUD was to develop a standard operating procedures guide for Housing Counseling Program staff. The revisions to the activity form were to include new counseling outcomes, which would minimize the selection of “other” as an outcome, as well as improved formatting that would reduce possible errors. These revisions were to ensure that HUD-approved agencies provided a more accurate account of clients counseled with HUD funds, as well as the outcome of this counseling. The changes to the monitoring review checklist required reviewers to analyze the agency’s most recent activity report, form HUD-9902, submission for errors as a standard part of the review and provide technical assistance when needed. The standard operating procedures guide was to include written procedures for HUD staff to follow when conducting quality control reviews of the HUD-9902 activity reports submitted by HUD-approved agencies.

In regard to recommendation 1B, HUD was to begin collecting the form HUD-9902 activity reports quarterly in fiscal year 2007. Doing so would allow the Program office to base estimates of annual outcomes reported in HUD’s performance and accountability report on more recent data. Further, HUD claimed that it was already standard practice to report actual results in later reports when estimates were used.

For recommendation 1C, HUD agreed to complement each of the four existing programmatic performance indicators, which were percentage based, with a tracking indicator that reported the amount of counseling and education activity that occurred relative to the indicator.

In response to recommendation 1D, Office of Single Family Housing Program Development staff intended to revise the Program objectives in the Housing Counseling Program handbook.

Finding 2 Proposed Management Decisions

In regard to recommendation 2A, HUD was writing a standard operating procedures guide for Housing Counseling Program staff. The guide was to include written procedures for HUD staff to follow when performing quality control reviews of the HUD-9902 activity reports submitted

by the HUD-approved agencies. Moreover, HUD was to revise the monitoring review checklist, form HUD-9910, requiring reviewers to analyze the agency's most recent form HUD-9902 submission for errors as a standard part of the review, and provide technical assistance when needed.

For recommendation 2B, HUD was to revise the form HUD-9910 performance review checklist to incorporate written procedures for staff to follow when reviewing grantee financial management practices and their compliance with all Program requirements. Moreover, guidelines regarding the use of the performance review checklist were to be included in the standard operating procedures guide for Housing Counseling Program staff.

For recommendation 2C, as part of its training initiative with HUD, Neighbor Works was to develop a new training course for housing counselors that included administrative functions of the Program. Additionally, in September 2006, the Program office planned to conduct an interactive satellite training broadcast for counseling agencies and HUD staff to review the changes to the form HUD-9902 activity report including its improved instructions and completion procedures.

By January, 2007, HUD's Office of Inspector General (OIG) had concurred with all of the proposed management decisions. HUD's management decisions on the recommendations were closed by September, 2010.

RESULTS OF REVIEW

HUD officials had generally implemented management decisions to address the recommendations in the report. Specifically, five of the seven recommendations cited in the report had been corrected. Thus, two management decisions had not fully corrected the deficiencies identified in the audit report since either they were ineffective or HUD officials had made additional Program changes. Specifically, the controls HUD officials established for housing counseling agencies that were intended to ensure an accurate account of clients counseled with HUD funds and the outcomes of the counseling were not effective. We attribute this condition to the fact that the implemented management decision did not address correcting the deficiency in a timely manner. Also, HUD could not accurately measure the impact of grant funds on meeting the Program objectives. We attribute this condition to HUD officials' changing the way they measured and reported on the Housing Counseling Program's impact (e.g. the performance and accountability report was replaced by two reports neither of which contained specific performance indicators [see the third bullet that follows]). Thus, the deficiencies that HUD's controls did not allow adequate reporting of Program performance and that performance goals did not measure the effects of grant funds on the Program objectives had not been corrected. During the corrective action verification, it was determined that HUD officials had

- Made changes to the form HUD-9902 activity report and form HUD-9910 performance review checklist and established written standard operating procedures requiring HUD staff to conduct quality control reviews of the activity reports and provide technical assistance when needed in response to recommendation 1A. However, the agencies

continued to submit activity reports that did not provide accurate data. Specifically, the corrective action verification found that the activity reports did not total as instructed and the agencies frequently used “other” as an outcome selection, even when HUD provided additional outcome choices for each type of counseling. The use of the nonspecific outcome measurements hindered HUD officials in determining the effectiveness of the counseling.

- Implemented procedures that required agencies to submit the form HUD-9902 activity report quarterly for recommendation 1B.
- Provided the total numbers for counseling and education activities that occurred relative to the four performance indicators for the fiscal years 2007 through 2009 performance and accountability reports as its means to justify (1) that the funds allocated to the Program were an efficient use of resources and (2) its measurement of the impact of the grant funds on achieving Program goals in regard to recommendation 1C. However, HUD could not accurately measure the impact of grant funds on meeting Program objectives because HUD had changed the way it measured and reported on the Program’s impact. The performance and accountability report was replaced by two separate reports, the agency financial report and the agency performance report, neither of which contained specific performance indicators. In addition, HUD officials reported that they had begun measuring and reporting on the impact of the Housing Counseling Program, both internally and externally, through a variety of means, such as (1) publishing and reporting form HUD-9902; (2) conducting housing counseling research; and (3) through HUD’s single family management action plan. HUD officials explained that they were also working to develop a more expansive set of metrics to evaluate Program performance and analyze consumer outcomes and regularly report these outcomes to the public.
- Revised the Program objectives in the Housing Counseling Program handbook for recommendation 1D.
- Included quality control reviews of the form HUD-9902 activity reports in the standard operating procedures guidelines and recently included language in the form HUD-9910 performance review to ensure the accuracy of form HUD-9902 in response to recommendation 2A.
- Revised the form HUD-9910 performance review to incorporate written procedures for staff to follow when reviewing grantee financial management practices and their compliance with all Program requirements. Moreover, guidelines regarding the use of the performance review checklist were included in the standard operating procedures guide for Housing Counseling Program staff in regard to recommendation 2B.
- Provided training to both housing counseling agencies and HUD Program specialists regarding the administrative functions of the Program for recommendation 2C.

CONCLUSION

The deficiency that HUD's controls did not allow adequate reporting on Program performance had not been corrected. The controls HUD officials established for housing counseling agencies that were intended to ensure an accurate account of clients counseled with HUD funds and the outcomes of the counseling were not effective. As a result, reported information could not be relied upon. HUD officials need to ensure that the data it receives from the housing counseling agencies can be relied upon as valid and useful. Therefore, HUD officials need to strengthen controls over the reporting mechanisms used by the housing counseling agencies to reduce errors. Also, HUD officials need to implement controls to verify and correct in a timely manner the information that the housing counseling agencies report. Likewise, HUD officials need to work with the housing counseling agencies to further reduce the number of nonspecific responses for outcome measurements.

The deficiency that performance goals did not measure the effects of grant funds on the Program objectives had not been corrected. HUD officials could not accurately measure the impact of grant funds on meeting Program objectives because effective controls and procedures had not been established and implemented. HUD officials stated that they exclusively used form HUD-9902 for reporting Program outcomes. However, since the form HUD-9902 activity report data were not accurate, HUD staff could not measure whether the Program met its performance goals, nor could it determine the effects of the grant funding on the performance goals of the Program. As a result, HUD officials could not measure the impact of HUD grant funds on Program outcomes. Therefore, HUD officials need to accurately distinguish between counseling outcomes that resulted from HUD funding and outcomes from the overall Program. Accordingly, HUD officials need to (1) establish performance goals to define the level of performance to be achieved by the Program; (2) express goals in an objective, quantifiable, and measurable form; (3) establish performance indicators to be used; (4) provide a basis for comparing actual Program results with the established performance goals; and (5) describe the means to be used to verify and validate measured values.

RECOMMENDATIONS

We recommend that the Acting Deputy Assistant Secretary, Single Family Housing,

- 1A. Reopen recommendation 1A in HUD's Audit Resolution and Corrective Action Tracking System, which was to establish controls for housing counseling agencies that will ensure an accurate account of clients counseled with HUD funds and the outcome of this counseling. This can be accomplished by:
 - (1) Developing procedures that will validate the completeness of grantee outcome data submissions, which would include requiring the grantees to make necessary corrections before publicizing results; and
 - (2) Requiring grantees to provide explanations when counseling outcomes are identified as "other" and continue to modify outcomes to ensure that the effectiveness of the Program will be measured.

- 1B. Reopen recommendation 1C in HUD's Audit Resolution and Corrective Action Tracking System, which was to 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. Specifically, HUD officials should:
- (1) Develop and implement procedures to ensure that the effectiveness of the funding provided can be accurately measured by establishing objective and measurable performance standards and evaluating the effectiveness of the funding provided against those standards.

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 20410-8000

APR 24 2012

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

FROM: 
Charles S. Coulter, Deputy Assistant Secretary for Single Family Housing, HU

SUBJECT: Discussion Draft-Audit Report Corrective Action Verification Regarding the Housing Counseling Program

The Office of Inspector General (OIG) performed the subject Corrective Action Verification (CAV) to determine whether audit recommendations issued in Audit Report 2006-NY-0001 regarding HUD's Housing Counseling Program had been implemented and the deficiencies cited in the report had been corrected by the Office of Single Family Housing (Single Family). OIG concluded that five of the seven recommendations had been corrected. OIG also concluded that two of the management decisions had not fully corrected the deficiencies identified in the audit report.

Single Family's response to specific CAV results is as follows:

OIG's Determination:

The report states the deficiency that HUD's controls did not allow adequate reporting on Program performance had not been corrected. As a part of the CAV, the OIG reviewed form HUD-9902 activity reports. The OIG found errors in some of these reports. The OIG concluded that the controls that were implemented by the Program Office were not effective in ensuring an accurate account of clients with HUD funds and the outcome of the counseling.

Single Family's Response:

Single Family acknowledges the OIG's determination that additional controls will help HUD ensure an even higher level of data accuracy as it relates to reporting by housing counseling agencies.

Since the OIG Audit Number 2006-NY-0001 was issued in 2006, the Program Office implemented several measures to improve controls for housing counseling agencies to ensure accurate reporting of the results of client's counseling activity.

In FY 2006, the HUD-9902 Activity Report was revised to improve data accuracy. This form is the control mechanism that HUD uses to collect performance data from HUD-approved housing counseling agencies. The revisions to the form included new counseling outcomes, to minimize the selection of "other" as an outcome. It also improved formatting to reduce possible errors. For

www.hud.gov espanol.hud.gov

Comment 1

Ref to OIG Evaluation

Auditee Comments

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example, Section 6 was revised to capture group education activity exclusively. This change gave the form mathematical validity that facilitates quality control by both the reporting agency and HUD. The total of section 6 plus section 7 of the HUD-9902 should now always equal the total for Sections 3, 4 and 5 respectively. The revised form was approved by OMB in 2006 and the program office required its use by Housing Counseling agencies beginning in FY 2007.

Single Family also revised the monitoring review checklist form HUD-9910, requiring the reviewer to analyze the agency's most recent HUD-9902 submission for errors as a standard part of a performance review, and provide technical assistance when needed.

In addition, Single Family developed a standard operating procedures (SOP) guide for Housing Counseling Program staff. The SOP included written procedures for HUD staff to conduct quality control reviews of the submitted HUD-9902s. Staff from Single Family and counseling agencies were trained on the procedures for performing quality control reviews.

All of the controls that Single Family committed to implementing in the management decision were implemented and the recommendations were closed by the OIG by September 2010.

As a part of the CAV, the OIG reviewed form HUD-9902 activity reports submitted by twenty five agencies. According to the results of the review, some of the activity reports did not total. As a result, the OIG concluded that the controls that had been implemented by Single Family were not effective in ensuring an accurate account of client activity.

Single Family acknowledges the OIG's determination that additional controls will help ensure an even higher level of data accuracy from program participants.

OIG's Determination:

The draft report indicates that HUD needs to work with the housing counseling agencies to further reduce the number of nonspecific responses for outcome measurements.

Single Family's Response:

The Department acknowledges it can take steps to further reduce the number of nonspecific responses for outcome measurements.

Over the past several years there has been an increase in the number of client results that are reported as "other" on the form HUD-9902 for foreclosure prevention activity. There are several reasons that explain the increase in usage of the "other" category. The foreclosure crisis resulted in many homeowners seeking loss mitigation solutions from servicers. There were significant delays from servicers in responding to applications for loan modifications for these homeowners. As a result, in many cases, after the submission of a loss mitigation option to the servicer, the counselors and their clients waited for months for a response. The counselor, when submitting client results on a quarterly basis to HUD, would select "other" because at the time there was no resolution for a client in this circumstance.

Comment 1

Ref to OIG Evaluation

Auditee Comments

Comment 2

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During this same time period, the federal government and many state governments have implemented new programs to help homeowners at risk of foreclosure, such as the Making Home Affordable Program and foreclosure mediation programs. These programs have introduced outcomes that are not reflected on the form HUD-9902, such as “trial loan modification.”

Single Family acknowledges the increase in the use of the “other” category as an outcome measure for foreclosure prevention counseling in recent years and the need to reduce the number of nonspecific outcome measurements.

OIG’s Determination:

In the draft report the OIG concluded the deficiency that performance goals did not measure the effects of grant funds on the Program objectives has not been corrected.

Single Family’s Response:

Single Family does not agree that the Housing Counseling Program’s performance goals did not measure the effects of grant funds on the Program objectives. The Department is committed to performance standards for the Housing Counseling Program and performance standards are in place and are being tracked.

Currently, the primary source of housing counseling performance indicators is the Single Family Management Action Plan. The Single Family Management Action Plan tracks performance indicators for programs in the Office of Single Family Housing. The five performance measures for the Housing Counseling Program are:

1. Number of housing counseling clients assisted in resolving or preventing mortgage delinquencies
2. Number of housing counseling clients with other than positive or negative outcomes after receiving assistance in resolving or preventing mortgage delinquencies
3. Number of housing counseling clients with positive outcomes after receiving assistance in resolving or preventing mortgage delinquencies
4. Number of housing counseling clients with negative outcomes after receiving or preventing mortgage delinquencies.
5. To provide at least 40 housing counseling workshops to borrowers in underserved communities in FY 12-13

The first four performance tracking measures were established in FY 2012 to align with HUD’s strategic goal of assisting homeowners at risk of foreclosure. These measures allow the Department to track the number of clients receiving foreclosure prevention counseling and the outcomes associated with those counseling sessions over the course of the fiscal year. The fifth performance goal was established to track the Department’s progress in providing housing counseling workshops in underserved communities.

Ref to OIG Evaluation

Auditee Comments

In addition to the Single Family Management Action Plan, the Housing Counseling Program establishes and reports on outcomes through various internal and external reports. These reports include HUDSTAT, form HUD-9902 reporting, and the Program's Logic Model. HUDSTAT is the Secretary's initiative to track agency performance in relation to achieving strategic agency goals. The Logic Model tracks agency outcomes as they relate to Housing Counseling grant funds. While the Program Office does not use the number of clients served as an annual performance indicator, that information is captured on the HUD-9902 activity report.

Single Family will implement OIG's recommendations as follows.

Recommendation 1A:

1A. Reopen recommendation 1A in HUD's Audit Resolution and Corrective Action Tracking System, which was to establish controls for housing counseling agencies that will ensure an accurate account of clients counseled with HUD funds and the outcome of this counseling. This can be accomplished by:

- (1) Developing procedures that will validate the completeness of grantee outcome data submissions, which would include requiring grantees to make necessary corrections before publicizing results; and*
- (2) Requiring grantees to provide explanations when counseling outcomes are identified as "other" and continue to modify outcomes to ensure that the effectiveness of the Program will be measured.*

Description of Planned Actions:

The Dodd-Frank Wall Street Reform Consumer Protection Act requires that HUD establish an Office of Housing Counseling. HUD is in the process of establishing this Office. As part of the Office of Housing Counseling, program management and staff will review alternatives to the form HUD-9902. Any new data collection instrument that is developed will have procedures in place to validate the completeness of grantee outcome data submissions.

OIG Recommendation 1B:

1B. Reopen recommendation 1C in HUD's Audit Resolution and Corrective Action Tracking System, which was to 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. Specifically, HUD officials should:

- (1) Develop and implement procedures to ensure that the effectiveness of the funding provided can be accurately measured by establishing objective and measurable performance standards and evaluating the effectiveness of the funding provided against those standards.*

Description of Planned Actions:

There is no action planned by the Office of Single Family Housing at this time regarding Recommendation 1B. Performance standards are in place and are being tracked. These performance goals may change when the new Office of Housing Counseling is established.

Comment 3

Comment 4

OIG Evaluation of Auditee Comments

- Comment 1** The auditees' comments are responsive to the finding.
- Comment 2** Single Family Housing officials disagree that the Housing Counseling Program's performance goals did not measure the effects of grant funds on Program objectives. Further, officials contend that performance standards are in place and are being tracked. However, HUD officials could not accurately measure the impact of grant funds on meeting Program objectives because effective controls and procedures had not been established and implemented. HUD officials stated that they exclusively used form HUD-9902 for reporting Program outcomes. However, since the form HUD-9902 activity report data were not accurate, HUD staff could not measure whether the Program met its performance goals, nor could they determine the effects of the grant funding on the performance goals of the Program.
- Comment 3** Single Family Housing officials are in the process of establishing an Office of Housing Counseling and will review alternatives to the form HUD-9902 activity report. Officials acknowledge that any new data collection instrument will have procedures in place to validate the completeness of grantee outcome data submissions. The auditees' comments are responsive to the finding.
- Comment 4** Single Family Housing officials indicate that no action is planned at this time regarding Recommendation 1B. Officials provide that performance standards are in place and are being tracked and that these performance goals may change when the new Office of Housing Counseling is established. However, HUD officials could not effectively measure the impact of HUD grant funds on Program outcomes. Therefore, HUD officials need to accurately distinguish between counseling outcomes that resulted from HUD funding and outcomes from the overall Program. Accordingly, HUD officials need to (1) establish performance goals to define the level of performance to be achieved by the Program; (2) express goals in an objective, quantifiable, and measurable form; (3) establish performance indicators to be used; (4) provide a basis for comparing actual Program results with the established performance goals; and (5) describe the means to be used to verify and validate measured values and make this information available on a HUD public website.