

Federal Housing Finance Agency
Office of Inspector General



Audit of FHFA's Design of Procedures and Guidance to Prevent and Reduce Improper Payments

Audit Report • AUD-2021-003 • March 11, 2021



AUD-2021-003

March 11, 2021

Executive Summary

The Payment Integrity Information Act of 2019 (PIIA), effective on March 2, 2020, and its predecessor, the Improper Payments Information Act of 2002, as amended (IPIA), requires covered federal agencies to periodically review, estimate, and report programs and activities that may be susceptible to significant improper payments. PIIA, among other things, directs federal Inspectors General to determine annually whether their respective covered agencies are in compliance with the statute and to submit a report to the head of the agency, the Committee on Homeland Security and Governmental Affairs of the Senate, the Committee on Oversight and Reform of the House of Representatives, and the Comptroller General of the United States.

The Federal Housing Finance Agency (FHFA or Agency), through its Office of General Counsel (OGC), has rendered the opinion that PIIA does not apply to the Agency because its funds, by law, are not considered to be Government funds or public funds. Our Office of Counsel reviewed FHFA's legal memorandum supporting its determination of applicability and concluded that FHFA's determination was reasonable.

Because FHFA reports in its Performance and Accountability Report 2020 (2020 PAR) that it complied voluntarily with PIIA during that fiscal year and "in the spirit of compliance and as part of its sound internal control structure, FHFA has put into place internal controls to detect and prevent improper vendor payments," we assessed the adequacy of the design of FHFA's procedures and guidance to prevent and reduce improper payments. We found no weaknesses in their design.

This report was prepared by Heath Wolfe, Director of Audit Operations, with the assistance of Abdil Salah, Assistant Inspector General for Audits, and Bob Taylor, Senior Advisor. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this report.

This report has been distributed to FHFA, Congress, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), and others and will be posted on our website, www.fhfaoig.gov, and www.oversight.gov.

Marla A. Freedman, Senior Audit Executive /s/

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ABBREVIATIONS

2020 PAR	Performance and Accountability Report 2020
FHFA or Agency	Federal Housing Finance Agency
GAO	Government Accountability Office
IPIA	Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payments Elimination and Recovery Improvement Act of 2012
OGC	Federal Housing Finance Agency Office of General Counsel
OIG	Federal Housing Finance Agency Office of Inspector General
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act of 2019

BACKGROUND.....

Congress has long recognized the risk that payments made by federal agencies to program beneficiaries, grantees, vendors, and contractors, or on behalf of program beneficiaries, may be “improper” in one or more respects. To mitigate this risk, Congress passed the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012 (collectively, IPIA), which required federal agencies to periodically review, estimate, and report programs and activities that may be susceptible to significant improper payments. As we previously reported, FHFA, through its OGC, determined that the IPIA requirements were not applicable to the Agency because those requirements apply only to payments made with federal funds and FHFA does not finance its operations with federal funds.

In 2020, Congress passed PIIA, effective March 2, 2020, which superseded IPIA. PIIA requires covered federal agencies to periodically review, estimate, and report programs and activities that may be susceptible to significant improper payments. Specifically, PIIA directs that covered federal agencies: (1) identify programs and activities that may be susceptible to significant improper payments; (2) estimate the amount of annual improper payments for those programs and activities and implement a plan to reduce them; and (3) report the estimated amount of improper payments and the progress to reduce them. PIIA also directs federal Inspectors General to determine annually whether their respective covered agencies are in compliance with the statute and to submit a report to the head of the agency, the Committee on Homeland Security and Governmental Affairs of the Senate, the Committee on Oversight and Reform of the House of Representatives, and the Comptroller General of the United States.

PIIA defines “improper payment” as any payment that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement; it includes (1) any payment to an ineligible recipient, (2) any payment for an ineligible good or service, (3) any duplicate payment, (4) any payment for a good or service not received, except for those payments where authorized by law, and (5) any payment that does not account for credit for applicable discounts.¹ It defines “significant improper payments” as the gross annual improper payments in a program exceeding either: (a) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported; or (b) \$100 million (regardless of the percentage of total program outlays).

¹ See 31 U.S.C. § 3351(4).

FACTS AND ANALYSIS

PIIA Does Not Apply to FHFA

FHFA's OGC advised us that it has determined that PIIA does not apply to FHFA because FHFA's funds, by law, are not considered to be Government funds or public funds. OIG's Office of Counsel reviewed FHFA's legal memorandum supporting its determination of applicability and concluded that FHFA's determination was reasonable.

FHFA Has Determined to Comply Voluntarily with PIIA

In its 2020 PAR,² FHFA reported:

FHFA, in the spirit of compliance and as part of its sound internal control structure, has established controls to detect and prevent improper vendor payments. . . . FHFA has not identified any programs or activities susceptible to significant improper payments that meet [PIIA's] thresholds.

In light of this representation by FHFA, we assessed the adequacy of the design of FHFA's procedures and guidance to prevent and reduce improper payments. We reviewed the design of the following FHFA procedures and guidance implemented for fiscal year 2020:

- Invoice and payment procedures;
- Purchase charge card procedures;
- Accrual and deobligation procedures; and
- Micro-purchase procedures and supplemental purchase cardholder guidance.

We found no weaknesses in the design of these procedures and guidance.

GAO is charged with performing audits of FHFA's annual financial statements³ and internal control over financial reporting. In its report *Financial Audit: Federal Housing Finance Agency's Fiscal Years 2020 and 2019 Financial Statements*, GAO opined that FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020, based on relevant criteria. Additionally, GAO did not communicate any

² See FHFA, *Performance and Accountability Report 2020*, at 109 (Nov. 16, 2020) (online [here](#)).

³ 12 U.S.C. § 4516(h).

significant deficiencies or material weaknesses with the Agency’s invoice and payment process controls to FHFA.

CONCLUSION.....

We concluded that FHFA’s determination that PIIA does not apply to the Agency was reasonable. Additionally, we found no weaknesses in the design of FHFA’s procedures and guidance to prevent and reduce improper payments.

FHFA COMMENTS AND OIG RESPONSE.....

OIG provided FHFA an opportunity to respond to a draft report of this audit. In its management response, which is included as an appendix to this report, the Agency acknowledged our conclusion that no weaknesses were noted in the design of FHFA’s procedures and guidance.

OBJECTIVE, SCOPE, AND METHODOLOGY

Because FHFA reports in its 2020 PAR that it complied voluntarily with PIIA during that fiscal year and “in the spirit of compliance and as part of its sound internal control structure, FHFA has put into place internal controls to detect and prevent improper vendor payments,” we assessed the adequacy of the design of FHFA’s procedures and guidance to prevent and reduce improper payments. The scope of the audit covered fiscal year 2020.

To accomplish the audit, we:

- Reviewed OIG’s prior IPIA audit documentation and audit report (AUD-2020-003, dated February 13, 2020);
- Reviewed IPIA, PIIA, related OMB requirements and guidance, and Council of the Inspectors General on Integrity and Efficiency guidance;
- Obtained FHFA’s determination of the applicability of PIIA to the Agency;
- Reviewed FHFA’s 2020 PAR;
- Interviewed FHFA officials/staff to obtain any additional background information that may be required, such as improper payments assessments, related correspondence, and/or results of procedures performed, including any legal opinions received and decisions taken;
- Obtained and reviewed the Agency’s invoice and payments procedures, purchase charge card procedures, accrual and deobligation procedures, micro-purchase procedures and supplemental purchase cardholder guidance, and internal control self-assessments for fiscal year 2020; and
- Reviewed GAO’s report on its audit of FHFA’s financial statements for fiscal years 2020 and 2019, and inquired of FHFA and GAO staff. The purpose of our inquiries was to determine whether any deficiencies may have been communicated by GAO in the conduct of its audit related to the design and effectiveness of FHFA’s invoice and payment process controls.

We conducted this performance audit between December 2020 and March 2021 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. We believe that the evidence

obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX: FHFA MANAGEMENT RESPONSE.....



Federal Housing Finance Agency

MEMORANDUM

TO: Marla Freedman, Senior Audit Executive

FROM: Mark Kinsey, Chief Financial Officer **MARK KINSEY**
Digitally signed by MARK KINSEY
Date: 2021.03.08 10:34:30
-05'00'

SUBJECT: Draft Audit Report: *FHFA's Voluntary Compliance with Payment Integrity Information Act of 2019*

DATE: March 8, 2021

Thank you for the opportunity to respond to the Federal Housing Finance Agency's Office of Inspector General's (OIG) draft audit report titled *FHFA's Voluntary Compliance with Payment Integrity Information Act of 2019* (Report). The Report presents the results of the OIG's performance audit to assess FHFA's compliance with the Payment Integrity Information Act of 2019.

I am pleased that the OIG concluded that FHFA voluntarily complied with the PIIA, and the Report noted no weaknesses in the design of FHFA procedures and guidance.

I would like to acknowledge the dedicated OIG staff that worked with FHFA during this audit.

If you have any questions relating to our response, please do not hesitate to call me at (202) 649-3780.

ADDITIONAL INFORMATION AND COPIES.....

For additional copies of this report:

- Call: 202-730-0880
- Fax: 202-318-0239
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- Call: 1-800-793-7724
- Fax: 202-318-0358
- Visit: www.fhfaoig.gov/ReportFraud
- Write:

FHFA Office of Inspector General
Attn: Office of Investigations – Hotline
400 Seventh Street SW
Washington, DC 20219