

Inspector General

United States
Department of Defense



American Recovery and Reinvestment Act -
Improvements Needed in Implementing the
Homeowners Assistance Program

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Acronyms and Abbreviations

AVM	Automated Valuation Model
BRAC	Base Realignment and Closure
HAP	Homeowners Assistance Program
HAPMIS	Homeowners Assistance Program Management Information System
OMB	Office of Management and Budget
PCS	Permanent Change of Station
PFMV	Prior Fair Market Value
USACE	U.S. Army Corps of Engineers
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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DEC 21 2011

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/ CHIEF
FINANCIAL OFFICER, DOD
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: American Recovery and Reinvestment Act—Improvements Needed in
Implementing the Homeowners Assistance Program
(Report No. DODIG-2012-035)

We are providing this report for review and comment. The American Recovery and Reinvestment Act of 2009 allocated \$555 million and the National Defense Authorization Act of 2010 authorized an additional \$300 million for the Expanded Homeowners Assistance Program. The U.S. Army Corps of Engineers generally made accurate payments to eligible applicants in accordance with the interim final rule published in the Federal Register and implementing guidance. However, controls over payment processing, information reporting, and managing the backlog of unprocessed applications could be improved. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Most of the U.S. Army Corps of Engineers comments were responsive. However, the comments on Recommendation C.1 were not responsive. Therefore, we request additional comments on Recommendation C.1 by January 23, 2012.

If possible, please send a .pdf file containing your comments to audfmr@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868 (DSN 664-5868).

Patricia A. Marsh

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Results in Brief: American Recovery and Reinvestment Act—Improvements Needed in Implementing the Homeowners Assistance Program

What We Did

We determined whether the U.S. Army Corps of Engineers (USACE) processed Homeowners Assistance Program (HAP) applications and payments in accordance with the interim rule published in the Federal Register and implementing guidance. The American Recovery and Reinvestment Act of 2009 allocated \$555 million to expand HAP, and the National Defense Authorization Act of 2010 authorized an additional \$300 million.

What We Found

USACE district personnel generally made accurate payments to eligible applicants in accordance with the interim rule and implementing guidance. However, district personnel processed and paid HAP applications using inconsistent policies and procedures. USACE did not issue detailed guidance on how to process payments consistently among the district offices, and district personnel did not effectively use management control checklists to detect mistakes and ensure program compliance. As a result, of 64 payments reviewed, totaling \$15.8 million, district personnel underpaid three applicants \$9,562.75 and overpaid five applicants \$1,308.01. In addition, they did not fully support payments for seven applicants totaling \$28,558.03.

District personnel classified 680* of 2,479 applicants as ineligible in the Homeowners Assistance Program Management Information System as of January 31, 2010, who may have

been eligible to receive HAP benefits. However, because management took action during the course of our audit, we are not making a recommendation.

USACE had limited success in managing the backlog of eligible HAP applicants. As of February 23, 2011, USACE had paid 4,825 applicants \$725.5 million, but had a backlog of 4,897 eligible applicants. This occurred because USACE Headquarters had not developed a detailed plan for managing the backlog. As a result, DoD did not maximize its ability to offset the losses of qualifying Service members and civilians.

What We Recommend

We made eight recommendations in this report, including that the Director of Real Estate, USACE, issue detailed guidance for the uniform processing of HAP payments; review payment information and make corrections as necessary; and develop a plan for managing the backlog.

Management Comments and Our Response

Most of management comments were responsive to the recommendations; however, comments on the recommendation to develop a plan for managing the backlog were not responsive. We request the USACE Director of Real Estate provide additional comments on Recommendation C.1 by January 23, 2012. Please see the recommendations table on the back of this page.

* See Appendix C for details of statistical projections.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director of Real Estate, U.S. Army Corps of Engineers	C.1	A.1.a, A.1.b, A.1.c, A.1.d, A.2, A.3, and C.2

Please provide comments by January 23, 2012.

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Introduction

Audit Objective

This is one in a series of audits on the American Recovery and Reinvestment Act of 2009 (Recovery Act). The primary objective of the audit was to determine whether DoD and its Components were planning and implementing the Recovery Act by meeting the requirements in the Recovery Act, Office of Management and Budget (OMB) Memorandum M-09-10, “Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009,” February 18, 2009, and subsequent related guidance. For this audit, we determined whether U.S. Army Corps of Engineers (USACE) personnel processed Homeowners Assistance Program (HAP) claims and payments in accordance with the interim rule published in the Federal Register and implementing guidance.¹ See Appendix A for a discussion of our scope and methodology and for prior audit coverage.

Background for HAP Under the Recovery Act

The President signed the Recovery Act into law on February 17, 2009.

The purposes of this Act include the following:

- (1) To preserve and create jobs and promote economic recovery.
- (2) To assist those most impacted by the recession.
- (3) To provide investments needed to increase economic efficiency by spurring technological advances in science and health.
- (4) To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.
- (5) To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

. . . the heads of Federal departments and agencies shall manage and expend the funds made available in this Act so as to achieve the purposes specified . . . including commencing expenditures and activities as quickly as possible consistent with prudent management.

DoD Recovery Act Programs

Under the Recovery Act, Congress appropriated approximately \$12 billion to DoD for the following programs: Energy Conservation Investment; Facilities Sustainment, Restoration, and Modernization; Homeowners Assistance; Military Construction; Near Term Energy-Efficient Technologies; and USACE Civil Works. Of the \$12 billion, \$555 million was allocated to HAP to provide benefits to eligible Service and DoD

¹ The interim rule continued to authorize HAP in accordance with the Demonstration Cities and Metropolitan Development Act of 1966 (commonly referred to as traditional HAP) and temporarily expanded the program in accordance with the Recovery Act. In this report, unless otherwise noted, HAP refers to the expanded program.

civilians who faced financial losses when selling their primary residence during the recent housing downturn. Congress authorized an additional \$300 million to be used for HAP in the National Defense Authorization Act of 2010.

Homeowners Assistance Program

The Demonstration Cities and Metropolitan Development Act of 1966 established HAP. The program assists eligible Service and civilian Federal employee homeowners adversely impacted by a decline in real estate market values directly related to the closure or reduction in scope of operations at a military installation subject to Base Realignment and Closure (BRAC). The last BRAC was in 2005 (BRAC 2005). The Secretary of Defense prescribes policies for administering HAP.

The Recovery Act temporarily expanded traditional HAP to offset some of the losses incurred by Service members, civilian personnel, and surviving spouses when they sold their homes, the Government purchased their homes, or a lending institution foreclosed on their home mortgages.

Details of HAP were published in the Federal Register as an interim final rule (32 Code of Federal Regulations, Part 239 [2009]) on September 30, 2009.² The interim final rule (the interim rule) authorized DoD to provide financial assistance to offset financial losses of homeowners who needed to sell their homes in conjunction with permanent change of station (PCS) moves, base closures, combat injuries, or a loss of spouse in the line of duty. The interim rule outlined the benefit and eligibility requirements of applicants as well as the responsibilities of DoD personnel for administering HAP. DoD issued the final rule on November 16, 2010.³

Those eligible for benefits under HAP include the following qualified homeowners.

- Service members and DoD employees who are wounded, injured, or ill while deployed (wounded warriors);
- surviving spouses of fallen DoD personnel;
- Service members and DoD employees impacted by BRAC 2005; and
- Service members who are required to permanently relocate during the mortgage crisis.

Qualifying homeowners must submit applications and demonstrate that they meet eligibility requirements. See Appendix B for more details about these eligibility requirements and the benefits of HAP.

² An interim final rule is designed to respond to an emergency situation and is usually followed by a final rule document that confirms that the interim rule is final, addresses comments received, and includes further amendments.

³ Because the effective date for the guidance was January 18, 2011, we did not use the final rule as guidance in our review of payments; however, we assessed major differences between interim rule and the final rule. For more information on the differences, see Table B-3 in Appendix B.

The Deputy Secretary of Defense for Installations and Environment, under the authority, direction, and control of the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD[AT&L]) is responsible for prescribing administrative and operational policies as well as serving as the senior appeals authority for appeals submitted by applicants. The Deputy Assistant Secretary of the Army for Installations, Housing and Partnerships is the DoD Executive Agent for administering, managing, and executing HAP. The USACE Director of Real Estate, acting for the Chief of Engineers, was delegated authority and responsibility for the execution of HAP. USACE Circular No. 405-1-18, "Homeowners Assistance Program," October 10, 2008, outlines procedures for implementing traditional HAP.

Three USACE district offices in Sacramento, California; Fort Worth, Texas; and Savannah, Georgia, were responsible for processing the HAP payments. They:

- accepted applications for HAP benefits,
- determined the eligibility of each applicant for HAP assistance using the criteria established by the Deputy Secretary of Defense for Installations and Environment,
- determined amounts to be paid consistent with DoD policy, and
- made payments or authorized and arranged for acquisition or transfer of the applicant's property.

The Sacramento District Office made the first HAP payment in October 2009. As of February 23, 2011, the three USACE district offices had 119 people processing HAP applications. As of the same date, DoD reported that there were 9,722 eligible applicants, and \$725.5 million had been paid on 4,825 claims. The average claim paid was \$150,375 and most eligible and paid applicants were Service members undergoing a PCS. District personnel used the Homeowners Assistance Program Management Information System (HAPMIS) to calculate benefits and to track and report program information.

Internal Controls Over HAP

DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses related to the audit objective. USACE Headquarters did not issue detailed guidance on how to process payments consistently among the district offices, and USACE districts did not effectively use supervisory reviews and management control checklists to detect mistakes and ensure program compliance. USACE personnel initially denied some applicants from receiving HAP benefits because district personnel used erroneous home valuation data to make decisions regarding applicants' eligibility status and did not promptly request the additional information needed to reevaluate their eligibility status once updated data became available. In addition, USACE Headquarters had not developed a detailed plan for managing the backlog of applications. We will provide a copy of the report to the senior official responsible for internal controls in the Department of the Army.

Finding A. Controls Over HAP Payments

USACE district personnel (district personnel) generally made accurate HAP payments to eligible applicants in accordance with the interim rule and implementing guidance. However, district personnel processed and paid HAP applications using inconsistent policies and procedures. Inconsistencies existed because:

- USACE Headquarters did not issue detailed guidance on how to process payments consistently among the district offices, and
- USACE districts did not effectively use supervisory reviews and management control checklists to detect mistakes and ensure program compliance.

As a result, of the 64 payments reviewed, totaling \$15.8 million, district personnel underpaid three applicants \$9,562.75 and overpaid five applicants \$1,308.01. In addition, they did not fully support seven payments, totaling \$28,558.03, involving home improvements and closing costs.

Types of Benefit Payments

Under HAP, district personnel paid benefits to qualified applicants to compensate for losses incurred on the sale of their primary residences. USACE paid benefits under three circumstances.⁴

- Private Sale. The private sale benefit payment is 90 or 95 percent of the Prior Fair Market Value (PFMV) of the applicant's home, minus the sales price, plus applicable closing costs.⁵
- Government Acquisition.⁶ USACE can purchase the home if the purchase price is not enough to pay off the mortgage or if the applicant is unable to find a buyer for the home. If the Government purchases the home, USACE will pay the benefit either directly to the lender in exchange for the property or to the applicant if the benefit is greater than the mortgage payoff. In most cases, the Government buys the home for the amount equal to the mortgage and immediately sells it to a buyer for the current fair market value. The Government

⁴ Of the 4,825 applicants who received benefits as of February 23, 2011, 3,096 applicants sold their homes through private sales, 1,698 applicants sold their homes through Government acquisitions, and 31 applicants disposed of their homes through foreclosures.

⁵ PFMV is the applicant's purchase price plus documented home improvements. For private sales, permanently reassigned members of the Armed Forces and military and civilians affected by BRAC 2005 should be reimbursed using 90 percent of the home PFMV. For wounded warriors and surviving spouses, the reimbursable amount is computed using 95 percent of the home PFMV.

⁶ In most cases, DoD required applicants to have a buyer who was willing to buy the home from the Government. DoD did not require a buyer for the sale of homes acquired from wounded warriors or surviving spouses.

acquisition benefit is the unpaid mortgage amount, plus applicable closing costs; or 75 or 95 percent of the PFMV, minus the sales price, plus applicable closing costs.⁷

- Foreclosure. In the case of a foreclosure, USACE pays the benefit to the applicant or on behalf of the applicant for expenses and liabilities resulting from foreclosure.

See Appendix B for more details about eligibility determinations and benefit calculations.

District Personnel Processed Benefit Payments

The three USACE district offices that processed HAP applications collected information from applicants to identify eligible candidates for the program. Once eligibility was established, district personnel used HAPMIS to calculate benefits. A district office's HAP Department evaluated available information to determine whether a private sale or a Government acquisition was the best option for the applicant. A district office could also use its Legal Department to help process applications, especially in cases where district personnel determined that a Government acquisition was the applicant's best option.

After calculating benefits, USACE district personnel requested a check from the USACE Finance Center in Millington, Tennessee. Depending on the circumstances, district personnel sent the check to the applicant, lender, or escrow company conducting closings. District personnel maintained documentation supporting the applicant's eligibility status and the calculated benefit and payment information in folders. District personnel also used HAPMIS to record information regarding the eligibility status of the applicant and payment information.

Sample Selection

To determine whether USACE was making accurate HAP payments, we selected a sample of 64 payments, totaling \$15.8 million, from a universe of 605 HAP payments, totaling \$53.8 million, marked as paid in HAPMIS between October 13, 2009, and January 31, 2010. We used the criteria in the interim rule to determine if applicants were eligible and payment amounts were correct. Details concerning sample methodology and results are explained in Appendix C.

⁷ For Government acquisitions, the reimbursable amount that permanently reassigned members of the Armed Forces and military and civilians affected by BRAC 2005 are eligible for is computed using 75 percent of the home PFMV. For wounded warriors and surviving spouses, the reimbursable amount is computed using 95 percent of the home PFMV.

USACE Generally Made Accurate Benefit Payments

District personnel generally paid accurate benefits to eligible applicants in accordance with the interim rule and implementing guidance. Supporting documentation in applicant

District personnel generally paid accurate benefits to eligible applicants in accordance with the interim rule and implementing guidance.

folders showed that all applicants reviewed were eligible to receive HAP benefits. In addition, district personnel calculated payments using the correct prior purchase price (private sale) or

unpaid mortgage amount (Government acquisition). However, district personnel incorrectly calculated 8 of the 64 payments, resulting in three underpayments totaling \$9,562.75, and five overpayments totaling \$1,308.01. Further, applicant folders did not always contain adequate supporting documentation and district personnel did not fully support seven payments totaling \$28,558.03.

District personnel sometimes made incorrect payments when they miscalculated the dollar value of home improvements and closing costs paid to the applicants. For example:

- Savannah District personnel did not reimburse an applicant for \$8,000 for what the applicant claimed in an appeal were customary closing costs in his area. District personnel subsequently determined that he was correct and paid him the \$8,000 plus \$440 that USACE had underpaid because district personnel had used estimated rather than actual closing costs.
- Fort Worth District personnel overpaid an applicant by \$220.77 when they mistakenly included a vendor discount on a home improvement when calculating the PFMV of the applicant's home.

In addition, personnel at the Sacramento and Fort Worth District Offices did not maintain supporting documentation for all of the closing costs reimbursed to applicants. The USACE Director of Real Estate should direct district personnel to review the incorrect and unsupported payments we identified and take the necessary corrective actions. See Appendix D for details on each of the 15 incorrect or unsupported sampled payments found in our review.

Inconsistencies in Processing Payments

District personnel did not use consistent methods to determine the value of closing costs reimbursed or to process payments for home improvements and Government acquisitions because USACE Headquarters did not issue detailed guidance or standardized procedures for implementing HAP and documenting supervisory reviews. New and inexperienced personnel at district offices were initially unfamiliar with HAP and with how to use HAPMIS. District personnel generally followed the interim rule and other USACE guidance to determine eligibility and process payments, but did not use standardized

checklists and forms to detect mistakes and ensure program compliance. Only the Savannah District Office performed post-payment reviews to determine whether they processed payments correctly and the applicant folders were complete.

Lack of Standard Guidance Hindered Payment Processing

USACE Headquarters had not issued detailed guidance for implementing HAP. In June 2009, USACE Headquarters issued a draft version of Circular No. 405-1-18a, “American Recovery and Reinvestment Act of 2009 Expansion of the Homeowners Assistance Program.” The circular outlined program responsibilities and reiterated the eligibility and benefits for applicants from the interim rule. USACE Headquarters personnel stated that they would not finalize the draft circular until after DoD published the final rule, and the section in the draft circular regarding the application processing procedures did not contain detailed information for the districts to process payments. For example, the draft circular did not contain instructions on how to process payments in HAPMIS and did not consider closing costs or home improvements in computing payments or identify the necessary supporting documents in the applicant folders to support eligibility determinations and payment processing.

USACE Headquarters had issued detailed guidance in Circular No. 405-1-18, “Homeowners Assistance Program,” October 10, 2008, for traditional HAP, but did not place similar detailed procedures in USACE Circular No. 405-1-18a or issue other

USACE Headquarters ... did not require the district offices to follow the same procedures for processing HAP payments.

detailed guidance for implementing HAP. District personnel used the guidance in Circular No. 405-1-18a to make eligibility decisions and process HAP payments. On April 4, 2011, USACE Headquarters personnel stated that they were

working on finalizing a desk guide to issue to the district offices. DoD policy required that those eligible to participate in HAP be treated fairly and receive benefits as quickly as possible. Although USACE Headquarters held weekly telephone conferences with the district offices for sharing information, it did not require the district offices to follow the same procedures for processing HAP payments. Dissimilar practices among the district offices allowed applicants to be treated differently, primarily in how district personnel calculated reimbursable closing costs and home improvements and how they processed Government acquisitions.

District Personnel Did Not Use Consistent Methods to Calculate Closing Costs

The three district offices did not have consistent approaches for determining and documenting which closing costs personnel should reimburse. The guidance in the Recovery Act and the interim rule was limited and general in its discussion of closing costs for private sales.⁸ The guidance simply states that district personnel may reimburse

⁸ The final rule contains some information that clarified what constitutes acceptable closing costs. The final rule states that seller’s closing costs are typically loan payoff fees, real estate commissions, title insurance, tax transfers, escrow and attorney fees, and any other fees set by local custom. It also states that

applicants for closing costs. District personnel stated that they reimbursed applicants for “normal and customary” closing costs, but detailed guidance was generally not available to guide district personnel in making determinations. The three district offices had different procedures for calculating and documenting reimbursable closing costs.

- Fort Worth District Office procedures did not state how personnel were to determine which closing costs were to be paid. However, Fort Worth District personnel had developed a 1-page guide that referenced the lines on the U.S. Department of Housing and Urban Development’s Settlement Statement (Settlement Statement).⁹ The guide identified authorized charges and other charges that may have been authorized depending on applicant circumstances. The applicant folders at the Fort Worth District Office frequently did not contain the supporting documentation for all of the closing costs paid.
- The Savannah District Office had procedures that detailed the closing costs that were normal and customary in the covered local areas where the closings were taking place. The Savannah District Office had also developed a worksheet district personnel used to identify key information regarding an applicant’s HAP benefits, including closing costs. However, district personnel did not reference the authorized charges to the Settlement Statement and many of the worksheets did not consistently identify the same closing costs for which personnel could reimburse applicants.
- The Sacramento District Office did not have detailed guidance on the closing costs that were to be paid. Sacramento District personnel stated that they determined authorized charges by reviewing the paid amounts on the Settlement Statement. If the seller in the area where the home was being sold typically paid a particular cost, then they would include it for reimbursement. District personnel often highlighted reimbursed closing costs on the Settlement Statement and attached an adding machine tape that summarized the amounts paid to file documentation.

In February 2010, the Savannah District Office changed its local policy because of the difficulties and time spent in determining normal closing costs customary in its 26-state region. Savannah District personnel concluded that closing costs within the region varied too much to standardize the types and amounts for closing costs considered allowable and did not provide consistency among applicants. The new Savannah District policy stated that they would pay closing costs up to 10 percent of the home sales price. They calculated authorized closing costs by adding the seller’s costs, seller contributions to buyer costs, and any earnest money that was paid out of closing costs and applied to real estate commissions. Applicants had to justify closing costs in excess of 10 percent of the sales price. Savannah District personnel submitted their analysis to USACE

HAP will pay sellers’ closing costs that are customary in the region where the home is located and for limited contributions made toward the buyer’s portion of closing costs.

⁹ The Settlement Statement shows all closing costs paid by the buyer and the seller.

Headquarters and recommended that USACE use it to develop a nationwide policy. As of June 16, 2011, USACE Headquarters had not established it as guidance for all districts.

Allowing the three district offices to follow different procedures resulted in inconsistencies in closing costs reimbursed to the applicants in the sale of their homes. For example, an applicant incurred \$28,982 in closing costs on the sale of his \$306,500 home in June 2009. Savannah District personnel limited the amount that they reimbursed the applicant for closing costs to \$22,262, including \$18,390 in sales commission (6 percent of home sales price) even though the supporting documentation showed that the applicant paid a sales commission of 7 percent (\$21,455) when the home sold. If one of the other district offices had processed the application, the amount of commission would not have been limited. In addition, if the Savannah district personnel had processed the application after February 2010, when the Savannah District Office changed its policy, the applicant would have received the entire \$28,982 paid for closing costs, since that was less than 10 percent of the sales price. USACE Headquarters should issue detailed standard procedures for determining what closing costs should be paid by all district offices on private home sales.

District Personnel Needed to Process Home Improvement Benefits Using Standardized Calculation Methods

USACE Headquarters did not issue guidance for reimbursing home improvement costs until April 1, 2010. The guidance in the Recovery Act and the interim rule did not specifically state that district personnel should consider the cost of home improvements as the part of the home's PFMV. In October 2009, the Savannah District Office sent USACE Headquarters a proposed standard operating procedure covering home improvements. The standard operating procedure referenced a USACE Headquarters position that considered funds used to increase the home's value to be a part of the initial purchase price of the home.

District personnel routinely added the cost of home improvements to an applicant's home purchase price in calculating the PFMV of an applicant's home. However, each district office's procedures differed in how they documented the reimbursement amount of home improvements. The Savannah District Office used a worksheet for each applicant that listed the home improvement costs. When completed, it identified the improvement, indicated whether the improvement was accepted or denied, showed the approved cost of the improvement, and if not accepted, a reason why the district personnel denied the improvement for payment. The Sacramento District Office did not require that personnel document the detailed decisions made regarding the home improvements accepted or denied for payment. They calculated the cost of acceptable improvements on an adding machine tape and included it in the applicant folder. Similarly, the Fort Worth District Office used a simple spreadsheet to calculate the acceptable amount of home improvement costs. Unlike the process followed by the Savannah District Office, the methods used by Fort Worth and Sacramento District Offices did not provide an adequate audit trail that could easily be followed and used to support decisions made and respond to applicant requests for reconsideration for home improvement costs not paid. USACE

Headquarters issued the proposed standard operating procedure as policy guidance on April 1, 2010, but did not require district personnel to retroactively apply the guidance.

District Personnel Needed to Process Government Acquisitions Using Standardized Procedures

USACE did not establish standard procedures for processing, paying, and documenting Government acquisitions. Each district office had a unique approach to processing and documenting these transactions.

- The Sacramento District Office relied on escrow companies to complete the home sales. District personnel estimated the amount for the mortgage payoff and closing costs that was included in the benefit payment. Before the Sacramento District sent a check to the escrow company for the closing, the Legal Department reviewed the payments. After the escrow company completed the transaction based on the actual amounts, it refunded any excess mortgage payoff or closing costs to USACE. Typically, USACE received two or more checks after the sale was finalized. For each applicant, district personnel kept paperwork in one folder. The audit trail was not clear or practical to follow. Reconciliation worksheets for the Government acquisitions of all the check remittances and refunds did not support \$2,109 paid to one applicant.
- The Fort Worth District Office used the district's Legal Department to prepare the actual closing documentation for the escrow companies to complete the home sales. If district personnel determined that a Government acquisition was the applicant's best option, they assigned the case to their Legal Department. The Legal Department prepared the paperwork used for the closing and computed the amount of the check for the home closing. The Legal Department furnished the information to the HAP Department for filing in the applicant folder. However, the Legal Department often estimated HAP benefits and did not include support for all the closing costs paid. After closing, the district office received one check for the final home sale from the escrow company for the amounts paid for the mortgage payoff and to cover closing costs. For six of the payments, district personnel could not support \$26,449 paid to the applicants in HAP benefits.
- The Savannah District Office also worked closely with its Legal Department to determine the correct amount for mortgage payoff and closing costs. Unlike the Fort Worth District Office, HAP Department personnel were responsible for calculating the benefit. Typically, the district office received only one check back after the closing from the escrow company, for the sale of the home. The Savannah District Office kept two folders for each applicant, one for the purchase of the home and one for the sale of the home. Having separate folders for the purchase and sale of a home provided a complete audit trail of the two transactions.

Allowing the three district offices to follow different procedures caused inconsistencies in processing applications and making payments. Reviewers and auditors cannot determine whether USACE paid benefits fairly because district personnel calculated check amounts differently and maintained documentation using inconsistent methods. USACE Headquarters should issue standard procedures to process and support Government acquisitions.

Allowing the three districts offices to follow different procedures caused inconsistencies in processing applications and making payments.

The lack of well-defined, standard procedures for paying closing costs and home improvements and for processing Government acquisitions limited USACE Headquarters' ability to ensure that district personnel paid all claims properly and increased the risk for incorrect payment amounts. USACE Headquarters should issue standard procedures for reimbursing and documenting closing costs and home improvements and for processing and supporting Government acquisitions.

USACE Headquarters Needs to Improve Review Process

Although district personnel generally made accurate eligibility determinations and accurate payments, many applicant folders did not contain complete documentation. For example, 21 of the 64 applicant folders did not have evidence of supervisory review for the eligibility determinations and another 19 applicant folders did not have supervisory review of the computed payment amount. Some folders also did not have the information necessary to determine accurate payment processing, such as the release of mortgage liability and a copy of the payment checks.¹⁰

Internal control standards in the Government Accountability Office's "Standards for Internal Control in the Federal Government," November 1999, and USACE policy guidance require that district personnel maintain documentation in an applicant's folder to support the applicant's eligibility status, the calculated benefit, and payment information. Effective supervisory reviews can compensate for the lack of experience of personnel who process applications. In addition, only the Savannah District Office had established a requirement for post-payment reviews designed to ensure that applicant folders contained required documentation and to assess program compliance.

USACE Headquarters needs to ensure that the districts perform supervisory reviews of eligibility, payment calculation, and the completeness of information in the applicant folder. Districts should also perform post-payment reviews to ensure that all information is included in the applicant folders and payments are proper and complete. The reviews could also support required quarterly assessments of management controls.

USACE Fragmentary Order 22 to Operations Order 2009-11, "USACE Execution of the American Recovery and Reinvestment Act 2009 (Management Controls)," November 9,

¹⁰ For the payments without copies of the checks, we verified the payment amount by reviewing information entered into the Corps of Engineers Financial Management System.

2009, requires district offices to complete a quarterly management control checklist. Although checklist questions were directed more toward individual payments than the overall process, the checklist could have been effectively used to evaluate management controls and assess program compliance. However, the three district offices did not effectively use the management control checklists completed in December 2009 and March 2010 to assess compliance with the interim rule and implementing guidance. Personnel responsible for completing the checklists did not indicate how they tested management controls or identify which payments they reviewed to base their conclusions. USACE Headquarters should periodically review the assessments made by district offices to ensure that district personnel adequately support the conclusions reached on the design and operational effectiveness of management controls over HAP.

Conclusion

From October 13, 2009, through January 31, 2010, USACE generally made accurate payments using the interim rule. However, USACE Headquarters had not yet issued detailed guidance or standardized procedures for implementing HAP. The lack of well-defined, standard procedures for paying closing costs and home improvements and for processing Government acquisitions limited the ability of USACE Headquarters to ensure that district personnel fully supported, consistently computed, and properly paid all claims. DoD published the final rule in the Federal Register on November 16, 2010. The final rule changed some eligibility criteria and payment calculations that were in the interim rule.

As of February 23, 2011, district offices had not fully processed 4,897 applications for HAP benefits. To ensure that qualified HAP applicants are paid accurately and consistently, the USACE Director of Real Estate should issue standard procedures for processing and documenting home improvements and closing costs and for processing, paying, and documenting Government acquisitions. The procedures should require district personnel to conduct and document supervisory and post-payment reviews. Because guidance for determining eligibility and making payments changed in the final rule, it is important that information in HAPMIS and applicant folders is accurate and complete so that processed applications for HAP benefits can be readily identified and reviewed if needed. District office personnel should also review and correct the erroneous and unsupported payments identified during our audit.

Recommendations, Management Comments, and Our Response

A. We recommend that the Director of Real Estate, U.S. Army Corps of Engineers:

1. Issue detailed standard procedures for the uniform processing of Homeowners Assistance Program payments, including:

- a. Processing and documenting home improvements and closing costs;**
- b. Processing, paying, and documenting Government acquisitions;**

c. Documenting supervisory reviews of eligibility decisions, payment calculations, and the completeness of information in applicant folders; and

d. Conducting and documenting post-payment reviews to ensure that all information is included in the applicant folders and that payments are proper and complete.

U.S. Army Corps of Engineers Comments

The Deputy Chief, Headquarters USACE Internal Review Office, responding on behalf of the Director of Real Estate, agreed and stated that the Director would develop guidance and standard procedures that further implement the final Code of Federal Regulations provisions. USACE expected to issue standard procedures and guidance by December 30, 2011.

2. Direct district offices to review the incorrect and unsupported payments identified during our audit and take corrective action.

U.S. Army Corps of Engineers Comments

The Deputy Chief, Headquarters USACE Internal Review Office, agreed and stated that USACE Headquarters directed all three district offices to review payments identified in the report and to take corrective actions for any payments found to be incorrect or unsupported. The Deputy Chief also stated that the Savannah District reviewed and corrected three payments. USACE expected to complete its review and take corrective action by December 30, 2011.

3. Periodically review the assessments made by district offices associated with the quarterly management control checklist designed to assess compliance with the Homeowners Assistance Program to ensure that management controls are effectively reviewed.

U.S. Army Corps of Engineers Comments

The Deputy Chief, Headquarters USACE Internal Review Office, agreed and stated that the Director would update the management control checklist and ensure that the district offices understood the checklist and expectations for assessments. Once complete, USACE Headquarters planned to periodically review the assessments made by each district office. USACE expected to take corrective action by December 30, 2011.

Our Response

The USACE comments were responsive, and no further comments were required. We encourage USACE to issue the standard procedures and guidance as soon as possible.

Finding B. Classifying and Reporting Ineligible Applicants

District personnel classified 680¹¹ of the 2,479 applicants as ineligible in HAPMIS as of January 31, 2010, who may have been eligible to receive HAP benefits. USACE initially denied some applicants from receiving HAP benefits because district personnel used erroneous home valuation data to make decisions regarding the applicants' eligibility status and did not promptly request the additional information needed to reevaluate their eligibility status once updated data became available. District personnel also incorrectly denied benefits to applicants because of faulty assumptions or other miscalculations. As a result, potentially eligible applicants were not considered for HAP benefits in a timely manner, and DoD personnel did not have reliable HAPMIS information on eligible and ineligible applicants.

Information on Ineligible Applicants

District personnel determined whether an applicant qualified for HAP benefits based on information submitted by applicants and other information, such as home valuation data obtained from a contractor-developed automated valuation model (AVM). They classified applicants in HAPMIS as eligible, ineligible, or "other." District personnel used the "other" category when they needed additional information to determine eligibility or ineligibility.

Based on the interim rule, USACE personnel established the following reasons for ineligibility in HAPMIS:

- home purchased after July 1, 2006;
- home purchase price greater than Fannie Mae/Freddie Mac¹² loan limit;
- less than 10 percent decline in the value of applicant's home from date of purchase to date of sale;
- less than 10 percent decline in home value between July 1, 2006, and the date of application for the county/parish/city in which the home is located;
- new members of the Armed Forces;
- PCS orders dated before February 1, 2006; or
- voluntarily retired or separated from the Armed Forces.

HAPMIS information as of January 31, 2010, indicated that district personnel had classified 2,479 applicants as ineligible for HAP benefits. Most of those denied eligibility were BRAC 2005 applicants and Service members reassigned under PCS orders. District personnel denied eligibility primarily because the applicants had not sustained at least a 10-percent decline in home value from the date of purchase to the date

¹¹ See Appendix C for details of statistical projections and interpretation.

¹² Fannie Mae is the common name for the Federal National Mortgage Association. Freddie Mac is the common name for the Federal Home Loan Mortgage Corporation.

of sale or there was a less than 10-percent decline in the value of homes located in their county between July 1, 2006, and the date of application.¹³ District personnel used the AVM data to determine whether there was at least a 10-percent home value loss between July 1, 2006, and the date of application for the county of the applicant's residence.

Sample Selection

To determine whether district personnel properly denied applicants, we took a sample from a universe of the 2,479 applicants that personnel from the Sacramento, Savannah, and Fort Worth District Offices had classified as ineligible in HAPMIS as of January 31, 2010. See Appendix C for our statistical sampling methodology.

Problems in Determining the Eligibility Status of Applicants

District personnel had problems correctly identifying eligible applicants and, as of January 31, 2010, classified as ineligible 680 of the 2,479 applicants, who may have been eligible to receive HAP benefits. District personnel used erroneous home valuation data to make decisions regarding the applicants' eligibility status and did not promptly request the additional information needed to reevaluate eligibility status once updated data became available. District personnel also incorrectly denied benefits to applicants because of faulty assumptions or other miscalculations.

Use of Erroneous Home Valuation Information

District personnel initially denied some applicants from receiving HAP benefits because district personnel used erroneous AVM data to make decisions regarding the applicants' eligibility status and did not promptly request the additional information needed to reevaluate the eligibility status of applicants once updated AVM data became available. In deciding the eligibility of HAP applicants in October 2009, district personnel used AVM data on home valuation that incorrectly portrayed home valuation declines in many areas of the country. Many denied applicants questioned the information used to determine the percentage of decline in the value of homes located in their counties since July 1, 2006. As a result, USACE requested that the contractor update the AVM data used to evaluate HAP applicant home values. USACE received updated AVM home valuation data in November 2009.

In October 2009, district personnel used the AVM data available to determine the impact of home value declines for eight sampled applicants classified as ineligible. Based on the November 2009 AVM data, these applicants would have been eligible for benefits if the updated and correct home valuation estimates had been available and used to determine the impact of home value declines in the applicants' counties of residence. After receiving the updated AVM data, district personnel used the updated home valuation data

¹³ Effective January 18, 2011, the final rule no longer required applicants to demonstrate at least a 10 percent decline in the value of homes located in their county between July 1, 2006, and the date of application.

to process pending applications, but they took up to 5 months to reassess all previously declined applicants to determine whether any were potentially eligible for benefits.

Other Inaccurate Eligibility Determinations

District personnel denied two additional sampled applicants for other reasons. District personnel denied one applicant benefits because the applicant's home had not sustained at least a 10-percent decline in value since the date of purchase. However, district personnel had originally not included the cost of the applicant's home improvements to compute the home's PFMV. When the applicant provided additional documentation for the cost of home improvements, the decline in value exceeded 10 percent and made the applicant eligible for HAP benefits. This applicant was classified in HAPMIS as ineligible at the time of our site visit; however, district personnel subsequently corrected HAPMIS and paid the applicant benefits.

District personnel denied another applicant who changed his military status from active to reserve duty because they erroneously classified the Service member as voluntarily separated from military service. District personnel subsequently corrected HAPMIS and paid the applicant benefits.

Lack of Prompt Corrective Actions

Because the district offices did not promptly notify and request additional information needed to confirm the eligibility status of previously denied applicants, some HAP applicants did not promptly receive HAP benefits.

Of the 52 denied applications reviewed, 10 had potentially changed eligibility status. Between November 2009 and our site visits in March and April 2010, district personnel had not notified 4 of the 10 applicants that their eligibility status had changed, nor had they requested the additional information from applicants needed to confirm the applicants'

eligibility status. In June 2010, district personnel stated that they notified the four incorrectly denied applicants of the change in their eligibility status and the need to submit additional information to confirm eligibility. However, district personnel did not place priority on processing these applications or identifying other applicants who may have been incorrectly denied benefits. Because the district offices did not promptly notify and request additional information needed to confirm the eligibility status of previously denied applicants, some HAP applicants did not promptly receive HAP benefits.

Impact of Inaccurate HAPMIS Information

DoD personnel who relied on HAPMIS reports did not have accurate information on the number of eligible and ineligible applicants. USACE used HAPMIS information to report pertinent information regarding the eligibility status of HAP applicants to DoD officials responsible for Recovery Act reporting. District personnel needed accurate information in HAPMIS on ineligible applicants to identify and contact denied applicants affected by changes in the eligibility criteria resulting from the final rule. When DoD issued the final rule on November 16, 2010, some of the eligibility requirements changed. For example, the final rule removed the Fannie Mae/Freddie Mac conforming loan limit

as an eligibility requirement and the requirement for the 10-percent decline in market value in a county. (For additional information on the changes between the interim and final rule, see Table B-3.) Based on information in HAPMIS as of October 2010, 518 ineligible applicants met one of these changed eligibility requirements.

USACE Headquarters did not require that district personnel review and confirm the classification of applicant records categorized as ineligible in HAPMIS to ensure that district personnel contacted all denied applicants affected by changes in the final rule. USACE Headquarters personnel stated that they believed that affected personnel would have previously appealed the decision or questioned district personnel regarding their denied status.

Management Corrective Actions

District personnel provided sufficient evidence to support that they had taken corrective action. In March 2011, personnel at the Sacramento, Fort Worth, and Savannah District Offices provided documentary evidence indicating that they had reviewed the files of ineligible applicants potentially affected by changes in the final rule and confirmed or corrected classifications in HAPMIS. For those applicants considered as eligible for benefits, district personnel either processed the applications or were in the process of reviewing them. As a result, we are not making a recommendation.

Finding C. Managing the Backlog of HAP Applications

USACE had limited success in managing the backlog of eligible HAP applicants. As of February 23, 2011, USACE had paid 4,825 applicants a total of \$725.5 million, but had a backlog of 4,897 eligible applications. This occurred because USACE Headquarters had not developed a detailed plan for managing the backlog. In addition, the backlog of unprocessed applications existed in part because of the USACE policy decision to limit the Government acquisition of homes and require otherwise eligible applicants to find buyers before providing financial assistance. As a result, DoD did not maximize its ability to provide financial assistance to offset financial losses of qualifying Service members and civilians adversely affected by a decline in real estate market values.

Backlog Developed While Districts Added Staff

When the President signed the Recovery Act in February 2009, only eight people in the three USACE district offices processed traditional HAP payments. By October 2, 2009, the district offices had already received 4,391 applications, but had hired only an additional 29 employees. USACE district offices started making HAP payments in October 2009 and continued through December 2010 to hire more employees to help with the workload. As of February 23, 2011, USACE had 119 employees processing HAP applications. However, by then, USACE district offices had received 12,917 applications for HAP benefits. District personnel had determined that 3,195 applicants were not eligible for benefits, and they had paid 4,825 applicants benefits totaling \$725.5 million.¹⁴ District personnel had determined that the remaining 4,897 applicants met the basic eligibility criteria.

Personnel Processing Applications

During our site visits to the three district offices in March and April 2010, district personnel stated that the employees processing HAP payments were inexperienced, overworked, and not fully trained in how to process payments. District personnel stated that most of the new hires were temporary or term-limited employees who were unfamiliar with HAP and HAPMIS when they were hired. USACE used personnel with previous experience processing traditional HAP payments to provide on-the-job training to the new hires. USACE signed a contract with the HAPMIS contractor on April 17, 2009, which required the contractor to prepare and deliver HAPMIS training. However, the HAPMIS contractor did not visit the district offices to train employees on how to use HAPMIS until May 2010. During our site visits, district personnel were working approximately 70 hours each week to try to minimize the backlog that had formed before

¹⁴ In February 2011, USACE reported that it had obligated all of the \$555 million authorized by the Recovery Act and a portion of the \$300 million authorized by the National Defense Authorization Act of 2010. USACE also had an additional \$182 million available for HAP from funds returned on the sales of Government acquisitions.

USD(AT&L) issued the interim rule. In December 2010, USACE Headquarters personnel stated that since our site visits, district employees continued to routinely work many extra hours each week, but typically less than 70 hours.

HAP Administrative Expenses

OMB limited USACE spending on administrative costs to about 8 percent (\$45 million) of the \$555 million received for HAP from Recovery Act funds. USACE used available funds to pay for administrative expenses, such as personnel costs, HAPMIS training, information technology, and general office equipment and space. Limiting administrative costs effectively capped the number of employees that USACE could hire to improve application-processing times and reduce the backlog. Despite the long hours district personnel worked to process HAP applications, they could not significantly reduce the backlog of eligible applicants because of the inflow of new applications. For example, from September 2010 through December 2010, district personnel processed about 100 payments each week, approximately the same number of applications they received during the same period.

Eligible Applicants Await Payment

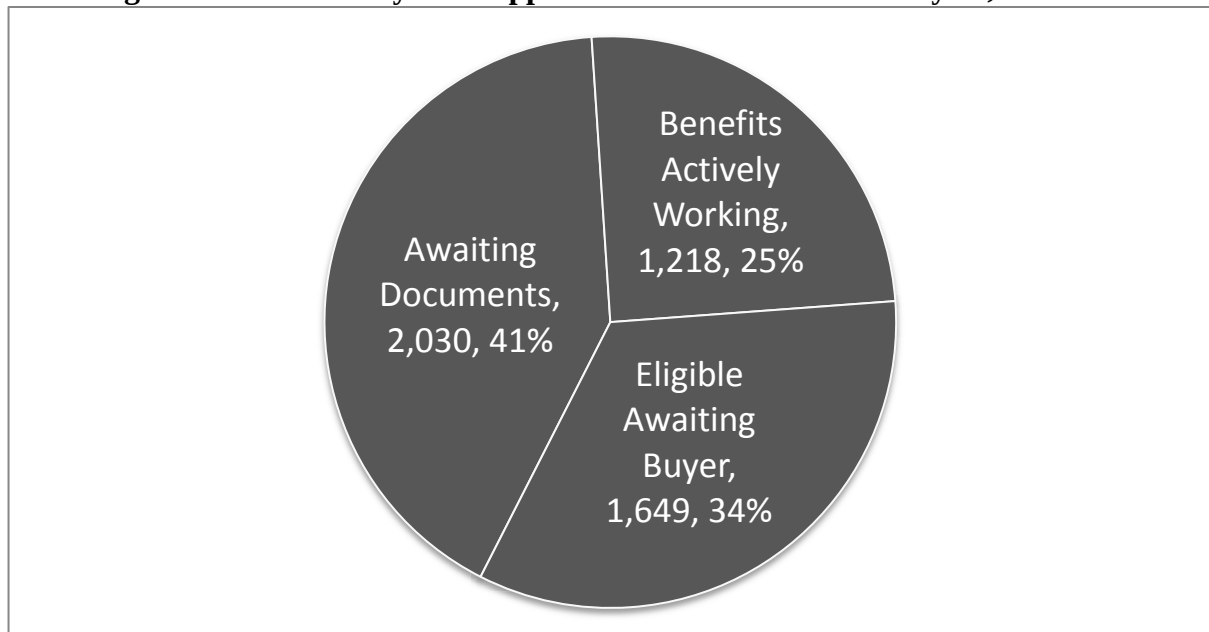
The 4,897 eligible applications were placed in three categories.

- **Awaiting Documents.** These applicants needed to provide additional documentation supporting proof of eligibility or the PFMV of their home or the district offices' Legal Department was waiting for documentation such as escrow and title information.
- **Eligible Awaiting Buyer.** These applicants had met basic eligibility criteria. Even though the interim and final rules allowed the Government to purchase homes, USACE policy required applicants to find buyers to complete the sale of their homes and receive HAP benefits.¹⁵
- **Benefits Actively Working.** District personnel had all the required documentation to determine eligibility of these applicants and make payments, but it generally took from 60 to 120 days to pay an applicant.

The Figure displays the status of the 4,897 applications received for HAP benefits that had not been denied or paid as of February 23, 2011.

¹⁵ Generally, USACE policy required applicants, other than wounded warriors and surviving spouses, to find a buyer for their home in order to complete a Government acquisition. Foreclosures also did not require a homebuyer. See page 21 for additional details regarding the policy.

Figure. USACE Analysis of Application Status as of February 23, 2011



Lack of a Detailed Plan for Managing Backlog

Although USACE had paid 4,825 applicants a total of \$725.5 million, USACE had limited success in managing the backlog of eligible HAP applicants that had grown to 4,897 applicants as of February 23, 2011.

This occurred because USACE Headquarters had not developed a detailed plan for managing the backlog that fully considered options for processing applications quicker and making benefit payments to more eligible applicants. The Figure shows that USACE could influence 59 percent of the backlog by making improvements in application processing (25 percent) and changing the its policy related to the Government acquisition of applicant homes (34 percent).

USACE Headquarters had not developed a detailed plan for managing the backlog that fully considered options for processing applications quicker and making benefit payments to more eligible applicants.

USACE had established a goal for the number of days it took to process applications (from 60 to 90 days for private sales and from 60 to 120 days for Government acquisitions). However, USACE did not have a detailed plan for managing the backlog. The plan should include a monthly forecast of the expected balance at the beginning of each month, the number of new eligible applicants, and the expected number of applications processed. If district personnel cannot reasonably meet goals for processing applications and eliminating the backlog, then USACE should evaluate its options, including adjusting workload to maximize staffing within OMB limits on administrative costs and hiring additional staff. If USACE decides that it cannot reduce the backlog and

application processing times to acceptable levels within reasonable time frames with available staff, USACE should request more funds from DoD or request relief from the OMB-imposed limit on administrative costs, if appropriate.

Other decisions could also affect program costs and extend processing applications. For example, USD(AT&L) could allow Service members who have PCS orders dated after September 30, 2010, to be eligible for HAP benefits. The interim and final rules state that permanently reassigned members of the Armed Forces who are reassigned under permanent PCS orders dated between February 1, 2006, and September 30, 2012 (subject to the availability of funds) were eligible for HAP benefits. In addition, H.R. 237, which was introduced in January 2011 by the 112th Congress, 1st session (2011), and as of June 2011 was awaiting a committee hearing, could further expand the number of Service members and civilians eligible for HAP benefits. The bill would give the Secretary of Defense flexibility regarding setting the commencement date for homeowner assistance for members of the Armed Forces who are permanently reassigned.

USACE Required Applicants to Find Own Buyers

The backlog of unprocessed applications existed in part because of the USACE policy decision to limit the Government acquisition of homes and require otherwise eligible applicants to find buyers before providing financial assistance. The interim and final rules state that the Government may purchase the applicant's primary residence if the applicant is unable to sell the residence after demonstrating reasonable efforts to sell.¹⁶ However, USACE policy for Government acquisitions generally requires applicants to find buyers to complete the sale of their homes.

USACE Headquarters personnel stated that they wanted to significantly limit the number of homes they purchased and took into inventory because of the additional costs to the HAP. They estimated that it would cost from \$26,000 to \$29,000 for USACE to repair, manage, and resell a home it purchased. They also stated that they were concerned about the overall funding for HAP and believed that purchasing homes from sellers would use a significant amount of available funding for the program and put at risk the benefit payments for other applicants. As a result, USACE generally required HAP applicants to find buyers for their homes before it agreed to provide financial assistance. Once the applicant identified a buyer, USACE arranged to buy the home from the applicant and then sold the home to the buyer.

According to the USACE personnel, Government acquisitions normally took longer to complete because of the complexities involved with processing applications. The

¹⁶ The final rule defines a reasonable effort to sell. It states that the applicant's primary residence must be listed, actively marketed, and available for purchase for a minimum of 120 days. With regard to marketing, the applicant must demonstrate that the asking price was within the current market value of the home as determined by the AVM for no less than 30 days. It is the applicant's responsibility to explain marketing efforts by detailing how the asking price was gradually reduced until it reached the true current fair market value. If an applicant is unable to sell the primary residence, USACE would determine whether efforts to sell were reasonable.

documentation required for a Government acquisition was much more detailed than the documentation for a private sale, and district personnel used a third party to obtain all the required legal information. Unfortunately, eligible applicants often found it difficult to find buyers for their homes. As of February 23, 2011, 1,649 out of 4,897 eligible applicants had met basic eligibility criteria but needed to locate buyers to complete the sale of their homes.

The USACE policy limited the authority in the final rule for the Government to purchase homes. The policy delayed otherwise qualified applicants from receiving financial assistance to offset financial losses from the mortgage crisis, as intended by the Recovery Act. This policy placed an undue burden on otherwise eligible applicants affected by the mortgage crisis, and it has contributed to the large backlog in applications for eligible applicants. It has also been a frequent complaint of applicants.¹⁷

Independent Review of Spending Plan for HAP

In September 2010, the Deputy Assistant Secretary of the Army for Installations, Housing, and Partnerships contracted for an independent review of the spending plan for HAP and the reasonableness of the plan assumptions. In addition, the contractor was required to conduct a sensitivity analysis of projected outcomes and determine the adequacy and reliability of planned HAP expenditures for future years, identifying budget shortfalls, errors, and risks. The contractor was also required to determine the reasonableness of HAP assumptions, such as average claim payments, projected number of claimants, how far current budgeted HAP funds would last, or how much (if any) additional funding would be needed. Additionally, the contractor was required to perform a sensitivity analysis of alternative outcomes and model other scenarios, such as different spending timelines, changes to the average claim payments, or changes to the number of applicants.

As part of its plan for managing the backlog, USACE should consider expanding the use of the authority allowed in the final rule to purchase homes more quickly from eligible applicants who have made a reasonable effort to sell their home. Changing the policy may have significant program cost implications. USACE should determine the economic impact of expanding the Government acquisition of homes from qualified applicants who have not identified a buyer for their home. After assessing the economic impact, USACE should consider changing its policy.

Conclusion

As of February 23, 2011, district personnel had paid 4,825 applicants HAP benefits totaling about \$725.5 million. However, a backlog of 4,897 applications existed. From

¹⁷ USACE Headquarters personnel provided us information indicating that of the 241 congressional inquiries that they had received related to HAP as of February 9, 2011, about 26 percent were related to the length of time to process cases; 20 percent related to the requirement to have purchased the home before July 1, 2006; and the remaining 54 percent related to other issues, some which were no longer relevant because of changes made in the final rule.

February 17, 2009, when the President signed the Recovery Act, to September 30, 2009, when USD(AT&L) issued the interim rule, USACE district offices received more than 4,000 applications for HAP benefits. As of February 23, 2011, USACE district offices had received 12,917 applications. USACE had limited success in managing the backlog of eligible HAP applicants. From September through December 2010, district personnel processed about 100 payments per week, approximately the same number of applications they received. USACE had not developed a detailed plan for managing the backlog that considered options for processing applications and making benefit payments more quickly. In addition, the USACE policy decision to limit the Government acquisition of homes and require otherwise eligible applicants to find buyers before providing financial assistance added to the backlog of unprocessed applications and limited the overall success of HAP. As a result, DoD had not maximized its ability to provide financial assistance through HAP to offset financial losses of qualifying Service members and civilians who needed to sell their homes.¹⁸

USACE should establish a detailed plan for managing the backlog. The plan should identify goals for processing applications and eliminating the backlog that consider a forecast of the expected balance of unprocessed applications at the beginning of each month, the number of new eligible applicants, and the expected number of applicants that will be processed monthly. Further, USACE should determine the economic impact of changing the current policy that limits the Government acquisition of homes for qualifying Service members and civilians who need to sell their homes in conjunction with PCS moves and base closures.

Recommendations, Management Comments, and Our Response

C. We recommend that the Director of Real Estate, U.S. Army Corps of Engineers:

1. Develop a detailed plan for managing the backlog that includes monthly goals for processing the applications of eligible applicants and eliminating the backlog of unprocessed applications. The goals should consider a forecast of carryover workload, new applicants, and processed applications.

U.S. Army Corps of Engineers Comments

The Deputy Chief, Headquarters USACE Internal Review Office, responding on behalf of the Director of Real Estate, neither agreed nor disagreed, but stated that the Director tracked the processing of applications and the volume of new applications received on a weekly basis. The Deputy Chief stated that the backlog at the time of our audit was the result of the number of applications that were received before USACE personnel had the

¹⁸ Although we used the interim rule as the basis for this finding, more applicants will be eligible for HAP benefits under the final rule. This could further add to the backlog of applicants and increase waiting times for receiving HAP benefits. See Table B-3 for differences between the interim and final rule.

authority to process benefits, and as of October 6, 2011, there was no backlog. She also stated that applications of all eligible applicants had either been processed and paid or were in the queue for payment, or applicants were waiting for buyers.

Our Response

The USACE comments were not responsive. USACE had not developed a detailed plan for managing the backlog that included monthly goals for processing the applications of eligible applicants and eliminating the backlog. The goals were to have considered a forecast of carryover workload, new applicants, and processed applications.

The Deputy Chief stated that there was no backlog, but data as of September 21, 2011, showed that applications for 3,897 applicants had not been fully processed and paid. There were 1,721 applicants looking for a buyer for their homes, and 1,340 applicants who needed to provide additional documentation in order for district personnel to assess eligibility or to process payments. An additional 836 payments were in the process of being paid. However, USACE did not indicate how long applicants remained in these categories. It is possible that some eligible applicants have been in these categories for extended periods of time. Further the number of applicants still waiting for a buyer for their homes had increased by 4.4 percent since February 23, 2011. We consider this a significant and growing backlog, even if the numbers in the other applicant categories have decreased over this same period. In addition, HAP funding may not be available for many of the backlogged applicants. We request that USACE reconsider its position on the recommendation and provide comments on the final report that address program funding concerns in the context of developing a detailed plan for managing the backlog of applications that have not been fully processed and paid as well as new applications.

2. Determine the economic impact of expanding the use of Government acquisitions of homes from qualified applicants who have not identified a buyer for their home. Consider changing the policy after assessing the economic impact.

U.S. Army Corps of Engineers Comments

The Deputy Chief, Headquarters USACE Internal Review Office, neither agreed nor disagreed, but stated that the acquisition of residential properties involves fiscal and programmatic risks for HAP that do not arise if the applicant is able to find a buyer for the home. USACE personnel estimated that requiring the acquisition, management, and disposal of Government-acquired homes would cost approximately an additional \$45.9 million from September 2011 through September 2012. The Deputy Chief stated that a consequence of changing the policy would be a dramatic reduction in the number of eligible applicants who could receive benefits. In addition, appropriations for HAP may not be sufficient to manage a large portfolio of Government-acquired homes. USACE considered the existing policy to be consistent with the major intent of HAP, which is to get the most benefits to the most eligible applicants. USACE believed that the existing policy was in the best interest of eligible applicants.

Our Response

The USACE comments were responsive, and the actions met the intent of the recommendation.

Appendix A. Audit Scope and Methodology

This is one in a series of reports on the Recovery Act. We conducted this performance audit from February 2010 through September 2011 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the American Recovery and Reinvestment Act of 2009, OMB Memorandum M-09-10, “Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009,” February 18, 2009, and subsequent related guidance. We also reviewed the interim rule published in the Federal Register and implementing guidance issued by USACE. We interviewed personnel at USACE Headquarters and the USACE Fort Worth, Sacramento, and Savannah District Offices.

To determine whether HAP payments were properly made, we randomly selected 64 payments marked as paid in HAPMIS as of January 31, 2010, and used the interim rule and implementing guidance to determine whether applicants were eligible and paid correctly. To determine whether USACE personnel made proper determinations regarding the eligibility status of denied applicants, we reviewed eligibility information in HAPMIS as of January 31, 2010, for 52 applicants that we randomly selected. During site visits to the three district offices in March and April 2010, we reviewed HAP claims and payments processed by USACE district offices as of January 31, 2010. We obtained information through our site visits and data requests to determine the policies, procedures, and practices followed for processing and making HAP payments. We based our projections on our sample of 64 payments marked as paid in HAPMIS and 52 ineligible applications as of January 31, 2010. See Appendix C for statistical sampling information.

On November 16, 2010, DoD issued the final rule. The effective date for the guidance was January 18, 2011. As a result, we did not use this guidance for our review of payments; however, we assessed major differences between the interim and final rules.

We also obtained information from USACE Headquarters personnel on the status of claims and benefits at various dates from October 2009 through February 2011 and analyzed the progress made and actions taken to manage the backlog of applications received by the district offices.

Use of Computer-Processed Data

We used computer-processed data from HAPMIS to perform this audit. We used the data to statistically select two samples. For the sampled applicants, we determined whether the eligibility status recorded in HAPMIS was accurate as of January 31, 2010. For the sampled payments, we determined whether the district personnel computed the payments accurately in accordance with the interim rule. We assessed the reliability of the data by

tracing the data to source documentation. Specifically, we compared the information in the files maintained at the three USACE district offices with the eligibility status and payment information recorded in HAPMIS. We also obtained and reviewed HAPMIS information after January 31, 2010, for comparison with the information that we obtained on the sampled applicants. Although we identified some issues with the accuracy of the HAPMIS information, we believe the computer-processed data we used were sufficiently reliable to support the findings and conclusions in this report.

Use of Technical Assistance

We obtained assistance in developing the statistical sampling plan and analyzing the results from the DoD Office of Inspector General, Office of Auditing, Quantitative Methods Division. The Quantitative Methods Division provided the sample of HAP benefit payments paid to the applicants as of January 31, 2010, and the sample of denied applicants to determine the accuracy of their ineligibility status. See Appendix C for statistical sampling information.

Prior Coverage of the Recovery Act

The Government Accountability Office, the Department of Defense Inspector General, and the Military Departments have issued reports and memoranda discussing DoD projects funded by the Recovery Act. You can access unrestricted reports at <http://www.recovery.gov/accountability>.

Appendix B. Targeted Recipients, Eligibility Requirements, and Benefits

Eligible homeowners are the targeted recipients of HAP. The interim rule identified the following general categories in which these individuals must belong.

- **Wounded, Injured, or Ill (Wounded Warriors)**

Wounded Warriors are members of the Armed Forces who:

- o Meet one of the following three conditions –
 - Receive a disability rating of 30 percent or more for an unfitting condition (using the Department of Veterans Affairs Schedule for Ratings Disabilities), or
 - Are eligible for Service member's Group Life Insurance Traumatic Injury Protection Program, or
 - Whose treating physician (in a grade of a least captain in the Navy or Coast Guard or colonel in Army or Air Force) certifies that the member is likely, by a preponderance of the evidence, to receive a disability rating of 30 percent or more for an unfitting condition (using the Department of Veterans Affairs Schedule for Ratings Disabilities) for wounds, injuries, or illness incurred in the line of duty while deployed, on or after September 11, 2001;
- o Are reassigned in furtherance of medical treatment or rehabilitation, or who retire in connection with such disability; and
- o Need to sell their primary residence due to the wound, injury, or illness.

Civilian employees of DoD or the United States Coast Guard (excluding temporary employees or contractors, but including employees of nonappropriated fund instrumentalities) who:

- o Suffer a wound, injury, or illness (not due to own misconduct), on or after September 11, 2001, in the performance of duties while forward deployed in support of the Armed Forces, whose treating physician provides written documentation that the member, by a preponderance of the evidence, meets the criteria for a disability rating of 30 percent or more;
- o Relocate from their primary residence in furtherance of medical treatment, rehabilitation, or due to medical retirement resulting from the wound, injury, or illness; and
- o Need to sell their primary residence due to the wound, injury, or illness.

Wounded warriors are eligible for compensation no matter when they purchased their homes and without an end date for their eligibility for compensation.

- **Surviving Spouses**

The surviving spouse of Service members or civilian employees is eligible if:

- Service member or civilian employee died as the result of a wound, injury, or illness incurred in the line of duty while deployed (or forward deployed for civilian employees) on or after September 11, 2001; and
- Applicant relocated from the member's or civilian employee's primary residence within 2 years of the death of the spouse.

Surviving spouses are also eligible for compensation without respect to date of home purchase or end of eligibility date.

- **Members of the Armed Forces and Civilian Employees Affected by Base Realignment and Closure (BRAC) 2005**

Members of the Armed Forces, civilian employees of DoD and the United States Coast Guard (not including temporary employees or contractors), and employees of nonappropriated fund instrumentalities assigned as of May 13, 2005, to an installation or unit identified for closure or realignment under the calendar year 2005 round of BRAC are eligible if:

- Their positions are eliminated or transferred because of the realignment or closure;
- They accept employment or are required to relocate because of a transfer beyond the normal commuting distance from the primary residence (50 miles); and
- They purchased their primary residence before the date of the BRAC 2005 announcement (May 13, 2005).

- **Permanently Reassigned Members of the Armed Forces**

Members who are reassigned under permanent change of station (PCS) orders are eligible if they:

- Received qualifying orders to relocate dated between February 1, 2006, and September 30, 2010; *
- Moved to a new duty station or home port outside a 50-mile radius of the member's former duty station or home port; and
- Purchased their primary residence before July 1, 2006.

* The date may be extended to September 30, 2012, at the discretion of the Deputy Under Secretary of Defense for Installations and Environment based on availability of funds.

Targeted recipients qualify for HAP benefits if they meet certain eligibility requirements. In addition to the requirements related to date of eligibility and timing of home purchase referred to in the descriptions of the targeted recipients, the interim rule defines eligibility requirements related to economic impact and home purchase price. Table B-1 identifies the specific requirements for each targeted recipient category as defined in the interim rule.

Table B-1. Recipient Eligibility Requirements

Requirement	Targeted Recipients		
	Wounded Warriors and Surviving Spouses	BRAC 2005	Permanently Reassigned Members of the Armed Forces
Economic Impact	Eligible for compensation without respect to economic impact, or timing of purchase.	1. County/city/parish has suffered at least a 10-percent loss in market value between July 1, 2006, and date of HAP application. 2. Decline of at least a 10-percent personal home value loss from the date of purchase to date of sale.	
Timing of Purchase	Eligible for compensation without respect to date of purchase. Surviving spouses must move within 2 years of the death of a spouse.	Purchased primary residence before May 13, 2005.	Purchased primary residence before July 1, 2006.
Maximum Home Purchase Price	The Prior Fair Market Value (PFMV) may not exceed an amount equal to the 2009 Fannie Mae/Freddie Mac conforming loan limits (as amended by the Recovery Act). These conforming loan limits are established for each county/city/parish, and range from \$417,000 to \$729,500.		
Date of Eligibility	Wound, injury, illness, or death of a spouse must have occurred on or after September 11, 2001.	Assigned to an installation or unit identified for closure or realignment on May 13, 2005, under BRAC 2005.	Received qualifying orders to relocate dated between February 1, 2006, and September 30, 2010. The orders must specify a report no later than a date on or before February 28, 2010.

Table B-2 summarizes the benefits defined in the interim rule for each targeted recipient category.

Table B-2. Benefits Guide

Type of Benefits	BRAC 2005	Permanently Reassigned Members of the Armed Forces	Wounded Warrior	Surviving Spouses
Private Sale ¹	Greater of 90 percent PFMV, minus sales price, plus closing costs or Mortgage payoff, minus sales price, plus closing costs.		Greater of 95 percent PFMV, minus sales price, plus closing costs, or Mortgage payoff, minus sales price, plus closing costs.	
Government Acquisition ²	Greater of:75 percent of the PFMV or Mortgage payoff, minus sales price, plus closing costs.		Greater of 95 percent PFMV or Mortgage payoff, minus sales price, plus closing costs.	
Foreclosure ³	Legally enforceable liabilities.			

¹ This benefit applies to applicants who have sold their property in an independent manner.

² This benefit is an option if the applicant's loan is greater than the contract home sales price plus other eligible Expanded HAP benefits. Typically, DoD will pay off the balance of the original loan(s), purchase the property, and resell it.

³ Foreclosure is a legal proceeding that bars or extinguishes a mortgagor's equity of redemption in mortgaged real property.

On November 16, 2010, DoD issued the final rule. This guidance became effective on January 18, 2011. As a result, we did not use this guidance for our review of payments; however, we assessed major differences between interim and the final rules.

Table B-3 identifies the major differences and impact of the differences between the interim and final rules.

Table B-3. Differences Between Interim Rule and Final Rule

Interim Rule	Final Rule	Impact
Interim rule did not define all terminology used in the interim rule.	Final rule includes definitions for closing costs, eligible mortgage, prior fair market value (PFMV), and purchase.	Clarifies the terms for applicants.
If an applicant is eligible as a wounded warrior or surviving spouse and is unable to sell the primary residence after demonstrating reasonable efforts to sell, the applicable percentage will be 95 percent of the PFMV.	If an applicant is eligible as a wounded warrior or surviving spouse and is unable to sell the primary residence after demonstrating reasonable efforts to sell, the applicable percentage will be 90 percent of the PFMV.	Reduces benefits for the applicants who are unable to sell primary residence.
The amount of a short-sale deficiency may be included in the benefit if the total amount of the benefit does not exceed the difference between 95 percent of the PFMV and the sales price.	If the applicant was fully released from liability after a short sale, no benefit will be paid to either the applicant or lender. If an applicant remains liable for a deficiency between the outstanding mortgage and the sales price, the deficiency amount may be included in the benefit if the total amount of the benefit does not exceed the difference between 90 percent of the PFMV and the sales price.	Clarifies that applicants who are fully released from a liability after a short sale do not receive a benefit.
Interim rule required a 10-percent decline in the county/parish/market for eligibility.	The requirement to show a 10-percent decline in county/parish/city market value was removed.	More applicants would be eligible.
The PFMV of a house may not exceed an amount equal to the Fannie Mae/Freddie Mac conforming loan limits for 2009 for each city/county/parish, as appropriate.	The requirement for the PFMV or qualifying mortgage to be within the Fannie Mae/Freddie Mac conforming loan limit for eligibility purposes was removed, but final rule placed a cap on benefit payments of \$729,750.	More applicants would be eligible.
End date of eligibility for PCS Service members was December 31, 2009. This date may be extended to September 30, 2012, at the discretion of the Deputy Under Secretary of Defense for Installations and Environment.	The end date for PCS Service members was extended to September 30, 2010. This date may be extended to September 30, 2012, at the discretion of the Deputy Under Secretary of Defense for Installations and Environment.	More applicants would be eligible.

Appendix C. Statistical Sampling Methodology

HAPMIS information from USACE Headquarters personnel indicated that 605 payments, totaling \$53,770,543.91, had been made as of January 31, 2010. HAPMIS information also showed that 6,655 applicants had applied for HAP benefits as of January 31, 2010, of which 4,176 applicants were eligible and 2,020 of the applicants were ineligible for HAP benefits. The remaining 459 applicants were in the “other” category. District personnel used the “other” category when they needed additional information to determine eligibility or ineligibility.

Sampling Plan

Propriety of Payments Made

To determine whether USACE district personnel properly made HAP payments, we randomly selected 64 of 605 payments marked as paid in HAPMIS as of January 31, 2010. We used the interim rule and implementing guidance to determine whether applicants were eligible and paid correctly. The purpose of the statistical sampling plan was to estimate the number and dollar value of HAP payments not correctly paid in accordance with the interim rule and USACE implementing guidance and determine whether they were adequately supported.

Classifying and Reporting Ineligible Applicants

To determine whether USACE personnel made proper determinations regarding the eligibility status of denied applicants, we reviewed eligibility information in HAPMIS as of January 31, 2010. HAPMIS indicated that of the 6,655 applicants who had applied for benefits under HAP, 4,176 applicants were eligible and 2,020 applicants were ineligible. USACE district personnel had not determined the eligibility of the remaining 459 applicants. We selected a random sample of 52 out of 2,479 (2,020+459) applicants. Table C-1 breaks down the sample information by district offices.

Table C-1. Random Sample for Eligibility Status

District Office	Universe Size	Sample Size
Fort Worth	552	14
Savannah	1,654	19
Sacramento	273	19
Total	2,479	52

Statistical Projections and Interpretation

Based on the sample results provided, we calculated the appropriate statistical projections by using a 90-percent confidence level.

Incorrect Payment Amount

We have presented the actual sample results of underpayments to three applicants, which totaled \$9,562.75, and overpayments to five applicants, which totaled \$1,308.01. We are not presenting the statistical projection to the universe of \$53.8 million because the calculated upper and lower bounds are too wide to make a defensible statistical conclusion.

Unsupported Amount

We have presented the actual sample results of unsupported payments of seven payments totaling \$28,558.03. We are not presenting the statistical projection to the universe of \$53.8 million because of discrepancies found in the population distribution of district offices by dollar values.

Denied Claims

Table C-2. Statistical Projections for Falsely Denied Applicants
(90% Confidence Level)

	Lower Bound	Point Estimate	Upper Bound
Rate	11.47%	27.43%	43.39%
Number	284	680	1,076

We are 90-percent confident that the error rate for falsely denied applicants is between 11.47 percent and 43.39 percent, and the number of errors is between 284 and 1,076.

Appendix D. Incorrect and Unsupported Payments

Of the 64 randomly selected payments marked as paid in HAPMIS as of January 31, 2010, we determined that 49 payments were properly computed in accordance with the interim rule and implementing USACE guidance. However, we identified eight incorrect payments. There were five overpayments, totaling \$1,308.01, and three underpayments, totaling \$9,562.75. In addition, we identified seven other payments that did not have proper supporting documentation for \$28,558.03 in benefits paid. Table D-1 identifies the incorrect payments we identified using the criteria in Appendix B.

Table D-1. Incorrect Payments

District Office	Applicant Number	Overpayment	(Underpayment)
Fort Worth	2M28NE681130026	\$220.77	
Sacramento	3L28NV894060005		\$(45.00)
Sacramento	3L28WA983150012	27.40	
Savannah	1K68DC203192710		(8,440.00)
Savannah	3K68FL322281705	810.00	
Savannah	3K68MD208892758		(1,077.75)
Savannah	7K68NJ084050858	59.35	
Savannah	2K68VA222022255	190.49	
Total		\$1,308.01	\$(9,562.75)

- Application Number 2M28NE681130026. Fort Worth District personnel overpaid the applicant for home improvements. The vendor invoice indicated that the applicant was given a military discount of \$245.30 when he purchased the materials for the home improvement. Fort Worth District Office personnel failed to realize this and mistakenly reimbursed the applicant \$220.77 (90 percent of the \$245.30 claimed as a home improvement).
- Application Number 3L28NV894060005. Sacramento District personnel underpaid the applicant when they incorrectly entered the PFMV of the applicant's home in HAPMIS. Instead of entering \$230,883.50 in HAPMIS, they entered \$230,833.50, a \$50 understatement. The \$45 underpayment was 90 percent of the \$50 understatement of the home PFMV.
- Application Number 3L28WA983150012. Sacramento District personnel overpaid the applicant when they incorrectly included in the benefit calculation the cost of a home improvement item that had been returned to the store.

- Application Number 1K68DC203192710. The applicant appealed the HAP payment made by the Savannah District Office. The applicant claimed that some of the customary closing costs in his area were not paid. The appeal was for \$8,000, but Savannah District personnel identified an additional \$440 that was not initially paid to the applicant. Savannah District personnel paid the applicant the additional \$8,440 to which he was entitled.
- Application Number 3K68FL322281705. The Savannah District Office overpaid the applicant for closing costs. When Savannah District personnel examined the final U.S. Department of Housing and Urban Development Settlement Statement, they decided that some of the costs that they initially paid were not customary for the applicant's residential area. Savannah District personnel determined that the documentation preparation fee, clerk of the circuit court fee, and the survey fee were not customary closing costs and should not have been reimbursed. They also determined that the title search fee and title insurance were overpaid by a total of \$115. Due to these overpayments, Savannah District personnel requested a reimbursement from the applicant for the \$810 that was overpaid.
- Application Number 3K68MD208892758. As part of the submission package, the applicant provided a receipt for \$1,197.50 in flooring that she installed in her house. However, Savannah District personnel did not include the amount of the flooring as part of the applicant's home improvement costs, subject to 90-percent reimbursement, underpaying the applicant by \$1,077.75. Savannah District personnel could not tell us why the cost of the flooring was not included as a reimbursable home improvement cost. We were told that the Savannah District's appraisal department was going to review the matter.
- Application Number 7K68NJ084050858. The applicant claimed the cost of a refrigerator as a home improvement. In accordance with its guidance, Savannah District personnel appropriately excluded the cost of the refrigerator as a qualified home improvement. However, Savannah District personnel did not exclude the associated sales tax and overpaid the applicant \$59.35.
- Application Number 2K68VA222022255. The applicant provided a receipt with the items that were purchased for home improvements. In computing the reimbursable amount, Savannah District personnel inappropriately used the number of items that were purchased rather than the amount that was paid. There were 2,536 items bought for \$2,324.55. Because of this error, Savannah District personnel overpaid the applicant by \$190.49.

Table D-2 provides additional information on the unsupported portion of seven other payments. In total, supporting documentation was not available to support \$28,558.03 of the \$12,263,383.15 paid.

Table D-2. Unsupported Payments

District Office	Application Number	Unsupported Amount
Fort Worth	2M28CO800110020	\$4,245.50
Fort Worth	2M28CO809140005	2,822.37
Fort Worth	1M28MN551110017	4,251.17
Fort Worth	2M26TX763110003	423.54
Fort Worth	2M28WI546180001	7,872.07
Fort Worth	3M28WI600880008	6,834.47
Sacramento	1L24HI968590001	2,108.91
Total		\$28,558.03

For each of the six Fort Worth District Office applicants, district personnel did not provide adequate documentation to support the amount paid for closing costs. The applicant folders did not contain supporting documentation that matched the amounts paid. In addition, the calculation sheets from HAPMIS in the applicant folders did not match the payment checks, and the dollar value of the closing costs on the settlement sheet differed from the amount reimbursed. For the one Sacramento District Office applicant, the applicant's folder did not contain supporting documentation that matched the amount paid for closing costs.

U.S. Army Corps of Engineers Comments



DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
WASHINGTON, D.C. 20314-1000

CEIR

06 October 2011

MEMORANDUM FOR Department of Defense Inspector General, Acquisition and Contract Management, 400 Army Navy Drive, Arlington, VA

SUBJECT: OIG Draft Report American Recovery and Reinvestment Act-Improvements Needed in Implementing the Homeowners Assistance Program (Project No. D2010-D000FI-0159.000)

1. DODIG requested USACE comments to the eight recommendations addressed in the subject report.
2. HQS U.S. Army Corps of Engineers concurs and submits the attached response. The responses have been reviewed and approved by the USACE Director of Real Estate, the DASA (IH&P) and the ODUSD (I&E).
3. If you have further questions regarding this matter, please contact the undersigned at [REDACTED]


BRENDA L. MAYES
Deputy Chief,
HQs USACE Internal Review Office

**U.S. Army Corps of Engineers (USACE) Comments and Response to the
Recommendations**

**Department of Defense Office of Inspector General (DOD IG)
Draft Report**

Project No. D2010-D00FI-0159.000

**“American Recovery and Reinvestment Act – Improvements Needed in Implementing the
Homeowners Assistance Program”**

RECOMMENDATION A.1 (a-d): The USACE Director of Real Estate issue detailed standard procedures and guidance for the uniform processing of Homeowners Assistance Program (HAP) applications and payments, specifically regarding:

- a. Processing and documenting home improvements and closing costs;
- b. Processing, paying, and documenting Government acquisitions;
- c. Documenting supervisory reviews of eligibility decisions, payment calculations, and the completeness of information in applicant folders;
- d. Conducting and documenting post-payment reviews to ensure that all information is included in the applicant folders and that payments are proper and complete.

USACE RESPONSE: Concur.

The draft report notes that the three USACE Districts processing HAP applications use a variety of different processes for processing, paying, and documenting HAP transactions with varying degrees of success. In an effort to make USACE’s administration of the HAP as consistent as possible, the Director of Real Estate will develop guidance and standard procedures that further implement the final Code of Federal Regulations provisions. That guidance will draw from the most successful methods employed by the Districts. The guidance and procedures will address the processes and payments specified above. The guidance will also ensure that benefit determinations are properly and consistently documented and that a complete record of the determination is maintained. USACE expects to issue standard procedures and guidance by the end of the calendar year. It should be noted that when the audit was conducted, USACE was operating under an interim rule. As the final rule was published and effective in January 2011, USACE will finalize standard procedures and guidance by the end of the calendar year (30 Dec 2011).

RECOMMENDATION A.2: The USACE Director of Real Estate direct the appropriate District offices to review the incorrect and unsupported payments identified during its audit and take corrective action.

USACE RESPONSE: Concur with comment.

HQUSACE directed all three HAP Centers of Expertise to review payments identified in the DOD IG report and to take corrective actions for any payments found to be incorrect or unsupported. The Savannah District has already reviewed and corrected three payments noted in the draft report and will correct the remaining two payments by October 30, 2011. Any overpayments will be resolved under the DoD Financial Management Regulation collection procedures. USACE expects to complete its review and take corrective action by the end of the calendar year (30 Dec 2011). It should be noted that the dollar amounts identified as incorrect and/or unsupported represented only .25% of the dollar amount reviewed and that 99.75% of the funds were distributed correctly.

RECOMMENDATION A.3: The DoD IG recommended that the USACE Director of Real Estate periodically review the assessments made by District offices associated with the quarterly management control checklist designed to assess compliance with the HAP program to ensure that management controls are effectively reviewed.

USACE RESPONSE: Concur.

The Director of Real Estate will update the current quarterly management control checklist; ensure the Districts administering the HAP program understand the checklist, and the HQUSACE expectations for those assessments. Once complete, HQUSACE will periodically review the assessments made by each District office. USACE expects to complete its review and take corrective action by the end of the calendar year (30 Dec 2011).

RECOMMENDATION C.1: The USACE Director of Real Estate develop a detailed plan for managing the backlog that includes monthly goals for processing the applications of eligible applicants and eliminating the backlog of unprocessed applications. The goals should consider a forecast of carryover workload, new applicants, and processed applications.

USACE RESPONSE: Complete.

The Director of Real Estate tracks the processing of applications and the volume of new applications received on a weekly basis. The backlog at the time of the inspection was the result of the number of applications that had been received prior to having the authority to process for benefits. When those applications were received, USACE did not yet have the authority or funds in place to execute; thereby, the Districts could not process any applications which resulted in a backlog. However, since the inspection was conducted all three HAP Districts have been fully staffed and are functioning under a Rapid Improvement Process that was established in April 2010. Currently, there is no backlog. All eligible applicants have either been processed and benefits paid, are in the queue for payment, or are waiting for buyers. As of 21 September 2011 the following data applies:

Applications Received	15,190
Eligible Applications	10,752
Ineligible Applicants	4,438
Applicants Paid	6,855
Applicants Awaiting Buyers	1,721
Payments in Process	836
Awaiting Documents	1,340

As demonstrated above, there are only 3,897 remaining to be processed. Of that 836 have payments that are being processed, which brings the total to 3,061 applicant that are in a holding mode due to either needing a buyer or the District is awaiting the applicant to provide documentation in order to assess their eligibility or to process for benefits.

RECOMMENDATION C.2: The USACE Director of Real Estate determine the economic impact of expanding the use of Government acquisitions of homes from qualified applicants who have not identified a buyer for their home. Consider changing the policy after assessing the economic impact.

USACE RESPONSE: Complete.

As noted in the draft report, the average cost of purchasing, maintaining, repairing when damaged or vandalized, marketing and eventually reselling each applicant home in a declining market costs approximately \$29,000 per home which is a direct reduction of revenues returned to the Homeowners Assistance Fund (HAF) for benefit payments. Requiring the acquisition, management and disposal of Government Acquisition homes would cost approximately an additional \$45.9M.

The existing policy is considered to be consistent with the major intent of the HAP which is to get the most benefits out to the most eligible applicants. The Director of Real Estate believes the policy is in the best interest of eligible applicants. The suggested change increases expenses that are currently avoided when the Government policy is to actually purchase, hold in inventory and resell as few applicants homes as possible. The consequence of changing the policy would be a dramatic reduction in the number of eligible applicants who could receive benefits.

Aside from the additional administrative costs to the HAP, the acquisition of residential properties involves fiscal and programmatic risks for the HAP that does not arise if the applicant is able to find a buyer for the home. Since HAF funds are used to acquire properties, the government acquisition of homes ties up HAF funds in illiquid assets which reduces the overall liquidity to pay other HAP applicants as their applications are approved. Also, the homes acquired in an effort to expedite the HAP ARRA payments may remain in the government's portfolio after that program has ended and the ARRA funds expended; thus increasing the administrative demands on the traditional HAP. Appropriations for the HAP may not be sufficient to manage a large portfolio of Government acquired homes. Therefore, it is in the best

interests of all eligible applicants to find buyers for their homes before the Government will be permitted to consider purchasing those homes.



Inspector General Department of Defense

