



U.S. Department of Agriculture  
Office of Inspector General  
Northeast Region  
Audit Report

Rural Development, Rural Housing Service  
Rural Rental Housing Program  
Tenant Income Verification  
Richmond, Virginia



**Report No.  
04004-04-Hy  
September 2001**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Northeast Region

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5601 Sunnyside Avenue, Stop 5300

Beltsville, Maryland 20705-5300



DATE: September 7, 2001

REPLY TO

ATTN OF: 04004-04-Hy

SUBJECT: Rural Development, Rural Housing Service, Rural Rental Housing Program,  
Tenant Income Verification – Virginia

TO: Joseph W. Newbill  
State Director  
Rural Development

This report presents the results of the subject audit. Your written response, dated August 16, 2001, has been incorporated into the Findings and Recommendations section of the report. The complete text of the response, with the exception of the exhibits to the attachment VA AN NO. 364, (1930-C) and the attachment FMHA Instruction 1930-C, Exhibit B-3, (Revision 1), is included as exhibit F.

We agree with your management decisions for each recommendation in the report except for Recommendation Nos. 3, 4, 7, and 9. The actions needed to reach management decision on these recommendations are identified in the Findings and Recommendations section of the report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the specific corrective action taken or planned and the timeframes for implementation of those recommendations for which a management decision has not yet been reached. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

We appreciate the assistance you and your staff provided to us during our review.

*/s/*

MARLANE T. EVANS  
Regional Inspector General  
for Audit

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# EXECUTIVE SUMMARY

## RURAL DEVELOPMENT, RURAL HOUSING SERVICE RURAL RENTAL HOUSING PROGRAM TENANT INCOME VERIFICATION RICHMOND, VIRGINIA AUDIT NO. 04004-04-Hy

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### RESULTS IN BRIEF

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This report presents the results of our audit of the Virginia State Rural Development, Rural Rental Housing (RRH) Program, controls and procedures for determining project and tenant eligibility for rental assistance, hereafter referred to as the income verification process. We evaluated State and area office controls over borrower/management company project income verification. We also determined if the borrower/management company complied with income verification procedures.

The Virginia State Rural Development Office (STO) and its area offices (AO) did not conduct the required management control reviews over RRH borrower operations. The STO did not conduct State Internal Reviews (SIR) for four of its five AOs. These reviews are to be conducted at least once every five years. Only one AO had a current SIR (completed in August 1998); three AOs had SIRs between 1991 and 1995. The STO files did not contain evidence that an SIR had been completed at the remaining AO. Also, two AOs did not perform the required supervisory visits at each RRH project. Supervisory reviews are to be conducted at least once every three years. These two AOs completed only 56 of 132 (42 percent) of the required supervisory visits within the established timeframe. STO and AO officials stated that workload and budget issues prevented their offices from performing the required internal control reviews. Since we did not audit State and area office workload or STO budget issues, we did not confirm these assertions. Noncompliance with required management controls results in an increased risk that improper rental assistance will be provided.

The STO, because of inadequate management oversight, was not aware that the AOs did not comply with project monitoring requirements. Therefore, errors in determining project and tenant eligibility for rental assistance were not detected. At the 4 RRH projects visited, the management companies made errors on 12 of 40, or 30 percent, of the tenant certifications we reviewed. Errors made by management company

personnel caused tenants to pay \$1,181 more in rent than they should have, and caused the STO to pay \$4,468 in excess rental assistance. Although the management companies had procedures in place that comply with Rural Development income verification requirements, project site managers were not following those procedures.

Also, we found that tenants did not comply with the requirement to report changes in income to the management companies. At four RRH projects we determined that 11 of 40 tenant households did not report changes in income or household composition that occurred during the certification period. If the tenants had accurately reported their income, the RRH borrowers would have been entitled to \$9,413 less in rental assistance.

We found one RRH project tenant signed tenant certifications that understated income for two consecutive years. The tenant did not advise the management company that the income reported on the tenant certification excluded commissions. The management company did not question the tenant's reported income, even though the income source was inconsistent from the prior year and decreased more than 20 percent. The understated income resulted in the borrower receiving excess rental assistance on behalf of this tenant totaling \$2,590 and excess interest credit subsidy of \$7,306.

In response to Audit No. 04600-06-Ch, dated March 1990, the National Office instructed State offices to begin wage and benefit matching as a management control to detect misreporting of income by tenants. In April 1994, the STO entered into a Memorandum of Understanding with the Virginia Employment Commission to obtain employment information. The STO issued implementation guidance to State Rural Development managers in February 2001. If required supervisory reviews had been performed and wage and benefit matching more timely implemented, invalid payments may have been detected and avoided.

See exhibit A for a summary of monetary results.

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## **KEY RECOMMENDATIONS**

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We recommend the Virginia STO complete SIRs, in accordance with program requirements, and validate that wage and benefit matching has been implemented during its reviews. Additionally, we recommend the STO establish controls to ensure AOs complete the required supervisory visits and appropriate corrective actions are taken on deficiencies noted. In addition, we recommend the STO require the management companies to: 1) Repay the \$4,468 in excess rental assistance; 2) recover \$19,309 from those tenants who inaccurately reported income information; and 3) reimburse

Rural Development for improper rental assistance and interest credit subsidies. We also recommend the STO require management companies to review and verify certification information for accuracy and reasonableness and follow up on any inconsistencies.

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**AGENCY RESPONSE**

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In its August 16, 2001, response to the official draft report, RD officials generally agreed with the findings and recommendations as presented. Applicable portions of the response are incorporated, along with our position, in the Findings and Recommendations section of the report. The full text of the agency's response, with the exception of the exhibits to the attachment VA AN NO. 364 (1930-C), Revised March 6, 2001, and the attachment FmHA Instruction 1930-C, Exhibit B-3 (Revision 1), is included as exhibit F of the report.

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## TABLE OF CONTENTS

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EXECUTIVE SUMMARY .....	i
RESULTS IN BRIEF.....	i
KEY RECOMMENDATIONS .....	ii
AGENCY RESPONSE .....	iii
INTRODUCTION.....	1
BACKGROUND .....	1
OBJECTIVES.....	2
SCOPE.....	2
METHODOLOGY .....	3
FINDINGS AND RECOMMENDATIONS .....	5
CHAPTER 1.....	5
RURAL DEVELOPMENT STATE AND AREA OFFICES DID NOT PERFORM REQUIRED MANAGEMENT CONTROL PROCEDURES.....	5
FINDING NO. 1 .....	5
RECOMMENDATION NO. 1 .....	6
FINDING NO. 2 .....	7
RECOMMENDATION NO. 2 .....	8
CHAPTER 2.....	9
MANAGEMENT COMPANIES OVERSIGHT OF RRH PROJECT SITE MANAGERS NEED IMPROVEMENT .....	9
FINDING NO. 3 .....	9
RECOMMENDATION NO. 3 .....	12
RECOMMENDATION NO. 4 .....	12
RECOMMENDATION NO. 5 .....	12
CHAPTER 3.....	14
TENANTS DID NOT REPORT CHANGES IN INCOME OR HOUSEHOLD COMPOSITION DURING THE CERTIFICATION YEAR .....	14
FINDING NO. 4 .....	14
RECOMMENDATION NO. 6 .....	15
RECOMMENDATION NO. 7 .....	16
RECOMMENDATION NO. 8 .....	16
CHAPTER 4.....	17
TENANT UNDERSTATES INCOME TWO CONSECUTIVE CERTIFICATION YEARS .....	17
FINDING NO. 5 .....	17
RECOMMENDATION NO. 9 .....	18
RECOMMENDATION NO. 10 .....	19
GENERAL COMMENTS.....	20

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**EXHIBIT A – SUMMARY OF MONETARY RESULTS .....21**  
**EXHIBIT B – AUDIT SITES VISITED IN FY 2000 .....22**  
**EXHIBIT C – TOTAL UNIVERSE AND PROJECTS REVIEWED .....23**  
**EXHIBIT D – IMPROPER VERIFICATION BY MANAGEMENT COMPANIES.....24**  
**EXHIBIT E – IMPROPER INCOME REPORTED BY TENANTS.....25**  
**EXHIBIT F – RURAL DEVELOPMENT’S RESPONSE TO DRAFT REPORT .....26**  
**ABBREVIATIONS.....37**

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# INTRODUCTION

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## BACKGROUND

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The Rural Housing Service (RHS), an agency of the U.S. Department of Agriculture, provides funds for the Rural Rental Housing (RRH) Program. The RHS Headquarters in Washington, D.C., administers these programs through its 47 Rural Development State offices (STO), and 848 area offices (AO) nationwide. The State of Virginia administers its RRH program through its STO and five AOs.

The RRH Program provides loans for rental or cooperative housing in rural areas, for the elderly and individuals with low to moderate income. To be eligible for an RRH loan, the applicant must, with the exception of a State or local public agency, be unable to obtain financing on terms that allow the applicant to rent the units for amounts that are within the payment ability of eligible tenants.

The loan interest rate generally is reduced to one percent so that borrowers can provide rental rates within the limited means of low-income tenants. In addition to the interest credit subsidy, RHS provides rental assistance (RA), or subsidized rent, on behalf of low-income tenants, under section 521 of the Housing Act of 1949. Agency Instruction 1930-C, exhibit E, dated August 30, 1993, provides guidance on the RA program.

The RA subsidy is the difference between the RHS approved shelter cost (basic rent plus utility allowance) for a housing unit and the amount of shelter cost the tenant is able to contribute based on income and household size. When the tenant is able to contribute more than the approved shelter cost, the tenant does not qualify for RA and must pay the borrower the difference between the amount of basic rent and up to, but no more than, the approved note rate rent. This excess portion of the contribution is commonly referred to as overage and is used to reduce the interest credit subsidy provided to the borrower. Tenant rent contributions, RA, and overage amounts are reported to the AO monthly on the form RD 1944-29, Project Worksheet for Interest Credit and Rental Assistance.

Applicants must meet eligibility requirements in order to live in the project. The applicant's adjusted annual income must meet the definition of very low, low, or moderate income. Adjusted annual income is the annual income of the household members less allowable deductions for dependents, handicapped status, elderly status, medical expenses,



childcare expenses, and other authorized deductions. To determine eligibility for continued occupancy, the tenant's adjusted annual income must be determined and documented on the Tenant Certification (form RD 1944-8), at least once every 12 months. However, if there are changes to a tenant's income or status during the 12-month certification period, the tenant is required to report the change to the borrower/management company. If the tenant has a permanent increase within the 12-month certification period that equals or exceeds \$480 annually, the tenant is required to be recertified.

It is the borrower/management company's responsibility to verify tenant income with employers and other third-party sources. The tenant income will normally be verified before a person is determined eligible to occupy a subsidized project and at least once a year thereafter. RHS monitors the accuracy of tenant reported income by two methods. During triennial supervisory visits, the AO selects a sample of income verifications to review for accuracy. Also, for those States that have wage matching agreements with the State Department of Labor, wage and benefit matches are to be performed during supervisory visits and for initial tenant move-ins.

As of March 2000, Virginia's RRH loan portfolio consisted of 272 projects with loans totaling over \$284 million. Virginia RHS provided over \$102 million in RA on behalf of eligible tenants during FY 2000. As of March 2000, there were 6,024 RA units in Virginia.

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## **OBJECTIVES**

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The overall objective of this audit was to evaluate Virginia Rural Development, RRH Program, controls and procedures for determining project and tenant eligibility for rental assistance, hereafter referred to as the income verification process. The specific objectives were to 1) evaluate the STO/AOs' controls over borrower/management company project income verification processes, and 2) determine if borrower/management company income verification procedures were in accordance with requirements.

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## **SCOPE**

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This audit evaluated the RRH tenant income verification process at the STO in Virginia. We also reviewed the income verification process at two of five AOs: the Suffolk AO, located in Suffolk, Virginia; and the Harrisonburg AO, located in Harrisonburg, Virginia (see exhibit B). These two AOs were selected in consultation with Rural Development STO officials and because the AOs were responsible for a large number of RRH projects. We judgmentally selected one management company and two of its projects at each AO.

The two AOs included in this review were responsible for 36 management companies and 137 projects receiving \$5.64 million in RA. We reviewed management companies with multiple RRH projects and projects with the largest amounts of RA. RRH projects housing elderly were excluded from this review because their income would be relatively stable. For each project visited, we judgmentally selected 10 tenant certifications with large RA values reported on the April 2000 project worksheet (form RD 1944-29). At one project one sample tenant moved and a replacement tenant certification was selected at the project. The tenant certifications selected were effective from May 1999 through May 2001. See exhibits B and C for the management companies and RRH projects reviewed.

RHS' internal controls over income verifications consist primarily of supervisory visits to RRH projects every 3 years. To test this control, we assessed the supervisory visits for the four projects included in our review. We also determined if the two AOs completed supervisory visits, as required, for all RRH projects. Our audit fieldwork was conducted from February 2000 through April 2001.

This audit was conducted in accordance with generally accepted government auditing standards. Accordingly, this review included such tests of program and accounting records as considered necessary to meet the objectives.

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## **METHODOLOGY**

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At the Virginia Rural Development STO, we interviewed agency personnel and reviewed the latest reviews performed by the Rural Development National Office. We also reviewed the latest State Internal Reviews (SIR) performed by the STO. We evaluated STO reviews and the training provided to AO staff and the management companies.

At the AOs, we interviewed agency personnel and determined if supervisory visits were performed at RRH projects. For those RRH projects visited, we reviewed: 1) The most recent supervisory review to identify indications of problems in tenant income verification; 2) project management plans to verify that tenant eligibility, certification, and leasing policies were defined in the plans; and 3) tenant income certifications to verify that tenant income limit guidelines were met.

At RRH project management companies visited, we: 1) Reviewed procedures for certifying and recertifying RRH tenants; 2) reconciled tenant certifications to documents supporting income and income adjustments claimed on the certifications; and 3) performed an independent verification of tenant income with tenant employers, State

and Federal agencies, banks and saving and loan associations, and other entities that provided income to the tenants. STO personnel provided wage matches for those tenants selected for our review. We also interviewed the tenants to verify information reported on their tenant certifications and to obtain authorization to verify income reported.

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## FINDINGS AND RECOMMENDATIONS

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<b>CHAPTER 1</b>	<b>RURAL DEVELOPMENT STATE AND AREA OFFICES DID NOT PERFORM REQUIRED MANAGEMENT CONTROL PROCEDURES</b>
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The Virginia State Rural Development Office (STO) and its AOs did not complete required management control reviews over RRH borrower operations. The STO did not conduct required SIRs for four of its five AOs. Also, two AOs did not perform the required supervisory visits at each RRH project. STO officials were not aware that the AOs did not comply with RRH project monitoring requirements. STO and AO officials stated that workload and budget issues prevented their offices from performing the required internal control reviews. Since we did not audit State and AO workload or STO budget issues, we did not confirm these assertions. Noncompliance with required management controls results in an increased risk that improper rental assistance will be provided.

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**FINDING NO. 1**

**STATE OFFICE DID NOT PERFORM  
REQUIRED STATE INTERNAL  
REVIEWS**

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The STO did not perform SIRs at four of its five AOs within the required timeframes. The State Director stated that the reviews were not completed due to budgetary constraints. As a result, the STO did not fulfill its management control responsibilities over AO operations. Also, STO officials were not aware that the AOs were not complying with RRH project

monitoring requirements.

Rural Development Instructions<sup>1</sup> provide that SIRs are a major component of Rural Development's management control system. SIRs are complete management control reviews of field offices and centralized program functions within a State. Rural Development Instructions<sup>2</sup> require the State Director to schedule the SIRs on a 5-year plan. Exhibit B of these instructions describes the purposes, responsibilities, frequency, content and reporting requirements of SIRs.

Only one AO had a current SIR (completed in August 1998); three AOs had SIRs between 1991 and 1995. The 5-year plan, dated November 15,

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<sup>1</sup> RD Instruction 2006-M, paragraph 2006.607, dated March 10, 1999.

<sup>2</sup> RD Instruction 2006-M, paragraph 2006.605(f), dated March 10, 1999.

1999, prepared by the STO showed scheduled SIRs and the date the latest SIR was completed. The 5-year plan and STO files showed the following.

Area Office	Date of Last SIR <sup>3</sup>		Scheduled SIR per 5 year plan
	Per 5 year plan	Per State Office files	
1	06/95	none	FY2001
2	06/95	08/94	FY2002
3	05/96	05/95	FY2000
4	04/95	04/91	FY2001
5	08/98	08/98	FY2004

We discussed the lack of SIRs with the Rural Development State Director. The State Director informed us that a decision was made not to perform SIRs because of budget limitations.

SIRs are a major component of Rural Development's management controls over RRH operations. Without appropriate oversight, the STO cannot detect and correct noncompliance with required controls and processes.

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## **RECOMMENDATION NO. 1**

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Complete SIRs in accordance with program requirements and implement appropriate actions on the deficiencies noted.

### **Agency Response**

A schedule has been implemented by the Management Control Division for the SIRs to be conducted within the 5-Year time frame as established by the regulations. A 5-Year SIR Schedule, revised August 6, 2001, was provided.

### **OIG Position**

The action taken is sufficient for management decision.

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<sup>3</sup> Prior to April 30, 1996 RD State Offices performed State Evaluation Reviews rather than SIRs in Area Offices.

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## FINDING NO. 2

### AREA OFFICES DID NOT PERFORM REQUIRED SUPERVISORY VISITS

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The two AOs visited did not perform the required supervisory visits. The two AOs completed only 56 of 132 (42 percent) of the required supervisory visits within the established timeframe (one AO did not perform 40 of 68 required visits and the other AO did not perform 36 of 64 required visits).

AO personnel stated that the heavy workload in their offices prevented compliance with the required supervisory visits. As a result, there is reduced assurance that RRH projects are managed in compliance with instructions.

Rural Development instructions require AOs to perform supervisory reviews of project operations for each RRH project every 36 months. This review is required to include the management company office. The AO is required to provide a letter to the management agent or borrower highlighting any needed follow-up actions within 30 days of the review.<sup>4</sup>

We reviewed records of supervisory visits of RRH projects at the Suffolk and Harrisonburg AOs. We found that neither AO completed supervisory visits on a timely basis, as follows.

Area Office	Supervisory Visits Completed During Calendar Year				Total
	2000*	1999	1998	1997	
Suffolk	2	4	5	17	28
Harrisonburg	4	15	1	8	28

\* Represents first five months of calendar year 2000

The Suffolk AO performed only six supervisory visits in 1999 and 2000, while the Harrisonburg AO completed 19 supervisory visits. The Harrisonburg AO also made visits to another 15 RRH projects to complete supervisory visits between August 4, 1999, and April 26, 2000. However, at the time of our audit, the AO had not finalized the reviews or notified the management companies of the results of the reviews. For the four RRH projects we reviewed, the AOs completed adequate reviews, however, one AO did not notify the management company of the results of the reviews for two of its projects.

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<sup>4</sup> RD Instruction 1930-C, 1930.119(a) (b) and (f), dated August 30, 1993.

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**RECOMMENDATION NO. 2**

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Establish controls to ensure that AOs complete the required supervisory visits and appropriate corrective actions are taken on deficiencies noted.

**Agency Response**

An Excel program has been established in the STO where every compliance review done is logged into the system to track and make sure the reviews are on schedule. This was established in October 2000. All reviews are again reviewed in the STO and a copy sent to the State Civil Rights Manager.

**OIG Position**

The action taken is sufficient for management decision.

**FINDING NO. 3**

The two management companies reviewed did not properly determine tenant adjusted annual income during the tenant certification/recertification process. This

occurred because the management companies did not provide sufficient oversight to RRH project site managers. The AOs did not detect this noncompliance because required supervisory visits were not performed. As a result, the management companies received excess rental assistance on behalf of two tenants totaling \$4,468. Also, seven tenants were over charged monthly rental payments totaling \$1,181 (see exhibit D).

RRH project management companies are required to obtain written verifications of income from employers or other sources for each household member reported on the tenant application.<sup>5</sup> Management companies are also required to obtain written income verifications annually for recertification.<sup>6</sup> Annual income is defined as the anticipated total amount of income to be received by all members of the household during the 12 months following the effective date of the tenant certification. Also, included are periodic and determinable allowances, such as child support payments that the tenant can reasonably expect to receive. In addition, deductions from income are allowed for elderly tenants and for child care expenses.<sup>7</sup>

We reviewed the tenant certifications for ten judgmentally selected households at each of the four RRH projects reviewed. These tenants received the largest amount of RA, as reported on the April 2000 project worksheet. We reviewed the management companies' income verification procedures and verified the determinations made for the ten tenants. We also reviewed the accompanying files at the management company site offices for documentation to support all management company entries on the tenant certification to the AOs. In order to verify income used by the management companies, we verified income with tenant employers and with the State Department of Child Support Enforcement (DCSE).

We found that both management companies have procedures in place that comply with Rural Development income verification requirements.

<sup>5</sup> RD Instruction 1930-C, exhibit B, part VII A and B, dated August 30, 1993.

<sup>6</sup> RD Instruction 1930-C, exhibit B, part VII F 6, dated August 30, 1993.

<sup>7</sup> RD Instruction 1930-C, exhibit B, part II, dated August 30, 1993.



However, in 9 of the 40 tenant certifications reviewed, site managers either failed to follow required income verification procedures or made improper adjustments to income. We reviewed ten tenant certifications at each project. Details follow.

- Village of Culpepper

The management company improperly determined the adjusted income for three tenants. In one case, a tenant reported a change in income and provided an income verification form to the project site manager. The project site manager placed the income verification form in the tenant's file and did not verify the change in the tenant's income or recertify the tenant. Since the tenant was not recertified, the management company received improper rental assistance of \$4,248 on behalf of the tenant.

In another case, a tenant's income did not include an adjustment for disability. The tenant file contained notification from the Social Security Administration of the disability. As a result, the tenant paid \$27 in excess rental payments. The management company corrected the tenants' certification when we brought this error to its attention.

Another tenant's income was overstated because income was determined based on court ordered child support. We contacted the State DCSE and verified that the tenant receives about 25 percent of the awarded amount per month. Since the management company did not complete the tenant certification based on the income the tenant was expected to receive, the tenant paid excess rent of \$492.

- Llewellyn Village

The management company incorrectly determined income for two tenants receiving child support and thus, incorrectly determined rental assistance for the tenants. We contacted the State DCSE to verify child support payments. The project site manager used court ordered child support, rather than the amount that was anticipated to be received by the tenants. One tenant received an average of \$150 in child support; the project site manager used \$1,664 to determine rent. As a result, the tenant paid excess rent of \$96. Another tenant received an average of \$441 in child support; the site manager used \$780. Also, the site manager did not use the correct amount of childcare expenses when calculating adjustments to income for this tenant. The site manager used an annual amount of childcare expenses for one child, whereas the childcare verification documented

two children in day care. As a result of these errors, the tenant paid \$147 in excess rent.

We found errors on three other tenant certifications that had no monetary effect. For example, the site manager combined earned income from one tenant with benefit income from the co-tenant. The income should have been listed separately for each tenant. Another tenant's certification had the tenant's caretaker listed on the certification as a co-tenant. The certification also included the caretakers' net assets but not their income. The site manager stated they were confused as to how to handle a certification with a caretaker. The caretaker should not have been included as a co-tenant on the certification. The site manager did not contact the management company for guidance.

- Stevens Woods I

Three tenant certifications were incorrect. In one certification, the site manager used an old income verification rather than obtain a current income verification to calculate income. As a result, the tenant paid \$180 in excess rent.

In another certification, the site manager did not verify the child support income with the State DCSE. We verified the amount the tenant actually received and determined that it was more than the income used by the management company. As a result, the tenant received \$220 in excess rental assistance.

In another certification, the site manager did not obtain an independent income verification of child support. The site manager used a notice of action from the county and did not verify the child support received by the tenant. We verified the child support received and calculated that the tenant paid \$159 in excess rent.

- Jarratt Village

The site manager did not use the actual child support income for one tenant. The site manager did not take into account that part of the child support income received was arrearage payments from the non-custodial parent. As a result, the tenant paid \$80 in excess rent.

As a result of these errors, RHS has paid the management companies excess rental assistance on behalf of the tenants. Some tenants have had a higher net tenant contribution than they would have if the tenant certifications had been correctly completed.

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**RECOMMENDATION NO. 3**

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Require the management companies to repay \$4,468 in excess rental assistance.

**Agency Response**

Please provide us with a name of the tenants so that we can review the file before we require the management company to pay back the rental assistance. Certainly, we want to recover any rental assistance that we feel has been improperly paid.

**OIG Position**

We agree with the action planned. To reach management decision, Rural Development needs to complete their tenant file review and provide documentation that the management company repaid the improper rental assistance or the management company has been billed and an accounts receivable established.

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**RECOMMENDATION NO. 4**

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Require the borrowers to reimburse tenants for excess rent paid due to management company errors.

**Agency Response**

As stated in our response to Recommendation No. 3, we need the names of the tenants so that we can review the file before we require the management company to pay back the tenants.

**OIG Position**

We agree with the action planned. To reach management decision, Rural Development needs to complete their tenant file review and provide documentation that the management company has repaid the excess rent paid by the tenants.

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**RECOMMENDATION NO. 5**

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Instruct the management companies to provide adequate oversight to RRH project managers to ensure that required procedures are followed.

**Agency Response**

The Management Agreement between the owner and management company set out the degree of oversight to be provided by the

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management agent. We will instruct our AO Rural Development Specialist to remind the management companies of this responsibility again by sending a letter to each company by September 30, 2001.

**OIG Position**

The action taken is sufficient for management decision.

<b>CHAPTER 3</b>	<b>TENANTS DID NOT REPORT CHANGES IN INCOME OR HOUSEHOLD COMPOSITION DURING THE CERTIFICATION YEAR</b>
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**FINDING NO. 4**

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Invalid rental assistance payments were provided to eleven tenants. The tenants did not notify the management companies of changes in income and household composition. As a result, RRH borrowers received excess rental assistance on behalf of 11 tenants totaling \$9,413 (see exhibit E). If required supervisory reviews had been performed (see Finding No. 1) and wage and benefit matching more timely implemented by Rural Development, the invalid payments may have been detected and avoided.

Rural Development Instructions require tenants of RRH projects to immediately notify project management companies of permanent changes in income<sup>8</sup>. If income increases \$480 or more or decreases \$240 or more per year, the tenant household must be recertified. Rural Development Instructions also require tenants to notify the management companies if there is a change to the household composition. The instructions state that RRH project tenants may be required to repay excessive subsidy amounts that were provided based on incorrect income amounts provided by the tenant.

In 1990, the National Office instructed State offices to begin wage and benefit matching as a management control to detect misreporting of income by tenants<sup>9</sup>. In April 1994, the STO entered into a Memorandum of Understanding with the Virginia Employment Commission to obtain employment information. The STO issued implementation guidance to State managers in February 2001.

According to management company officials, the tenants were informed of all lease requirements, including the requirement to report changes in income, during the initial and annual certifications. During the audit, we observed project officials discussing lease provisions with some tenants. We reviewed the leases for all selected tenants to determine if the lease was signed. We also interviewed the tenants to determine if they were aware of the requirement to notify the management company of income changes. All 40 tenants interviewed said they were aware of this

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<sup>8</sup> RD Instruction 1930-C, exhibit B, part VII(F)(2), dated August 30, 1993.

<sup>9</sup> National Office response to Audit No. 04600-06-Ch, Administration of the Rural Rental Housing Programs Rental Assistance and Interest Credit, dated March 1990.

requirement.

We compared income and adjustments to income reported by tenants on tenant certification forms to (1) information we obtained from tenant employers and/or other sources of income and (2) other supporting documentation maintained by the management companies. In addition, we interviewed tenant households to identify sources of income and obtain support for adjustments to income. We also re-interviewed those tenants where we found an increase of \$480 or a decrease of \$240 in adjusted annual income per year. Although the tenants were aware of the requirement to report changes in income, some tenants did not. Two tenants said they thought they told the site manager about the change in income. Another tenant told us that they did not think they had enough of a raise to notify the site manager.

We determined that 11 of 40 tenant households did not report changes in income or household composition that occurred during the certification period. If the tenants had accurately reported their income, the RRH borrowers would have been entitled to \$9,413 less in rental assistance. Also, one of the 11 tenants would have had a reduction in rent of \$132, annually.

Since the tenants were aware of the requirement to report changes in income and household composition and chose not to, management companies need to take additional action to obtain compliance from tenants. During the certification/recertification process, management companies should emphasize the penalties that will be initiated against tenants who are in noncompliance with the lease terms. These penalties provide for up to and including the termination of the lease agreement. Also, Rural Development needs to comply with required management controls by timely completing supervisory reviews and fully implementing wage and benefit matching. The STO issued guidance to State Rural Development managers in February 2001 to implement wage matching.

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**RECOMMENDATION NO. 6**

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Require management companies to emphasize the penalties that may be assessed for noncompliance with lease terms, during the annual/initial certification process with tenants.

**Agency Response**

We have notified the management companies to give each tenant a Rural Development letter informing them of wage matching and the penalties if fraud is found. RD 1944-8 has a warning statement on it that "if anyone knowingly and willfully falsifies, etc. shall be fined under this title or

imprisoned not more than five years or both". In addition, we informed the management companies to send this letter with each renewal notice as well as post a visible copy at the rental office. We are making a wholehearted effort to resolve this problem. Also, VA AN NO. 364 (1930-C) was issued February 26, 2001.

**OIG Position**

The action taken is sufficient for management decision.

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**RECOMMENDATION NO. 7**

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Require the management companies to recover \$9,413 from those tenants who inaccurately reported income information and reimburse Rural Development for the improper rental assistance.

**Agency Response**

Please provide the names of the tenants so that the files can be reviewed and a collection process begun to recover any improper receipt of government funds.

**OIG Position**

We agree with the action planned. To reach management decision, Rural Development needs to complete their tenant file review and provide documentation that the management company repaid the improper rental assistance or the management company has been billed and an accounts receivable established.

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**RECOMMENDATION NO. 8**

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Validate that wage and benefit matching has been implemented, during SIRs.

**Agency Response**

This process was implemented June 2000 and is currently being done.

**OIG Position**

The action taken is sufficient for management decision.

**FINDING NO. 5**

One RRH project tenant signed tenant certifications that understated income for two consecutive years. The tenant did not advise the management company that the income reported on the tenant certification excluded commissions. The management company did not question the tenant's reported income, even though the source of income was inconsistent from the prior year and decreased more than 20 percent. As a result, the borrower received excess rental assistance on behalf of this tenant totaling \$2,590 and excess interest credit subsidy of \$7,306. The tenant should have paid additional rental payments to offset these amounts.

Rural Development Instruction 1930-C, exhibit B defines annual income as the gross amount (before any deductions) of wages and salaries, overtime pay, commissions, fees, tips, and bonuses reasonably expected to be received by all members of the household.<sup>10</sup> The instructions also state that RRH project tenants may be required to repay excessive subsidy amounts that were provided based on incorrect income amounts provided by the tenant.<sup>11</sup> Tenants are required to certify the income shown on the certification is true and correct to the best of their knowledge.<sup>12</sup> The instructions state that the management companies should investigate information provided that seems unreasonable or inaccurate.<sup>13</sup>

We reviewed the tenant's current tenant certification and compared it with wage match data obtained from the STO. The wage match showed the tenant's actual income was nearly double the income reported on the certification. We also reviewed the tenant's prior year certification and determined that the tenant's actual income was also almost 100 percent more than the income reported on the certification. In both instances, the tenant certified that the income was correct on the tenant certification.

During annual recertification, the tenant provided the name of their immediate supervisor as a point of contact for the management company to verify annual income. The management company sent the verifications to the tenant's point of contact. The tenant's point of contact provided the annual amount of the tenant's "draw" or salary. The income verification

<sup>10</sup> RD Instruction 1930-C, exhibit B, Section II, page 3, dated August 30, 1993.

<sup>11</sup> RD Instruction 1951-N, paragraph 1951.661, (a) (3) (ii), dated August 30, 1993.

<sup>12</sup> Form RD 1944-8, dated April 1997.

<sup>13</sup> RD Instruction 1930-C, exhibit B, Section VII, page 72, paragraph H, dated August 30, 1993.



noted that the tenant was in sales, but did not identify the amount of commissions the tenant received. The management company did not follow up with the tenant's employer to determine if the tenant received commissions during the recertification period. Even though the prior year income verification for the tenant noted that the tenant was on commission, the management company did not question why the tenant's anticipated income was \$4,400 (22 percent) less than the prior year.

We verified the tenant's income with the employer's personnel manager instead of the tenant's point of contact. The personnel manager provided us information nearly identical to the wage match income data we received from the STO. The personnel manager told us that the tenant's supervisor verified the annual salary only. The personnel manager also told us the tenant was in sales and his salary for the years in question was commission only.

We questioned the tenant about the income discrepancies between the certifications and the income verified with the employer and the STO wage match. The tenant agreed to work with the management company and the STO to resolve the improper benefits provided.

The income reported on the tenant's certifications was questionable and inconsistent between years. Management companies should review tenant certifications for accuracy and reasonableness, and follow up on any discrepancies.

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**RECOMMENDATION NO. 9**

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Require the management company to recover \$9,896 from the tenant and reimburse Rural Development for the excess rental assistance and interest credit subsidies given the borrower.

**Agency Response**

Please provide the name of the tenant so that the file can be reviewed and the recovery process started.

**OIG Position**

We agree with the action planned. To reach management decision, Rural Development needs to complete their tenant file review and provide documentation that the management company repaid the improper rental assistance and interest credit subsidies or the management company has been billed and an accounts receivable established.

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**RECOMMENDATION NO. 10**

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Require management companies to implement controls to ensure site managers review and verify tenant certifications for accuracy and reasonableness and follow up on any inconsistencies.

**Agency Response**

The issue has been addressed with the management companies in training provided at the Virginia Counsel for Affordable and Rural Housing annual meetings in June 2000 and 2001.

**OIG Position**

The action taken is sufficient for management decision.

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## GENERAL COMMENTS

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The site manager at one RRH project moved a tenant ahead on the waiting list and into an apartment. The site manager did not complete an accurate tenant certification before moving the tenant into the apartment and when asked, could not provide support for the income and adjustments to income on the draft certification. In our initial interview, the site manager said the project administrators stated they would get a waiver to move the tenant ahead on the waiting list. The U.S. Department of Housing and Urban Development uses such waivers to help people get out of sub-standard housing and into acceptable housing. In a later interview, the site manager said they were confused by the different waiting list regulations of Rural Development and the U.S. Department of Housing and Urban Development. Consequently, because the site manager did not follow either Rural Development or the management company's procedures four qualified "very low income" prospective tenants were bypassed and not given the opportunity to move into a rental assistance apartment.

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**EXHIBIT A – SUMMARY OF MONETARY RESULTS**

<b>FINDING NO.</b>	<b>DESCRIPTION</b>	<b>AMOUNT</b>	<b>CATEGORY</b>
3	Excessive Rental Assistance from Improper Verification by Management Companies	\$ 4,468	Questioned Costs – Recovery Recommended
4	Excessive Rental Assistance from Misreported Tenant Income	\$ 9,413	Questioned Costs – Recovery Recommended
5	Excessive Interest Credit and Rental Assistance from Understated Tenant Income	\$ 9,896	Questioned Costs – Recovery Recommended

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**EXHIBIT B – AUDIT SITES VISITED IN FY 2000**

Rural Development State Office	Richmond, Virginia
Suffolk Area Office	Suffolk, Virginia
Harrisonburg Area Office	Harrisonburg, Virginia
Humphrey Management Company Headquarters	Silver Spring, Maryland
Shelter Management Inc. Headquarters	Newport News, Virginia
Llewellyn Village Apartments	Middleburg, Virginia
Village of Culpepper Apartments	Culpepper, Virginia
Jarratt Village	Jarratt, Virginia
Stevens Woods I Apartments	Courtland, Virginia

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**EXHIBIT C – TOTAL UNIVERSE AND PROJECTS REVIEWED**

<b>PROJECT ID NUMBER</b>	<b>PROJECT NAME</b>	<b>MANAGEMENT COMPANY</b>	<b>No. of RA UNITS</b>	<b>No. of RA UNITS REVIEWED</b>
54-065-541244012, 2-2	Llewellyn Village Apts.	Humphrey Management	14	10
54-029-521130145, 1-3	Village of Culpepper	Humphrey Management	37	10
55-009-541180164, 2-2	Stevens Woods I	Shelter Management	59	10
55-014-541507373, 1-2	Jarratt Village	Shelter Management	20	10
Total Universe			130	
Total Units Reviewed				40

**EXHIBIT D – IMPROPER VERIFICATION BY MANAGEMENT COMPANIES**

<b>TENANT SAMPLE #</b>	<b>DID NOT PROPERLY VERIFY OR COMPUTE INCOME</b>	<b>DID NOT PROPERLY VERIFY OR COMPUTE ADJUSTMENTS TO INCOME</b>	<b>EXCESS RA DURING CERTIFICATION PERIOD</b>	<b>EXCESS RENT PAID BY TENANT DUE TO MGMT. CO. ERROR</b>
<b>LLEWELLYN</b>				
1-1	X*		0	
1-2	X		0	
1-3	X			96
1-4	X	X		147
1-7	X		0	
<b>CULPEPPER</b>				
2-3	X		4,248	
2-5		X		27
2-10	X			492
<b>STEVENS WOODS I</b>				
3-2	X			180
3-5	X		220	
3-7	X			159
<b>JARRATT</b>				
4-2	X			80

\* Site manager combined earned income with benefit income for the co-tenants, error was due to carelessness but did not have any monetary impact.

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**EXHIBIT E – IMPROPER INCOME REPORTED BY TENANTS**

<b>TENANT-SAMPLE #</b>	<b>DID NOT REPORT CHANGES</b>	<b>EXCESSIVE RA</b>
<b>LLEWELLYN</b>		
1-2	X	80
1-5	X	56
1-9	X	2,139
<b>CULPEPPER</b>		
2-2	X	0
2-6	X	360
<b>STEVENS WOODS I</b>		
3-2	X	761
3-6	X	2,486
3-8	X	444
<b>JARRATT</b>		
4-4	X	1,655
4-5	X	438
4-9	X	994



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## EXHIBIT F – RURAL DEVELOPMENT’S RESPONSE TO DRAFT REPORT



United States  
Department of  
Agriculture

Rural Development  
Rural Business -  
Cooperative Programs  
Rural Housing Programs  
Rural Utilities Programs

1606 Santa Rosa Road  
Culpeper Building, Suite 238  
Richmond, Virginia 23229-5014  
Phone: 804-287-1564  
Fax: 804-287-1784  
TDD: 804-287-1753

August 16, 2001

**SUBJECT:** Audit of Rural Rental Housing Program Controls and Procedures for determining eligibility for rental assistance.

**TO:** Marlene T. Evans  
Regional Inspector General for Audit  
USDA Office of Inspector General, NE Region Suite 2-2230  
5601 Sunnyside Avenue, Stop 5300  
Beltsville, MD 20705-5300

**ATTN:** 04004-04-Hy

The following is a response to the Official Draft for the subject audit:

**FINDING 1: STATE OFFICE DID NOT PERFORM REQUIRED STATE INTERNAL REVIEWS.**

**AGENCY RESPONSE:**

At this time, the state office has performed State Internal Reviews on all the Area Offices. A schedule has been implemented by the Management Control Division for the State Internal Reviews to be conducted within the 5-Year time frame as established by the regulations. Please find attached the 5-Year Plan. This plan has always been in place but due to budgetary constraints, the plan sometimes takes longer than the stated dates on the schedule.

The report states that State Office (SO) Officials were not aware of Area Offices (AOs) not complying with RRH project monitoring requirements. The State Office was aware that the Area Offices were behind in their Supervisory Visits, Compliance Reviews and Physical Inspections. The offices are making every effort to get the reviews on schedule by December 31, 2001.

**RECOMMENDATION NO. 1: Complete SIRs in accordance with program requirements and implement appropriate actions on deficiencies.**

**AGENCY RESPONSE:**

A schedule has been implemented by the Management Control Division for the State Internal Reviews to be conducted within the 5-Year time frame as established by the regulations. Please make reference to the attached schedule.

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SW, Washington, D.C. 20250-9410 or call (202) 720-5964 (voice and TDD).



**FINDING 2: AREA OFFICES DID NOT PERFORM REQUIRED SUPERVISORY VISITS.**

**AGENCY RESPONSE:**

Prior to the Reduction In Force (RIF) in 1995 and the reorganization plan in the State of Virginia, effective March 1997, all the supervisory visits were on schedule. At that time, the RRR caseload was less for each office but after the reorganization, the number of offices was reduced and the caseloads increased. It has taken some time for the offices to get back on schedule due to the increased workload and less manpower.

We are aware of the 30-day requirement to notify management/borrower of the results of the supervisory visit. The results of the visits for both areas reviewed were discussed with the management company representatives during and at the completion of the visit. A conscientious effort has been made to improve the delivery of a written response to the appropriate people of the results of the supervisory visits. By the end of this calendar year, both offices are planned to be back on schedule.

**RECOMMENDATION NO.2:** Establish controls to ensure that AOs complete the required supervisory visits and appropriate corrective actions are taken on deficiencies noted.

**AGENCY RESPONSE:** An Excel program has been established in the SO where every compliance review done is logged into the system to track and make sure the reviews are on schedule. This was established in October 2000. All reviews are again reviewed in the state office and a copy sent to the State Civil Rights Manager.

**FINDING 3: MANAGEMENT COMPANIES OVERSIGHT OF RRR PROJECT SITE MANAGERS NEED IMPROVEMENT.**

**AGENCY RESPONSE:**

The statement that the (AO)s did not detect this noncompliance because required supervisory visits were not performed is not an accurate assessment. 1930-C, Exhibit F-1 provides the "suggested" random sampling method for tenant reviews. Based on this type of sampling, even if all the reviews had been completed on schedule, the noncompliance issues addressed may not have been detected. Rural Development does not have the requirements to check every tenant file on such a basis that could possibly detect every occurrence of noncompliance. The fact procedure establishes that supervisory visit should be completed on a 3-year cycle and then only based on a random sample of files clearly indicates that not every occurrence of non-compliance will be detected. Granted, reviews on occasion do detect problems but unless we receive increased staff and have the ability to review every file on every tenant, every year, there will be problems that may go undetected.

We noted that the majority of tenant files that were reviewed which OIG states have income calculation errors involved child support. First, OIG found the amount of support actually received by calling the State DCSE. We are not required to do this as part of our supervisory visit. If a tenant file has documentation on the amount of child-support as evidenced by a child-support agreement and the amount was properly calculated on the tenant certification

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then we see no problem. If a tenant received child support and provide documentation from child support agreement and do not notify site management they receive less than stated in the agreement with substantiated documentation, then site management has done their job in asking and is not at fault.

Secondly, if a tenant has a change in support, they have the responsibility to contact the site management for a review of their income. We did not see noted in the report where OIG asked the tenants about the calculation of the amount of child support to see if site management had refused to use the amount provided by DSCE. It must be noted that it clearly states in the tenant certification that the tenant is responsible for reporting the correct income to management.

**RECOMMENDATION 3:** Require the management companies to repay \$4,468.00 in excess rental assistance.

**AGENCY RESPONSE:**

Please provide us with a name of the tenants so that we can review the file before we require the Management Company to pay back the rental assistance. Certainly, we want to recover any rental assistance that we feel has been improperly paid.

**RECOMMENDATION 4:** Require the borrowers to reimburse tenants for excess rent paid due to management company errors.

**AGENCY RESPONSE:**

As stated in our response to Recommendation No. 3, we need the names of the tenants so that we can review the file before we require the Management Company to pay back the tenants.

**RECOMMENDATION NO. 5** Instruct the management companies to provide adequate oversight to RRH project managers to ensure that required procedures are followed.

**AGENCY RESPONSE:**

The Management Agreement between the owner and management company set out the degree of oversight to be provided by the management agent. We will instruct our Area Office Rural Development Specialist to remind the management companies of this responsibility again by sending a letter to each company by September 30, 2001.

**GENERAL RESPONSE STATEMENT:**

Income calculations often require assumptions to be made in order to project the income. Therefore, differences sometime occur. If there is documentation in the file as a basis for an income projection that our specialists feel is supportable and reasonable, we usually do not object.

**FINDING NO. 4** TENANTS DID NOT REPORT CHANGES IN INCOME OR HOUSEHOLD COMPOSITION DURING THE CERTIFICATION YEAR

**RECOMMENDATION NO. 6:** Require management companies to emphasize the penalties that may be assessed for noncompliance with lease terms, during the annual/initial certification process with tenants.

**AGENCY RESPONSE:**

As required by the National and State offices, wage matching was implemented in September 2000. As OIG states, the tenants were aware of the requirement and did not comply. We have notified the management companies to give each tenant a Rural Development letter informing them of wage matching and the penalties if fraud is found. RD 1944-8 has a warning statement on it that "if anyone knowingly and willfully falsifies, etc. shall be fined under this title or imprisoned not more than five years or both". In addition, we informed the management companies to send this letter with each renewal notice as well as post a visible copy at the rental office. We are making a wholehearted effort to resolve this problem. Please see attached VA AN No. 364 (1930-C) issued February 26, 2001.

**RECOMMENDATION NO. 7:** Require the management companies to recover \$9,413 from those tenants who inaccurately reported income information and reimburse Rural Development for the improper rental assistance.

**AGENCY RESPONSE:**

Please provide the names of the tenants so that the files can be reviewed and a collection process begun to recover any improper receipt of government funds.

**RECOMMENDATION NO. 8:** Validate that wage and benefit matching has been implemented, during SIRs.

**AGENCY RESPONSE:**

This process was implemented June 2000 and is currently being done.

**FINDING NO. 5 TENANT UNDERSTATES INCOME TWO CONSECUTIVE YEARS**

**RECOMMENDATION NO. 9:** Require the management company to recover \$9,896 from the tenant and reimburse Rural Development for the excess rental assistance and interest credit subsidies given the borrower.

**AGENCY RESPONSE:**

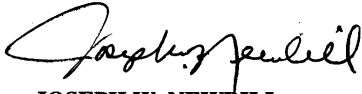
Please provide the name of the tenant so that the file can be reviewed and the recovery process started.

**RECOMMENDATION NO. 10:** Require management companies to implement controls to ensure site managers review and verify tenant certifications for accuracy and reasonableness and follow up on any inconsistencies.

**AGENCY RESPONSE:**

This issue has been addressed with the management companies in training provided at the Virginia Counsel for Affordable and Rural Housing annual meetings in June 2000 and 2001. Regarding income verification, our regulations do not require site management to get copies of tenants' or prospective tenants' federal income tax return with W-2s. If there were a change in the regulation that would give management the ability to request this information, management would have another source to use as a check of income sources.

If you have any questions or concerns, please contact Carlton Jarratt of my staff at (804) 287-1582.



**JOSEPH W. NEWBILL**  
State Director  
USDA Rural Development

**VIRGINIA**  
**5-YEAR STATE INTERNAL REVIEW SCHEDULE**  
**(REVISED AUGUST 6, 2001)**

Office	Last Review	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
<b>Field Offices</b>						
Harrisonburg	1995	3/12/01				
Accomac	1991	5/14/01				
Smithfield	1993	7/23/01				
Culpeper	1991		10/28/01			
Dinwiddie	1995		1/14/01			
Fredericksburg	1994		4/1/02			
Boynton	1995		6/24/02			
Gate City	1994		9/8/02			
Suffolk	8/17/98			X		
Christiansburg	1995			X		
Charlottesville	1995			X		
Tappahannock	1998			X		
Stephens City	1998			X		
Farmville	1998	Mini		X		
Verona	1999				X	
Rocky Mount	1999				X	
Wytheville A	7/24/00					X
Wytheville L	7/24/00	Mini				X
Lynchburg A	9/18/00					X
Lynchburg L	9/18/00					X
Lebanon A	6/5/00					X
Lebanon L	6/5/00					X
<b>Regional Offices &amp; State Office</b>						
RBS	1998			X		
MFH	2000?					X



Rural Development  
Rural Business-  
Cooperative Programs  
Rural Housing Programs  
Rural Utilities Programs

1606 Santa Rosa Road  
Culpeper Building, Suite 238  
Richmond, Virginia 23229-5014  
804-287-1584 FAX 804-287-1784  
TDD 804-287-1753

REVISED 3/06/01

VA AN NO. 364 (1930-C)  
February 26, 2001

TO: Rural Development Managers  
State of Virginia

SUBJECT: MULTI-FAMILY HOUSING PROCEDURE FOR USING WAGE  
MATCHING INFORMATION

PURPOSE/INTENDED OUTCOME:

The purpose of the Administrative Notice (AN) is to provide guidance in obtaining wage data for all tenants occupying Rural Housing Service (RHS) financed units, reconciliation of the data and procedure for collection of unauthorized assistance.

COMPARISON WITH PREVIOUS AN:

There are no current ANs addressing this issue. This guidance goes beyond that given in expired National AN 2086 (1930-C) dated May 11, 1990; AN 2598 (1930-C) dated July 29, 1992, AN 3089 (1930-C) dated December 9, 1994 and AN 3290 (1930-C) dated October 23, 1996.

IMPLEMENTATION RESPONSIBILITIES:

Effective immediately, Virginia Employment Commission (VEC) wage data will be gathered on 10 percent initial tenants entering into the MFH projects. This data is to be accessed upon receipt of Form RD 1944-8, Tenant Certification Data. At least 10 percent or a minimum of six households (in cases where there are fewer than six units, 100 percent of all tenant households) will be reviewed prior to the scheduled supervisory visit. We need to insure that wage matches are performed each year on at least 10 percent of all units in the state's MFH programs; however, the total will normally not exceed 20 percent of the state's MFH programs. This includes labor housing when tenant certifications are required. The procedure for selecting the samples will follow the process set out in Exhibit F-1 of FmHA Instruction 1930-C. The references to Form RD 1944-8 "Tenant Certification" is synonymous with using data transmitted through the Industry Interface System.

EXPIRATION DATE:  
February 26, 2002

FILING INSTRUCTION:  
1930 (C)

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Secretary of Agriculture, Washington, DC 20250



Information obtained will fall into two categories:

- I. Where the information gathered matches income on Form RD 1944-8, Tenant Certification, or is not greater than \$480 annually (which is required by FmHA Instruction 1930-C, Exhibit B, VII D 5), the tenant certification will be considered acceptable by RHS. Discrepancies of \$240 to \$1,000 may be pursued as available resources and priorities permit.
- II. If the wage matching produces a difference of more than \$1,000, RHS will take the following action:
  - a. The Area Office will notify borrower/management of the difference in income (see Exhibit A). A copy of the VEC printout is not to be provided to management. Borrower or agent is to provide the Area Office with an explanation of the difference, along with any documentation necessary in support of that explanation within 30-45 days. This depends upon the time from the date our notice is mailed until the following first day of the month.
  - b. When borrower receives the notification from RHS that a discrepancy exists, the Tenant Certification in question should be immediately re-evaluated by double checking original calculations to determine if overtime, variances in shift work, production, etc. were properly considered. Borrower may also review employment verification(s), obtain additional verification(s) as necessary, interview tenant, contact employer, etc., in order to determine the cause for the discrepancy. Exhibit B or similar form will be used to notify tenants, if necessary, that the discrepancy exists and also schedule necessary appointments.
  - c. Upon receipt of the borrower's explanation, RHS will make a determination of further action required. No further action will be required if the differences are due to variables such as sporadic hours worked, unexpected bonuses, or other temporary changes. Unless initial calculations are obviously fraudulent or misleading, RHS will not require the Tenant Certification to be changed. Exhibit C will be used to notify management and management will then forward a copy to the tenant.

If the income was, in fact, misrepresented or the tenant failed to properly report income, the Area Office will determine the actual dollar amount that the tenant owes the government in rental assistance and/or overage and notify the borrower/management (Exhibit D). (Note: Area Office may recover underpaid rent for a maximum from the beginning of the current tenant certification period for errors.) One of the most common errors noted has been where

management has accepted a statement from the tenant when employment has been terminated rather than verifying with the employer the termination of employment.

1. Management is to complete and forward the attached notice (Exhibit E) or similar form to the tenant setting up an appointment to arrange possible agreement for recovery.

a. Tenant agrees to pay back full amount owed to RHS:

Pays in full or executes payment agreement (Exhibit F) and may continue living there as long as payment agreement is met and all other eligibility requirements are met. (Note: Repayment agreements should normally be for no more than ninety days unless this time period is not within the tenants repayment ability.)

Recovered overage and/or rental assistance is mailed to the Area Office. (Exhibit G will be used to attach to the project worksheet.) The Area Office will process per the attached instructions (Exhibit H).

b. Tenant does not respond or will not agree to pay:

After the timeframe for filing a grievance in accordance with FmHA Instruction 1944-L has passed, or the information presented in the grievance has been considered and acted upon, management is to give the tenant eviction notice in accordance with the current lease agreement. Along with a copy of the eviction notice, management is to provide documentation of their collection efforts including legal remedies exhausted. RHS Area Office is to review the information for possible investigation in accordance with RD Instruction 2012-B. If a decision is made to investigate, then the Area Office will report the case to the State Director who will request either an investigation and/or request the advice of OGC on further actions to be taken as per FmHA Instruction 1951-N.

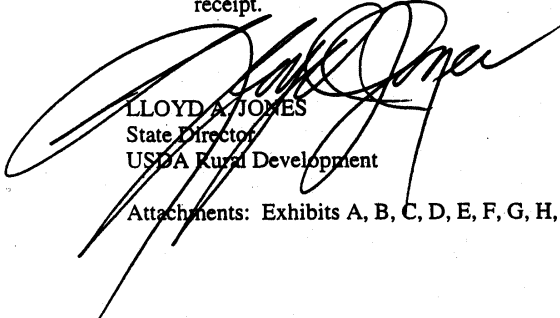
### III. Tenant Discrepancy Tracking by Area Office:

A master listing will be established and maintained by complex (Exhibit I). Final disposition on each tenant must be documented.

When a tenant has agreed to pay back unauthorized rental assistance and/or overage, Exhibit J (or similar form) will be used for tracking payback and filed with master listing until entire amount is recovered or tenant vacates the property. If the tenant vacates the property prior to repaying the full amount due the Government, Section II c (1) b will be followed.

- IV. Reporting Requirements: The Area Office will report to the State Director by the 5<sup>th</sup> working day at the end of each quarter wage matching activity using the format contained in Exhibit K.

Area Offices are to provide a copy of this AN to all managing agents upon receipt.



LLOYD A. JONES  
State Director  
USDA Rural Development

Attachments: Exhibits A, B, C, D, E, F, G, H, I, J, K

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## ABBREVIATIONS

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AO	
Area Offices .....	1
DCSE	
Department of Child Support Enforcement .....	9
RA	
Rental Assistance .....	1
RHS	
Rural Housing Service .....	1
RRH	
Rural Rental Housing .....	1
SIR	
State Internal Reviews .....	3
STO	
State Offices .....	1