



U.S. Department of Agriculture



Office of Inspector General
Southeast Region

Audit Report

Rural Housing Service Subsidy Payment Accuracy In Multi-Family Housing Program

Report No. 04099-339-AT
March 2005



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



DATE: March 23, 2005

REPLY TO

ATTN OF: 04099-339-At

SUBJECT: Rural Housing Service's Subsidy Payment Accuracy
in Multi-Family Housing Program

TO: Russell T. Davis
Administrator
Rural Housing Service

THROUGH: John Purcell
Director
Financial Management Division

This report presents the results of the subject audit. Your response, dated January 28, 2005, to the report is included as exhibit C, with excerpts and the Office of Inspector General's (OIG) position incorporated into the relevant Findings and Recommendations section of the report.

Based on your response, we concur with RHS' proposed corrective actions on Recommendations Nos. 1, 2, and 4. However, to achieve management decision on Recommendations Nos. 3 and 5, we need additional corrective actions as outlined in the OIG Position section of the report. In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframe for implementation.

Follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer. Final action on the management decisions should be completed within 1 year of the date of this report to preclude being listed in the Department's Performance and Accountability Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during the audit. If you have any questions, please call me at (202) 720-6945, or have a member of your staff call Philip T. Cole, Director, Rural Development and Natural Resources Division, at (202) 720-6805.

/s/

ROBERT W. YOUNG
Assistant Inspector General
for Audit

Executive Summary

Subsidy Payment Accuracy In Multi-Family Housing Program (Audit Report No. 04099-339-AT)

Results in Brief

This report presents the results of our review of payment accuracy in Rural Housing Service's (RHS) Multi-Family Housing (MFH) Program. We evaluated RHS' implementation of the Office of Inspector General's (OIG) 1999 audit recommendations, and identified income verification methods employed by the Department of Housing and Urban Development that could be beneficial to RHS. As of September 30, 2004, RHS' loan portfolio included approximately 18,177 Rural Rental Housing (RRH) projects with 483,934 apartment units nationwide, with 286,091 of the units receiving rental assistance (RA). In the past 3 years Congress appropriated almost \$2.2 billion of RA subsidies.

In February 1999¹, OIG reported that 47 percent of tenant certifications in the six States reviewed contained errors. The errors resulted in an estimated RA payment error of \$10.5 million (9.9 percent) and an interest credit (IC) payment error of \$3.7 million (2.9 percent). The primary cause of the payment errors was that tenants did not accurately report their incomes and household circumstances at certification and apartment managers did not have an independent source, such as wage matching, to verify the tenants' incomes.

The report contained 12 recommendations to improve controls over tenant certifications and payment accuracy. As of April 2004 (over 5 years later), none of the 12 recommendations from the prior audit had been implemented. This occurred because the agency was slow in promulgating regulations, had not included key recommendations in the proposed regulations and draft procedures handbook, and had taken only temporary measures for some of the recommendations through issuance of an administrative notice that was allowed to expire.

Key recommendations required RHS to seek legislative changes to match Federal income and benefit databases, work with its State offices (SO) to obtain matching agreements with their State's Department of Labor (DOL)², and implement wage matching of tenants applying for rental subsidies. The recommendations were important because OIG identified most of the improper payments through the use of wage and benefit matches. The matches identified that most of the overpaid rental subsidies came from a

¹ Evaluation Report No. 04801-4-CH, "RHS, RRH Program Tenant Income Verification Process," February 1999.

² DOL is the generic term used for any State agency responsible for gathering wage and unemployment compensation information.

small portion of tenants who account for the majority of the abuse in the program.

RHS had not sought legislation granting it authority to gain access to Federal and State income and benefit databases needed for an effective matching program, and had not ensured that SO's had aggressively pursued matching agreements with their respective State's DOL, identified and overcome barriers to effective matching programs, and effectively implemented a wage and benefit matching program. Only 31 of 52 Rural Development SO's had matching agreements with their respective DOL, and only 6 of them could share the income information with apartment managers who certified tenants and determined rental subsidies. The sharing of the wage information with apartment managers is needed to prevent the abuse of rental subsidies because they determine and validate the tenant incomes at all 17,800 RRH projects.

We also determined that when rental subsidy overpayments are identified, RHS does not record accounts receivable for them in its accounting records. Instead, RHS places responsibility on the project owner to account for and collect any rental subsidy overpayments. As a result, overpaid Federal funds are not accounted for as a receivable and collection tools are not applied to recover improper payments.

**Recommendations
in Brief**

We recommend that RHS (a) implement the 1999 report recommendations; (b) seek legislation for access to the Department of Health and Human Services, Internal Revenue Service, Social Security Administration, and DOL income and benefit databases with the authority to provide the information to apartment managers; (c) use the agency's influence to the fullest to assist States in obtaining matching agreements with their State's DOL that allow for sharing the information with apartment managers; and (d) establish and account for claims arising from overpayments of RA and IC, and manage them in accordance with Federal Claims Collection Standards.

Agency Response

In its January 28, 2005, written response to the official draft report, RHS concurred with the findings and recommendations presented therein. We have incorporated applicable portions of RHS' response, along with our position, in the Findings and Recommendations section of this report. The agency response is included in its entirety as exhibit C.

OIG Position

Based on the information contained in the agency's response to the official draft report, we concur with RHS' proposed corrective actions for Recommendations Nos. 1, 2 and 4. However, to achieve management decision on Recommendations Nos. 3 and 5, we need additional corrective actions. To reach management decision for Recommendation No. 3, RHS needs to address the recommendation in its MFH Handbook 3560 to provide

permanent policy and procedures. To reach management decision for Recommendation No. 5, RHS also needs to describe the policies and procedures necessary to establish and account for claims arising from the overpayment of rental subsidies and ensure that claims are managed in accordance with applicable standards and regulations. Also, the policies and procedures should be made permanent into the revised MFH Handbook 3560.

Abbreviations Used in this Report

AN	
Administrative Notice	5
CFR	
Code of Federal Regulations.....	5
DCIA	
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DOL	
Department of Labor.....	8
FY	
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GAO	
Government Accountability Office.....	10
HHS	
Department of Health and Human Services.....	6
HUD	
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IC	
Interest Credit.....	1
IPIA	
Improper Payment Information Act.....	3
IRS	
Internal Revenue Service	8
LAPAS	
Legislative and Public Affairs Staff.....	9
MFH	
Multi-Family Housing	5
MFIS	
Multi-Family Information System	19
MOU	
Memorandum of Understanding.....	10
NDNH	
National Directory of New Hires	9
OBPA	
Office of Budget and Policy Analysis	9
OCFO	
Office of Chief Financial Officer.....	5
OGC	
Office of General Counsel	18
OIG	
Office of Inspector General	4
OMB	
Office of Management and Budget.....	3
POA	
Private Owner and Agent.....	9

RA	
Rental Assistance	1
RD	
Rural Development	1
RHS	
Rural Housing Service	1
RRH	
Rural Rental Housing.....	1
SO	
State Office	1
SSA	
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Background and Objectives

Background

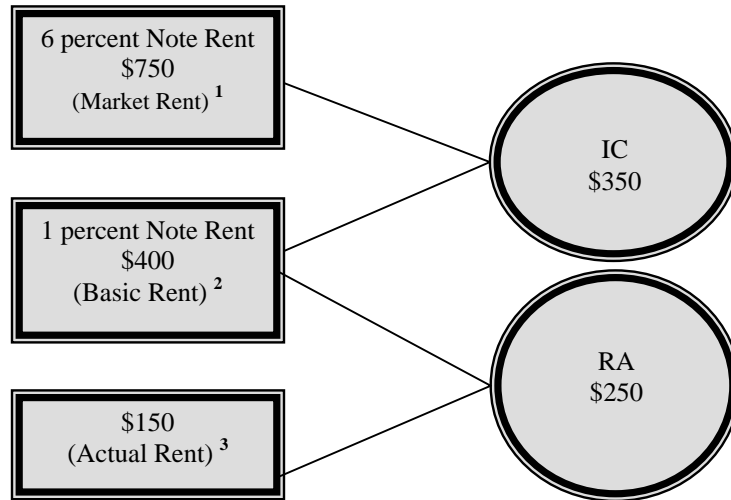
The Rural Housing Service (RHS), an agency of the U.S. Department of Agriculture (USDA), provides funding for the Rural Rental Housing (RRH) Program. The RHS Headquarters in Washington, D.C., administers the program through its 47 Rural Development (RD) State Offices (SO) and a network of field offices nationwide.

The objective of the RRH program is to provide modestly designed and constructed multi-family rental housing in rural areas for eligible tenants with very low-, low-, or moderate-incomes. RHS provides loans to borrowers that are unable to obtain financing from other sources on terms that allow them to construct and rent units for amounts that are within the payment ability of eligible RRH tenants. Two forms of rental subsidies allow borrowers to provide low-income tenants with affordable rental housing.

Interest Credit (IC) – The mortgage interest rate on all project loans is reduced from the market rate (i.e., 6 percent) to 1 percent so that borrowers can provide affordable rental rates to the low-income tenants. The interest reduction (i.e., 5 percent) is referred to as IC. Because the monthly loan payments are significantly lower at 1 percent, the borrowers are able to pass the savings (i.e., 5 percent) along to the tenants in the form of lower apartment rental rates (basic rental rate).

Rental Assistance (RA) – Direct rental payments to borrowers on behalf of very low-income tenants who still cannot afford the 1 percent basic rental rates. Tenants must pay 20 percent of their adjusted monthly income as rent. When 20 percent of their adjusted month's income is less than the basic rental rates for an apartment, the difference between what the tenants can afford (20 percent) and the basic rental rate based on the 1-percent loan interest is referred to as RA.

The following is an example of IC and RA subsidy provided to a very low-income tenant of an RRH project apartment:



¹ Rent based on amortizing the borrower's loan at 6 percent.

² Rent based on amortizing the borrower's loan at 1 percent.

³ Rent based on 20 percent of tenant's adjusted monthly income.

Total Rental Subsidy \$600

When the tenant's calculated contribution shows that he/she can afford to pay more than the basic rent, the tenant does not qualify for RA subsidy and the tenant must pay the borrower the calculated contribution up to the approved market rent. Any excess portion of the tenant's required contribution over basic rent for the unit is referred to as overage and is used to reduce the IC subsidy provided to the borrower.

Applicants must meet eligibility requirements to live in the project. Their adjusted annual income must meet the definition of very low-, low-, or moderate-income. Adjusted annual income is the aggregate annual income of all adult household members less allowable deductions for dependents; handicapped and elderly status, medical expenses, childcare expenses, and other authorized deductions. 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 permanent increases to a tenant's income of over \$480 annually or changes in household circumstances during the certification period, the tenant is required to report these changes to the borrower or company managing the project and be recertified.

It is the borrower's or its management company's responsibility to verify tenant income with employers and other third-party sources. This responsibility is generally delegated to resident project managers. The

tenant's income is to be verified before a person is determined eligible, and at least once a year thereafter.

Scope of RRH Program

As of September 30, 2004, there were 18,177 RRH projects with 483,934 apartment units nationwide. As of September 30, 2004, the outstanding RRH loan portfolio was \$11.8 billion. Of the 483,934 RRH units nationwide, tenants of 286,091 units received RA. RHS provided \$774 million in RA on behalf of tenants occupying those units in fiscal year (FY) 2004.

Improper Payment Information Act of 2002

RHS rental subsidy payments fall under the provisions of the Improper Payment Information Act (IPIA). An improper payment is defined as any payment that should not have been made or made in an incorrect amount to a recipient. Agencies with payment programs at high risk for errors are required to statistically estimate the annual amount of improper payments and report to Congress the estimates and actions they are taking to reduce improper payments. Reducing erroneous subsidy payments results in being able to provide subsidies to eligible people who are not being served due to limited funding.

The Office of Management and Budget (OMB) defines significant improper payments as annual erroneous payments exceeding both 2.5 percent of total program payments and \$10 million. For RHS' RA program, an \$18.5 million payment error (\$740 million times 2.5 percent) would meet both requirements of significant improper payments. RHS identified the RA program at high-risk for significant payment errors. It is one of 10 programs in the Department that has been identified as high risk for improper payments.

The IPIA requires agency heads to provide a report on what actions they are taking to reduce improper payments. The report should include a discussion of the causes of the improper payments identified, actions taken to correct those causes, and results of the actions taken to address those causes. RHS was in the process of statistically estimating the annual amount of improper subsidy payments, identifying the causes for the erroneous payments, and formulating corrective action plans. The recommendation in this audit report should be integrated into the agency's resulting corrective action plans.

Objectives

Our initial objectives were to assess RHS' controls over tenant certifications and its compliance with the IPIA. At the beginning of the audit, we learned that RHS had not:

- Formulated its IPIA plans for estimating the amount of improper payments including sampling plan, data to be collected, collection methodology, and analysis of the data obtained. The first IPIA report was not due until September 30, 2004.
- Implemented prior audit recommendations the Office of Inspector General (OIG) made in 1999 to improve controls over RA payments. The objectives of the 1999 evaluation were to determine if tenants were reporting all income and assets on tenant certifications; evaluate the management companies' tenant certification/income verification procedures; evaluate RHS' internal controls over income verifications, which included wage matching routines; review the Department of Housing and Urban Development's (HUD) income verification/wage matching procedures, and explore the possibilities of wage matching with other Federal databases.

Because the IPIA and prior audit recommendations had not been implemented, we revised the audit objectives to:

- Evaluate RHS' actions to implement the prior audit recommendations.
- Identify any income verification methods employed by HUD that could be beneficial to RHS.
- Assess RHS' claims management system to record and track collections of rental subsidy overpayments.

Findings and Recommendations

Section 1. Rural Housing Service Did Not Implement Agreed Audit Corrective Actions to Reduce Unauthorized Rental Subsidy Payments

Finding 1

RHS had not implemented corrective actions to reduce rental subsidy payment errors that OIG reported in February 1999³. Based on evaluation of rental subsidies in six States, OIG estimated that 47 percent of tenant certifications in those States contained errors with an estimated RA payment error of \$10.5 million (9.9 percent) and an IC payment error of \$3.7 million (2.9 percent). The report identified the need for RHS to improve its internal control structure over tenant eligibility determinations and contained 12 recommendations to improve payment accuracy. Although RHS agreed with the recommendations, as of April 18, 2004, none had been implemented (see exhibit A). This occurred because the agency was slow in promulgating regulations, had not included key recommendations in proposed regulations and draft procedures handbook, and taken only temporary measures for some of the recommendations through issuance of an administrative notice (AN) that was allowed to expire. Based on the error rate estimates in the past report, improper payments would be significant nationwide and could have been reduced had the recommendations been implemented.

Federal statutes⁴ require agencies to complete final action on each recommendation in an Inspector General's audit report within 12 months after the date of the report. Departmental regulations⁵ places responsibility on the Office of the Chief Financial Officer (OCFO) to monitor agencies' implementation of audit recommendations, and evaluate whether the actions satisfy the recommendations. For each recommendation where final action has not been taken within 1 year, agencies must report quarterly to OCFO on the status and estimated timeline for implementing them.

We evaluated RHS' actions to implement the 12 recommendations through (a) review of OCFO's documentation of final actions on the recommendations, (b) interviews with RHS and OCFO officials, (c) review of RHS' AN 3647, "Wage and Benefit Matching for Single and Multi-Family Housing (MFH) Programs," and (d) review of RHS' proposed rule 7 Code of Federal Regulations (CFR) 3560, dated June 2, 2003, and related draft

³ Evaluation Report No. 04801-4-CH, "RHS, RRR Program Tenant Income Verification Process," February 1999.

⁴ 5 United States Code (U.S.C.) Appendix 5, as established by the "Federal Streamlining Act of 1994" (Public Law 103-355, title VI, § 6009, October 13, 1994, 108 Stat. 3367) and amended by the "National Defense Authorization Act for FY 1996" (Public Law 104-106, division A, title VIII, §810, February 10, 1996, 110 Stat. 394).

⁵ USDA Departmental Regulation DR 1720-001, "Audit Follow-up and Management Decision," paragraph 7d, April 22, 2002.

handbooks, MFH Asset Management Handbook HB 2-3560, and MFH Project Servicing Handbook HB 3-3560, both dated June 4, 2003.

Recommendations Not Implemented

As of April 2004 (over 5 years later), none of the 12 recommendations in the 1999 evaluation report had been implemented. OCFO's records showed that RHS had not taken sufficient action to implement 10 of the recommendations and action taken to close two recommendations was issuance of a temporary 1 year AN that expired April 30, 2002. The AN was not renewed and its requirements were not permanently incorporated into the regulations.

OCFO's records show that in May 2001, RHS requested acceptance of AN 3647, "Wage and Benefit Matching for Single and MFH Programs," as final action on 6 of the 12 recommendations. OCFO accepted the AN as final action on 2 of the 6 recommendations and asked for details on how the agency planned to implement the remaining 10 recommendations.

Quarterly status reports from March 2002 through September 2003 showed that RHS intended to rewrite and reissue AN 3647 to address four recommendations, and to prepare an unnumbered letter to SO's addressing the other six recommendations. The expected completion dates for these actions changed from April 30, 2002, to February 28, 2003, July 31, 2003, and October 31, 2003.

In status reports to OCFO for the quarters ended December 31, 2003, and March 31, 2004, RHS stated that (a) two recommendations would be addressed by new regulations expected to be published in June 2004; (b) six recommendations would be satisfied by the anticipated rewrite and reissue of AN 3647 expected by February 27, 2004; (c) one recommendation would be satisfied by a legislative proposal to be completed by September 30, 2004; and (d) the other recommendation to pursue a matching agreement with the Department of Health and Human Services (HHS) would be completed by June 2004. As of March 31, 2004, none of the 10 recommendations had been implemented.

The recommendations generally required permanent policy and procedure changes to improve controls over rental subsidies. In June 2003, RHS published proposed regulations and draft handbooks addressing management and servicing of MFH projects. The drafts were expected to be published as final in June 2004. Neither the proposed regulations nor related draft handbooks addressed the recommendations. When adopted they will replace the existing MFH program regulations, instructions, and ANs.

Since the proposed AN would also be a temporary supplement to RD instructions that are to be replaced with the new regulation and handbooks, the recommendations should be addressed in regulations and handbooks to provide permanent policies and procedures.

Not implementing the recommendations from the 1999 report contributed to on-going high error rates. For example, our June 2003 audit in Florida⁶ estimated payment errors at \$4.4 million. The primary cause of the errors was the same as in the 1999 report -- tenants did not accurately report their incomes and household circumstances at certification and did not report subsequent changes to the apartment managers. The apartment managers did not have an independent source, such as wage matching, to verify the tenants' incomes.

Recommendation No. 1

Implement the 1999 OIG recommendations by (1) including the recommended controls into regulations and MFH program handbooks and (2) ensuring that all SO implements the agreed-upon actions.

Agency Response. In its January 28, 2005, response, RHS stated, “The Agency is in agreement with the recommendation and we are in the process of issuing two *** ANs regarding Wage Matching and Verification of Tenant Incomes. ***The Agency is also revising the 3560 handbooks to comply with the 1999 OIG recommendations.”

OIG Position. We agree with RHS' corrective action to revise the 3560 handbooks to comply with the 1999 audit recommendations. However, our review of the two draft ANs found that there was no guidance requiring management companies to research indications of income changes during subsequent certifications, determine when the changes occurred, and take appropriate actions to collect any excess RA provided to tenants, as recommended in our 1999 report (see exhibit A, Recommendation No. 1b).

To reach final action, RHS needs to ensure that the two draft ANs include all corrective actions described in our 1999 report (see exhibit A), and that they be included in the revised MFH Handbook 3560 in their entirety and become effective prior to the expiration of the two ANs.

⁶ Audit Number 04004-3-AT “RRH Program Tenant Income Verification – Gainesville, Florida,” June 2003.

Section 2. Legislation and State Department of Labor Matching Agreements Are Needed to Improve Rental Subsidies Payment Accuracy

RHS does not have access to a comprehensive source of independent income and employment information to verify tenants' incomes. RHS needs legislative authority, similar to HUD's, to access Federal and State income information data files and provide the information to apartment managers to assist them in certifying tenant households. Until such legislative authority is obtained, RHS needs to work with each State Department of Labor (DOL)⁷ to work out income matching agreements with provisions that allow apartment managers to receive the information.

Key recommendations in the 1999 OIG evaluation required RHS to issue instructions for States to obtain matching agreements with their State DOL, fully implement income matching of tenants applying for rental subsidies, expand wage matching where significant income discrepancies were found, and seek legislation to match Internal Revenue Service (IRS), Social Security Administration (SSA), and State DOL income data. The recommendations were important because OIG identified most of the improper payments through the use of income matches. The matches identified tenants who were materially abusing the program (the leading cause of overpayments).

Finding 2

Legislation Needed to Access Income Databases

RHS needs legislative authority, similar to HUD's, to obtain access to HHS, SSA, IRS, and DOL income data files, and to provide the information to apartment managers. These income data files provide a nationwide source of employment and income information. RHS had not sought legislation granting it authority to gain access to the income and benefit databases. Nationwide matching sources could provide RHS an effective and efficient method to identify unreported income and long-term program abusers who account for a majority of the improper payments.

Several Federal agencies collect income information on individuals. Most notable is IRS to administer the nation's tax laws; SSA to administer the Social Security Program; HHS to administer the Welfare and Child Support Enforcement Programs; and DOL, in cooperation with State DOLs, to administer the Unemployment Compensation Program. Various Federal income means tested programs such as USDA's Food Stamp Program and HHS' Medicaid and Welfare programs provide entitlement benefits to individuals. These programs rely on income-gathering sources to verify

⁷ DOL is the generic term used for any State agency responsible for gathering wage and unemployment compensation information.

applicant income. The sources include (a) State DOL wage and benefit information, (b) IRS earned and unearned income information, (c) SSA earnings and benefits information, and (d) HHS National Directory of New Hires (NDNH). These programs have specific legislative authority to access these income information sources.

We evaluated RHS' efforts to obtain legislative authority to gain access to State and Federal income information databases and assessed HUD matching authorities and whether they could be beneficial to RHS rental subsidy programs.

RHS Has No Legislative Authority

RHS had not drafted legislation concerning wage matching for submission to Congress since 1997 (see exhibit A, Recommendation No. 5a). We contacted the Office of Budget and Policy Analysis (OBPA), which is responsible for tracking the Department's legislative efforts. OBPA officials stated that access to wage matching was included in FY 2001 and FY 2005 legislative programs. They stated that the legislative program is a "wish list" of proposals that the Department would like enacted and is not to be confused with the legislative process. It is RHS' responsibility to initiate the legislative process by requesting its Legislative and Public Affairs Staff (LAPAS) to draft legislation. After LAPAS drafts the bill, it must go through the Department and OMB clearance process coordinated by OBPA for submission to Congress.

In April 2004, RHS officials stated that LAPAS was working on drafting the legislation; however, LAPAS officials stated that they were not drafting legislation because RHS had not instructed them to do so. RHS officials did not have documentation that they requested LAPAS to draft any legislation.

HUD Legislative Authorities

HUD has legislative authorities to perform income matches with income data gathering systems of IRS, SSA, HHS, and DOL. HUD manages the largest housing program in the country with subsidy programs similar to RHS. HUD places responsibility on Public Housing Authorities and private owners and agents (POA) to determine the eligibility of households.

In 2004, HUD obtained legislative authority⁸ to match with HHS NDNH. The NDNH contains comprehensive national wage and employment information including:

- Employers' biweekly report on newly-hired employees,

⁸ Public Law 108-199, "Consolidated Appropriations Act, 2004," Division G, Title II, § 217, January 23, 2004, 118 Stat. 395.

- quarterly wage and unemployment compensation information from State agencies, and
- validation of social security numbers.

Validation of a tenant's social security number helps to identify abusers and detect illegal aliens.

HUD's legislation did not specifically allow it to re-disclose the matching information to the POA's, but allows HUD and HHS to evaluate the costs and benefits of such disclosures and the security measures necessary to safeguard the confidential information. As of April 30, 2004, HUD was negotiating a Memorandum of Understanding (MOU) with HHS to implement the matching program.

We met with HHS officials to discuss RHS obtaining matching authority similar to HUD. HHS was not opposed to RHS gaining access to the databases, but stated that (a) legislative authority is needed to gain access to match HHS' databases, (b) legislation will need to include language authorizing the disclosure of information to apartment managers, and (c) RHS must have controls to prevent unauthorized access to the data.

In September 2004, the Government Accountability Office (GAO) completed a review of RHS' RA distribution process⁹. GAO recommended that RHS be added to Section 453(j)(7) of the Social Security Act, 42 U.S.C. 653(j)(7) "Information Comparison for Housing Assistance Programs." This action would give RHS access to the NDNH information.

Until such legislative authority is approved, RHS needs to work with its SO's to implement agreements with their State DOL for access to their income information databases with authority to provide apartment managers with the income information (see Finding No. 3).

Recommendation No. 2

Draft a bill to Congress that (a) provides RHS access to HHS, IRS, SSA, and DOL databases similar to the authority HUD has and (b) allows RHS to share the information with apartment managers.

Agency Response. In its January 28, 2005, response, RHS stated,

The Agency will meet with LAPAS to discuss drafting and submitting a bill to Congress to provide RHS access to HHS, IRS, SSA, and DOL databases similar to the authority that HUD

⁹ GAO Report - GAO-04-937, "RHS Updated Guidance and Additional Monitoring Needed for RA Distribution Process," September 2004.

currently has. At this time, we will attempt to include the provision to allow RHS to share information obtained from HHS, IRS, SSA, and DOL databases; however, there are indications that obtaining the latter may not be possible. Therefore, we request that, if privacy issues arise, the Agency may request this part of the recommendation be reevaluated at a later point. This issue was discussed with OIG during the exit conference held on December 13, 2004.

OIG Position. We agree with RHS' corrective action to draft a bill to Congress to provide RHS access to HHS, IRS, SSA, and DOL databases similar to the authority that HUD currently has. However, because project managers determine RHS' tenant rental subsidies, RHS should ensure that the bill includes the provision that allows RHS to share the information with apartment managers.

To reach final action, RHS needs to complete the drafted bill that provides RHS access to HHS, IRS, SSA, and DOL databases similar to the authority HUD has and allows RHS to share the information with apartment managers. In the interim, RHS needs to provide us with quarterly progress reports on the status of its implementing this recommendation until the bill is drafted.

Finding 3

Rural Housing Service Needs to Work With the State's Department of Labor to Obtain Effective Matching Agreements

RHS SO's had not pursued matching agreements with their respective State DOL, identified and overcame barriers to effective matching programs, and implemented an effective matching program. RHS had not monitored SO's compliance with its requirement that State directors aggressively pursue DOL matching agreements, and implement an effective matching program. Only 31 of 52 States had matching agreements with their respective DOL and only 6 of them could share the income information with apartment managers. In addition, 8 of the 31 States did not perform any matches. Wage and benefit matching is an effective method to identify unreported income and long-term program abusers who account for a majority of the improper payments.

In October 1996, RHS issued an AN that directed its SO's to attempt to enter into agreements with their DOL to conduct wage matches. The 1999 OIG evaluation report found little progress had been made to secure agreements and recommended that RHS seek legislation to access the State DOL's wage and benefit information and that SO's be more aggressive in obtaining voluntary matching agreements. In April 2001, RD issued AN 3647 that required State directors to (a) aggressively pursue a MOU with their State DOL to perform income matches, (b) resolve automation barriers and lack of

cooperation to achieve acceptable agreement, and (c) use the agency's influence to the fullest including the assistance of the deputy administrator to overcome the State's DOL resistance to agreements. The AN encouraged matching for all initial tenant certifications, but required SO's to match a sample of tenants as part of triennial supervisory visits to projects and match at least 10 percent of all rental units in the State annually.

We evaluated RHS' efforts to implement the provisions of AN 3647. We contacted RHS SO's to obtain information on matching agreements with their respective State DOL, or determine impediments to obtaining agreements. We also contacted the States' DOL to discuss their sharing of income information with RHS.

No Matching Agreements with 21 State DOLs - As of June 2004, 21 States did not have matching agreements. The RHS National and SO's had not aggressively pursued agreements. We contacted the State DOLs and found 15 States were agreeable to sharing their income information with RHS. The other six States had laws that prohibited disclosure of the information without specific legislation. Specifically we found that:

1. Nine SO's did not contact their respective State DOL to obtain a matching agreement as directed by AN 3647. The 9 States had 28,748 rental units receiving RA of \$88.8 million. SO officials stated they did not pursue agreements because they thought they could not be obtained (e.g., State laws prohibited such agreements). We contacted the State DOLs and found that they were willing to enter into agreements with RHS, subject to safeguards to prevent misuse of the information. For example, the South Carolina RD SO officials told us that State law prevented DOL from releasing personal information to USDA. South Carolina DOL officials told us there was no legal prohibition against entering into an agreement with USDA and they were willing to work with RHS. In FY 2003, South Carolina had 5,826 RA units that received RA of \$18.1 million.
2. Two SO's let their matching agreements expire in 2003 without renewing them. In FY 2003, North Carolina and Washington had 19,174 RA units that received RA of \$56.8 million.
3. Two SO's had no agreement because they thought that the AN was not applicable to them. New Hampshire officials thought because the State had no income tax, no State agency collected income information. Mississippi officials thought the AN was not applicable because the State did not have a DOL. They subsequently determined that the State Unemployment Commission administered the State's Unemployment Compensation Program. The DOL in both States were receptive to entering into a MOU with RHS. In FY 2003, these 2 States had 10,507 RA units that received RA of \$34.2 million.

4. Two SO's had no agreement because of conditions RHS did not agree with. Kentucky's draft agreement provided that State law was the controlling authority and any legal action must be brought to State Court. Pennsylvania's draft agreement required that USDA employees be held individually liable for disclosure violations. In FY 2003, these 2 States had 13,149 RA units that received RA of \$32.6 million.
5. Six States had laws that prohibited disclosure of DOL information without specific legislation. In FY 2003, these 6 States had 28,065 RA units that received RA of \$65.9 million.

Sharing Income Information With Apartment Managers Prohibited by 25 of 31 DOL Agreements – RHS SO's in 31 States had negotiated agreements with their DOL. Provision in 25 of the agreements prohibited re-disclosure of the information to apartment managers. These agreements generally contained restrictions that prohibited the disclosure of matching information to individuals who are not RHS employees. For example, California's agreement provided:

It is agreed that RHS shall not disclose any individually identifiable wage match information to any person outside its own staff. There is no provision in the agreement for redisclosing information.

The apartment managers who determine tenant eligibility and level of benefits are not RHS employees. Therefore, the usefulness of the matching information was diminished. The SO's generally had not worked to overcome this barrier.

OIG's 2003 audit in Florida¹⁰ disclosed that the agreement, similar to that of California, prohibited the SO from providing apartment managers with matching results. We contacted Florida DOL officials about the possibility of sharing the information with apartment managers. They agreed to amend the MOU, subject to controls regarding privacy issues, to permit disclosure of income information to apartment managers. On April 15, 2004, the SO executed the amended MOU with the State DOL, thus removing the disclosure impediment. Florida's amended agreement now provides:

The USDA is authorized by the DOL to disclose information provided to it. Such disclosure may be made only to employees and contracted agents of the USDA whom the USDA determines have a valid administrative need for the information for the purposes stated in the agreement. For the purposes of this agreement the term "contracted agent" means

¹⁰ Audit Number 04004-3-AT, "RRH Program Tenant Income Verification – Gainesville, Florida," June 2003.

a management agent with a current management agreement and plan signed and approved by USDA.

RHS needs to work with its SO's to secure agreements similar to Florida's, which provides apartment managers with the match information.

No Matching Activity in Eight States with Agreements – Eight SO's with DOL agreements did not conduct income matches. In FY 2003, these 8 States had 36,258 RA units that received RA of \$92.8 million. Our contacts with RD officials found that:

1. Alaska, Alabama, and Indiana SO's did not perform matches because AN 3647 expired in April 2002, and they were no longer required to perform them. In FY 2003, these 3 States had 16,693 RA units that received RA of \$43.4 million.
2. Minnesota, Nevada, and Tennessee SO's did not perform matches because the DOLs charged for the service. The SO's had no cost benefit analysis to support not paying for the service. We calculated the cost based on the minimum requirements of AN 3647 and costs to match all units annually (see table 2).

Table 2

State	RA Units	Cost Per Match	RA Minimum		100 Percent Match	Total RA (Millions)	Percent of Matching Cost to RA
			10 Percent of Units	Supervisory Visits			
MN	6,502	\$7.50	\$4,876	\$1,626	\$48,765	\$13.7	0.4 percent
NV	1,679	6.27	1,053	351	10,528	6.8	0.2 percent
TN	6,380	5.13	3,273	1,091	32,730	15.1	0.2 percent

In FY 2003, these 3 States had 14,561 RA units that received RA of \$35.6 million. Based on our prior audit results, the cost benefit would be positive in light of the abuse found by those audits.

3. Hawaii and Oregon SO's stated that they did not have sufficient staff to conduct a matching program. In FY 2003, these 2 States had 5,004 RA units that received RA of \$13.9 million.

Recommendation No. 3

Assist SO's to obtain a matching agreement with their respective State agency responsible for collecting wage and benefit information (normally the State DOL Office) that includes authority to provide apartment managers with the income information.

Agency Response. In its January 28, 2005, response, RHS stated, "The Agency is in the process of reissuing the Wage Matching AN, of which a draft is attached. This AN requires States to report quarterly to the National Office regarding any problems related to obtaining an agreement with their State agency responsible for collecting wage and benefit information.***"

OIG Position. We do not concur with management decision on this recommendation. The AN does not require States to obtain matching agreements that include the authority to provide apartment managers with the income information. Further, the AN is only temporary and the recommendations need to be addressed in regulations and handbooks to provide permanent policies and procedures.

Our audit found that 21 States had not aggressively pursued wage-matching agreements. For the 31 States that had negotiated agreements with their DOL, provision in 25 of the agreements prohibited re-disclosure of the information to apartment managers.

Agreements generally contained restrictions that prohibited the disclosure of matching information to individuals who are not RHS employees. The apartment managers who determine tenant eligibility and level of benefits are not RHS employees. Therefore, the usefulness of the matching information was diminished.

To reach management decision, RHS needs to ensure that the revised MFH Handbook 3560 incorporates procedures requiring all States to obtain a matching agreement with their respective State agency that includes authority to provide apartment managers with the income information, and to use RHS Headquarters' assistance in obtaining these agreements.

Recommendation No. 4

Implement procedures that require tenants, as a condition of eligibility for rental subsidies, to sign consent forms to release matching information from the State DOLs to RHS and apartment managers.

Agency Response. In its January 28, 2005, response, RHS stated, “The Agency will add release language to the tenant certification to consent to release of wage matching information to RHS and apartment managers as a condition of eligibility.”

OIG Position. We agree with this management decision. To reach final action, please provide OCFO a copy of the revised tenant certification containing the consent to release wage matching information to RHS and apartment managers as a condition of eligibility.

Section 3. Improper Rental Assistance Payments, a Federal Debt, Are Not Recorded as an Agency Accounts Receivable

Finding 4

RHS does not record an accounts receivable for overpaid rental subsidies in its accounting records. RHS had not established procedures to record a claim for overpaid rental subsidies because it places responsibility on the project owner to account for and collect any rental subsidy overpayments. As a result, overpaid Federal funds are not accounted for as a receivable and collection tools are not applied to recover improper payments.

The Debt Collection Improvement Act (DCIA) of 1996¹¹ defines a claim or debt as any amount that has been determined to be owed to the United States. Federal Financial Accounting Standards¹² require agencies to recognize a receivable in their accounting records when they establish a claim. As of April 30, 2004, the RHS accounting records contained no receivables for overpaid RA and IC.

OMB Circular A-129¹³ provides, that agencies must service and collect debts in a manner that best protects the value of the assets. Mechanisms must be in place to collect and record payments and provide accounting and management information for effective stewardship. The circular (as well as the Federal Claims Collection Standards and the DCIA) also requires Departments and agencies to use the full range of available techniques to collect delinquent debts including credit bureau reporting, administrative offset, tax refund offset, Treasury Offset Program (TOP), private collection agencies, and litigation. Agencies must transfer debts delinquent 180 days or more to the Treasury Department for further collection actions and resolution. When a debt is written off the improper assistance is reported to the IRS as income to the individual.

We reviewed RHS' regulations, procedures and handbooks and RHS' proposed rule and related handbooks¹⁴ regarding over paid rental subsidies. Except for cases identified in OIG audit findings, the regulations and related handbooks do not require RHS to record accounts receivable for overpaid rental subsidies. The draft proposed regulations and associated handbook contain general guidance for the identification of unauthorized assistance.

¹¹ Public Law 104-134, title III, § 31001, April 26, 1996, 110 Stat. 1321-358 as codified in 31 U.S.C. 3701, and 3711 - 3720E.

¹² Statement of Federal Financial Accounting Standards Number 1, "Accounting for Selected Assets and Liabilities," March 30, 1993, paragraph 40.

¹³ OMB Circular A-129, "Policies For Federal Credit Programs And Non-Tax Receivables," November 2000.

¹⁴ 7 CFR 3560, "Direct MFH Loans and Grants," published for comments June 2, 2003, and its related draft handbooks, HB-2-3560, "RHS MFH Asset Management Handbook" HB-3-3560, "RHS MFH Project Servicing Handbook."

However, they do not require the establishment of any accounts receivable in the agency accounting records.

OCFO and GAO officials we interviewed believed that improper overpayments of rental subsidies are a Federal debt that should be recorded on the agency's accounting records.

Claim Procedures - Regulations in effect as of April 30, 2004, do not require that an account receivable be established in the agency accounting records for overpaid rental subsidies, other than those identified by OIG audits. Regulation 1951-N provides, that cases of unauthorized assistance identified by OIG will be recorded as an account receivable. RHS officials stated that overpaid rental subsidies identified by other sources such as the borrower or RHS was a debt owed to the project. The borrowers should account for improper assistance on the project's accounting records. When a repayment is received, that amount should be offset on the current month's RD Form 1944-29, Project Worksheet for Credit and RA. The Form 1944-29, is the borrower's monthly claim for RA.

If the tenant does not repay the debt the borrower will report the facts to the district director. The RHS District Director will report to the State director who will obtain the advice of the Office of General Counsel (OGC) on further actions.

Draft Regulations and Handbooks - In June 2003, RHS published draft regulations and associated draft handbooks to update its project management and servicing procedures. The drafts do not contain a requirement to establish an account receivable in the agency's accounting records for overpaid rental subsidies. Further, the requirement to establish an account receivable for overpayments identified by OIG audits was removed from the draft regulations. The draft regulations and associated draft handbooks contained general guidance for the identification of unauthorized assistance and provided that:

- Any assistance resulting from misrepresentation of tenant income or status is unauthorized and must be repaid.
- The agency will use all available means to identify unauthorized assistance, including agency monitoring activities, OIG reports, GAO reports, and reports from any source, if the information provided can be substantiated by the agency.
- The borrowers have the primary responsibility for identifying and pursuing repayment of unauthorized assistance received by tenants.

- The agency will not pursue aggressive collection of unauthorized assistance amounting to less than \$1,000 annually.

Limited Use of Collection Tools - When claims are not recorded on the agency's books, the powerful collection tools available to the agency cannot be used, for instance, the TOP (e.g., income tax refund offset). In addition, after recording accounts receivable, those abusers who do not pay the debts will be reported to the credit bureaus inhibiting their ability to receive any future Federal assistance, including housing, until the debt is settled. RHS has made limited use of the TOP. In FY 2004, 3 RHS State Offices referred 23 debtors owing \$51,066 to the TOP and collected \$7,696.

Without RHS recording an account receivable, tenants can avoid repayment of improper rental subsidies by vacating their apartment. RD officials stated it is not uncommon when a tenant is confronted with a demand for repayment and having to pay higher rent, the tenant will move out of the apartment. The Florida's SO followed up on cases cited in our June 2003 audit report resulting in cases where tenants moved out of their apartments rather than repay the debt and start paying their fair monthly rents. For example:

We identified a tenant who had been working for the same employer since 1999. On the annual certifications for January 2000 through December 2002 (3 years), the tenant did not report this employment to the project manager. The tenant's only reported source of income was child support. As a result, the tenant received excessive RA in the amount of \$16,986. When the project manager notified the tenant that the \$16,986 had to be repaid and that the apartment would no longer be subsidized, the tenant vacated the apartment.

Under the draft regulations and handbooks, the claim would not be tracked and the tenant would be free to seek other Government assistance, including other subsidized housing. RHS officials stated that the Multi-Family Information System (MFIS) aids in preventing debtors from moving to another RRH project without settling the debt. MFIS is a database system for tracking and monitoring project activities and expenses. It tracks and schedules supervisory and servicing activities, classifies projects by performance, analyzes project financial and other data and tenant information. MFIS has the capability to record debts owed by tenants who move out of a project owing either a debt for overpaid RA or past due rent. RRH project managers can use the system to screen applicants for outstanding debts and require repayment before they move into the second RRH project. However, our audit scope did not include testing or assessment of the MFIS system to determine the extent to which it is used or its effectiveness. In addition, because the MFIS system is internal to the RRH

program, it cannot prevent debtors from obtaining other Federal benefits, including housing under other Federal programs.

Recommendation No. 5

Develop the systems and policies necessary to establish and account for claims arising from overpayments of RA and IC, and to collect and manage them in accordance with Federal Claims Collection Standards, the DCIA of 1966 and OMB Circular A-129.

Agency Response. In its January 28, 2005, response, RHS stated, “A Request for Alteration *** for an enhancement to the information systems will be submitted to the IT staff to establish and account for claims arising from overpayments of RA and IC.”

OIG Position. RHS’ corrective action needs to be more informative than just the commitment to submit a request for an enhancement to the information systems to establish and account for claims. The proposed corrective action does not provide the policies necessary to establish and account for claims arising from the overpayment and managing them in accordance with Federal Claims Collection Standards, the DCIA of 1966 and OMB Circular A-129, nor a timeframe when the new system will be operational.

To reach management decision, RHS needs to describe the policies and procedures necessary to establish and account for claims arising from the overpayment. In addition, the procedures need to ensure claims are managed in accordance with Federal Claims Collection Standards, the DCIA of 1966 and OMB Circular A-129. Finally, the policies and procedures should be made permanent into the revised MFH Handbook 3560.

Scope and Methodology

Scope - Our review covered RHS' rental subsidy program policies and procedures in effect from February 1999 through June 2004, and implementation of the IPIA from January 2003 through June 2004. We reviewed OCFO's documentation for RHS' final action for 12 recommendations made by OIG in its February 1999 evaluation report on the RRH tenant income verification process¹⁵. Our review was performed in accordance with generally accepted government auditing standards.

Work was performed at RD Headquarters in Washington, D.C.

Methodology - To accomplish the review objectives we performed the following:

- Reviewed laws, regulations, and instructions applicable to the program.
- Interviewed RD officials at the national office to determine the implementation of prior OIG recommendations, gain understanding of information systems, and evaluate wage matching instructions provided to SO.
- Reviewed proposed Regulation 3560 and related draft handbooks for the MFH program to determine whether it fulfilled the recommendations of OIG.
- Interviewed USDA's OCFO staff to determine the status of prior OIG recommendations, evaluate the agency implementation of the IPIA, and the Presidents' Management Agenda, and determine whether claims for overpayments of RA should be treated as debts owed to the U.S. Government.
- Interviewed GAO officials to determine whether claims for overpayments of RA should be treated as debts owed to the U.S. Government.
- Interviewed RD State officials to determine the limitations and effectiveness of the wage matching agreements with their State DOL, and if they were using the agreements to comply with RHS' instructions and the impediments to obtaining agreements in their State without wage match agreements.

¹⁵ Evaluation Report No. 04801-4-CH, "RHS, RRH Tenant Income Verification Process," February 1999.

- Interviewed State DOL officials to determine the validity of impediments reported by SO's.
- Obtained, reviewed, and evaluated matching agreements for the States with agreements.
- Interviewed HUD and HHS officials to determine the procedures for using and accessing wage data from the NDNH and policies or procedures that would be beneficial to RHS.
- Interviewed USDA's LAPAS and OBPA staff to assess the legislative efforts to obtain wage matching authority since OIG's 1999 Audit.

Exhibit A – Status of Implementing Prior Audit Recommendations

Recommendation No. 1a	
<p>Require that management companies develop and implement comprehensive written policies specifically directed at reducing program abuse by tenants to include, (1) communicating and periodically reminding tenants at initial certification and subsequent certifications of the importance of accurate and timely reporting of income and (2) assurance that all management companies are using comprehensive income and asset checklist disclosure statements that are completed and signed by the tenants.</p>	
RHS agreed to actions	Final Action Status
<p>Date of Management Decision February 12, 1999.</p> <p>RHS will seek the OIG’s comprehensive income and asset checklist, publish a comparable list for use in completing certifications and recertifications, and require management companies to use the agency’s sample checklist or a comparable checklist.</p> <p>RHS will require management companies to communicate to tenants either orally or in writing, or both, and the importance of providing accurate information on tenant certifications. The agency will seek to accomplish this through a reissuance of a modified AN 3290 or similar issuance.</p> <p>RHS will accomplish this by June 30, 1999.</p>	<p>OPEN - As of March 31, 2004 - Interim Report of Unresolved RD Audits.</p> <p>RHS has not implemented the agreed to action.</p> <p>On April 17, 2001, RHS issued AN 3647, "Wage and Benefit Matching for Single and MFH Programs," to replace AN 3290. However, it did not address the management decision.</p> <p>For the March 31, 2004, interim report, for inclusion in the Secretary's Annual Report on Performance and Accountability, the RHS stated that:</p> <p>“Regulation 3560 would provide the required checklist. The regulation was published (June 2003) as a proposed rule and comments are being addressed and incorporated into the regulation as appropriate. Expect to publish 3560 as a final rule in June 2004.”</p> <p>We reviewed the proposed rule (<u>Federal Register</u>, Vol. 68, No. 105, June 2, 2003), and found no mention of a checklist or any policy for owners to notify tenants about the need to report income accurately on certifications.</p> <p>We reviewed the draft copies of <u>RHS MFH Asset Management Handbook</u> (2-3560) and <u>RHS MFH Project Servicing Handbook</u> (3-3560) to implement the proposed rule. We found no mention of checklists to be used by project owners during certifications or any requirement for owners to notify tenants of the importance to report income accurately on tenant certifications.</p>

Exhibit A – Status of Implementing Prior Audit Recommendations

Recommendation No. 1b	
<p>Revise procedures to require management companies to research indications of income changes during subsequent certifications, determine when the changes occurred, and take appropriate actions to collect any excess RA provided to tenants.</p>	
RHS agreed to actions	Final Action Status
<p>Date of Management Decision February 12, 1999.</p> <p>RHS will reissue AN 3290 or a similar issuance to require third party certification on income, and when discrepancies are detected, to research the reason for the discrepancies. It will do so by requesting the tenant to provide an explanation for the error.</p> <p>Where errors are confirmed, management agents will be required to seek reimbursement for excess RA for the period of time arising from untimely reporting of changes and initiate a notice of eviction if the tenant refuses to cooperate. Generally, the standards set out in AN 3290 seek aggressive recovery for improper assistance of \$1,000 or over for the current tenant certification.</p> <p>RHS will accomplish this by June 30, 1999.</p>	<p>OPEN – As of March 31, 2004 - Interim Report of Unresolved RD Audits.</p> <p>RHS has not implemented the agreed to action.</p> <p>Our interviews with RHS officials found that as of April 18, 2004, RHS had not taken action to draft or issue a revised AN incorporating this recommendation.</p> <p>On April 17, 2001, the RHS issued AN 3647, “Wage and Benefit Matching for Single and MFH Programs,” to replace AN 3290. On May 29, 2001, RHS submitted it for final action on this recommendation. On January 28, 2002, OCFO did not accept it because it did not address the recovery of improper assistance of \$1,000 or more.</p> <p>The AN did not (1) require management companies to research and determine when changes occurred and (2) require aggressive collection for improper assistance. More importantly, the AN expired on April 30, 2002, without RHS implementing other temporary or permanent requirements.</p> <p>For the March 31, 2004, interim report, for inclusion in the Secretary's Annual Report on Performance and Accountability, the agency stated that:</p> <p style="padding-left: 40px;"><i>The MFH [National office] NO staff will rewrite and reissue AN 3647 (1930-C), “Wage and Benefits Matching for MFH” to incorporate the necessary revisions to address these recommendations. The new AN will be published by February 27, 2004.</i></p> <p style="padding-left: 40px;"><i>At this time, the AN has not been reissued. The agency is working on issues related to this subject regarding the Erroneous Payment Act with OIG. We anticipate that the AN will be delayed for another 60 days.</i></p>

Exhibit A – Status of Implementing Prior Audit Recommendations

Recommendation No. 2	
Revise procedures to place more emphasis on tenants with earned income during subsequent certifications.	
RHS agreed to actions	Final Action Status
<p>Date of Management Decision February 12, 1999.</p> <p>RHS will reissue AN 3290 or a similar issuance that provides wage matching guidance to states with a MOU in place. The guidance will require a 10 percent sampling of initial and subsequent certifications of those earning income. The RHS will require a lesser sampling of those certifications not revealing earned income.</p> <p>RHS will accomplish this by June 30, 1999.</p>	<p>CLOSED – As of March 31, 2004 - Interim Report of Unresolved RD Audits.</p> <p>RHS has not implemented the agreed to action.</p> <p>On April 17, 2001, the RHS issued AN 3647, “Wage and Benefit Matching for Single and MFH Programs,” to replace AN 3290. On May 29, 2001, submitted it for final action on this recommendation. On January 28, 2002, OCFO accepted this response as final action on this recommendation.</p> <p>The AN expired on April 30, 2002, and has not been reissued or replaced with any permanent procedure or guidance. This recommendation should be reopened until some permanent solution is submitted.</p>

Exhibit A – Status of Implementing Prior Audit Recommendations

Recommendation No. 3a	
<p>Require expanded wage match samples during supervisory reviews when significant income discrepancies are found.</p>	
RHS agreed to actions.	Final Action Status
<p>Date of Management Decision February 12, 1999.</p> <p>RHS will reissue AN 3290 or a similar issuance to require expanded wage matching to be conducted when supervisory reviews indicate significant income discrepancies are evidenced.</p> <p>RHS will accomplish this by June 30, 1999.</p>	<p>OPEN – As of March 31, 2004 - Interim Report of Unresolved RD Audits.</p> <p>RHS has not implemented the agreed to action.</p> <p>Our interviews with RHS officials found that as of April 18, 2004, RHS had not taken action to draft or issue a revised AN incorporating this recommendation.</p> <p>On April 17, 2001, the RHS issued AN 3647, “Wage and Benefit Matching for Single and MFH Programs,” to replace AN 3290. On May 29, 2001, submitted it for final action on this recommendation. On January 28, 2002, OCFO rejected it as final action. The OCFO determined that AN 3647 RHS did not address the agreed actions.</p> <p>For the March 31, 2004, interim report, for inclusion in the Secretary's Annual Report on Performance and Accountability, the agency stated that:</p> <p><i>The MFH NO staff will rewrite and reissue AN 3647 (1930-C),” Wage and Benefits Matching for MFH” to incorporate the necessary revisions to address these recommendations. The new AN will be published by February 27, 2004.</i></p> <p><i>At this time, the AN has not been reissued. The agency is working on issues related to this subject regarding the Erroneous Payment Act with OIG. We anticipate that the AN will be delayed for another 60 days.</i></p> <p>We also reviewed RHS’ proposed rule (Federal Register, Vol. 68, No. 105, June 2, 2003), draft copies of <u>RHS MFH Asset Management Handbook</u> (2-3560) and <u>RHS MFH Project Servicing Handbook</u> (3-3560). We found that the agreed to management decision was not incorporated into RHS regulations, policy, and procedures.</p>

Exhibit A – Status of Implementing Prior Audit Recommendations

Recommendation No. 3b	
<p>Provide additional guidance to ensure wage matching is utilized properly during the review process for verifying income and deductions during supervisory reviews, for initial certifications, and subsequent certifications.</p>	
RHS agreed to actions	Final Action Status
<p>Date of Management Decision February 12, 1999.</p> <p>RHS will seek the OIG’s comprehensive income and asset checklist and issue a comparable list for use as guidance by management agents, borrowers, and agency employees to ensure proper verifications of income and deductions are conducted. This will be accomplished by issuing a AN, if legally permissible, or alternatively by issuing a proposed rule.</p> <p>RHS will accomplish this by September 1, 1999.</p>	<p>OPEN – As of March 31, 2004 - Interim Report of Unresolved RD Audits.</p> <p>RHS has not implemented the agreed to action.</p> <p>Our interviews with RHS officials found that as of April 18, 2004, RHS had not taken action to draft or issue a revised AN incorporating this recommendation.</p> <p>For the March 31, 2004, interim report, for inclusion in the Secretary's Annual Report on Performance and Accountability, the agency stated that:</p> <p>“Regulation 3560 would provide the required checklist. The regulation was published (June 2003) as a proposed rule, and comments are being addressed and incorporated into the regulation as appropriate. We expect to publish 3560 as a final rule in June 2004.”</p> <p>We reviewed the proposed rule (<u>Federal Register</u>, Vol. 68, No. 105, June 2, 2003), and found no mention of checklists to be used by management agents, borrowers, and agency employees to ensure proper verifications of income and deductions are conducted.</p> <p>We reviewed the draft copies of <u>RHS MFH Asset Management Handbook</u> (2-3560) and <u>RHS MFH Project Servicing Handbook</u> (3-560) to implement the proposed rule. We found no mention of checklists to be used by management agents, borrowers, and agency employees to ensure proper verifications of income and deductions are conducted.</p>

Exhibit A – Status of Implementing Prior Audit Recommendations

Recommendation No. 4a	
Revise AN 3290 to direct the State offices to determine and collect the overpaid RA and IC.	
RHS agreed to actions	Final Action Status
<p>Date of Management Decision February 12, 1999.</p> <p>RHS will issue directions on the appropriate identification, collection, and timing of overpaid RA and IC. These efforts will include a vehicle for tenants to challenge the accuracy of the information relied on to make a demand for recovery of unauthorized assistance. The agency will request management agents or borrowers to seek restitution or initiate eviction action. Should recovery efforts fail and tenants are evicted, further efforts will be the responsibility of the agency. The agency will seek recovery when substantial discrepancies exist when it is effective and cost beneficial to do so. This will be accomplished via a revised re-issuance of AN 3290.</p> <p>RHS will accomplish this by June 30, 1999.</p>	<p>CLOSED – As of March 31, 2004 – Interim Report of Unresolved RD Audits.</p> <p>RHS has not implemented the agreed to action.</p> <p>On April 17, 2001, the RHS issued AN 3647, “Wage and Benefit Matching for Single and MFH Programs,” to replace AN 3290. On May 29, 2001, it was submitted for final action on this recommendation. On January 28, 2002, OCFO accepted this response as final action on this recommendation.</p> <p>We found that AN 3647 did not address the recommendation because the AN did not direct the SO’s to determine and collect the overpaid RA if the borrower’s efforts failed and the tenant was evicted.</p> <p>More importantly, AN expired on April 30, 2002, and has not been reissued or replaced with any permanent procedure or guidance. This recommendation should be reopened until some permanent solution is submitted.</p>

Exhibit A – Status of Implementing Prior Audit Recommendations

Recommendation No. 4b	
<p>Revise instructions on collection of overpaid RA and IC to a level that allows for more aggressive collection efforts. Include the use of collection agencies and Federal tax refund offset to the full extent authorized by law.</p>	
RHS agreed to actions	Final Action Status
<p>Date of Management Decision June 24, 1999.</p> <p>Administrative Notice 3290 will be revised as applicable to require the borrower/management agent to pursue collection of all unauthorized assistance of \$1 or more. When the amount of unauthorized assistance is \$500 or more, a more aggressive collection effort will be used.</p>	<p>OPEN –As of March 31, 2004 - Interim Report of Unresolved RD Audits.</p> <p>RHS has not implemented the agreed to action.</p> <p>Our interviews with RHS officials found that as of April 18, 2004, RHS had not taken action to draft or issue a revised AN incorporating this recommendation.</p> <p>On April 17, 2001, the RHS issued AN 3647, “Wage and Benefit Matching for Single and MFH Programs,” to replace AN 3290. On May 29, 2001, submitted it for final action on this recommendation. On January 28, 2002, OCFO rejected it as final action because it did not address the agreed to actions.</p> <p>AN 3647 did not (1) provide instructions on collection of overpaid RA and IC to a level that allows for more aggressive collection efforts and (2) include the use of collection agencies and Federal tax refund offset to the full extent authorized by law. The AN stated:</p> <p>“Servicing officials may inform the borrower or borrower’s representative of any discrepancies resulting in unauthorized assistance of \$1 or more annually and take steps to collect the unauthorized assistance.”</p> <p>For the March 31, 2004, interim report, for inclusion in the Secretary's Annual Report on Performance and Accountability, the agency stated that:</p> <p style="text-align: center;"><i>The MFH NO staff will rewrite and reissue AN 3647 (1930-C) Wage and Benefits Matching for MFH to incorporate the necessary revisions to address these recommendations. The new AN will be published by February 27, 2004.</i></p> <p style="text-align: center;"><i>At this time, the AN has not been reissued. The agency is working on issues related to this subject regarding the Erroneous Payment Act with OIG. We anticipate that the AN will be delayed for another 60 days.</i></p>

Exhibit A – Status of Implementing Prior Audit Recommendations

Recommendation No. 4c	
<p>Consult with the United States Attorney’s office and consider establishing civil action against those RRH tenants for whom significant excess RA and/or IC were paid, and who refuse to repay the excess assistance provided.</p>	
RHS agreed to actions	Final Action Status
<p>Date of Management Decision February 12, 1999.</p> <p>RHS will ask OIG-Audit, and OGC for support in its request to seek appropriate civil remedies. The agency will do so for those tenants identified by the audit as receiving over \$1,000 in assistance, who have the ability to repay but are not cooperating with the agency in resolving the issue.</p> <p>RHS will accomplish this by September 1, 1999.</p>	<p>OPEN – As of March 31, 2004 - Interim Report of Unresolved RD Audits.</p> <p>RHS has not implemented the agreed to action.</p> <p>Our interviews with RHS officials found that as of April 18, 2004, RHS had not taken action or established civil action against those RRH tenants for whom significant excess RA and/or IC was paid and who refuse to repay the excess assistance provided.</p> <p>On May 29, 2001, RHS requested OCFO to accept AN 3647, “Wage and Benefit Matching for Single and MFH Programs,” issued on April 17, 2001, as final action on this recommendation. On January 28, 2002, the OCFO rejected the final action and requested RHS to:</p> <p>Provide a status on the pursuit of civil action against tenants receiving unauthorized RA as well as demand for restitution from tenants receiving \$1,000 or more in unauthorized assistance.</p> <p>For the March 31, 2004, interim report, for inclusion in the Secretary's Annual Report on Performance and Accountability, the agency stated that,</p> <p style="text-align: center;"><i>“Identical explanatory language as recommendation 1b.”</i></p> <p style="text-align: center;"><i>1b: The MFH NO staff will rewrite and reissue AN 3647 (1930-C) Wage and Benefits Matching for MFH to incorporate the necessary revisions to address these recommendations. The new AN will be published by February 27, 2004.</i></p> <p style="text-align: center;"><i>At this time, the AN has not been reissued. The agency is working on issues related to this subject regarding the Erroneous Payment Act with OIG. We anticipate that the AN will be delayed for another 60 days.</i></p> <p>We reviewed OCFO records and determined that since the issuance of the report in February 1999, RHS has not provided a satisfactory response detailing their actions to collect unauthorized assistance as agreed to in the management decision.</p>

Exhibit A – Status of Implementing Prior Audit Recommendations

Recommendation No. 5a	
Continue to seek legislation to mandate that States provide wage data for wage matching. Use the results of this evaluation to support your legislative requests.	
RHS agreed to actions	Final Action Status
<p>Date of Management Decision February 12, 1999.</p> <p>RHS has done so in the past. RHS will use the results of this report to seek such authority again. However, RHS cannot guarantee the success of such requests and can only commit to the pursuit of such authority. Additionally, as stated in our response to Recommendation No. 4c, State level wage matching with State DOL data, may not be the most effective method to obtain improved tenant compliance with income certification requirements. RHS will forward this material to the Department in time to be incorporated into the next budget submission.</p> <p>RHS will accomplish this by September 1, 1999.</p>	<p>OPEN – As of March 31, 2004 - Interim Report of Unresolved RD Audits.</p> <p>RHS has not implemented the agreed to action.</p> <p>We found no evidence of any legislation being prepared for the submission to Congress since OIG’s report was issued in February 1999. RHS officials could not explain why they had not taken action to drafted and submitted legislation to Congress as agreed.</p> <p>For the March 31, 2004, interim report, for inclusion in the Secretary's Annual Report on Performance and Accountability, the agency stated that:</p> <p style="padding-left: 40px;"><i>The legislative proposal has been initiated. The proposal has been submitted during the 104th, 105th, and 106th Congresses (ended December 2000), but has not received clearance for admission to Capitol Hill. In the past concerns have been raised by IRS regarding the timeliness of accessing their data. The most recent proposal was submitted during the 108th Congress [July 31, 2003] * * *. Estimated completion date September 30, 2004.</i></p> <p>We reviewed the history of legislative proposals for RHS to obtain wage-matching authority, met with the LAPAS, and met with the Office of Budget and Policy Analysis (OBPA). OBPA stated that legislative proposals were included in the FY 2001 and FY 2005 legislative programs; however, no draft bills were prepared or submitted to OBPA. OBPA controls, tracks, and monitors all Department legislation submitted to Congress.</p> <p>The 2005 Legislative Program, dated April 14, 2004, provided:</p> <p style="padding-left: 40px;"><i><u>Rural Housing Fraud Prevention</u> - In this proposal RHS is seeking the same authority the Department of Housing and Urban Development (HUD) obtained through section 217 of the Consolidation Appropriations Act, 2004. The proposal would amend the Social Security Act to permit USDA to access wage and income information from other Federal sources in order to verify income information provided by applicants and recipients of RHS’, Single-Family Housing (SFH and MFH rental housing programs).</i></p>

Exhibit A – Status of Implementing Prior Audit Recommendations

Recommendation No. 5a (continued)	
RHS agreed to actions	Final Action Status
	<p><i>The amount of assistance borrowers or tenants receive depends on their household income. Although household income is now reviewed annually to determine the appropriate amount of assistance to be provided, permitting the agency to verify income information provided by applicants and recipients with information from other Federal sources will reduce the payment of excess subsidies.</i></p> <p>The last legislation drafted for wage matching with IRS and SSA was prepared in early 1997 during the 105th Congress (ended December 1998), two years prior to OIG's report. As part of the clearance process, the bill must be submitted to the U.S. Treasury Department for review and comment. The Treasury Department's comments on the 1997 proposed legislation stated, "USDA hasn't demonstrated that they either need or can use the requested information, and until they do, we object to the disclosure provision in the bill.</p> <p>We found no evidence that RHS used OIG's 1999 report results to demonstrate to the Treasury Department the need for disclosure of tenant wage information to support their prior legislative proposal that was rejected.</p>

Exhibit A – Status of Implementing Prior Audit Recommendations

Recommendation No. 5b	
<p>Require the States that currently have authority to implement wage matching and have not done so to implement the wage matching procedures in their income verification processes.</p>	
RHS agreed to actions	Final Action Status
<p>Date of Management Decision February 12, 1999.</p> <p>RHS is aware that some State laws prohibit wage matching. The agency will use best efforts to implement wage matching in States that have that authority to implement wage matching but have met barriers in achieving implementation. However, the agency cannot guarantee success in these endeavors.</p> <p>The agency will initiate these best efforts by June 30, 1999, and be able to report on the results of these efforts by September 1, 1999.</p>	<p>OPEN – As of March 31, 2004 - Interim Report of Unresolved RD Audits.</p> <p>RHS has not implemented the agreed to action.</p> <p>Our interviews with RHS officials found that as of April 18, 2004, RHS had not taken action to draft or issue a revised AN incorporating this recommendation.</p> <p>On May 29, 2001, RHS requested OCFO to:</p> <p>“Please advise as to what action is necessary to reach closure on the remaining recommendations needing final action.”</p> <p>On January 28, 2002, OCFO responded that they would consider final action on the recommendation when it received documentation that supports corrective actions taken by the agency to implement the agreed management decision.</p> <p>Our review of AN 3647 found that RHS had instructed States with wage matching MOU’s to (1) ensure wage and benefit matches are conducted for those residents scheduled to be interviewed prior to conducting supervisory visits, (2) establish routines to ensure that wage and benefit matches are performed each year on at least 10 percent of all units in the State for MFH programs, and (3) wage and benefit matches are encouraged for initial tenant certifications of those moving into the projects for the first time.</p> <p>The AN expired on April 30, 2002, and has not been reissued or replaced with any permanent procedure or guidance.</p> <p>For the March 31, 2004, interim report, for inclusion in the Secretary's Annual Report on Performance and Accountability, the agency stated that:</p> <p style="padding-left: 40px;"><i>The MFH NO staff will rewrite and reissue AN 3647 (1930-C) Wage and Benefits Matching for MFH to incorporate the necessary revisions to address these recommendations. The new AN will be published by February 27, 2004.</i></p> <p style="padding-left: 40px;"><i>At this time, the AN has not been reissued. The agency is working on issues related to this subject regarding the Erroneous Payment Act with OIG. We anticipate that the AN will be delayed for another 60 days.</i></p>

Exhibit A – Status of Implementing Prior Audit Recommendations

Recommendation No. 5c	
<p>Require the RD State offices for the States without State laws prohibiting wage matching to be more aggressive in obtaining authority to use State wage data for wage matching.</p>	
RHS agreed to actions	Final Action Status
<p>Date of Management Decision February 12, 1999.</p> <p>RHS will request States to be more aggressive in obtaining authority to use State wage data for wage matching in the reissuance of AN 3290. In addition, the agency will take the actions set out in item 5b.</p> <p>RHS will accomplish this by June 30, 1999.</p>	<p>OPEN – As of March 31, 2004 - Interim Report of Unresolved RD Audits.</p> <p>RHS has not implemented the agreed to action.</p> <p>Our interviews with RHS officials found that as of April 18, 2004, RHS had not taken action to draft or issue a revised AN incorporating this recommendation.</p> <p>On May 29, 2001, RHS requested the OCFO to:</p> <p>“Please advise as to what action is necessary to reach closure on the remaining recommendations needing final action.”</p> <p>On January 28, 2002, OCFO responded that they would consider final action on the recommendation when it received documentation that supports corrective actions taken by the agency to implement the agreed management decision.</p> <p>Our review of the AN 3647 found that RHS had instructed:</p> <p>“State directors must aggressively attempt to execute a MOU. State directors are encouraged to use the agency’s influence to the fullest to overcome resistance whenever State laws do not prohibit wage and benefit matching. The Deputy Administrator may be contacted if assistance is needed in overcoming implementation barriers.”</p> <p>The AN expired on April 30, 2002, and has not been reissued or replaced with any permanent procedure or guidance.</p> <p>For the March 31, 2004, interim report, for inclusion in the Secretary's Annual Report on Performance and Accountability, the agency stated that:</p> <p style="padding-left: 40px;"><i>“The MFH NO staff will rewrite and reissue AN 3647 (1930-C) Wage and Benefits Matching for MFH to incorporate the necessary revisions to address these recommendations. The new AN will be published by February 27, 2004.”</i></p> <p style="padding-left: 40px;"><i>At this time, the AN has not been reissued. The agency is working on issues related to this subject regarding the Erroneous Payment Act with OIG. We anticipate that the AN will be delayed for another 60 days.</i></p>

Exhibit A – Status of Implementing Prior Audit Recommendations

Recommendation No. 6	
<p>Work with HUD to pursue and implement computer matching using IRS and SSA income data to detect and prevent the payment of excessive rental subsidies in those States where State wage matching cannot be implemented. If matching with IRS and SSA cannot be implemented, develop and implement an alternative method to detect and prevent errors.</p>	
RHS agreed to actions	Final Action Status
<p>Date of Management Decision February 12, 1999.</p> <p>The agency will initiate contacts with HUD, IRS, and SSA by April 30, 1999. The agency will use best efforts to initiate development efforts to implement IRS and SSA matching by September 1, 1999, if legally permissible. Alternatively, the agency will use best efforts to initiate development efforts to implement alternative methods to detect and prevent errors by September 1, 1999.</p>	<p>OPEN – As of March 31, 2004 - Interim Report of Unresolved RD Audits.</p> <p>RHS has not implemented the agreed to action.</p> <p>RHS had not contacted HUD, IRS, or SSA since the Evaluation Report was released. RHS officials told us they had contacted IRS back in 1996 and 1997 when they were working on the draft bill to obtain wage matching but not since the evaluation report was released. HUD got legislation passed in 1993 that gave it authority to obtain wage data from State agencies, IRS, and SSA through wage matches.</p> <p>For the March 31, 2004, interim report, for inclusion in the Secretary's Annual Report on Performance and Accountability, the agency stated that:</p> <p>“The MFH staff conducted meetings and held a teleconference the week of December 15, 2003, with HHS to discuss the involved database. Estimated completion date for this project is June 2004.”</p> <p>On January 23, 2004, Congress passed legislation providing HUD the authority to obtain access to HHS’ databases. HUD plans to use the information for tenant certification purposes. HHS child support division maintains comprehensive databases of employment information for individuals, including the new hire database and State Department of Labor wage database. The databases gather income and employment information for individuals on a national basis. Access to HHS databases is legally restricted and legislation is needed to provide RHS access to the information.</p> <p>RHS no longer plans to pursue working with HUD to implement computer matching with IRS and SSA income data.</p>

Exhibit B – State Wage and Benefit Matching Agreements

STATE	FY 2003		Matching Agreement	Matching Impediment	Actively Matching	Disclosure Allowed
	Number of RA Units	Amount of RA Paid				
AK	769	\$3,355,227	YES	N/A	NO	NO
AL	8,093	22,565,688	YES	N/A	NO	YES
AR	6,266	16,276,582	NO	B	N/A	N/A
AZ	3,053	9,542,014	YES	N/A	YES	YES
CA	14,155	50,324,371	YES	N/A	YES	NO
CO	2,653	8,153,715	YES	N/A	YES	NO
CT/MA	1,609	3,852,782	NO	A	N/A	N/A
DE	1,244	4,451,847	YES	N/A	YES	NO
FL	10,890	26,164,885	YES	N/A	YES	YES
GA	8,158	18,161,335	YES	N/A	YES	YES
HI	648	3,209,129	YES	N/A	NO	NO
IA	8,309	7,217,746	YES	N/A	YES	NO
ID	3,841	11,876,214	YES	N/A	YES	YES
IL	7,307	17,244,392	YES	N/A	YES	NO
IN	7,831	17,456,274	YES	N/A	NO	NO
KS	3,769	7,625,681	YES	N/A	YES	NO
KY	6,324	13,525,637	NO	D	N/A	N/A
LA	7,362	22,112,440	YES	N/A	YES	NO
MA	1,521	5,353,948	NO	B	N/A	N/A
MD/DE	3,006	9,919,434	YES	N/A	YES	NO
ME	5,804	19,795,132	YES	N/A	YES	NO
MI	8,981	21,474,334	NO	B	N/A	N/A
MN	6,502	13,668,431	YES	N/A	NO	NO
MO	8,887	14,180,601	YES	N/A	YES	NO
MS	8,715	27,887,251	NO	A	N/A	N/A
MT	1,929	4,368,535	NO	A	N/A	N/A

- A - RHS SO DID NOT CONTACT STATE DOL ABOUT AN AGREEMENT
- B - STATE LAW PROHIBITED AGREEMENT
- C - MATCHING AGREEMENT EXPIRED
- D - RHS SO COULD NOT REACH ACCEPTABLE AGREEMENT WITH STATE

Exhibit B – State Wage and Benefit Matching Agreements

STATE	FY 2003		Matching Agreement	Matching Impediment	Actively Matching	Disclosure Allowed
	Number of RA Units	Amount of RA Paid				
NC	12,886	\$38,830,764	NO	C	N/A	N/A
ND	2,276	4,124,662	NO	B	N/A	N/A
NE	2,605	5,887,577	YES	N/A	YES	NO
NH/VT	1,792	6,329,866	NO	A	N/A	N/A
NJ	2,012	6,664,641	YES	N/A	YES	NO
NM	3,007	10,335,438	NO	A	N/A	N/A
NV	1,679	6,791,913	YES	N/A	NO	NO
NY	5,316	14,323,871	NO	A	N/A	N/A
OH	8,643	17,577,833	NO	B	N/A	N/A
OK	5,084	14,126,744	NO	A	N/A	N/A
OR	4,356	10,707,249	YES	N/A	NO	NO
PA	6,825	19,067,523	NO	D	N/A	N/A
PR	4,389	15,974,537	NO	A	N/A	N/A
RI/MA	378	1,102,724	NO	B	N/A	N/A
SC	5,826	18,091,086	NO	A	N/A	N/A
SD	4,559	10,841,620	YES	N/A	YES	NO
TN	6,380	15,107,142	YES	N/A	NO	NO
TX	14,460	34,416,158	YES	N/A	YES	NO
UT	1,672	5,088,261	YES	N/A	YES	NO
VA	6,114	15,926,333	YES	N/A	YES	NO
VI/FL	447	3,804,062	NO	D	N/A	N/A
VT	1,141	3,907,549	NO	A	N/A	N/A
WA	6,288	17,939,681	NO	A	N/A	N/A
WI	6,671	13,496,105	YES	N/A	YES	YES
WV	4,253	9,872,379	YES	N/A	YES	NO
WY	1,229	2,921,995	YES	N/A	YES	NO
			YES	NO		
TOTAL	267,614	\$703,021,338	31	21	23	8
					YES	NO
					6	25

- A - RHS SO DID NOT CONTACT STATE DOL ABOUT AN AGREEMENT
- B - STATE LAW PROHIBITED AGREEMENT
- C - MATCHING AGREEMENT EXPIRED
- D - RHS SO COULD NOT REACH ACCEPTABLE AGREEMENT WITH STATE

Exhibit C – Agency Response

Exhibit C – Page 1 of 2



United States Department of Agriculture
Rural Development

TO: John C. Purcell
Director
Financial Management Division

JAN 28 2005

FROM: Jackie J. Gleason
Deputy Administrator
Multi-Family Housing

SUBJECT: Audit Report 04099-339-AT
Rural Housing Service Subsidy Payment Accuracy
in Multi-Family Housing Program

This memorandum is to request management decisions for the subject Office of Inspector General (OIG) audit report.

Recommendation No. 1 - Implement the 1999 OIG recommendations by (1) including the recommended controls into regulations and MFH program handbooks and (2) ensuring that all State Offices implement the agreed-upon actions.

Agency Response – The Agency is in agreement with the recommendation and we are in the process of issuing two Administrative Notices (ANs) regarding Wage Matching and Verification of Tenant Incomes. Attached are copies of the draft ANs. The Agency is also revising the 3560 handbooks to comply with the 1999 OIG recommendations.

Timeframe - February 28, 2005

Recommendation No. 2 - Draft and submit a bill to Congress that (a) provides RHS access to HHS, IRS, SSA, and DOL databases similar to the authority HUD has and (b) allows RHS to share the information with apartment managers.

Agency Response - The Agency will meet with LAPIS to discuss drafting and submitting a bill to Congress to provide RHS access to HHS, IRS, SSA and DOL databases similar to the authority that HUD currently has. At this time, we will attempt to include the provision to allow RHS to share information obtained from HHS, IRS, SSA and DOL databases; however, there are indications that obtaining the latter may not be possible. Therefore, we request that, if privacy issues arise, the Agency may request this part of the recommendation to be reevaluated at a later point. This issue was discussed with OIG during the exit conference held on December 13, 2004.

Timeframe - September 30, 2005

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Exhibit C – Agency Response

2

Recommendation No. 3 - Assist States to obtain a matching agreement with their respective State agency responsible for collecting wage and benefit information (normally the State DOL Office) that includes authority to provide apartment managers with the income information.

Agency Response - The Agency is in the process of reissuing the Wage Matching AN, of which a draft is attached. This AN requires States to report quarterly to the National Office regarding any problems related to obtaining an agreement with their State agency responsible for collecting wage and benefit information.

If the Agency is successful in achieving Recommendation No. 2, this recommendation will no longer be applicable. Therefore, the Agency requests that this Recommendation be deleted if Recommendation No. 2 is implemented.

Timeframe - September 30, 2005

Recommendation No. 4 - Implement procedures that require tenants, as a condition of eligibility for rental subsidies, to sign consent forms to release matching information from the State DOL's to RHS and apartment managers.

Agency Response – The Agency will add release language to the tenant certification to consent to release of wage matching information to RHS and apartment managers as a condition of eligibility.

Timeframe – February 28, 2005

Recommendation No. 5 - Develop the systems and policies necessary to establish and account for claims arising from overpayments of RA and IC, and to collect and manage them in accordance with Federal Claims Collection Standards, the DCIA of 1996 and OMB Circular A-129.

Agency Response – A Request for Alteration (RFA) for an enhancement to the information systems will be submitted to the IT staff to establish and account for claims arising from overpayments of RA and IC.

Timeframe – April 30, 2005

If you have any questions, please contact Stephanie White at 720-1615 or Janet Stouder at 720-9728.

Attachments

Informational copies of this report have been distributed to:

Administrator, RHS (4)

THROUGH: Agency Liaison Officer

Government Accountability Office (1)

Office of Management and Budget (1)

Office of the Chief Financial Officer (1)

Director, Planning and Accountability Division