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Midwest Region

Audit Report

Controls over Multi-Family Housing Funds Provided for Hurricane Relief Efforts

Report No. 04601-0013-CH
September 2006



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



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REPLY TO

ATTN OF: 04601-0013-CH

TO: Russell T. Davis
Administrator
Rural Housing Service

THROUGH: John Dunsmuir
Acting Director
Financial Management Division

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Controls Over Multi-Family Housing Funds Provided for Hurricane Relief Efforts

This report presents the results of our audit of hurricane relief efforts by the Rural Housing Service. Our audit evaluated the agency's systems and processes for ensuring the accountability of multi-family housing assistance earmarked for disaster relief.

The agency response to the official draft report is included in exhibit B, with excerpts and the Office of Inspector General's position incorporated into the Findings and Recommendations section of the report. Based on the response, we have reached management decisions on Recommendations 1, 2, 4, 5, 6, 7, 9, 10 and 12. Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer.

Management decisions have not been reached on Recommendations 3, 8, 11, 13 and 14. The Findings and Recommendations section of this report includes a description of the information needed to reach management decisions for these recommendations.

In accordance with Departmental Regulation 1720-1, please provide a reply within 60 days which includes the timeframes for completing the corrective actions. Please note that the regulation requires that management decision be reached on all recommendations within a maximum of 6 months from report issuance, and final action be taken within 1 year of each management decision.

We appreciate the courtesies and cooperation extended to us by your staff.

Executive Summary

Results in Brief

The cumulative impact of hurricanes Katrina and Rita is considered by many to be the worst natural disaster in U.S. history. The aftermath of those storms left thousands of individuals and families homeless. Rural Development and Rural Housing Service (RHS) officials, in response to the disaster, immediately mobilized agency resources to identify vacant Rural Rental Housing (RRH) Program apartment units across the nation, and allocate emergency rental assistance for those units. Within a few weeks of the storms, almost 8,000 victims had been placed into about 2,600 RRH units in 32 States. In total, agency officials placed nearly 11,000 victims into over 4,100 RRH units in 45 States.

The agency's quick response in placing victims into RRH units won praise in the Administration's report, "*The Federal Response to Hurricane Katrina: Lessons Learned*." However, in focusing on quickly placing victims into RRH units, agency officials overlooked some basic management controls needed to ensure that the appropriate amount of housing assistance was provided to victims, and that only victims received assistance. Based on discussions with disaster victims, we concluded that much of the \$2.6 million in emergency rental assistance (amount provided as of March 31, 2006) that RHS provided to disaster victims was unnecessary. (This amount may actually be higher because RHS' data system did not include all hurricane relief information.)

In the absence of any formal written emergency procedures to address a disaster of this magnitude, RHS officials provided guidance following the hurricanes in the form of five unnumbered letters, four of which were issued in September 2005. While this guidance generally answered immediate pressing questions for field staff, it did not address some major control issues. Thus, in light of the problems that occurred after the Gulf Coast disaster, and the likelihood that other disasters will occur in the future, agency officials should develop and implement controls before the next disaster to ensure that rental assistance is properly spent. For instance, they should develop policies and procedures to coordinate actions with other Federal agencies providing housing assistance to victims, such as the Federal Emergency Management Agency (FEMA) and the U.S. Department of Housing and Urban Development (HUD).

As was the case for many victims that we interviewed after this disaster, housing was all they needed. They generally did not need financial assistance to cover housing costs, as those costs were covered by FEMA through Transitional Housing Assistance. We found that over 44 percent of the disaster victims in our review (68 of 154) received housing assistance from more than one Federal agency. (The actual percentage is most likely higher as we generally relied on the truthfulness of victims to determine if they had received assistance from multiple Federal agencies.) Of the 68 victims, 63 received over \$86,000 in

assistance from RHS to cover the cost of residing in RRH units. (Five received assistance from only HUD and FEMA.) They also received over \$133,000 in housing assistance from other Federal agencies (most from FEMA) to cover the same rental costs. The coordination of actions with other Federal agencies providing similar assistance could prevent and detect duplicate payments to victims of future disasters.

We found that Rural Development's Multi-Family Housing Information System did not (1) identify the amount of rental assistance provided to individual victims, (2) record all disaster victims in the system, and (3) include a FEMA number for some victims. The primary reason for these problems was that owners had not provided accurate and complete information to RHS. Thus, RHS officials should improve the procedures for ensuring the accuracy and completeness of data in the system. This action will improve the integrity of the data in MFIS, and increase the likelihood of successful record matching with other Federal agencies.

RHS also provided unnecessary housing assistance to disaster victims who used other individuals' FEMA numbers. We identified 15 victims who obtained almost \$36,000 in housing assistance in this manner. Finally, five owners reclassified 85 tenants who had resided in the same RRH unit prior and subsequent to the hurricanes as disaster victims even though there was no change in their income or overall circumstances. Those victims received almost \$65,000 in rental assistance. RHS officials should develop procedures to address these problems in future disasters.

This review was conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of its examination of relief efforts provided by the Federal government in the aftermath of Hurricanes Katrina and Rita. As such, a copy of the report has been forwarded to the PCIE Homeland Security Roundtable which is coordinating Inspector General reviews of this important subject.

We kept appropriate agency officials aware of our observations and findings throughout the audit.

Recommendations In Brief

We recommend that RHS officials prepare for future catastrophic disasters by developing policy and procedures for coordinating actions related to multi-family housing with other Federal agencies. While RHS' role is not in the emergency housing area, it is likely that it and other Federal agencies will be asked to provide support in future disasters, both natural and man-made. Thus, while RHS may not be in a lead role, it can perform an important supporting role in housing displaced disaster victims. We also recommend that RHS officials improve the agency's information system, and related controls over the accuracy and completeness of data within the system.

Agency Response

In their response dated, September 20, 2006, agency officials generally agreed with the findings and recommendations contained in the report. Actions on some of the recommendations are underway while others will be. We have incorporated applicable portions of the response, along with our position, in the Findings and Recommendations section of this report. The agency's response is included in its entirety as exhibit B of the report.

OIG Position

We agree with the actions the agency has underway in response to our recommendations. The disaster, as mentioned in the response, was unprecedented. We have reached management decision on Recommendations 1, 2, 4, 5, 6, 7, 9, 10 and 12. We can reach management decision on Recommendations 3, 8, 11, 13 and 14 once the agency informs us of all proposed corrective actions and the timeframes when those actions will be completed.

Abbreviations Used in This Report

DHS	United States Department of Homeland Security
FEMA	Federal Emergency Management Agency
HUD	United States Department of Housing and Urban Development
LOPE	Letter of Priority Entitlement
MFIS	Multi-Family Housing Information System
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
PCIE	President's Council on Integrity and Efficiency
RRH	Rural Rental Housing
RHS	Rural Housing Service
THA	Transitional Housing Assistance
USDA	United States Department of Agriculture

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Background and Objectives

Background

The USDA Office of Inspector General (OIG) is participating in a Government-wide endeavor to assess agency relief efforts related to Hurricanes Katrina and Rita that hit the Gulf Coast region on August 29, 2005, and September 24, 2005, respectively. The U.S. Department of Homeland Security's (DHS) OIG is coordinating these activities, involving 19 Departments and their respective OIG, through the President's Council on Integrity and Efficiency (PCIE) Homeland Security Roundtable. Within the framework of the PCIE, we evaluated Rural Development's effort to assist disaster victims through the Rural Rental Housing (RRH) Program.

The RRH Program was established to provide decent, safe, sanitary, and affordable rental housing to low and moderate income persons living in rural areas. Rural Development, through the Rural Housing Service (RHS), administers the RRH Program through its national office in Washington, D.C., and its network of 47 State and 800 area and local offices. Although RHS finances RRH properties, each is managed by its owner or agent. Owners and management agents are responsible for complying with all applicable laws, regulations, and loan agreements of the RRH Program.

The cumulative impact of the hurricanes left thousands of individuals and families homeless. In response to the disaster, RHS identified vacant RRH Program apartment units across the nation, and solicited the assistance of owners to place disaster victims into those units. It also allocated almost \$17 million from its appropriated rental assistance funding to pay housing costs for up to six months for those victims. As of March 31, 2006, RHS reported that \$2.6 million in emergency rental assistance had been provided to disaster victims. Overall, RHS placed nearly 11,000 victims into over 4,100 apartments in 45 States.

In the absence of any formal written emergency disaster procedures, RHS officials issued a series of unnumbered letters providing emergency guidance to State directors, as follows:

- The first letter, dated September 1, 2005, authorized State directors to provide temporary transfers of rental assistance from properties made uninhabitable by Hurricane Katrina to properties in surrounding areas that had vacancies in habitable units. The guidance also instructed State offices to provide a Letter of Priority Entitlement (LOPE) to tenants that had previously resided in RRH properties, but were displaced by the disaster. The LOPE gave those individuals first priority for vacant RRH units.

- A second letter, dated September 12, 2005, provided specific guidance to State directors on the types of emergency rental assistance available to disaster victims, the procedures for requesting assistance, and the number of obligations available for each State. (The agency initially obligated funds for 3,000 units nationwide.) The letter also requested that State directors identify the number of units available for occupancy, and report the number of disaster victims that had been placed in their State.
- On September 14, 2005, RHS issued specific guidelines to follow when processing housing requests by disaster victims. The letter informed owners that they could accept documentation of registration with the Federal Emergency Management Agency (FEMA) in lieu of a LOPE or other documentation demonstrating the applicant resided in a Federally Declared Disaster Area. The letter also required that disaster victims submit a FEMA registration number or claim number within 30 days of occupancy in an RRH unit. In addition, the letter waived income verification requirements and allowed disaster victims to certify their own income for up to six months.

The letter also informed State directors that the Multi-Family Housing Information System (MFIS) had been enhanced to include specific information related to disaster victims. State directors were to request borrowers and management agents to provide the name, FEMA claim number, Social Security Number, and unit number for each disaster victim occupying an RRH unit. This information was to be input into MFIS to identify them as disaster victims.

- On September 20, 2005, RHS officials notified State directors that they had obligated rental assistance for an additional 7,000 units. (This was in addition to the 3,000 initially obligated on September 12, 2005.) The letter also authorized the use of RRH property funds to cover the cost of transportation for disaster victims from shelters and emergency centers to RRH properties.
- RHS issued another letter on January 3, 2006. The letter informed State directors that as of January 8, 2006, the agency was no longer accepting disaster victims into RRH units on an emergency basis. It also stated that there would be no extension to the 6-month term of emergency rental assistance (in cases of hardship it could be extended for two months), and it encouraged disaster victims to register with FEMA or HUD to obtain assistance. The letter also informed State directors that once disaster victims received Transitional Housing Assistance (THA) from FEMA, rental assistance provided by RHS for those units was to be cancelled. It further required that existing disaster victims were to disclose to borrowers the receipt of any THA

from FEMA. Owners, or their agents, were to ask disaster victims if they had received assistance from FEMA.

While RHS did not extend the 6-month term for emergency rental assistance, it did allow disaster victims to remain in RRH units. As of April 5, 2006, almost 10,500 evacuees were still residing in over 3,600 RRH units. Those victims electing to remain in RRH units must follow the normal eligibility requirements of the program. This includes the disclosure of income and assets, as well as other eligibility criteria.

Objectives

To evaluate RHS' systems and processes for ensuring the accountability of multi-family housing funds earmarked for disaster assistance.

Findings and Recommendations

Section 1 Policies to Prevent and Detect Unnecessary Payments

A significant number of disaster victims residing in RRH apartment units received overlapping housing assistance from RHS and other Federal agencies such as FEMA and HUD. Other victims provided false FEMA numbers to owners and management agents to obtain housing assistance. RHS did not have measures to prevent or detect these problems, such as procedures to coordinate actions with other Federal agencies both prior and subsequent to providing rental assistance to victims. Agency officials also did not ensure that victims had disclosed, either during the initial application stage or at a subsequent date, the receipt of housing assistance from other Federal agencies. Based on discussions with disaster victims, we concluded that much of the \$2.6 million in rental assistance (as of March 31, 2006) RHS provided to victims was unnecessary. (This amount may actually be higher because the agency's data system did not include all hurricane relief information.)

Officials from Rural Development and the Rural Housing Service (RHS) took immediate action after the disaster to identify vacant Rural Rental Housing (RRH) Program apartment units across the nation, and allocate rental assistance for those units. Ultimately, they placed nearly 11,000 victims into over 4,100 units in 45 States. The agency's quick response to place disaster victims into apartments also won praise in the Administration's report, "*The Federal Response to Hurricane Katrina: Lessons Learned*." In the absence of any formal written emergency procedures to address a disaster of this magnitude, RHS officials provided guidance following the hurricanes in the form of five unnumbered letters, four of which were issued in September 2005.

While the agency's actions deserve praise for placing victims into RRH units, they fell short of protecting the funds provided to those victims to pay for those units. We found that almost 44 percent of the disaster victims we interviewed (68 of 154) received housing assistance from more than one Federal agency. As of September 30, 2005, FEMA provided Transitional Housing Assistance (THA) to almost 90 percent of all victims of the Gulf Coast disaster who applied for aid.¹ Our audit did not identify such a high percentage because, most likely, victims feared that being truthful to us during interviews could result in serious consequences, such as criminal prosecution.

Of the 68 victims, 63 received assistance from RHS and other agencies while 5 received assistance only from FEMA and HUD, not RHS. The 63 victims received over \$86,000 in assistance from RHS to cover the cost of residing in RRH units. They also received over \$133,000 in assistance from other Federal

¹ DHS, OIG, Audit Report No. OIG-06-02, "A Performance Review of FEMA's Disaster Management Activities in Response to Hurricane Katrina," dated March 2006.

agencies (most was provided by FEMA) to cover the same rental costs. RHS also provided unnecessary housing assistance to disaster victims who used other individuals' FEMA numbers. We identified 15 victims who obtained almost \$36,000 in housing assistance in this manner. Further, two management agents accepted rent payments from disaster victims and from RHS or HUD (on behalf of the victims). One of the management agents wrongfully obtained almost \$34,000 in housing assistance.

The findings in this report describe the policy and procedures that, if implemented, could prevent and detect these problems during future disasters. Some of our recommendations may be challenging to implement. However, considering the large amounts dispersed during the chaotic times of any disaster, it is imperative that procedures are in place to ensure that funds are provided only to those who need them.

Finding 1

Coordination Needed with other Federal Agencies Before and After Providing Assistance

One course of action that RHS could take to prevent unnecessary rental assistance payments to victims of future disasters would be to coordinate with other Federal agencies before and after providing assistance. In the Gulf Coast disaster, FEMA officials stated that many victims applied for FEMA assistance immediately after the hurricanes. While RHS records indicate that disaster victims began moving into RRH units immediately after the disaster, RHS officials did not provide rental assistance payments until the end of September 2005. Thus, there was time for RHS officials to contact other Federal agencies, such as FEMA, before providing rental assistance to victims.

Coordination with other Federal agencies prior to providing assistance should prevent the extensive duplicate assistance that occurred after the Gulf Coast disaster. However, even with preventive measures, it is likely that some individuals will still receive housing assistance from multiple Federal agencies. Therefore, measures should be implemented to detect and recover unnecessary assistance provided to victims after disasters.

This type of coordination would require a computer matching agreement between RHS and other Federal agencies that provide housing assistance, such as HUD and FEMA. The development of a computer matching agreement is required by the Privacy Act and would need an investment in resources to create.² However, it could be effective for up to 18 months and should be easy to replicate at expiration. Matching agreements would likely provide the best

² The Computer Matching and Privacy Protection Act of 1988, an amendment to the Privacy Act of 1974 (5 U.S.C. 552a.)

outcome in preventing unnecessary payments of rental assistance and detecting duplicate assistance.

The Privacy Act requires that a computer matching agreement state the specific actions that will be performed, such as comparing applicants' names and addresses, and the agency responsible for performing the action. Thus, for a matching agreement involving RHS and FEMA, for example, RHS could send victim information to FEMA, which could compare the information to its records. If FEMA was providing financial assistance to the victim, it could notify RHS, which would deny housing assistance to avoid duplicate payments.

Rural Development officials informed us that they contacted FEMA after the disaster to coordinate actions. However, according to those officials, they were unsuccessful in coordinating actions because of personnel changes at FEMA. An agency official stated that each time progress was made to coordinate actions, another FEMA official would be placed in charge of that area. As a result, no substantial progress was made to coordinate actions.

During our audit, we worked with other Inspector General offices, and within the framework of the PCIE's Housing Work Group, and attempted to perform computer matches to identify individuals who received duplicate assistance for housing. Unfortunately, since there were no existing computer matching agreements with other Federal agencies to share and match data, we were unable to perform this action, or create the agreements in time to assist us for the Gulf Coast disaster.

Despite the fact that we were unable to conduct a computerized match of recipient data with other Federal agencies after the Gulf Coast disaster, it is, in our view, still the most efficient method to identify duplicate assistance. The alternative would be to question victims, site managers, and management agents, as we did, to expose duplicate payments. However, while this allowed us to determine that unnecessary assistance had been provided to victims, it was a time consuming and arduous process that would be too costly for RHS to implement.

The accuracy and completeness of agency records is essential to identifying individuals who received duplicate housing assistance. As a result, RHS would need to modify its management information system to capture specific-disaster related information from victims. (See Finding No. 3.) We noted during our audit that the agency's process and procedures for inputting data into the Multi-Family Housing Information System did not ensure the accuracy and completeness of information. We also noted weaknesses in the system itself, which need to be corrected to ensure that accurate data is shared with other housing agencies.

Disasters, both natural and man-made, will continue to occur in the future. It is likely that when they happen, RHS will be asked to provide housing assistance again and probably to coordinate with other Federal housing agencies. RHS would be best served if it was proactive and prepared to prevent the duplication of Federal assistance in future occurrences. The focus of better coordination among Federal agencies assisting disaster victims was already highlighted in a report issued to the President entitled “*The Federal Response to Hurricane Katrina: Lessons Learned.*” That report noted a lack of interagency coordination needed to place victims into available housing in a timely manner. While this criticism was not directed to RHS, it illustrates that coordination between Federal housing agencies, including the payment of financial assistance, will be a critical issue in future disasters.

Recommendation 1

Develop computer matching agreements with other Federal agencies providing housing assistance to check applicant information before and after providing rental assistance to disaster victims to prevent and detect duplicate payments.

Agency Response

Rural Development officials stated they are actively engaged in discussions with FEMA and HUD to develop working agreements that would include provisions of the recommendation and more. These officials stated their commitment is to achieve these actions within the next year.

OIG Position

We accept management decision for this recommendation. Final action can be achieved when the agreements are completed and a copy is provided to the Office of the Chief Financial Officer (OCFO).

Finding 2**Victims Need to be Queried about Other Sources of Federal Assistance**

The owners of RRH properties, and their agents, are responsible for processing tenants into RHS financed and subsidized apartments. The owners we questioned after the Gulf Coast disaster had signed victims up for rental assistance offered by RHS without asking those victims if they had registered for, or received, housing assistance from FEMA or HUD. RHS guidance issued immediately after the disaster instructed owners to provide rental assistance to victims, but was silent regarding assistance received by other Federal agencies. RHS officials did not notify owners to be aware that some tenants were receiving FEMA THA until January 2006. RHS' guidance was to withdraw agency rental assistance for any victim who was receiving both subsidies.

RHS officials need to develop procedures for questioning victims about housing assistance applied for, or provided by, other Federal agencies. They should also revise agency policy for recognizing other sources of Federal housing assistance. For instance, on Form 3560-8, "Tenant Certification," rather than recognizing such assistance as exempt income, it could be included as rental assistance from another Federal agency. These changes, along with monitoring the application activities of RRH property owners, would provide the agency with greater assurance that victims received only the amount of rental assistance necessary to cover their shelter costs.

RHS National officials informed us that the agency provided disaster guidance to owners through a series of unnumbered letters, four of which were issued in September 2005. They acknowledged that the letters had not required owners to question victims about housing assistance they received from other Federal agencies, or how to report such assistance on Form RD 3560-8.

We examined the letters issued by RHS immediately after the hurricanes and identified one, issued on September 14, 2005, that provided guidance for processing housing requests by disaster victims. That letter informed owners that they could accept documentation of registration with FEMA in lieu of a LOPE or other documentation demonstrating the applicant resided in a Federally Declared Disaster Area. It also required that disaster victims submit a FEMA registration number or claim number within 30 days of occupancy in an RRH unit.

The letter, as well as the others issued in September 2005, never mentioned FEMA THA. Further, guidance provided in the September 14, 2005 letter, addressed the process of placing victims into RRH units rather than covering the cost of those units. It did state that owners were to follow standard income verification procedures for determining a victim's eligibility. In addition, it

waived income verification requirements and allowed disaster victims to self-certify income for up to six months.

Since RHS officials generally required that owners use standard RRH Program procedures to place victims in RRH units, we evaluated those procedures to identify conditions that contributed to the unnecessary payment of rental assistance to some victims. The primary flaw in the procedures was that they did not require owners to question victims about other Federal housing assistance when placing them into RRH units. Further, there were no provisions to require victims to report any receipt of other Federal housing assistance after being placed into an RRH unit.

Another issue we noted was that owners exclusively used income calculations to determine victim eligibility to receive agency assistance. We agree that disclosure of income is important because some victims were still working or had other sources of income, such as Social Security benefits, which made them ineligible for, or reduced their need for, rental assistance from RHS. However, housing assistance provided by other Federal agencies should also be used to determine eligibility.

One suggestion for RHS to better identify, record, and track other sources of Federal disaster assistance would be to use the available data fields on Form RD 3560-8. We examined Forms RD 3560-8 completed by victims to determine if owners were following prescribed agency guidelines. We noted that the form included a section (Part II -Tenant Household Information) where owners were to insert a subsidy code, which provides the rental payment method of the tenant. One of the options available to owners is code 4, "Other Public RA." The instructions for Form RD 3560-8 define this code as rental assistance from any Federal, State or local public agency, other than RHS or HUD. However, according to an RHS National official, code 4 was not created to identify housing assistance such as FEMA THA. That same official informed us that FEMA THA would be recognized as "Household Has Exempt Income" within Part IV of Form 3560-8.

This position was stated in RHS' January 6, 2006, unnumbered letter, which informed owners that FEMA THA was to be treated as exempted income on Form RD 3560-8. In our view, however, code 4 appears to be appropriate for circumstances such as the Gulf Coast disaster and should be used in this manner for future disasters. This change, along with the others presented in the finding, are examples that could be used to develop specific guidance for future disasters.

RHS officials should also establish procedures to monitor the actions of owners in future disasters. As stated in other findings within this report, owners sometimes misinterpreted or disregarded agency policies and guidance. However, in light of the probable strain on agency resources during another

disaster, the monitoring procedures would not need to verify all aspects of owner and victim compliance with agency requirements. Instead, monitoring activities should provide sufficient assurance of compliance through limited tests of owner and victim actions.

Recommendation 2

Develop specific guidance for owners to question disaster victims regarding the disclosure and reporting of housing assistance provided by other Federal agencies.

Agency Response

RHS will establish formal procedures for future disasters that provide guidelines for housing evacuees in multi-family housing units and procedures to determine if the evacuees are entitled to rental assistance.

OIG Position

We accept management decision. Final action can be reached by advising OCFO that this action is part of agency procedures.

Recommendation 3

Establish procedures to monitor owner and victim compliance with agency requirements in future disasters.

Agency Response

To the extent that any disaster procedure may differ from the agency's standard asset management and servicing monitoring, we will include procedures to monitor compliance.

OIG Position

We can reach management decision once agency officials advise us that monitoring procedures for disasters will be implemented and when they expect to complete the corrective action. We understand that the agency has monitoring procedures and a regular schedule for reviews. However, no reviews were performed during the Gulf Coast disaster.

Finding 3

Data System Needs Modification

Immediately following the Gulf Coast disaster, agency officials created data fields in the Multi-Family Housing Information System (MFIS) to identify disaster victims. They also provided guidance to field staff and owners about gathering disaster-related information from victims and transmitting it into MFIS. However, our review found that the guidance was insufficient in some areas and not followed in others. Consequently, some disaster information in MFIS was incorrect and the system did not reflect the actual number of evacuees residing in RRH units.

To achieve meaningful results from data sharing with other Federal agencies, RHS officials need to modify the MFIS, and improve the process for collecting and classifying disaster-related data in the system. The following sections describe our findings as they related to incorrect disaster information in MFIS. The correction of these issues would improve the accuracy of data sharing with other Federal agencies.

Disaster Designation Coding

On September 14, 2005, RHS issued guidance to owners and agency field staff on the specific information that they were to input into MFIS to identify tenants as disaster victims. The guidance instructed owners to use either a “KAT” code (signifying a Hurricane Katrina victim) or an “RIT” code (signifying a Hurricane Rita victim) on tenant certification forms for each tenant to be designated as a disaster victim. The owners were to electronically transmit the tenant certification forms to MFIS.

To verify that owners had complied with these instructions, we visited RRH properties in Mississippi and Louisiana to meet with disaster victims placed into RRH units. At those properties, we questioned site managers, and tenants who had been coded as victims in MFIS, about other tenants who had been displaced by the hurricanes. The site managers and tenants informed us of other individuals that had been displaced by the hurricanes and were residing in RRH units.

We checked the name of each individual to MFIS records and identified 39 tenants not listed in the system as disaster victims. To determine if these tenants were disaster victims, we either questioned the individuals or the site managers. We found that they were, in fact, victims and should have been coded as such in MFIS.

After examining project worksheets for the 39 victims not listed in MFIS, we found that eight owners had not used a hurricane designation (either “KAT” or RIT”) for 25 evacuees. Some owners gave oversight as the reason for not coding tenants as victims on project worksheets. However, others had just made mistakes. RHS officials were not aware of these cases, and had no mechanism to detect instances where victims were not coded in MFIS.

For the other 14 victims (of the 39), six had the disaster designation, but in the wrong place on the project worksheets. Therefore, MFIS did not recognize the tenants as victims. The remaining eight included a designation code on the worksheets, but were not identified as victims in MFIS. We discussed this problem with RHS officials who stated that they rely on owners to input data into MFIS and they do not check the accuracy of their work. Also, they could not explain why some victims who had been coded properly were not identified in the system.

Based on our findings while visiting RRH properties, we concluded that the number of tenants not coded as Gulf Coast disaster victims in MFIS is likely in the hundreds. We also noted that the Under Secretary for Rural Development regularly reported a higher number of victims in weekly summaries than the number of victims listed in MFIS. For example, on January 18, 2006, the Under Secretary reported that the agency had placed victims into almost 3,600 RRH units. (Those numbers were gathered by State officials independently of MFIS.) At the same time, MFIS showed that disaster victims were residing in about 3,000 units. In our view, the Under Secretary’s reports also indicate that MFIS was underreporting the number of victims in RRH units.

One option to correct these errors would be to identify all vacant RRH units from just prior to a disaster and require owners to provide hard copies of the tenant certification forms that were used as input into MFIS. Agency officials would then be able to verify the accuracy of submitted data for those units after the disaster. In the case of the Gulf Coast disaster, this would have involved verification of data for over 4,100 households. (The total number of households placed into RRH units as a result of the disaster.) Another option would involve tests of selected records from the universe of disaster victims. This option would provide some, but not absolute, assurance of accuracy.

Missing and Incorrect FEMA Numbers

RHS’ September 14, 2005, unnumbered letter instructed State directors to obtain FEMA numbers from owners for all disaster victims within 30 days of occupying an RRH unit. The owners were to obtain FEMA numbers and forward them to agency field offices for input into MFIS. Our audit disclosed missing and erroneous FEMA numbers in MFIS. In fact, we found that almost 30 percent of the nearly 3,000 households in MFIS either did not include a FEMA number, or the listed number was incorrect. We also identified, during

interviews with victims, 10 instances where FEMA documents differed from the number input into MFIS.

An agency official could not explain the discrepancies, other than they were mistakes. After discussions with owners, their agents, and agency field staff, we concluded that missing numbers were largely the result of owners not providing them to the agency, and the agency not following up to obtain them. As for the incorrect numbers, most are likely the result of input errors by agency field staff. Some errors may have been from owners forwarding the wrong FEMA number.

Unless RHS accurately secures a common identifying number, such as the one assigned by FEMA, it will not be able to effectively share data with other Federal agencies after future disasters. To ensure that it properly and accurately obtains common identifying numbers, RHS officials should require FEMA documentation to ensure the legitimacy of the number and the individual to whom it is assigned. This documentation should also be used to input the numbers. Further, agency officials should require second party reviews of input data before it is transmitted to MFIS. This would ensure that data was input accurately in the system.

MFIS should also be modified to detect missing data and prevent inaccurate data from being input into the system for records designated as victims. Further, edit checks could verify that the correct number of digits have been input, and that the proper sequence of numbers are in place.

Data Analysis

RHS does not analyze data in MFIS for anomalies that indicate problems, such as checking for duplicate FEMA numbers. However, the implementation of reviews and analyses of data imbedded in MFIS may detect abnormalities that would improve the information used in data sharing with other Federal agencies. For instance, we analyzed MFIS data and found 36 instances (18 pairs) where different victims used the same FEMA numbers.

Our examination of victim records for those cases, and discussions with management agents, disclosed only one instance where the use of the same FEMA number for two RRH units was legitimate. The other 17 pairs involved cases where at least one evacuee had not provided an accurate FEMA number. (Due to Privacy Act issues, we could not identify the legitimate owner of the numbers with FEMA.) The modification of MFIS to reject a record when a previously used FEMA number is input into the system would correct this problem. Overall, the use of system reviews and analyses might identify other weaknesses that, when corrected, would improve data in MFIS.

Rental Assistance and Household Data

We found that MFIS could not identify the amount of rental assistance provided to an individual tenant. Instead, it provides the total amount for an individual RRH property. In order to identify amounts provided to individual tenants, and disaster victims, agency officials must review project worksheets for each RRH property. The fact that this information is not contained in MFIS would be detrimental for sharing data because RHS would not be certain that an individual victim actually received housing assistance. The disaster-related information contained in MFIS must be used in any data sharing actions with other Federal agencies. Thus, to achieve meaningful results from those activities, RHS officials will need to modify MFIS, and improve the process for collecting and classifying disaster-related data in the system.

Recommendation 4

Develop and implement procedures to verify data input into MFIS by owners.

Agency Response

RHS will develop and implement procedures to ensure that accurate data is provided by owners.

OIG Position

We accept management decision. Final action can be reached by advising OCFO that this action is part of agency procedures.

Recommendation 5

Require owners to provide FEMA documentation to ensure the legitimacy of the number and the individual to whom it is assigned.

Agency Response

RHS will develop and implement procedures to ensure that accurate data is provided by owners.

OIG Position

We accept management decision. Final action can be reached by advising OCFO that this action is part of agency procedures.

Recommendation 6

Require second party reviews of FEMA data input into MFIS.

Agency Response

RHS will undertake random sampling of evacuee files to check the accuracy of FEMA data input to MFIS.

OIG Position

We accept management decision. Final action can be reached by advising OCFO that this action is part of agency procedures.

Recommendation 7

Establish system controls, such as edit checks, within MFIS to detect missing data and prevent inaccurate data from being inputted into the system.

Agency Response

RHS will develop and implement procedures to detect duplicate and missing elements in MFIS.

OIG Position

We accept management decision. Final action can be reached by advising OCFO that this action is part of agency procedures.

Recommendation 8

Develop and implement procedures to analyze data contained within MFIS.

Agency Response

RHS' response did not address this recommendation.

OIG Position

Before we can reach management decision, we need information from agency officials on actions to analyze data in MFIS to detect questionable transactions, such as duplicate FEMA numbers.

Recommendation 9

Modify MFIS to reflect rental assistance provided to individual disaster victims.

Agency Response

RHS will modify MFIS to provide a comprehensive report on assistance provided to evacuees.

OIG Position

We accept management decision. Final action can be reached by advising OCFO that this action is part of agency procedures.

Section 2 Assistance for Existing Tenants

Finding 4 Existing Tenants Improperly Received Emergency Disaster Assistance

Four owners in Louisiana and one in Mississippi had reclassified 85 tenants who resided in their RRH units prior to the hurricanes as disaster victims even though there was no change in their income or overall circumstances. The tenants in both States were not receiving rental assistance prior to the hurricanes. The 85 tenants from Louisiana and Mississippi received almost \$65,000 in assistance after the disaster.

RHS had no procedures at the time of the Gulf Coast disaster to address this issue or to monitor program activities to identify this type of problem. We identified this problem during initial interviews with 16 tenants in Louisiana who had been classified as disaster victims in MFIS, but who had lived in their RRH unit prior to the disaster.³ Of these 16 tenants, 13 informed us that there was no change in their financial condition as a result of the disaster. Many were on fixed incomes, such as Social Security. Those 13 tenants had received almost \$17,000 in rental assistance after being reclassified as victims.

Subsequently, we analyzed MFIS data for Louisiana, which listed the RRH units occupied by disaster victims. Our analysis identified RRH properties with an unusually high number of victims residing in them, including seven RRH properties where more than 70 percent of the tenants were classified as hurricane victims.⁴

Based on our analysis, we visited three additional RRH properties in Louisiana and interviewed another 34³ tenants (of 102 residing in the properties) classified as disaster victims by owners. (68 tenants were not home at the time of our visits.) Of these tenants, 33 stated that they had resided in their RRH units prior to the disaster.⁵ Only 3 of the 33 tenants had experienced a change of income and deserved to be classified as disaster victims. The remaining 30 tenants had no change in income or other circumstances after the disaster and, thus, in our view, had been improperly reclassified by the owners. Most of the tenants we interviewed said they had evacuated the area just prior to the hurricane and returned to their apartments after a few days. These 30 tenants received over \$17,000 in unnecessary rental assistance.

Officials from the Mississippi State Office informed us that one owner of three properties received rental assistance for pre-existing tenants who experienced a change in income due to the hurricanes. However, our analysis of project

³ These tenants are included in the 154 victims we interviewed during our review.

⁴ With more than 12 units.

⁵ One was an actual evacuee.

worksheets for those 3 properties disclosed that 42 had received assistance totaling over \$31,000 without experiencing a change in income.

We questioned the five owners who had reclassified tenants as victims. The management agents for two owners stated that Rural Development State officials had informed them that any tenant who provided a FEMA number was eligible for rental assistance. Another management agent acknowledged that existing tenants had been reclassified as victims for three other properties it managed because prior tenants were to be treated as hurricane victims. In our view, the owners and management agents did not understand the guidance because the heads of households for all residents in the Federally Declared Disaster Area were eligible to register for a FEMA number. A FEMA number, by itself, did not indicate that a person was an evacuee or in need of housing assistance, it merely indicated that the person resided in a disaster area.

Another owner told us that rental assistance was for tenants who had lost their jobs or had a change in income resulting from the storm. We contacted the management company repeatedly to determine why they had classified tenants as victims even though there was no change in income for those tenants. However, we were unable to obtain a response from the management company. The last owner stated that it was her understanding that RHS had provided rental assistance for all tenants. Based on their statements, we examined the guidance disseminated by RHS through the four unnumbered letters issued in September 2005. We found that RHS' guidance did not define a disaster victim and, in contrast to owner statements, there was no instruction to classify tenants with FEMA numbers as disaster victims who were eligible for rental assistance.

The Louisiana Rural Development State Office issued guidance to owners after the disaster, based on discussions with national officials, about the classification of existing tenants as victims. That guidance stated "...those existing tenants who remained housed in RD properties, but are considered displaced due to loss of employment or other circumstances are eligible to receive emergency rental assistance." This guidance clearly stated the conditions under which an existing tenant could be reclassified as a disaster victim for the RRH Program. The owners and management agents who misclassified existing tenants in this State either misinterpreted, misunderstood, or disregarded the guidance.

To prevent this problem from occurring in future disasters, RHS should develop formal disaster guidance that clearly defines a disaster victim for RRH Program purposes, and the circumstances that would allow an existing tenant to be reclassified as a victim. The guidance issued by the Louisiana Rural Development State Office provides a good foundation for this policy. In addition, RHS should develop procedures to monitor owner and management agent activities in this area. As part of monitoring, RHS could perform analysis to identify instances where (1) prior vacancy information is not commensurate

with the number of victims residing at a property or (2) a property is housing an unusually high number of victims.

We also noted that all existing tenants who were reclassified as victims had an effective date in RHS' system that was prior to the hurricanes. We learned that this date is, at the earliest, the first day of the month when a tenant moves into an RRH property. In our view, this could be used to identify tenants residing at a property prior to a disaster. RHS could implement system controls that would not allow owners and management agents to classify existing tenants as victims without RHS' approval. Thus, RHS could ensure that only existing tenants with extenuating circumstances, such as job loss, would be classified as victims.

Recommendation 10

Develop guidance that defines a disaster victim for the RRH Program and the circumstances that would allow an existing tenant to be reclassified as a victim.

Agency Response

RHS will establish formal procedures for future disasters that provide the guidelines for housing evacuees in Rural Development-financed multi-family housing units. These guidelines will include the definition of a disaster victim.

OIG Position

We accept management decision. Final action can be reached by advising OCFO that this action is part of agency procedures.

Recommendation 11

Develop procedures to monitor owner and management agent activities during a disaster, and to analyze and investigate instances where unusually high numbers of tenants are classified as victims.

Agency Response

To the extent that any disaster procedure may differ from the agency's standard asset management and service monitoring, we will include procedures to monitor compliance.

OIG Position

We can reach management decision once agency officials advise us that monitoring procedures for disasters will be implemented and when they expect to complete the corrective action. We understand that the agency has monitoring procedures and a regular schedule for reviews. However, no reviews were performed during the Gulf Coast disaster.

Section 3 Compliance with Program Requirements

Finding 5 Owners Had Not Applied Disaster Procedures in a Consistent Manner

We found that one owner had required victims to pay rent even though RHS was providing rental assistance on their behalf. Many victims were not aware that USDA was providing assistance and, therefore, did not question the owner. The owner stated that their interpretation of RHS guidance was to collect rent payments from victims. RHS officials did not follow up to ensure that owners had complied with agency policy. As a result, some victims vacated their RRH units, under threat of eviction. Others paid rent to the owner even though RHS was providing rental assistance to the owner on their behalf. The 17 victims we interviewed had paid over \$20,000 to the owner. RHS had also paid the owner almost \$34,000 in rental assistance for those victims.

In the absence of any formal written emergency disaster procedures to address a disaster of this magnitude, RHS officials provided guidance following the hurricanes in the form of five unnumbered letters, four of which were issued in September 2005. The guidance was directed at Rural Development State officials, but was also intended for owners and management agents. The guidance provided procedures for agency officials, as well as owners, to follow to facilitate the quick placement of disaster victims into vacant RRH units. One letter, dated September 12, 2005, stated that "...emergency rental assistance had been made available to support occupancy by evacuees over a 6-month period."

According to RHS officials, the guidance meant that disaster victims were entitled to emergency rental assistance for a 6-month period beginning when they moved into an RRH unit. RHS officials issued another letter on January 3, 2006, to clarify the issue. That letter stated "...emergency rental assistance was for a 6-month period from the date the evacuee moved in."

We found, however, that even after the January 3, 2006, letter, one owner was informing victims that they had to pay rent before the 6-month period had expired under the pretext that rental assistance had lapsed for the units. (The earliest that rental assistance should have expired was February 28, 2006, six months after the Gulf Coast disaster.) While some owners may have still misunderstood the guidance, it appears that at least one owner simply chose to disregard the rules.

During our visits to RRH properties in late January 2006, we found victims who were concerned about being evicted the next day. They informed us that owners were requiring them to pay rent beginning February 1, 2006. Two victims at one property told us that they did not have sufficient funds to pay the rent and were planning to vacate their units. That owner had informed 17 victims, through signs posted at properties, that housing assistance would end on January

31, 2006. Some of those victims had moved into their units in November and December of 2005 and were entitled to receive assistance until April and May of 2006.

At two other properties we visited, victims had already moved from their units. A site manager at one property confirmed that it was due to the threat of eviction. We found that one owner had required at least 17 victims at four RRH properties to pay rent even though RHS was also providing rental assistance for those units. The 17 victims stated that they paid over \$20,000 in rent to the owner (five were able to provide receipts for the payments). Two victims stated that RHS provided assistance for only one month after the disaster. Most of these victims were unaware that they were entitled to rental assistance for six months.

Overall, we found that most owners had not informed victims that USDA was providing rental assistance on their behalf, and that it would expire after six months. In fact, only 35 of the 105 victims we interviewed were aware of it. (We did not ask this question for the 49 pre-existing tenants.) As demonstrated by our interviews, most victims either were not told, or did not remember being told, that USDA would be providing emergency housing assistance on their behalf.

On January 31, 2006, we notified the Acting Deputy Administrator of these events, and discussed the issues in more detail with the Director of Multi-Family Housing Portfolio Management, on February 2, 2006. We followed up these discussions with a Management Alert to the Administrator on February 13, 2006. In the alert, we recommended that RHS officials take immediate action to reaffirm agency policy regarding emergency rental assistance with all owners, and to ensure that victims had been properly notified, and understood, agency policy. Based on our alert, RHS National officials instructed field staff to contact all owners, management agents, and victims in the affected areas and inform them that emergency rental assistance was provided for six months after move in.

In addition to clearer guidance, RHS should take additional measures after future disasters to ensure that owners and management agents comply with agency instructions and provide appropriate assistance to victims. One measure would be to provide victims with a letter, or send one shortly after placement in an RRH unit, notifying them that USDA is providing housing assistance to owners on their behalf, and informing them of the duration of these benefits. The letter should also provide an agency number for victims to use if they have questions. FEMA provided a similar letter to victims who received THA.

RHS should also monitor the activities of owners and management agents to ensure they follow agency guidelines and rules. One way to do this would be to contact some victims. During our audit, we found no instances where agency officials had monitored owner activities after the disaster. One RHS official

stated that field staff was instructed during a conference call to provide owners, management agents, and housing victims with copies of the January 3, 2006, unnumbered letter. The official stated that to her knowledge, this had been done. However, the national office had not followed-up to verify that the letters had been sent or that victims were adequately informed about agency housing assistance policy.

We found that field staff simply provided owners with copies of the unnumbered letter and never verified compliance even though they received additional questions from owners who were confused about guidance in it. One management agent we questioned informed us that he had not notified victims because he was waiting for clearer guidance or until it was closer to the time when assistance would expire.

Recommendation 12

Establish formal procedures for future disasters that provide the guidelines for placing victims into RRH units and procedures to determine if they are entitled to rental assistance. The procedures should also include measures, such as sending a letter, to inform victims of the emergency assistance available to them.

Agency Response

RHS will establish procedures to determine if they are entitled to rental assistance. These guidelines will include the measures to inform evacuees of any Rural Development emergency assistance available to them.

OIG Position

We accept management decision. Final action can be reached by advising OCFO that this action is part of agency procedures.

Recommendation 13

Establish procedures to monitor the activities of owners and management agents after disasters.

Agency Response

To the extent that any disaster procedure may differ from the agency's standard asset management and servicing and monitoring, we will include procedures to monitor compliance.

OIG Position

We can reach management decision once agency officials advise us that monitoring procedures for disasters will be implemented and when they expect to complete the corrective action. We understand that the agency has monitoring procedures and a regular schedule for reviews. However, no reviews were performed during the Gulf Coast disaster.

Recommendation 14

Determine the total amount of improper rental assistance provided to the management agent, and require reimbursement of those funds.

Agency Response

RHS will follow up on this case and will seek reimbursement of any unauthorized assistance from the management company in the report.

OIG Position

We can reach management decision once this work is completed and we are advised of the results, including the need to recover any unauthorized assistance.

Scope and Methodology

We conducted our audit of RHS' activities related to the Gulf Coast hurricane disasters at its national office in Washington, D.C., the Mississippi Rural Development State Office, and at two area offices located in Mississippi. We also contacted officials at the Louisiana, Alabama and Texas Rural Development State offices. Further, we visited 117 RRH properties in the States of Mississippi, Louisiana, and Alabama. We judgmentally selected the properties based on the number of disaster victims placed into vacant RRH units and RHS' estimate of property damage. In regards to the selected properties, we interviewed 154 disaster victims, 62 site managers, and representatives from 31 management companies. As of March 31, 2006, RHS had placed approximately 11,000 disaster victims into 4,123 apartment units. (These figures may actually be higher because RHS' data system had not captured all hurricane relief information.)

The period of review was from September 1, 2005, the retroactive date when RHS began distributing rental assistance after Hurricane Katrina, through March 31, 2006. This period encompasses the 6-month term when RHS provided the majority of emergency rental assistance to disaster victims. RHS provided almost \$2.6 million in emergency rental assistance to disaster victims during the period of our review, out of the \$16.9 million allocated. The 154 victims we interviewed received nearly \$215,000 in rental assistance from RHS between September 1, 2005 and February 28, 2006.

To determine the amount of rental assistance provided to each victim included in our review, we obtained RD PRJ 2000, "Project Worksheets," for the months of November and December 2005, or January and February 2006, from management agents and Rural Development Area offices. We also obtained RD Form 3560-8, "Tenant Certification," and lease agreements, for 30 victims included in our review. We used "Project Worksheets" to test reports generated by the Multi-Family Housing Information System.

To accomplish our objectives, we performed the following procedures:

- Reviewed applicable laws, regulations, and guidance related to placing victims into RRH apartment units, including special guidance related to the disaster;
- Reviewed Rural Development's policies, procedures, and management controls over the process of approving tenant applications for occupancy in RRH units, and for monitoring owner and management agent activities in this area;

- Interviewed agency officials to determine the guidance and direction provided to owners and management agents related to housing disaster victims, and the monitoring actions they took to ensure that owners and agents followed prescribed guidelines;
- Coordinated activities with officials from the Departments of HUD and Homeland Security;
- Interviewed site managers and management agents to determine the procedures used to place disaster victims into vacant RRH units; and
- Interviewed disaster victims to confirm that the agency, owners, and management agents followed prescribed policies and procedures when placing them into RRH units, to determine if they had received housing assistance from other Federal agencies, and to determine if they fully understood the RRH Program rules and requirements stipulated on lease agreements and RD Form 3560-8, "Tenant Certification."

We conducted our fieldwork from November 2005 through March 2006. Our audit was conducted in accordance with *Government Auditing Standards*.

Exhibit A – Summary of Monetary Results

Exhibit A – Page 1 of 1

Finding Numbers	Description	Amount	Category
1-3	Unnecessary rental assistance provided to victims already receiving FEMA Transition Housing Assistance.	\$86,177	Funds to be Put to Better Use
1-3	Rural Development rental assistance provided to victims using inaccurate FEMA numbers.	\$35,594	Funds to be Put to Better Use
4	Owners improperly classified preexisting tenants.	\$18,504	Funds to be Put to Better Use
5	Owner improperly collected rent payments from victims who were receiving rental assistance.	\$20,282	Recovery Recommended
TOTAL		\$160,557	

Exhibit B – Agency Response



United States Department of Agriculture
Rural Development

SEP 22 2006

SUBJECT: Official Draft - Controls over
Multi-Family Housing Funds Provided for
Hurricane Relief Efforts
(Audit No. 04601-013-CH)

TO: Robert Young
Assistant Inspector General
for Audit

Attached for your review is the Multi-Family Housing response to the official draft for the subject audit.

This response is being submitted for inclusion in the final report and your consideration to reach management decision on the recommendations.

If you have any questions, please contact Arlene Pitter of my staff at (202) 692-0083

Walter Wright for

JOHN DUNSMUIR
Acting Director
Financial Management Division

Attachment

1400 Independence Ave. S.W. • Washington, DC 20250-0700
Web: <http://www.rurdev.usda.gov>

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Exhibit B – Agency Response

Exhibit B – Page 2 of 6



United States Department of Agriculture
Rural Development

TO: John Dunsmuir
Acting Director
Financial Management Division

SEP 20 2006

FROM: Thomas E. Hannah
Deputy Administrator
Multi-Family Housing

SUBJECT: Controls Over Multi-Family Housing Funds
Provided for Hurricane Katrina
(Audit No. 04601-0013-Ch)

This memorandum is in response to the above-referenced audit dated August 25, 2006.

We appreciate the opportunity to comment on the subject report. We recognize that the objective of the Office of the Inspector General (OIG) report is to identify steps we could take to eliminate duplication of payments and ensure that evacuees who are entitled to our assistance receive it. We appreciate OIG's insight into internal controls that could be developed and utilized to safeguard the public funds in the future.

We agree that:

1. Matching agreements with other providers is an important tool for all Federal, state and local agencies in the event of a disaster;
2. Duplicate assistance should not be provided and assistance should only go to those who are eligible to receive it; and
3. Written procedures should be in place for disaster preparedness to prevent, stop and detect waste, fraud and abuse by evacuees and those housing them in Rural Development-financed properties

The Nation had not previously faced a national disaster on the scale of Hurricanes Katrina and Rita, and few agencies had done appropriate planning, including Rural Development. However, we note that in, "The Federal Response to Hurricane Katrina: Lessons Learned," the activities of Rural Development immediately following the disaster were lauded: *USDA program for Rural Development did not wait to be asked and instead, reached out to those displaced by the hurricane and flood...The program also actively looked to fill the housing gaps that could not be addressed by FEMA...by finding alternative lodging for those that had been displaced, and making these victims a higher priority for Rural Development housing. For example, the program let tenants use vacant seasonal labor housing units while repairs were being made to their own homes. Rural Development looked for ways to make its own activities bend to meet the housing needs generated by this catastrophe, while continuing to meet their ongoing commitments to rural communities throughout the Nation.* (page 137).

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received
9/20/06

Immediately after Hurricane Katrina hit the Gulf Coast, Multi-Family Housing (MFH) staff at the National Office began to address the critical housing need by asking Rural Development borrowers to make apartment units available for evacuees. Apartments that were made available to evacuees were privately-owned, and costs associated with housing the evacuees had to be paid to these borrowers, either from evacuees' resources or from Rural Development. Since the extent of the evacuees' ability to pay could not be immediately ascertained, Rural Development decided to cover these costs with Rental Assistance.

Determinations on ability to pay were delayed for 30 days and, when the first guidance was issued on September 1, 2006, borrowers were directed to accept FEMA registration numbers as evidence of displacement (even though FEMA did not yet have its Transition Housing Assistance program in effect). In subsequent field guidance, MFH did require that each evacuee provide the borrower with a FEMA registration or claim number within 30 days of occupancy and that the documentation be retained in the tenant's file. MFH's intent was to match evacuees with FEMA's database of assistance recipients at some future point.

As part of a Department-wide effort in January 2006, Rural Development developed internal "lessons learned" that will form the basis for advance planning for the next disaster. One MFH task is to develop standard guidance and waiver lists which would include: 1) types of emergency documentation required from evacuees; 2) required types of documentation related to other federal assistance; 3) required tenant documentation on income; 4) appropriate accounting coding documentation; and 5) appropriate timing for submission of various documentation to property owners, Rural Development staff and the Deputy Chief Financial Officer.

At the Department level, one planning task is development of Economy Act agreements, Memoranda of Understanding and Interagency Agreements with FEMA and other Departments and Agencies to facilitate swift response and utilization of limited Federal resources during disasters. A part of these agreements would include provisions that would call for the means by which Rural Development and its Federal partners can integrate information technology and procedures to enable seamless operations during a disaster.

We offer the following responses regarding the Recommendations in the Report:

Recommendation No. 1:

Develop computer matching agreements with other Federal agencies providing housing assistance to check applicant information before and after providing rental assistance to disaster victims to prevent and detect duplicate payments.

Agency Response:

Rural Development is actively engaged in discussions with FEMA and the Department of Housing and Urban Development to develop working agreements that would include the provisions in Recommendation No. 1 and goes further in coordinating disaster responses. Due to the complexity of these negotiations and the reliance on agencies outside of Rural Development's control, we did state at the exit conference that it may not be possible to reach final agreement within one year. OIG indicated that evidence of a good faith effort to conclude these agreements would be adequate to achieve final action on this recommendation. Rural Development is committed to pursuing this effort to its conclusion.

Timeframe: One year from date of management decision.

3

Recommendation No. 2:

Develop specific guidance for owners to question disaster victims regarding the disclosure and reporting of housing assistance provided by other Federal agencies.

Recommendation No. 3:

Establish procedures to monitor owner and victim compliance with agency requirements in future disasters.

Agency Response:

MFH will establish formal procedures for future disasters that provide guidelines for housing evacuees in MFH units and procedures to determine if the evacuees are entitled to rental assistance. To the extent that any disaster procedure may differ from MFH's standard asset management and servicing monitoring, we will include procedures to monitor compliance.

Timeframe: One year from date of management decision.

Recommendation No. 4:

Develop and implement procedures to verify data input into the Multifamily Information System database (MFIS) by owners.

Recommendation No. 5:

Require owners to provide FEMA documentation to ensure the legitimacy of the number and the individual to whom it is assigned.

Recommendation No. 7:

Establish system controls, such as edit checks, within MFIS to detect missing data and prevent inaccurate data from being inputted into the system.

Recommendation No. 8:

Develop and implement procedures to analyze data contained within MFIS.

Recommendation No. 9:

Modify MFIS to reflect rental assistance provided to individual disaster victims.

Agency Response:

MFH will develop and implement procedures to: 1) ensure that complete and accurate data is provided by owners; 2) detect duplicate and missing data elements in MFIS; and 3) MFIS will be modified to provide a comprehensive report on assistance provided to evacuees.

Timeframe: One year from date of management decision.

4

Recommendation No. 6:

Require second party reviews of FEMA data input into MFIS.

Agency Response:

MFH will undertake random sampling of evacuee files to check the accuracy of FEMA data input to MFIS. The product of file review will yield more accurate information than relying on confirmation from a second party source.

Timeframe: One year from date of management decision.

Recommendation No. 10:

Develop guidance that defines a disaster victim for the RRH Program and the circumstances that would allow an existing tenant to be reclassified as a victim.

Recommendation No. 11:

Develop procedures to monitor owner and management agent activities during a disaster, and to analyze and investigate instances where unusually high numbers of tenants are classified as victims.

Recommendation No. 12:

Establish formal procedures for future disasters that provide the guidelines for placing victims into RRH units and procedures to determine if they are entitled to rental assistance. The procedures should also include measures, such as a letter, to inform victims of the emergency assistance available to them.

Recommendation No. 13:

Establish procedures to monitor the activities of owners and management agents after disasters.

Agency Response:

MFH will establish formal procedures for future disasters that provide the guidelines for housing evacuees in Rural Development-financed MFH units and procedures to determine if they are entitled to rental assistance. These guidelines will include the definition of a disaster victim and measures to inform evacuees of any Rural Development emergency assistance available to them. To the extent that any disaster procedure may differ from MFH's standard asset management and servicing monitoring, we will include procedures to monitor compliance.

Timeframe: One year from date of management decision.

Exhibit B – Agency Response

Exhibit B – Page 6 of 6

5

Recommendation No. 14:

Determine the total amount of improper rental assistance provided to the management agent, and require reimbursement of those funds.

Agency Response:

MFH will follow up on information forwarded by the Office of the Inspector General and, if supported by such documentation, will seek reimbursement of unauthorized assistance obtained by the identified management company.

Timeframe: One year from date of management decision.

If you have any questions regarding this, please contact Stephanie White at (202) 720-1615 or Janet Stouder at (202) 720-9728.

Informational copies of this report have been distributed to:

Administrator, Rural Housing Service, Through: Director, Financial Management Division Operations and Management	4
U.S. Government Accountability Office	1
Office of the Chief Financial Officer Director, Planning and Accountability Division	1