



U.S. Department of Agriculture



Office of Inspector General
Midwest Region

Audit Report

Improper Payments Monitoring the Progress of Corrective Actions for High-Risk Programs In Rural Housing Service

Report No. 04601-0014-Ch
March 2007



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



MAR 20 2007

REPLY TO

ATTN. OF: 04601-0014-Ch

TO: Russell Davis
Administrator
Rural Housing Service

ATTN: John Dunsmuir
Acting Director
Financial Management Division

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

SUBJECT: Improper Payments: Monitoring the Progress of Corrective Actions for
High-Risk Programs in Rural Housing Service

This report presents the results of our audit of the Rural Housing Service's efforts to quantify the extent of improper payments in the Section 521 Rental Assistance Program and to establish corrective actions.

Your agency's response to the draft report, dated February 15, 2007, is included in its entirety as exhibit A, with excerpts from the response and the Office of Inspector General's (OIG) position incorporated into the relevant sections of the report. Based on the written response, we have reached management decision on Recommendations 1, 2, and 3. Please follow you agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer.

We have not reached management decision for Recommendations 4, 5, and 6. Management decision on these recommendations can be reached once you have provided us the additional information outlined in the report sections titled, OIG Position, following each recommendation.

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

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

Executive Summary

IMPROPER PAYMENTS: Monitoring the Progress of Corrective Actions for High-Risk Programs in Rural Housing Service

Results in Brief

This report presents the results of our audit of Rural Housing Service's (RHS) efforts to identify improper payments and implement corrective actions for the Section 521 Rental Assistance (RA) program. Our objectives were to evaluate agency actions to quantify the extent of improper payments and evaluate efforts to establish corrective actions. The Office of Management and Budget (OMB) requires agencies to base their annual estimate of improper payments for risk-susceptible programs on a statistically valid random sample and report that estimate to the President and Congress with a progress report on actions taken to reduce improper payments.

We found RHS officials did not accurately estimate fiscal year (FY) 2005 improper payments and did not fully implement or monitor the effectiveness of corrective actions to reduce improper payments. RHS did not have adequate controls over these processes to ensure its annual estimate of improper payments was accurate and representative of the RA program.

RHS officials did not base their estimate for improper RA payments in FY 2005 on a valid statistical sample. This occurred because they did not use the entire RA universe of projects to select the statistical sample and did not provide instructions to the State offices regarding the selection of units for statistical review. In addition, the methodology used to calculate an annual improper payment amount for the sampled units was not representative of all payments for the year.

Due to these errors, we issued a management alert in April 2006 in order to avoid further miscalculations for FY 2006. RHS officials responded by stating they would select payments for review by utilizing a statistically valid method, but stated they would restrict the period of review to only 8 months of RA payments because of the deadline for FY 2006 Performance and Accountability Report (PAR) reporting. Since the RHS sampling method impacts the projection of the improper payment error rate to only a portion of the entire year, this information needs to be disclosed in the FY 2006 PAR.

RHS officials described corrective actions in the FY 2005 PAR, but did not develop controls and timelines for the implementation of these actions. They did not follow up on corrective actions to determine results and provide assurance implemented corrective actions reduced improper payments. RHS officials reported in their FY 2006 corrective action plan that they recovered improper rental assistance payments totaling \$527,231 during FY 2005; however, this amount is inaccurate because it includes amounts on overages not related to rental assistance payments. Additionally, they did not provide

guidance to State offices for monitoring, tracking, and recovering improper payments to ensure funds were collected timely or appropriately referred for collection, when applicable. As a result, RHS officials cannot fully assess their actions to recover improper payments and the reliability of the data reported in the PAR is questionable.

**Recommendations
in Brief**

We recommend RHS officials revise the statistical sampling methodology to ensure the results are a valid statistical estimate of improper payments in the RA program and establish internal controls to provide reasonable assurance that the statistical sampling process conforms to OMB requirements. Also, we recommend RHS officials monitor the implementation of planned corrective actions. Finally, RHS officials should re-determine the amount of improper rental assistance recovered in 2005 to ensure the amount reported in the PAR includes only rental assistance payments and the period of time represented is accurate.

Agency Response

In their response dated February 15, 2007, RHS officials generally agreed with the findings and recommendations contained in the report. We have included the entire response as exhibit A of the report and incorporated applicable portions, along with our position, in the Findings and Recommendations section of the report.

OIG Position

We agree with RHS officials' response to the recommendations and have reached management decisions on Recommendations 1, 2, and 3. Management decision has not been reached on Recommendations 4, 5, and 6. We can reach management decision once we receive the information specified in the OIG Position sections of these recommendations.

Abbreviations Used in this Report

CFR	Code of Federal Regulations
FY	Fiscal Year
HHS	Health and Human Services
IPIA	Improper Payments Information Act of 2002
MFH	Multi-Family Housing
NTC	Net Tenant Contribution
OCFO	Office of Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
RA	Rental Assistance
RD	Rural Development
RHS	Rural Housing Service, Section 521
TC	Tenant Certification
USDA	United States Department of Agriculture

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Background and Objectives

Background

The President's Management Agenda of 2002 emphasized the need to identify erroneous payments and establish goals to reduce those payments for each program. In November 2002, the President signed Public Law 107-300, the Improper Payments Information Act of 2002 (IPIA), which expanded the prior reporting requirements to include all programs that may have significant improper payments (such as high-risk programs). The act required agencies to report, beginning in the fiscal year (FY) 2004 Performance and Accountability Report (PAR), an annual estimated amount of improper payments, corrective actions, and weaknesses in the infrastructure for all programs identified as high-risk programs. In May 2003, the Office of Management and Budget (OMB) issued guidance to agencies for estimating and reporting improper payments, including a provision that agencies base their high-risk program improper payment estimates on valid statistical samples.¹

The United States Department of Agriculture (USDA) provides rental assistance subsidies to more than a quarter million households. To qualify for assistance, a household must submit an application to reside at a USDA Rural Development financed Multi-Family Housing (MFH) property through a borrower or the property management agent. The application process requires the individual or family to provide information on the amount and source(s) of income, which are verified by the property agent. The disclosed income determines an individual or family's rent charge and, in turn, the amount of housing subsidy provided. With the help of the Rental Assistance (RA) program, a qualified applicant pays no more than 30 percent of his or her income for housing.

Through agency risk assessments, RA for Rural Housing Service (RHS) (Section 521) and the Farm Labor Housing Program (Section 514) were determined to have issued significant improper payments. Improper payments have been defined by RHS as errors that may occur in documenting income and calculating the tenant rent contribution. Also, tenants may deliberately conceal income sources. RHS' definition stated that Federal subsidies are misused if any tenant determined to be ineligible receives program assistance.

Based on its statistical sample, RHS determined its FY 2005 improper payment rate for the RA program to be 3.19 percent of a total outlay of \$846 million dollars.² RHS reported that \$27 million dollars were expended

¹ OMB Memorandum M-03-13, May 21, 2003.

² Rural Development Multi-Family Housing Programs, Improper Payments Information Act Compliance Report, August 4, 2005.

as improper payments. RHS set future improper payment levels at 2.99 percent for 2006, 2.79 percent for 2007, and 2.59 percent for 2008.

Objectives

The objectives of our audit were to evaluate (1) agency actions to quantify the extent of improper payments, and (2) agency efforts to establish corrective actions.

Findings and Recommendations

Section 1. Estimating Improper Payments

Finding 1

RHS Did Not Correctly Estimate its Improper Payment Rate for the Rental Assistance Program

RHS' improper payment estimate for its high-risk FY 2005 RA program was not statistically valid, and was not based on accurate and complete data. We attribute these conditions to the absence of sufficient controls to ensure that accurate and complete data was collected, analyzed, and reported. As a result, the estimate of improper payments for the RA program reported in the FY 2005 PAR of \$27 million, or 3.19 percent of total outlays was not representative of the program and may have been significantly understated.

OMB defines high-risk programs as programs that have estimated their improper payments to exceed \$10 million and 2.5 percent of the program's payments. For all programs and activities identified as high-risk programs, agencies are required to determine an annual estimated amount of improper payments. This estimate is the gross total of both over and under payments and is to be based on a statistical random sample.

We identified a lack of controls in each phase of RHS' attempt to estimate its FY 2005 improper payment rate. Due to the lack of controls, we determined the improper payment estimate was not statistically valid for the following reasons:

Incorrect Sample Unit

RHS statistically selected a sample of projects from the universe of MFH projects rather than sample the universe of RA payments for FY 2005. In reviewing its sampling methodology, we determined RHS did not sample from a complete universe of projects. Of the 13,095 projects comprising the total MFH universe, RHS submitted 7,366 (56 percent) to the statistician. The remaining 5,729 projects, comprised of elderly, congregate, mixed, group homes, and off-farm labor housing projects, were not included in the universe. RHS officials were unaware of this error until we identified it during the audit. In response to our inquiry regarding the missing projects, RHS officials stated they unintentionally supplied the statistician with a portion of the spreadsheet that contained the universe of projects. As a result, this omission did not nullify the statistical validity of the entire sample, but instead limited the applicability of the estimated error rate to the limited 56 percent of the universe. Furthermore, RHS officials did not provide oversight, such as a secondary review, to ensure that the entire universe for the MFH projects had been submitted to the

statistician. As a result, the improper payment error rate reported in the PAR applied to only \$474 million (56 percent) of the \$846 million program outlays for FY 2005.

Units Were Not Statistically Selected

Using the aforementioned incomplete universe, Rural Development's (RD) statistician determined RHS should review 640 units; however, the statistician did not select which individual units to review. The RHS field staffs in each State office selected the actual units to review. Additionally, the RHS national office did not provide instructions to State field staff for selecting units for review.

To determine the statistical validity of the methods used by RHS field staff to select units, we judgmentally selected 10 States for review. We reviewed 190 units (29.7 percent) of the 640 units selected by the RHS field staff in 10 State offices. We determined 28 units (14.7 percent) were selected by the supervisory review method.³ For audit purposes, we considered this a valid statistical method for selection. The remaining 162 units (85.3 percent) not selected in a valid statistical manner were comprised of: (1) 10 units (5.3 percent) selected by the borrower, not by RHS staff, (2) 110 units (57.9 percent) selected based on restricting criteria, such as those units with zero income, medical deductions, or past problems, and (3) 42 units (22.1 percent) selected haphazardly⁴ by using a method that was either forgotten or difficult to define. As a result, the validity of the statistical sample for the applicable 56 percent of the universe was nullified.

³ The supervisory review method is used to select units for review during the supervisory reviews conducted by the RHS staff. The instructions for the process are labeled "suggested random sampling method for tenant reviews." These instructions are similar, but not exactly equivalent, to what is typically considered to be a systematic selection with a random start.

⁴ A haphazard sample consists of sampling units selected without any conscious bias; that is, without any special reason for including or omitting items from the sample. (*GAO/PCIE Financial Audit Manual Section 480, July 2001*).

Estimate of Annual Rental Assistance Was Based on One Month

RHS field staff reviewed each sampled unit using supporting documentation found in the tenant's file to recalculate and verify rental assistance payments were correct. The field reviewers recalculated the monthly Net Tenant Contribution (NTC) for one month of review (March, April, or May of 2005). RHS officials determined an improper payment existed when the file documentation did not support the amount of the rental assistance payment. To annualize the improper payment amount, RHS officials multiplied the total monthly improper payment amount for all units in the sample by 12.

RHS officials provided us with the universe for the units receiving rental assistance in the State of Rhode Island. We analyzed the universe of 382 units to determine if it was correct to assume that the tenant and the amount of rental assistance received by a unit remained constant throughout the fiscal year. We found that only 20 units (5.2 percent) received the same amount of rental assistance for the entire fiscal year. RHS' calculation methodology incorrectly assumed the tenant and the amount of rental assistance received by the unit remained constant throughout the fiscal year. Furthermore, RHS officials did not consider the variety of changes that could occur in household income or composition, and that these would alter the amount of rental assistance received. Because they assumed the same tenant occupied the same unit and received the same amount of rental assistance for the entire year, RHS officials further jeopardized the statistical validity of the improper payment error rate.

Overall, the methods used by RHS to estimate its annual improper payments in the FY 2005 PAR were not statistically valid. As a result, the estimate is not representative of improper payments in the RA program.

In April 2006, we reported these conditions to RHS in a management alert. We recommended that RHS revise its sampling methodology to ensure it was statistically valid and that it establish the appropriate controls to provide reasonable assurance that the sampling and the PAR reporting process conform to OMB requirements.

In its response to the management alert in May 2006, RHS officials stated they would (1) revise the sampling methodology to include all rental assistance payments made in a 12 month period, (2) ensure a statistically valid methodology was used to select payments for review, and (3) review all payments made for a selected rental assistance unit over a 12 month period. RHS officials stated they planned to utilize a statistician familiar with OMB requirements for FY 2006. Also, RHS officials stated they planned to provide

the field staff with more consistent and comprehensive instructions to complete the questionnaire for FY 2006.

We assessed RHS' planned statistical sampling process for FY 2006 and determined RHS' proposed universe consisted of 8 months of rental assistance payments, instead of a full year. RHS officials explained that due to deadlines for reporting the data in the PAR, they could only review payments for 8 months. Because of a limited universe, RHS officials stated that in October 2006 they intend to review all FY 2006 rental assistance payments and report the results in FY 2007. Because of the incomplete universe, RHS officials should qualify that the improper payment estimate reported in the FY 2006 PAR was not based on a complete universe of transactions.

As discussed above, we recognize RHS officials have taken some corrective actions in response to our management alert. However, RHS needs to provide better management oversight to monitor the statistical sampling process in order to ensure its validity and completeness.

Recommendation 1

Revise the statistical sampling methodology to ensure that it results in a valid statistical estimate of improper payments in the RA program.

Agency Response

RHS agreed to revise their statistical sampling methodology, as noted in its April 25, 2006 response to our management alert, to include all rental assistance payments beginning with FY 2006. The selection of payments to be reviewed will use a statistically valid OMB method. The Agency will complete final action within three months of reaching management decision.

OIG Position

We accept management decision. Final action can be reached when RHS provides OCFO the sampling methodology developed.

Recommendation 2

Establish internal controls to provide reasonable assurance that the statistical sampling and PAR reporting process conform to OMB requirements. This should include providing a quality assurance review of the sampling design, establishing second-party reviews of data accumulated for the sampling process to ensure accuracy and completeness, and documenting sampling instructions and guidance to assure that the sampling is correctly and consistently performed.

Agency Response

RHS officials stated they have made substantial changes in the IPIA reporting process that includes using Rural Development statisticians that are familiar with OMB requirements for the sampling process. RHS officials will provide documented assurance that the sampling methodology complies with OMB requirements and documentation of the quality assurance procedures in place to assure the accuracy and completeness of the sampling process and the detailed instructions to State directors for completing review of the samples selected. RHS will complete these actions within three months of reaching management decision.

OIG Position

We accept RHS' management decision for this recommendation. Final action can be reached when RHS provides the agreed upon documentation to the OCFO.

Recommendation 3

Ensure that the estimate of improper payments reported in the FY 2006 PAR is appropriately qualified for the effects of an incomplete universe.

Agency Response

RHS officials provided a statement in the FY 2006 PAR noting the sample selection was statistically valid, but was limited to payments for a nine month period, September 1, 2005 to May 31, 2006, in order to meet PAR reporting timeframes.

OIG Position

We accept management decision. For final action, the Agency should submit a copy of the FY 2006 PAR to the OCFO showing the statement included.

Section 2. Controls Over Corrective Actions and the Recovery of Improper Payments

Finding 2

RHS Did Not Monitor the Implementation of Corrective Actions

RHS did not oversee the implementation of planned corrective actions to reduce improper payments to ensure the actions were properly and timely implemented. RHS officials initiated six corrective actions to address the causes of improper payments in the FY 2005 PAR. However, they did not assess the impact that the corrective actions would have in reducing improper payments. As a result, the agency cannot provide assurance to Congress, as reported in the PAR, that its corrective actions are effectively reducing improper payments in the RA program.

OMB guidance requires agencies to develop plans to reduce improper payments.⁵ Agencies are to include in the PAR a discussion of the causes of identified improper payments, the actions being taken to correct those causes, and the results of those actions. Similarly, the USDA Management Control Manual states that agencies are required to record and track planned corrective actions as well as monitor related progress.⁶

In the FY 2005 PAR, RHS officials reported they had developed the following corrective actions to reduce improper payments: (1) State offices were required to train field staff, borrowers, and property managers on the appropriate and required documentation for follow up with tenants and income verifiers, (2) the national office would pursue access to the Health and Human Services (HHS) National Directory of New Hires database,⁷ (3) States were to implement wage matching, where applicable, (4) the supervisory review process would be restructured to strengthen and provide more focus when reviewing tenant files, (5) the national office would employ an independent contractor to undertake the improper payments study, and (6) the MFH servicing goals were to be more aggressive in training and educating borrowers and project managers to calculate and document tenants' incomes.

During our FY 2006 audit, we found that little information was available to assess the impact of these corrective actions or determine actions were fully implemented. While RHS officials stated they were attempting to finalize legislation to obtain access to the HHS National Directory of New Hires database, we determined they need to improve their oversight to ensure remaining corrective actions are properly implemented.

⁵ OMB Memorandum M-03-13, May 21, 2003.

⁶ Department Manual 1110-02, Nov. 2 2002, Chap. 4, p.19.

⁷ The National Directory of New Hires (NDNH) gives access to the NDNH database that provides public housing agencies in local communities the information they need to validate tenant-reported income of individuals participating in public housing.

Also, we ascertained:

- RHS officials had not monitored State offices to determine whether required training was conducted. Furthermore, they had not verified implementation of the corrective action until we prompted RHS officials to provide us with the information. Our review of the training agendas for 50 states and Puerto Rico revealed: (1) 16 States conducted required training, (2) 14 States had not conducted the required training, and (3) 17 States did not provide documentation on the type of training conducted. The remaining four States did not respond to the request.
- While RHS officials had obtained data on the States' efforts to secure wage matching agreements, they obtained no information on the results of wage matching efforts (or even if conducted) for States which had an agreement in place.
- RHS officials were to complete their evaluation and restructuring of supervisory visit procedures. However, the restructuring process has not been completed. Until it is completed, it will not be an effective tool for deterring improper payments.
- An independent contractor was to be employed to perform the estimate of improper payments to provide an objective and impartial analysis. However, this action has not been initiated because RHS officials stated they do not presently, nor in the foreseeable future, have the funding needed to employ a contractor.
- The MFH servicing goals were to be reported quarterly through the development of an information technology (IT) report; however, RHS officials stated the servicing goal report needs substantial updating before it can provide information to monitor RHS' servicing goals.

To be able to assess and report progress in reducing improper payments, RHS officials should monitor the implementation of planned corrective actions to ensure they are implemented properly, timely, and with the intended effect. Unless RHS officials can gauge the impact individual corrective actions are having on reducing improper payments, they cannot ensure their limited resources target the most effective strategies.

Besides developing and reporting actions to correct causes of improper payments, agencies must also act to recover identified improper payments. In the FY 2006, RHS officials reported to the Office of the Chief Financial Officer (OCFO) in their FY 2006 corrective action plan that they recovered

improper rental assistance payments totaling \$527,231 during FY 2005; however, this amount is inaccurate. Although, the amount was reported to OCFO it was not included in the FY 2006 PAR. Firstly, the reported amount represents funds recovered in the calendar year, rather than fiscal year 2005. Secondly, the amount RHS officials plan to report as recovered rental assistance includes payments for things other than improper rental assistance, such as overage.⁸ Overage payments are not a component of the RA program.

We could not determine the correct amount of improper rental assistance recovered because the report used by RHS was not always timely updated by the State offices and payments shown were not always identified as to type (improper rental assistance recovered, overage, etc.). RHS officials had not provided the needed oversight to ensure State offices properly monitored, tracked, and reported the results of their efforts to recover unauthorized assistance. RHS officials told us they are aware of the lack of oversight regarding the recovery of improper payments and plan to include several corrective actions for field staff to better input and monitor the recovery of unauthorized assistance.

Recommendation 4

Establish controls to oversee the implementation of RHS formulated corrective actions to ensure they are executed in a timely manner and their impact on reducing improper payments is determined.

Agency Response

RHS officials agreed that corrective actions need to be closely monitored and executed in a timely manner. RHS will set timeframes in the FY 2007 IPIA report for the completion of corrective actions.

OIG Position

In addition to setting timeframes for the completion of corrective actions, RHS must also be able to gauge the impact their actions are having in reducing improper payments. We can reach management decision when RHS officials advise us they have procedures in place to assess the performance of corrective actions to assure their strategies are effective in reducing improper payments.

⁸ 7 CFR Ch. XXXV (1–1–05 Edition), §3560.11 states overage is that portion of a tenant’s net tenant contribution that exceeds basic rent up to note rent. Full overage is an amount equal to the difference between the note rent for a unit and the basic rent. Overages are returned to RHS.

Recommendation 5

Revise the amount of improper rental assistance payments reported as recovered in 2005 to ensure the amount reported includes only rental assistance and the time period is accurate.

Agency Response

RHS officials stated that Recommendations 5 and 6 of this draft report are similar in nature to Recommendation 5 of OIG Audit Report No. 04099-033-AT. RHS officials requested that the same management decision achieved for that recommendation be used here; however, as of the date of the RHS response (February 15, 2007) management decision had not yet been reached on that recommendation. The report presented the results of an OIG review of payment accuracy in the MFH Program. (In the following discussion we have corrected the audit number for this report, issued March 23, 2005, to 04099-0339-AT.)

The deficiency reported in 04099-0339-AT that Recommendation 5 addressed concerned RHS not recording an accounts receivable for overpaid rental subsidies in its accounting records because it placed responsibility on the project owner to account for and collect any rental subsidy overpayments. Because of this, overpaid Federal funds were not accounted for as receivables and collection tools (such as the Treasury Offset Program, credit bureau reporting, private collection agencies, etc.) were not applied to recover improper payments. The OIG recommendation was that RHS “Develop the systems and policies necessary to establish and account for claims arising from overpayments of rental assistance and interest credit, and to collect and manage them in accordance with the Federal Claims Collection Standards, the Debt Collection Improvement Act of 1966, and OMB Circular A-129.”

In a March 31, 2006 response to OIG regarding 04099-0339-AT, RHS officials stated that a Request for Automation had been submitted requesting that the Multi-Family Information System (MFIS) be modified to accommodate the selection/servicing and monitoring of tenants who have received unauthorized assistance and are eligible for reporting to cross servicing. Additional fields and account status codes would be established to allow for the cross servicing.

OIG Position

We do not believe management decision must be reached on Recommendation 5 of 04099-0339-AT to reach management decision here. We can reach management decision when RHS instructs State offices to timely input improper rental assistance recovered for tracked accounts in MFIS and instructs them to segregate the amounts from other types of

recoveries in order to ensure accurate reporting of improper payment recoveries to OCFO.

Recommendation 6

Develop and execute in a timely manner the corrective actions RHS plans to formulate for field staff to better input and monitor the recovery of unauthorized assistance.

Agency Response

As discussed in the Agency Response to Recommendation 5 of this report, RHS believes this recommendation is similar in nature to Recommendation 5 of Audit Report No. 04099-0339-AT. RHS proposed corrective action for this recommendation on March 31, 2006, but management decision has not yet been achieved. At that time, RHS stated that a request had been submitted to modify the Multi-Family Information System, as discussed above in the Agency Position section for Recommendation 5, to accommodate the servicing and monitoring of tenants who received unauthorized assistance. However, the anticipated completion date was contingent upon funding for the automation changes.

OIG Position

We can reach management decision when RHS officials advise us that procedures will be implemented in MFIS to monitor improper rental assistance received by tenants and ensure recovered amounts are accurately determined and reported to OCFO, and when they expect to complete the corrective action.

Scope and Methodology

We conducted our audit of RHS' high-risk program, Rental Assistance, at the RHS Headquarters in Washington, DC. We conducted our fieldwork from February through May 2006.

The Rental Assistance Program had a total FY 2005 outlay of \$846.1 million, of which \$27 million was found to be improper payments.

The audit covered FY 2004 through FY 2006 and was conducted in accordance with Government Auditing Standards.

To accomplish the audit objectives, we performed the following steps:

- Reviewed applicable laws, regulations, and RHS' guidance concerning the IPIA and the Rental Assistance Program.
- Interviewed national office officials in the Multi-Family Housing Portfolio Management Division.
- Reviewed and evaluated RHS' system of internal controls for its process of estimating FY 2005 improper payments in the Rental Assistance Program.
- Reviewed and evaluated RHS' FY 2005 statistical sampling plan.
- Tested sampled transactions and the calculation of the improper payment rate.
- Evaluated the corrective actions and the recovery process for improper payments.

Exhibit A- Agency Response

Exhibit A- Page 1 of 5



United States Department of Agriculture
Rural Development

10/15/2007

SUBJECT: Improper Payments - Monitoring the Progress of
Corrective Actions for High-Risk Programs in
Housing and Community Facilities Programs
(Audit Number - 04601-014-CH)

TO: Robert Young
Assistant Inspector General for Audit
Office of Inspector General

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.

A handwritten signature in black ink, appearing to read "John Dunsmuir". The signature is fluid and cursive.

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 A—Agency Response

Exhibit A— Page 2 of 5



United States Department of Agriculture
Rural Development

TO: John Dunsmuir
Acting Director
Financial Management Division

FEB 06 2007

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

SUBJECT: Improper Payments Monitoring the Progress of Corrective Actions for High-Risk Programs in Rural Housing Service
(Audit No. 04601-0014-Ch)

This memorandum is in response to the above-referenced official draft report.

Recommendation No. 1:

Revise the statistical sampling methodology to ensure that it results in a valid statistical estimate of improper payments in the rental assistance program.

Agency Response:

As stated in our memo dated April 25, 2006 regarding the Management Alert, the sampling methodology for the fiscal year (FY) 2006 report was revised to include all the rental assistance payments. Due to timing constraints, the FY 2006 sampling was based on all RA payments made on behalf of tenants between September 1, 2005 and May 31, 2006. The FY 2007 sampling will cover all rental assistance payment made on behalf of tenants between October 1, 2005 and September 31, 2006. Selection of the payments to be reviewed will use a statistically valid OMB method.

For final action, the Agency will submit the sampling methodology developed by Rural Development statisticians.

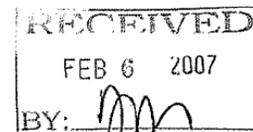
Timeframe: Three months from date of management decision.

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Recommendation No. 2:

Establish internal controls to provide reasonable assurance that the statistical sampling and PAR reporting process conform to OMB requirements. This should include providing a quality assurance review of the sampling design, establishing second-party reviews of data accumulated for the sampling process to ensure accuracy and completeness, and documenting sampling instructions and guidance to assure that the sampling is correctly and consistently performed.

Agency Response:

Multi-Family Housing Programs used Rural Development statisticians familiar with the OMB requirements for the FY 2006 sampling. The Agency will again be using the same statisticians to select the sampling universe for the FY 2007. In addition, we will provide field staff with consistent and more detailed instructions on completion of the survey.

The National Office made substantive changes to the way the FY 2006 report was prepared compared to prior years. These improvements resulted in more accurate data, a more targeted survey instrument, fewer subjective determinations by field staff and less opportunity for human error in automated transactions.

For final action, the Agency will submit the following documents:

1. Memo from the Rural Development statisticians stating that the FY 2007 sampling methodology is in accordance with OMB requirements;
2. Document describing the quality assurance procedures to assure accuracy and completeness of the sampling process, and
3. A copy of the FY 2007 IPIA survey Unnumbered Letter (UL) to the State Directors providing the protocol for completing the survey. The UL will contain detailed instructions on completing the survey.

Timeframe: Three months from date of management decision.

Recommendation No. 3:

Ensure that the estimate of improper payments reported in the FY 2006 PAR is appropriately qualified for the effects of an incomplete universe.

Agency Response:

In the FY 2006 IPIA MFH report stated, “This review looked at a statistically valid sample of the universe of all rental assistance payments made on behalf of tenants between September 1, 2005 and May 31, 2006. The sample selected was for a nine month period (rather than 12) due to a need to adjust the reporting period to synchronize with the Performance and Accountability Report.”

Exhibit A—Agency Response

For final action, the Agency will submit a memo to the Office of Chief Information Officer to clarify that the FY 2006 PAR for the Section 521 program was based on a universe consisting of rental assistance payment made between September 1, 2005 and May 31, 2006.

Timeframe: Three months from date of management decision.

Recommendation No. 4:

Establish controls to oversee the implementation of RHS formulated corrective actions to ensure they are executed in a timely manner and their impact on reducing improper payments is determined.

Agency Response:

The Agency agrees that corrective actions need to be closely monitored and executed in a timely manner.

For final action, the Agency will set timeframes in the FY 2007 IPIA report for the completion of the corrective actions.

Timeframe: One year from date of management decision.

Recommendation No. 5:

Revise the amount of improper rental assistance payments reported as recovered in 2005 to ensure the amount reported includes only rental assistance and the time period is accurate.

Recommendation No. 6:

Develop and execute in a timely manner the corrective actions RHS plans to formulate for field staff to better input and monitor the recovery of unauthorized assistance.

Agency Response:

Recommendations No. 5 and 6 are similar in nature to Recommendation No. 5 in OIG Audit No. 04099-33-AT, "Subsidy Payment Accuracy in MFH Program" which states, "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."

Exhibit A—Agency Response

On March 31, 2006, the Agency submitted the following response to achieve management decision for Recommendation No. 5 to OIG Audit No. 04099-33-AT:

A Request for Automation (RFA) has been submitted requesting that the Multi-Family Information System (MFIS) be modified to accommodate the selection/servicing and monitoring of tenants who have received unauthorized assistance and are eligible for reporting to cross servicing in accordance with DCIA of 1996. Additional fields will be required and specific account status codes will need to be established to allow for cross servicing. The request was submitted to the Change Control Board, which prioritizes automation requests based on available funding. Once the AMAS & MFIS systems are updated, the procedures will be incorporated into the MFH Handbook 3560. Anticipated completion date is contingent on receiving funding for the automation changes needed.

As of the date of this memo, the Agency has not achieved management decision on Audit No. 04099-33-AT. However, the Agency requests that the same management decision that is achieved for Recommendation No. 5 be used for this recommendation.

Timeframe: Anticipated completion date is contingent on receiving funding for the automation changes needed.

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:

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