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Controls Over Rural Housing Service Disaster Assistance Payments

Audit Report 04601-19-Ch
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AUDIT
NUMBER: 04601-0019-CH

TO: Tammye Trevino
Administrator
Rural Housing Service

ATTN: John Purcell
Director
Financial Management Division

FROM: Gil H. Harden /s/
Assistant Inspector General
for Audit

SUBJECT: Controls Over Rural Housing Service Disaster Assistance Payments

This report presents the results of the subject review. Your written response to the official draft is included at the end of this report. Excerpts of your December 15, 2010, response and the Office of Inspector General's position are incorporated into the applicable sections of the report.

Based on your response, we have reached management decision on all of the report's recommendations. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer. Also, please note that Departmental Regulation 1720-1 requires final action to be completed within 1 year of the date of management decision to preclude being listed in the Department's annual Performance and Accountability Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during this audit.

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Controls Over Rural Housing Service Disaster Assistance Payments

Executive Summary

We conducted this audit to assess the Rural Housing Service's (RHS) internal controls and processes for ensuring the accountability of housing funds designated for disaster assistance. This included evaluating the effectiveness of the corrective actions RHS implemented in response to two prior audits.¹ These audits reviewed the agency's controls over administering disaster assistance, through its Single Family Housing (SFH) and Rural Rental Housing (RRH) Programs, to victims of Hurricanes Katrina and Rita. These programs provide housing assistance that includes direct and guaranteed loans, grants, and rental subsidies to individuals living in rural areas with low to moderate incomes.

In our prior two audits, we reported that RHS in both programs needed to improve its policies and procedures to prevent applicants from receiving housing assistance for the same purpose from both RHS and other sources, including other Federal agencies, insurance companies, and charitable organizations. According to regulations, applicants are ineligible for RHS emergency (i.e., natural disasters) housing assistance if they were able to obtain it from other sources.² In this audit, we found that RHS officials made improvements to the SFH and RRH Programs since our prior audits, and adequately implemented corrective actions for 15 of the 24 recommendations issued in those two audit reports (see exhibit B).³ For example, RHS effectively issued procedures to field staff on the proper use of emergency funds and to monitor field office activities after a disaster. However, we believe that RHS officials need to further strengthen their management controls to prevent loan and grant applicants from receiving RHS assistance after already receiving such assistance from other sources.

We found that Rural Development field staff may have continued to distribute disaster assistance in the SFH Program in the form of loans and grants⁴ to recipients even though some of those recipients possibly received proceeds from other private sources, such as insurance companies, to repair damage caused by the disaster. For example, we selected 75 of 1,127 recipients in Louisiana and Mississippi that had grants or loans obligated to them between September 1, 2006, and December 31, 2008. We found that field staff did not obtain the required certification statements⁵ from 18 of the 75 recipients in our sample. In addition, we found that field staff did not contact insurance companies to verify that they did not make payments to any of the 36 recipients who had repairs that were potentially covered by insurance.⁶

¹ Audit Report 04601-13-Ch, *Controls Over Multi-Family Housing Funds Provided for Disaster Relief Efforts*, September 2006, and Audit Report 04601-15-Ch, *Controls Over Single Family Housing Funds Provided for Disaster Relief Efforts*, March 2007.

² Title 7 Code of Federal Regulations (C.F.R.) 3550.2 and 3550.103 (e), January 1, 2005.

³ Subsequent to audit fieldwork, RHS officials fully implemented an additional three recommendations.

⁴ Section 504 loans and grants.

⁵ Applicants certify in writing that they have not received other benefits for the same purpose as the Rural Development assistance.

⁶ Of the 75 total recipients in our sample, 55 had insurance at the time of the hurricanes, of which 36 had repairs that could have been covered by their insurance companies.

This occurred because agency officials did not fully implement corrective actions to address recommendations from our previous SFH audit report. In that report, agency officials agreed to issue procedures to identify housing assistance from other sources, including insurance companies, and to require certification statements from applicants for all future disasters. However, we found that agency officials only implemented these procedures specifically for situations where the underlying legislation stated that funds were to be used to repair damage caused directly by a disaster. These procedures are not applicable when the underlying legislation states that housing assistance can be provided for economic recovery purposes in an area affected by a disaster. The agency's lack of action possibly precluded other needy recipients from receiving assistance to repair damage caused by disasters from 2005 through 2008.

Also, we found that RHS officials did not correct program deficiencies that we identified from our prior audits. Overall, we found that the agency did not fully implement the corrective actions, as they agreed to, for 9 of 24 audit recommendations from our prior two audits.⁷ Departmental Regulations require agencies to implement agreed-upon corrective actions in a timely manner.⁸ The primary reason for this, according to RHS officials, was that they did not think corrective actions were necessary because the agency had no plans to provide RRH emergency rental assistance again in the future. For other recommendations, agency officials still needed to make minor clarifications to fully address them.

For example, in the prior SFH report, we recommended that RHS officials obtain a formal Office of the General Counsel (OGC) opinion regarding the appropriate use of emergency funds prior to approving applications for future disasters. In response, RHS officials updated agency instructions to require an OGC opinion but the word "prior" was not included in the instructions to ensure that RHS officials obtain an OGC opinion before approving applications for future disasters. Including the word "prior" would ensure that before Rural Development processes any applications that it is clear whether the emergency funds are to be used only for disaster-related damage or whether they may be used for economic recovery purposes.

Finally, we found that agency field officials had approved applications for SFH grant funds that included ineligible repairs and improvements. Over 92 percent (58 of 63) of the grant applications we examined in four Mississippi and Louisiana field offices included repairs and improvements that did not appear to be related to the health, safety, or handicap accessibility of the recipient, as required by program regulations. For example, we found repairs that included the purchasing and installing of new kitchen sinks, crown molding, and ceiling fans that did not appear to be eligible because field staff did not maintain documentation to justify that they were for health and safety or handicap accessibility purposes. We also identified that four of these grants included repairs that were specifically prohibited by regulations, such as replacing a kitchen stove or installing a concrete walkway. We attributed this deficiency to the lack of action by agency national officials who had identified this problem during a 2005 internal review, but did not implement adequate internal controls to require field staff to document that repairs are for eligible purposes. Overall, we questioned the use of about \$452,000 in grant funds.

⁷ Subsequent to audit fieldwork, RHS officials fully implemented another three of these recommendations.

⁸ Departmental Regulation 1720-001, April 22, 2002.

Recommendation Summary

In this report, we have issued five additional recommendations to RHS officials to further strengthen management controls. We recommended that RHS require SFH field staff to contact insurance companies and to obtain certification statements in all circumstances where housing assistance is provided to recipients. In addition, we recommended that RHS require SFH officials to obtain an OGC opinion on the appropriate use of funds before approving any applications for housing assistance. Finally, we recommended that the agency implement the documentation requirements that were outlined in past internal reviews to require field staff to document that repairs are for eligible purposes.

Agency Response

In its December 15, 2010, response to the official draft report, RHS officials agreed with all of the report's five recommendations. We have incorporated portions of the RHS response, along with our position, in the applicable sections of this report. RHS' response to the official draft report is included in its entirety at the end of this report.

OIG Position

Based on RHS' responses, we have reached management decision on all of the report's five recommendations.

Background & Objectives

Background

The Rural Development mission area of the Department of Agriculture (USDA) provides loans and grants to low and moderate income individuals in rural areas to purchase homes. The agency's mission also provides decent, safe, sanitary, and affordable rental housing to similar individuals in rural areas. The Rural Housing Service (RHS), an agency within the Rural Development mission area, located in Washington, D.C., is responsible for setting policy, developing regulations, and performing oversight of housing programs. Rural Development administers housing programs through a network of 47 State offices and 800 area and local offices across the nation.

The agency provides financial assistance to individuals and families through the Single Family Housing (SFH) and Rural Rental Housing (RRH) Programs. The SFH Program assists individuals through Section 502 direct and guaranteed loans⁹ and Section 504 direct loans and grants. Section 502 direct loans are intended to provide low income homeowners with the opportunity to acquire, build, rehabilitate, improve or relocate dwellings in rural areas. Section 504 direct loans and grants are intended to provide funds to homeowners who cannot obtain other credit to repair or rehabilitate their properties. Section 504 applicants must meet specified income limits. The RRH Program also provides grants for the repair or rehabilitation of low income housing and rental assistance for households with incomes too low to pay full rent.

In December 2005, after Hurricanes Katrina and Rita, Congress passed legislation that provided emergency funds to respond to housing damage caused by the hurricanes.¹⁰ The assistance provided over \$1.5 billion to finance direct and guaranteed single family housing loans, and \$20 million in grants to repair damage to homes caused by the hurricanes. Rural Development also allocated almost \$17 million out of its regular appropriations to provide emergency rental assistance to hurricane victims through the RRH Program.

We conducted two prior audits to evaluate the agency's internal controls over the distribution of funds provided to support victims of Hurricanes Katrina and Rita.¹¹ Those audits reported significant internal control deficiencies, including duplicate assistance being provided to hurricane victims and assistance being provided to individuals not affected by the hurricanes. We also found that recipients had used grant funds for prohibited types of repairs and improvements to their homes.

⁹ Direct loans are made directly by RHS, while guaranteed loans are made by a commercial lender but guaranteed by RHS for losses up to 90 percent of the original loan amount. This guarantee substantially reduces the risk for lenders.

¹⁰ The Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, December 30, 2005.

¹¹ Audit Report 04601-0013-Ch, *Controls Over Multi-Family Housing Funds Provided for Hurricane Relief Efforts*, September 2006, and Audit Report 04601-0015-Ch, *Controls Over Single Family Housing Funds Provided for Hurricane Relief Efforts*, March 2007.

On May 25, 2006, RHS officials issued interim guidance that requested Rural Development State Directors and field staff to make reasonable efforts to verify that applicants for loans and grants to purchase or repair single family homes had not received benefits from other sources such as insurance companies, charitable organizations, and other government agencies. The officials added that depending on the circumstance, this might include verification of insurance coverage with the first mortgage lender and insurance company. Field staff were also required to obtain a written statement from applicants to certify that they had not received any other assistance for the same purpose as the funds being provided by Rural Development. The RHS officials informed us at the time that these requirements would be incorporated into the agency's regulations.

In November 2007, RHS officials amended the agency's loan and grant handbook to include provisions to verify insurance coverage and to require applicants to certify that they had not received assistance from other sources for the same purpose that they are receiving the grant funds.¹² The procedures stated that the purpose of disaster funding was to provide assistance to families and individuals whose primary residences were damaged or destroyed by events covered by a Presidential Disaster Declaration, and that applicants must establish that physical damage to their home was caused by the disaster. It further stated that grant funds must only be used to remove health and safety hazards or to make the dwellings accessible and usable for household members with disabilities, and listed examples of eligible and ineligible repairs.

The President signed the Consolidated Appropriations Act on December 21, 2007, which allowed unexpended disaster funds from the original 2005 legislation to be used for eligible program repairs in rural areas affected by Hurricanes Katrina and Rita, rather than being restricted to repairing damage caused directly by the hurricanes.

Congress also approved disaster appropriation legislation in 2007 and 2008. In 2007, it appropriated \$40 million to provide recovery assistance for housing needs not met by the Federal Emergency Management Agency (FEMA) or private insurance companies, in response to damages caused by a disaster declared by the President.¹³ In 2008, it appropriated another \$59 million for grants to repair damage to single family homes and for loans to finance the rehabilitation of single and multi-family housing.¹⁴ These funds were to be used in areas affected by hurricanes, floods and other natural disasters that occurred in Presidentially-declared disaster areas. The 2008 appropriation provided an additional \$38 million for housing grants and loans to be used exclusively in the areas affected by Hurricanes Katrina and Rita.

As a control to ensure that the SFH and RRH Programs are operating as intended, and that funds are properly administered, Rural Development periodically conducts two internal reviews. State officials conduct State Internal Reviews (SIR) to review operations and centralized program functions at its field offices within that State. National officials conduct Management Control

¹² HB-1-3550, *Direct Single Family Housing Loans and Grants Field Office Handbook*, Appendix 16, November 7, 2007.

¹³ The U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, May 25, 2007.

¹⁴ Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, September 30, 2008.

Reviews (MCR) every 5 years to review all assessable units within Rural Development, including the National, State, and field office levels.

Objectives

The objective of our audit was to evaluate RHS' internal controls and processes for ensuring the accountability of housing funds designated for disaster assistance. This included our verification that RHS implemented agreed upon actions to correct deficiencies reported in our prior audits in 2006 and 2007.

Finding 1: Unnecessary Disaster Assistance May Have Continued to be Distributed to SFH Program Recipients

Rural Development field staff distributed disaster assistance in the form of loans and grants¹⁵ to recipients even though some of those recipients possibly received proceeds from other private sources, such as insurance companies, to repair damage caused by the disaster. This condition existed because agency officials did not fully implement corrective actions, such as requiring field staff to obtain certification statements from recipients and to contact insurance companies, to address recommendations from our previous audit report.¹⁶ In that report, agency officials agreed to issue procedures to identify housing assistance from other sources for all future disasters. Instead, agency officials only implemented these procedures specifically for situations where the underlying legislation stated that funds were to be used to repair damage caused directly by a disaster and not for disasters where the underlying legislation did not require this direct association of housing damage to the disaster. The agency's lack of action possibly precluded other needy recipients from receiving assistance to repair damage caused by disasters from 2005 through 2008.

In 2006, we conducted an audit that found six instances where applicants received funds or assistance from insurance companies and charitable organizations for the same repairs included on their Rural Development applications. These applicants were eligible to receive up to \$90,000 in grant funds from Rural Development. Fortunately, because we informed agency officials that these applicants had already received assistance from other sources, the grant funds were not distributed. Agency regulations¹⁷ state that applicants are ineligible for RHS emergency housing assistance if they were able to obtain it from other sources for the same purpose. In response to our concerns, RHS issued interim guidance to its field offices in May 2006, instructing them to obtain from the applicants a written certification that they had not received other benefits for the same purpose as the Rural Development assistance. It also instructed field staff to make reasonable efforts to verify that applicants did not receive duplicate benefits, which may include verification by the insurance company.

We reported in March 2007 that RHS did not have a formal policy requiring its field staff to question applicants about assistance from other sources, or procedures to determine if applicants had received reimbursement from insurance companies. We made two recommendations to correct this deficiency (see exhibit B: SFH Recommendations 2 and 3). Agency officials agreed to use the May 2006 guidance as a basis for developing formal procedures that require field staff to identify assistance provided by other entities, including insurance companies. These procedures were also to require applicants to certify in writing that they had not received other benefits for the same purpose as the Rural Development assistance. In November 2007, agency officials issued these procedures as part of the agency's field office handbook.¹⁸

¹⁵ Section 504 loans and grants.

¹⁶ Audit Report 04601-15-Ch, *Controls Over Single Family Housing Funds Provided for Hurricane Relief Efforts*, March 2007.

¹⁷ Title 7 C.F.R. 3550.2 and 3550.103 (e), January 1, 2005.

¹⁸ HB-1-3550, *Direct SFH Loans and Grants Field Office Handbook*, Appendix 16, November 7, 2007.

In this review, we evaluated the adequacy of these new procedures and whether any recipients did or could have received assistance from both Rural Development and other sources (e.g., insurance companies, charitable organizations, etc.). We selected 75 of 1,127 recipients in Louisiana and Mississippi that had grants or loans obligated to them between September 1, 2006, and December 31, 2008. We found that in the four field offices we visited, the field staff did not obtain the required certification statements from 18 of the 75 recipients, or 24 percent. In addition, we found that field staff did not contact insurance companies to verify that they did not make payments to any of the 36 recipients who had repairs that were potentially covered by insurance.¹⁹ Field staff gave several reasons for not complying with the new procedures: (1) they did not recall receiving the instructions until after the majority of the applications were processed, (2) they had misplaced the certification statements, and (3) they did not need to contact insurance companies.

We did not conduct audit testing, such as contacting insurance companies, to determine whether recipients received other assistance for the same purpose because the agency had not fully implemented the recommendations from our prior audit to prevent improper distribution of emergency funds. In that audit, we identified the same control weakness and reported six instances where applicants were eligible to receive up to \$90,000. Therefore, there was no need to conduct additional testing and we concluded that based on the prior abuse field staff possibly distributed assistance to recipients that already received the funding from another source.²⁰

We examined the procedures that agency officials issued in response to our previous report and found that they did not require field staff to obtain certification statements from recipients or contact insurance companies unless the underlying legislation stated that funds were to be used only to repair damage caused directly by a disaster. These procedures are not applicable when the underlying legislation states that housing assistance can be provided for economic recovery purposes in an area affected by a disaster. We also found that the procedures did not require field staff to contact insurance companies to verify whether the companies already provided recipients with assistance for the same repairs. Rather, the procedures allowed the contact to be optional.

In April 2009, RHS officials revised agency procedures that made it mandatory for field staff to contact insurance companies to verify that applicants had not already received assistance for the same purpose. These procedures also contained the requirement for obtaining recipient certifications. However, we found that the revised procedures still did not apply to all circumstances where housing assistance could be provided to applicants, but only in situations to repair physical damages to a residence caused directly by a disaster. For example, in our sample of 75 applications, funds were made available for recipients who met program requirements to finance housing repairs because they merely resided in an area affected by a disaster, not because their homes sustained damage caused directly by it. Under this circumstance, the revised

¹⁹ Of the 75 total recipients in our sample, 55 had insurance at the time of the hurricanes, of which 36 had repairs that could have been covered by their insurance companies.

²⁰ *Government Auditing Standards* states that if other auditors have completed audit work related to the objectives of the current audit, auditors may use this work to support findings or conclusions for the current audit, and thereby avoid duplication of efforts.

procedures would not have required field staff to contact insurance companies or obtain certification statements for the applications in our review.

In August 2009, we met with an RHS official to discuss our remaining concern with the procedures. That official also stated that field staff should be obtaining certification statements and contacting insurance companies in all circumstances and agreed that the procedures needed to be reviewed again.

National and State Rural Development officials provide oversight of field offices by conducting periodic internal reviews. State officials conduct SIRs to review operations and centralized program functions at its field offices within that State. National officials conduct MCRs every 5 years to review all assessable units within Rural Development, including the national, State, and field office levels. We found that neither of these reviews included procedures to determine whether field office staff were properly contacting insurance companies and obtaining recipient certifications.

RHS officials need to require that field staff contact insurance companies and obtain certification statements in all cases where disaster housing assistance is provided to recipients. Agency officials also need to include procedures in its internal reviews to verify that field staff are properly contacting insurance companies and obtaining certification statements from recipients after all disasters.

Recommendation 1

Require SFH field staff to contact insurance companies in all circumstances where emergency housing assistance is requested by applicants for repairs that are potentially covered by insurance and not just in circumstances where the assistance was to repair residences directly damaged by a disaster.

Agency Response

RHS officials concurred with this recommendation and will revise Appendix 16, “Single Family Housing Field Guidance on Disaster Declarations” of the Single Family Housing Loans and Grants Field Office Handbook (HB-1-3550), to require SFH field staff to contact insurance companies in all circumstances where emergency housing assistance is requested by applicants for repairs that are potentially covered by insurance. The time frame for these revisions will be March 31, 2011.

OIG Position

We accept RHS’ management decision.

Recommendation 2

Require SFH field staff to obtain certification statements from recipients in all circumstances where housing assistance is provided to recipients and not just to finance repairs to residences directly damaged by a disaster.

Agency Response

RHS officials concurred with this recommendation and will revise the Purpose Statement of Appendix 16 of HB-1-3550 to state “SFH field staff must obtain certification statements from recipients in all circumstance where recipients receive disaster assistance under a presidential disaster declaration.” The time frame for this revision is March 31, 2011.

OIG Position

We accept RHS’ management decision.

Recommendation 3

Revise the SFH procedures for conducting MCRs and SIRs to include a step to have reviewers verify that field staff are contacting insurance companies and obtaining certification statements from applicants after all disasters.

Agency Response

RHS officials concurred with this recommendation and will revise the MCR and SIR guides to include review questions that require the reviewers to verify that field staff are contacting insurance companies and obtaining certification statements from applicants after all disasters. These revisions will be made in conjunction with Section 504 and 502 MCRs and in the revision of SIR review guides that will be held after implementation of the Handbook updates discussed in the other recommendations (September 2011).

OIG Position

We accept RHS’ management decision.

Finding 2: Corrective Actions Not Fully Implemented on Prior Audit Findings

RHS officials did not correct program deficiencies that we identified from our two prior audits. These included such things as providing recipients with emergency funds for housing repairs even though they received the same benefit from other Federal agencies (e.g., FEMA), and improperly providing rental assistance to ineligible tenants and a management company. Overall, we found that the agency did not fully implement the corrective actions, as they agreed to, for 9 of 24 audit recommendations from our prior audits.²¹ The primary reason for this, according to RHS officials, was that they did not think corrective actions were necessary because the agency had no plans to provide emergency rental assistance again in the future. For other recommendations, RHS officials still needed to make minor clarifications to fully address them. As a result, the agency is not prepared to properly administer its housing programs in response to a disaster and not able to prevent unnecessary emergency assistance from being provided to recipients.

Departmental Regulations²² require agencies to implement agreed-upon corrective actions that are associated with audit recommendations in a timely manner. It further requires that the agency is to ensure that the corrective actions agreed to by the agency are completed as scheduled and that the completion of all actions is achieved unless the agency requests to change the originally agreed-upon corrective actions.²³ Finally, it is the agency's responsibility to ensure that if all corrective actions for an audit have not been implemented after 1 year that these actions are proceeding as intended.

During this audit, we reviewed all 24 recommendations issued from our prior two reports (see exhibit B).²⁴ To accomplish this review, we obtained from the Office of the Chief Financial Officer the documentation of the corrective actions RHS implemented in response to our two reports and evaluated whether these measures matched what the agency agreed to put in place. Overall, we found that RHS did not take agreed-upon corrective actions for three recommendations, and although actions were taken to address another six, the agency only partially implemented what it agreed to do. The following sections describe in detail each of these recommendations.

Agreed-Upon Actions Not Completed by the Agency

RHS did not complete corrective actions as they agreed to for three recommendations; two related to computer matching agreements and another recommendation that involved improper rental assistance.

²¹ Subsequent to audit fieldwork, RHS officials fully implemented another three of these recommendations.

²² Departmental Regulation 1720-001, April 22, 2002.

²³ All proposed changes are forwarded by the agency to the Office of the Chief Financial Officer (OCFO) and approved by the Office of Inspector General.

²⁴ Agreement was reached between RHS and OIG (i.e., management decision) on the corrective actions to address all 24 recommendations.

In September 2006, we reported that some program recipients received overlapping housing assistance from RHS and other Federal agencies, such as FEMA and the U.S. Department of Housing and Urban Development (HUD). We found that over 44 percent (68 of 154) of the recipients in our sample received housing assistance from more than one Federal agency. This included 63 recipients who received over \$86,000 in assistance from Rural Development and also received over \$133,000 in housing assistance from another Federal agency. To ensure that this condition did not recur during the next disaster, we recommended that RHS develop computer matching agreements with other Federal agencies (see exhibit B: MFH Audit Recommendation 1 and SFH Audit Recommendation 1).

In response, RHS officials stated that they were actively engaged with FEMA and HUD and agreed to develop working agreements with these agencies that would include provisions from our recommendations.²⁵ Agency officials stated that they were committed to achieving these agreements within 1 year. However, after over 3 years, RHS officials have yet to complete any matching agreements with FEMA and HUD, that would for future disasters, check applicant information before and after providing rental assistance to recipients to prevent and detect duplicate payments. According to RHS officials, they did not pursue matching agreements with HUD and FEMA because they have no plans to ever provide emergency rental assistance again in response to future disasters. Therefore, they stated developing these agreements would be counterproductive.

RHS officials have twice (March 2009 and October 2009) requested approval to change the corrective actions that they originally agreed to implement. We denied both requests because the alternative corrective actions proposed by RHS officials would not prevent unnecessary assistance during future disasters. We also disagree with RHS officials' assertion that developing these agreements would be counterproductive because in our opinion the agency could be directed to provide emergency rental assistance again by Congress.

RHS did not complete the agreed-upon actions for a third recommendation that we identified (see exhibit B: MFH Audit Recommendation 14). We also reported in 2006 that an owner of a management company participating in RHS' Rural Rental Housing (RRH) Program had required tenants to pay rent even though the agency had provided rental assistance on their behalf. These tenants were not aware that USDA was providing assistance; and therefore, did not question the owner. As a result, some tenants who could no longer afford to pay rent vacated their units under threat of eviction. Others paid rent to the owner even though the agency was providing rental assistance to the owner. The tenants informed us that they paid over \$20,000 to the owner, even though the agency had paid the owner almost \$34,000 in emergency rental assistance. Five of the 17 tenants were able to provide us receipts for the payments.

We recommended that the agency determine the total amount of improper rental assistance provided to the management company and require reimbursement of those funds. The agency agreed to collect the improper assistance from the management company. However, after more

²⁵ We made two separate recommendations from our previous audits for RHS to develop computer matching agreements. In 2006, we recommended these agreements be developed for RHS' Multi-Family Housing Program. Additionally, in 2007, we recommended that the Single Family Housing Program also be included in these agreements.

than 3 years, the agency still has yet to determine the amount of funds to collect back from the owner and request a reimbursement to the government. According to RHS officials, as of February 2010, the Mississippi State Rural Development Office was still in the process of finalizing its analysis. Once the analysis is completed they will issue a demand letter for the management company to repay the improper payments. The RHS officials stated that competing agency priorities had prevented a timelier completion of this corrective action. RHS needs to complete the corrective actions to determine the amount of rental assistance that was improperly provided to the management company identified in our prior audit report and to obtain timely reimbursement of these funds.

Corrective Actions Taken on Prior Recommendations Were Inadequate

The agency did not fully implement agreed to corrective actions for another six recommendations from our prior audits. (See Finding 1 for discussion of two of these six recommendations, which are from our prior report on the SFH Program.)

One issue we reported in 2006 was that property owners participating in the RRH Program had signed up disaster victims for rental assistance without asking those victims if they had received housing assistance from another Federal agency, such as FEMA or HUD. RHS' disaster guidance did not require property owners to query the disaster victims about housing assistance they received from other agencies. In the prior report, we recommended that RHS develop specific guidance for owners to question disaster victims regarding the disclosure and reporting of housing assistance provided by other Federal agencies (see exhibit B: MFH Audit Recommendation 2). In response to this recommendation, RHS agreed to 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 subsidies in the form of rental assistance.

RHS officials amended the agency's procedure handbook to require property managers to inquire about, and obtain verification of, receipt of rental assistance provided by any governmental agency. These procedures required the property managers to record rental assistance received from other sources as income on the Tenant Certification Form,²⁶ but if this assistance was received in a lump sum, it would be recorded as exempt income. Since assistance received in a lump sum would be recorded as exempt income, we concluded that the agency's corrective action would not identify rental assistance from other agencies, which is necessary to ensure that the agency does not provide additional rental assistance. RHS officials need to establish more effective procedures to identify tenants receiving other rental assistance. We met with RHS officials in February 2010, and they agreed to revise the procedure handbook to include wording to identify tenants receiving other rental assistance.²⁷

Another issue we reported in 2006 was that the Multi-Family Housing Information System (MFIS) contained incorrect RHS disaster codes and missing or erroneous FEMA numbers. We estimated that the number of tenants not coded as disaster victims in MFIS was likely in the hundreds. The correction of these issues would improve the accuracy of data shared with other

²⁶ Tenant Certification Form RD 3560-8.

²⁷ HB-2-3560, *MFH Asset Management Handbook*, August 7, 2009.

Federal agencies. We recommended that RHS officials develop and implement procedures to verify data input into MFIS by owners (see exhibit B: MFH Audit Recommendation 4). RHS officials agreed to develop and implement procedures to ensure that accurate data is provided by owners. However, we found in our current audit that the corrective action implemented by RHS only addressed ensuring that FEMA data was correctly input. It did not include controls to ensure that disaster codes were accurately input to the system. RHS officials need to implement procedures to verify that owners correctly entered RHS disaster codes into MFIS. In February 2010, we discussed our concern with RHS officials who agreed with our findings and to update the procedure handbook to include disaster codes in its random sampling of evacuee files.

In 2006, we reported that tenants improperly received emergency disaster assistance. For example, five owners of RRH Program property reclassified 85 tenants who had resided in the same unit prior and subsequent to Hurricanes Katrina and Rita as disaster victims even though there was no change in their income or overall circumstances. Those victims improperly received almost \$65,000 in rental assistance. We recommended that RHS officials develop procedures to monitor owner and management agent activities during a disaster and to analyze and investigate instances where unusually high numbers of tenants were classified as victims (see exhibit B: MFH Audit Recommendation 11).

In response to our recommendation, RHS officials revised the agency's handbook to include procedures for agency officials to monitor property manager activities during a disaster. However, they omitted the portion of the recommendation to analyze and investigate instances where an unusually high number of tenants are classified as victims. We made the recommendation to prevent ineligible tenants from receiving emergency rental assistance during future disasters. We discussed our concern with RHS officials in February 2010, and they agreed to insert into the procedure the portion that they omitted: to review properties that have an unusually high number of tenants classified as disaster evacuees (in cases where emergency rental assistance has been provided).

Finally, we found during our prior audits that Rural Development field offices used emergency appropriations to provide loans and grants for over \$329,000 in repairs and improvements that were not related to hurricane damage. The legislation that funded the loans and grants stated that emergency funds were provided to respond to damage caused by the hurricanes. However, agency officials interpreted that the legislation was for economic recovery, and that anyone residing in the disaster area who met program requirements, even if they had not incurred hurricane damage, was eligible for the funds.

To avoid confusion regarding the use of funding involving future legislation, we recommended that RHS officials obtain a formal Office of General Counsel (OGC) opinion regarding the appropriate use of emergency funds prior to approving applications for future disasters (see exhibit B: SFH Audit Recommendation 4). In response, RHS officials updated agency instructions²⁸ to require an OGC opinion regarding the use of funds. However, the word "prior" was not included in the instructions to ensure that RHS officials obtain an OGC opinion before approving any applications for future disasters. Including the word "prior" would ensure that before Rural Development processes any applications that it is clear whether the emergency

²⁸ RD Instruction 1940-L, Exhibit A, Attachment 2, Part II, Subpart C, page 4, #7, August 26, 2009.

funds are to be used only for disaster-related damage or whether they may be used for economic recovery purposes. We discussed this concern with RHS officials and they agreed to update the wording of the instructions.

Subsequent to our fieldwork, RHS officials fully implemented the agreed to corrective actions for three of these recommendations. This included revising the agency's handbook²⁹ to include: 1) wording to identify tenants receiving rental assistance from other sources; 2) controls to verify that disaster codes are entered correctly in MFIS (during the random sampling of evacuee files); and 3) analyzing and investigating instances where an unusually high number of tenants are classified as victims and receive emergency rental assistance (see exhibit B: MFH Audit Recommendations 2, 4, and 11).

Recommendation 4

Require SFH officials to obtain an OGC opinion on the appropriate use of funds before approving any applications for housing assistance that are funded by supplemental disaster appropriations.

Agency Response

RHS officials concurred with this recommendation and will revise Rural Development Instruction 1940-L, Exhibit A, Attachment 2, Part II, Subpart C, "Natural Disaster Funds," to state that "Rural Development will obtain a formal OGC opinion regarding the appropriate use of supplemental disaster funds prior to approving applications for future disasters." The time frame for these revisions will be in the Fiscal Year 2011 Rural Development Instruction 1940-L revision.

OIG Position

We accept RHS' management decision.

Finding 3: Grant Funds Used for Ineligible Purposes

Agency field officials had approved applications for grant funds³⁰ that included ineligible repairs and improvements. Over 92 percent (58 of 63) of the grant applications we examined in four Mississippi and Louisiana field offices included repairs and improvements that did not appear to be related to the health, safety, or handicap accessibility of the recipient, as required by program regulations. We attributed this deficiency to the lack of action by agency national officials, who had identified this problem during a 2005 MCR, but failed to implement adequate internal controls to require field staff to sufficiently document that the repairs were for eligible purposes. Overall, we questioned the use of about \$452,000 in grant funds.

²⁹ HB-2-3560, *MFH Asset Management Handbook*, August 7, 2009.

³⁰ Section 504 grants.

Agency regulations state that grant funds are to be used only for repairs and improvements that will remove identified health and safety hazards or to make dwellings accessible and useable for household members with disabilities.³¹ The agency's handbook³² lists several examples of prohibited uses of grant funds, including the purchase and installation of ranges and walkways.³³ To determine if agency officials adhered to regulations, we visited four field offices in Louisiana and Mississippi and reviewed 63 grant files valued at over \$880,000.³⁴ We analyzed the completed repair lists³⁵ for these grants and focused our review on determining if the grant files contained adequate evidence to demonstrate compliance with regulations.

We found that 58 of the 63 grant applications contained \$452,449 in ineligible or questionable repairs. Four of these grants included repairs totaling \$5,330 that were specifically prohibited by program regulations, such as replacing a kitchen stove or installing a concrete walkway. The remaining \$447,119 in repairs appeared to be ineligible based on the descriptions provided on the repair list and because field staff did not maintain sufficient documentation to justify that they were for health and safety or handicap accessibility purposes. Some of the questionable repairs included:

- Purchasing of new kitchen or bathroom cabinets and countertops (totaling over \$57,000);
- Installing crown molding (totaling over \$5,000);
- Purchasing and installing ceiling fans (totaling over \$2,800); and
- Painting of walls and ceilings (totaling over \$22,000).

Rural Development's last nationwide MCR,³⁶ performed in 2005, found that grant applicant files lacked sufficient documentation to justify the health and safety purpose of the repairs. To address concerns reported in the MCR, on March 10, 2006, RHS officials issued a memorandum to State SFH program directors outlining requirements for Section 504 loans and grants. This memorandum stated that the loan official must carefully document the circumstances to justify the existence of health and safety hazards. It further stated that photographs are needed to clearly identify health and safety hazards during the initial visit, and to show that they have been removed. However, this memorandum expired on January 31, 2007. In addition, neither current agency regulations nor the procedure handbook require field staff to maintain documentation to justify that repairs were for eligible purposes. We believe that the documentation requirements that were outlined in the unnumbered memorandum to justify the removal of health and safety hazards were adequate internal controls for RHS to permanently implement into its procedure handbook to prevent grant funds from being used for ineligible purposes.

³¹ Title 7 C.F.R. 3550.102 (a), January 1, 2005.

³² HB-1-3550, *Direct SFH Loans and Grants Field Office Handbook*, Chapter 12, November 7, 2007.

³³ Appendix 16 of this handbook does allow the use of disaster funds for the replacement of ranges and reconstruction of walkways; however, we found that it did not apply to the 2005 disaster appropriation grants that we reviewed in this audit (see Finding 1).

³⁴ The 63 grants consisted of 45 recipients who received a grant and 18 recipients who received both a grant and a loan.

³⁵ A repair list is a form prepared by the field staff that lists all approved repair and improvement items to be submitted to contractors for bids.

³⁶ Fiscal Year 2005 MCR, RHS, SFH, Section 504 Loans and Grants, July 20, 2005.

An RHS official agreed that field staff should be documenting that the grant funds were used for repairs to remove a health and safety hazard and that they need to place more emphasis on this in the agency's handbook. State officials and field staff also agreed with our concerns and stated that they should be documenting the health and safety reason for the repairs in the grant files.

Recommendation 5

Amend the *Direct SFH Loans and Grants Field Office* handbook to include the documentation requirements that were outlined in the expired memorandum (dated March 10, 2006) to prevent grant funds from being used for ineligible purposes. This should include requiring field staff to completely document how each repair and improvement would remove a health and safety hazard or would make dwellings accessible and usable for household members with disabilities.

Agency Response

RHS officials concurred with this recommendation and will revise HB-1-3550, Chapter 12 and Appendix 16 to include the documentation requirements to justify the existence of health and safety hazards for each repair or to make dwelling accessible and usable for household members with disabilities to insure that funds are used for eligible purposes. The time frame for these revisions will be March 31, 2011.

OIG Position

We accept RHS' management decision.

Scope and Methodology

We conducted our audit of RHS' controls over disaster assistance payments at its national office in Washington, D.C., the Louisiana Rural Development State Office, two field offices in Mississippi, and two field offices in Louisiana. We also contacted officials at the USDA Office of the Chief Financial Officer in Washington, D.C.

The period of review was September 1, 2006, through December 31, 2008. During that period, Rural Development continued to obligate funds from the 2005 disaster appropriations³⁷ and had obligated only a small portion of the 2007 disaster appropriation.³⁸ In addition, none of the 2008 disaster appropriation had been obligated. Thus, we focused our audit on the 2005 disaster appropriation, which provided funding for SFH Program loans and grants.³⁹ We also included in our audit the almost \$17 million that Rural Development allocated out of its regular appropriations to provide emergency rental assistance to hurricane victims through the RRH Program. The 2005 appropriation did not provide any funding for RRH Program loans or grants.

During the period of our review, Rural Development had obligated over \$1 billion in guaranteed loans, over \$121 million in direct loans, over \$3.1 million in repair loans, and almost \$14.5 million in grants.

We judgmentally selected 2 out of 5 States, Louisiana and Mississippi, because they obligated almost 84 percent (\$959,838,117 of \$1,148,877,932) of the total obligations from the 2005 disaster appropriation. We judgmentally selected 4 of 21 field offices, two in each State, to review based on the number of potential problems identified during our analysis of loan and grant eligibility. These potential problems included loans, grants, and guarantees made to recipients who resided in areas that did not meet the population requirement for a rural area, or who resided in a county that was not included in the disaster declaration. We selected and reviewed documentation for 75 of 1,127 recipients in Louisiana and Mississippi who had loans and grants obligated to them during our period of review. We also visited the Louisiana State office because all of the Section 502 guaranteed loans were processed through that office. We did not visit the Mississippi State office because all loans and grants in that State are processed at field locations.

To accomplish our objectives, we performed the following procedures:

- Reviewed applicable laws, regulations, and guidance related to the RRH and SFH Programs;
- Reviewed RHS' policies, procedures, and management controls for approving applications for RRH and SFH Program loans, loan guarantees, and grants;

³⁷ Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, December 30, 2005.

³⁸ U.S. Troop Readiness, Veterans' Care, Katrina Recover, and Iraq Accountability Appropriations Act, May 25, 2007. It appropriated \$40 million in disaster assistance, but as of mid-February 2009, only \$2 million had been obligated.

³⁹ This included Section 502 loans (direct and guaranteed), and Section 504 loans and grants.

- Evaluated the corrective actions implemented as a result of our two prior audits of RHS controls over disaster assistance funding;
- Analyzed 2005 disaster appropriations information;
- Interviewed agency officials to verify procedures used to distribute disaster funds;
- Reviewed Section 502 Direct and Guaranteed loan files and Section 504 loan and grant files in Louisiana and Mississippi; and
- Interviewed Section 504 loan and grant recipients to confirm information provided to the agency to determine if they had received housing assistance from other Federal agencies or other sources, such as insurance companies or charitable organizations.

We conducted our fieldwork from January 2009 through March 2010. Our audit was conducted in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In addition, RHS officials provided to OIG data containing all obligations from the 2005 and 2007 supplemental appropriations. We make no representations regarding the accuracy or reliability of this data as it was not assessed and information system controls were not part of our audit objective.

Abbreviations

C.F.R	Code of Federal Regulations
FEMA	Federal Emergency Management Agency
HUD	Housing and Urban Development
MCR	Management Control Review
MFH	Multi-Family Housing
MFIS	Multi-Family Housing Information System
OCFO	Office of the Chief Financial Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
RHS	Rural Housing Service
RRH	Rural Rental Housing
SFH	Single Family Housing
SIR	State Internal Review
USDA	United States Department of Agriculture

Exhibit A: Summary of Monetary Results

Finding Number	Description	Amount	Category
3	Emergency funds provided for repairs and improvements not related to health and safety or handicap accessibility.	\$452,449	Funds to be Put to Better Use
TOTAL		\$452,449	

Exhibit A presents a summary of monetary results for our audit report. There are four columns in this exhibit. The first column lists the finding number. The second column describes why the funds were inefficiently used. The third column is the dollar amount of the exception. The fourth column states the funds to be put to better use.

Exhibit B: Prior Audit Recommendations

Audit Report No. 04601-0013-Ch – Controls Over Multi-Family Housing Funds Provided for Hurricane Relief Efforts (September 2006)

Recommendation Number	Recommendation	Final Action (Yes or No)	Recommendation Adequately Implemented (Yes or 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.	No	No
2	Develop specific guidance for owners to question disaster victims regarding the disclosure and reporting of housing assistance provided by other Federal agencies.	Yes	Yes*
3	Establish procedures to monitor owner and victim compliance with agency requirements in future disasters.	Yes	Yes
4	Develop and implement procedures to verify data input into MFIS by owners.	Yes	Yes*
5	Require owners to provide FEMA documentation to ensure the legitimacy of the number and the individual to whom it is assigned.	Yes	Yes
6	Require second party reviews of FEMA data input into MFIS.	Yes	Yes
7	Establish system controls, such as edit checks, within MFIS to detect missing data and prevent inaccurate data from being inputted into the system.	Yes	Yes

Exhibit B: Prior Audit Recommendations (con't.)

Audit Report No. 04601-0013-Ch – Controls Over Multi-Family Housing Funds Provided for Hurricane Relief Efforts (September 2006)

Recommendation Number	Recommendation	Final Action (Yes or No)	Recommendation Adequately Implemented (Yes or No)
8	Develop and implement procedures to analyze data contained within MFIS.	Yes	Yes
9	Modify MFIS to reflect rental assistance provided to individual disaster victims.	Yes	Yes
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.	Yes	Yes
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.	Yes	Yes*
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.	Yes	Yes
13	Establish procedures to monitor the activities of owners and management agents after disasters.	Yes	Yes
14	Determine the total amount of improper rental assistance provided to the management agent, and require reimbursement of those funds.	No	No

*RHS officials fully implemented these recommendations subsequent to audit fieldwork

Exhibit B: Prior Audit Recommendations (con't.)

Audit Report No. 04601-0015-Ch – Controls Over Single Family Housing Funds Provided for Hurricane Relief Efforts (March 2007)

Recommendation Number	Recommendation	Final Action (Yes or No)	Recommendation Adequately Implemented (Yes or No)
1	Include the SFH Program in the computer matching agreement currently being developed with HUD for multi-family housing, and with all subsequent agreements between RHS and other Federal agencies such as FEMA and SBA.	No	No
2	Develop policies that require field staff to query individuals about housing assistance received from other sources during disasters, and procedures to identify assistance provided by those sources.	Yes	No
3	Require applicants to disclose any assistance from other sources, and certify that the applicant has provided all information under threat of criminal penalties.	Yes	No
4	Obtain a formal OGC opinion regarding the appropriate use of emergency funds prior to approving applications for future disasters.	Yes	No
5	Develop procedures that provide guidance to field staff on the proper use of emergency funds after disasters.	Yes	Yes
6	Establish procedures to monitor field office procedures immediately following a disaster.	Yes	Yes
7	Require field officials, where applicable, to verify all contractor licenses.	Yes	Yes

Exhibit B: Prior Audit Recommendations (con't.)

Audit Report No. 04601-0015-Ch – Controls Over Single Family Housing Funds Provided for Hurricane Relief Efforts (March 2007)

Recommendation Number	Recommendation	Final Action (Yes or No)	Recommendation Adequately Implemented (Yes or No)
8	Develop guidance and procedures, where applicable, for field staff to use when verifying contractor licenses through a State Board of Contractors (either through a website and the telephone), and for documenting verification in case files.	Yes	Yes
9	Require the separation of duties between loan and grant originators and approving officials, and develop procedures for those individuals to follow during a disaster.	Yes	Yes
10	Develop policy and procedures for contacting borrowers after future disasters to classify borrower accounts and handling uninhabitable property at the least cost to the agency.	Yes	Yes

Exhibit B presents the 24 recommendations from our prior two audit reports; Controls Over Multi-Family Housing Funds Provided for Hurricane Relief Efforts, Report Number 04601-13-Ch, released September 2006; and Controls Over Single Family Housing Funds Provided for Hurricane Relief Efforts, Report Number 04601-15-Ch, released March 2007. There are four columns in the exhibit. The first column lists the recommendation number. The second column describes what we recommended. The third column lists whether final action was achieved. The fourth column indicates whether or not each recommendation was adequately implemented.

USDA'S

Rural Housing Service

RESPONSE TO AUDIT REPORT



**United States Department of Agriculture
Rural Development**

December 15, 2010

TO: Gil H. Harden
Assistant Inspector General for Audit

FROM: Tammye Trevino /s/ Tammye Trevino
Administrator
Rural Housing Service

SUBJECT: Controls Over Rural Housing Service Disaster Assistance Payments
Audit Report Number 04601-19-CH

We have reviewed the official draft report of the subject audit and are providing responses to the five findings and recommendations presented in your memorandum of October 25, 2010.

Recommendation Number 1:

Requires Single Family Housing (SFH) field staff to contact insurance companies in all circumstances where emergency housing assistance is requested by applicants for repairs that are potentially covered by insurance and not just in circumstances where the assistance was to repair residences directly damaged by a disaster

Agency Response:

We concur with this recommendation and will revise Appendix 16, "Single Family Housing Field Guidance on Disaster Declarations" of the Single Family Housing Loans and Grants Field Office Handbook (HB-1-3550), to require SFH field staff to contact insurance companies in all circumstances where emergency housing assistance is requested by applicants for repairs that are potentially covered by insurance.

The time frame for these revisions will be March 31, 2011.

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Washington, DC 20250-9410 or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

Recommendation Number 2:

Require SFH field staff to obtain certification statements from recipients in all circumstances where housing assistance is provided to recipients and not just to finance repairs to residences directly damaged by a disaster.

Agency Response:

We concur with this recommendation and will revise the Purpose Statement of Appendix 16 of HB-1-3550 to state “SFH field staff must obtain certification statements from recipients in all circumstance where recipients receive disaster assistance under a presidential disaster declaration.”

The time frame for this revision is March 31, 2011.

Recommendation Number 3:

Revise the SFH procedures for conducting MCRs and SIRs to include a step to have reviewers verify that field staff are contacting insurance companies and obtaining certification statements from applicants after all disasters.

Agency Response:

We concur with this recommendation and will revise the MCR and SIR guides to include review questions that require the reviewers to verify that field staff are contacting insurance companies and obtaining certification statements from applicants after all disasters.

These revisions will be made in conjunction with Section 504 and 502 MCRs and in the revision of SIR review guides that will be held after implementation of the Handbook updates discussed in the other recommendations (September 2011).

Recommendation Number 4:

Require SFH officials to obtain an OGC opinion on the appropriate use or funds before approving any applications for housing assistance that are funded by supplemental disaster appropriations.

Agency Response:

We concur with this recommendation and will revise Rural Development (RD) Instruction 1940-L, Exhibit A, Attachment 2, Part II, Subpart C, “Natural Disaster Funds”, to state “that Rural Development will obtain a formal Office of General Counsel (OGC) opinion regarding the appropriate use of supplemental disaster funds prior to approving applications for future disasters.”

The time frame for these revisions will be in the Fiscal Year 2011 RD Instruction 1940-L revision.

Recommendation Number 5:

Amend the Direct Loan and Grants Field Office Handbook to include the documentation requirements that were outlined in the expired memorandum (dated March 10, 2006) to prevent grant funds from being used for ineligible purposes. This should include requiring field staff to completely document how each repair and improvement would remove health and safety hazard or would make dwellings accessible and usable for household members with disabilities.

Agency Response:

We concur with this recommendation and will revise HB-1-3550, Chapter 12 and Appendix 16 to include the documentation requirements to justify the existence of health and safety hazards for each repair or to make dwelling accessible and usable for household members with disabilities to insure that funds are used for eligible purposes.

The time frame for these revisions will be March 31, 2011.

We look forward to implementing these recommendations to provide better oversight of our programs. If you have any questions regarding this memorandum, please contact the Single Family Housing Direct Loan Division at 720-1474.