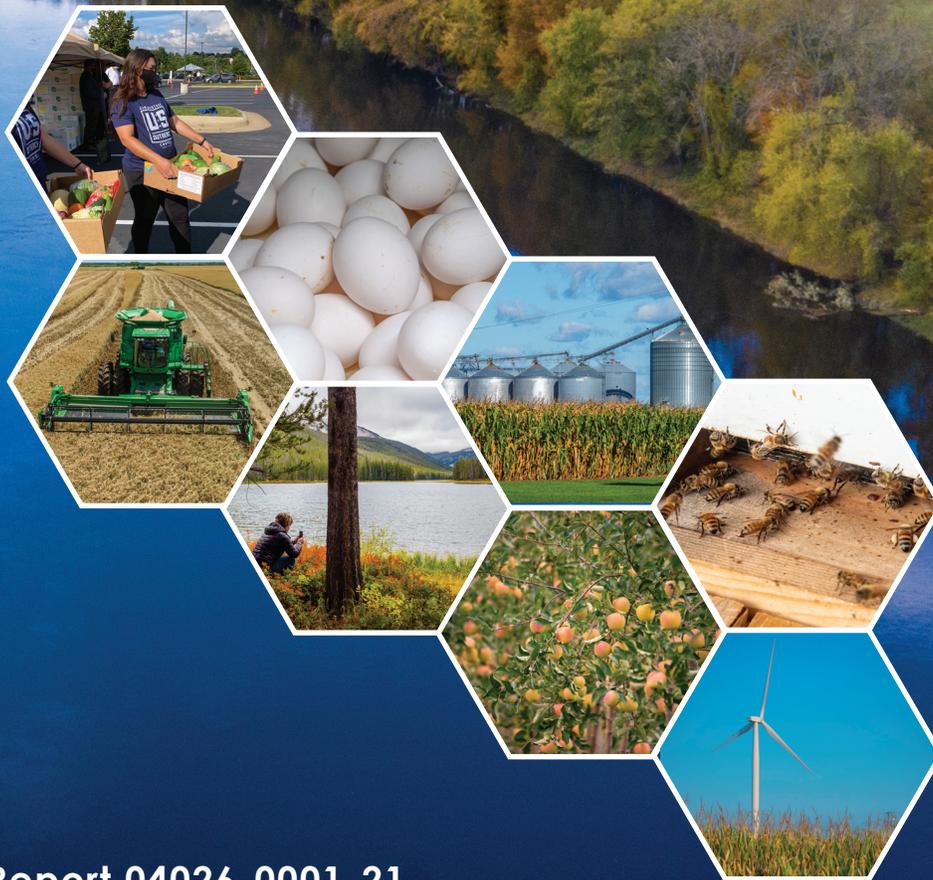


Final Action Verification—Single Family Housing Guaranteed Loan Program—Liquidation Value Appraisals



Report 04026-0001-21

September 2021

OFFICE OF INSPECTOR GENERAL



DATE: September 24, 2021

FAV
NUMBER: 04026-0001-21

TO: Lucas Castillo
Associate Chief Financial Officer
Office of the Chief Financial Officer

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Final Action Verification—*Single Family Housing Guaranteed Loan Program—
Liquidation Value Appraisals*

The Office of Inspector General (OIG) completed a final action verification of all three recommendations in our September 2018 interim report, *Single Family Housing Guaranteed Loan Program—Liquidation Value Appraisals—Interim Report* (Audit Report 04601-0001-23(1)). OIG also completed a final action verification of all six recommendations in our August 2019 final report, *Single Family Housing Guaranteed Loan Program—Liquidation Value Appraisals* (Audit Report 04601-0001-23). Final action verification (FAV) determines whether the final action documentation the agency provides to the Office of the Chief Financial Officer (OCFO) supports the agency's management decision reached with OIG.^{1, 2} Our objective was to determine whether the documentation the Rural Housing Service (RHS) provided to OCFO was sufficient to close all the recommendations made in Audit Reports 04601-0001-23(1) and 04601-0001-23.

OCFO accepted final action for the interim report's recommendations on April 18, 2019, and accepted final action for the final report on September 4, 2020. Based on our review of the documentation in OCFO's files, we concur with OCFO's decision to close Recommendations 2 and 3 from the interim report and all six recommendations from the final report. Table 1 summarizes the actions RHS took for these recommendations. However, we do not concur with OCFO's decision to close Recommendation 1 from the interim report. Table 2 provides information on Recommendation 1 from the interim report, including why the documentation provided was not sufficient to close the recommendation.

As noted in its September 1, 2021, response to our draft report, OCFO agreed to reopen

¹ *Final action* is the completion of all actions that management has concluded, in its management decision, are necessary with respect to the finding and recommendations included in an audit report. USDA Departmental Regulation 1720-001, 6g(1), Audit Follow-up and Management Decision (Nov. 2, 2011).

² *Management decision* is an agreement between agency management and OIG on the action(s) taken or to be taken to address a finding and recommendations cited in an audit report. The management decision must include the agreed-upon dollar amount affecting the recommendations and an estimated completion date unless all corrective action is completed by the time agreement is reached. USDA Departmental Regulation 1720-001, 6i, Audit Follow-up and Management Decision (Nov. 2, 2011).

Recommendation 1 from the interim report, issue a memorandum to RHS to request documentation to satisfy the recommendation, and inform RHS to follow the formal process to request final action. The response indicated OCFO expected to have these actions taken by September 10, 2021. In addition, OCFO provided OIG information informally obtained from RHS that substantiated RHS took corrective action to address the recommendation.

Background

Our interim report, *Single Family Housing Guaranteed Loan Program—Liquidation Value Appraisals—Interim Report*,³ included three recommendations on RHS' controls over liquidation value appraisals to safeguard the SFH Guaranteed Loan Program against overstated loss claims. Our final report, *Single Family Housing Guaranteed Loan Program—Liquidation Value Appraisals*,⁴ included six additional recommendations.

OIG and RHS reached management decision on all three recommendations in the interim report in a memorandum dated September 11, 2018, and on the six recommendations from the final report in a memorandum dated August 15, 2019. In addition, the memoranda detailed what corrective actions RHS needed to implement in order to achieve final action on the recommendations.

In accordance with USDA Departmental Regulation 1720-001,⁵ OCFO has the responsibility to determine final action for recommendation(s) where OIG has agreed to management decision. As such, OCFO evaluates agency-provided documentation to support planned corrective actions and to determine if final action has occurred.

Scope and Methodology

The scope of this final action verification was limited to determining whether RHS' plans of action for all recommendations in the subject reports were completed in accordance with the management decisions reached on September 11, 2018, and August 15, 2019. To accomplish our objective, we reviewed documentation of corrective actions RHS submitted to OCFO. We did not perform internal control testing or make site visits to determine whether the underlying deficiencies that were initially identified have been corrected. In addition, we did not provide an opinion on the results of the implementation or effectiveness of each recommendation. This final action verification was conducted in accordance with our internal guidance: IG-7710, *Non-audit Work*,⁶ and *Final Action Verification—Guidance and Procedures*.⁷ As a result, this final action verification is not conducted in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States, or the *Quality Standards for Inspection and Evaluation*, issued by the Council of the Inspectors General for

³ Audit Report 04601-0001-23(1), *Single Family Housing Guaranteed Loan Program—Liquidation Value Appraisals—Interim Report*, Sept. 2018.

⁴ Audit Report 04601-0001-23, *Single Family Housing Guaranteed Loan Program—Liquidation Value Appraisals*, Aug. 2019.

⁵ USDA Departmental Regulation 1720-001, 7d(1-9), Audit Follow-up and Management Decision (Nov. 2, 2011).

⁶ IG-7710, *Non-audit Work*, (Sept. 20, 2018).

⁷ USDA OIG, *Final Action Verification Guidance and Procedures* (May 2019).

Integrity and Efficiency. However, before we performed this non-audit service, we determined that following our guidance would not impair our independence to perform audits, inspections, attestation engagements, or any other future or ongoing reviews of the subject.

Results of Final Action Verification

Recommendations with Sufficient Documentation

We determined that RHS provided sufficient documentation to OCFO to close two recommendations we made in our September 2018 interim audit report, *Single Family Housing Guaranteed Loan Program—Liquidation Value Appraisals—Interim Report* (Recommendations 2 and 3). We also determined that RHS provided sufficient documentation to OCFO to close all six recommendations we made in our August 2019 final audit report, *Single Family Housing Guaranteed Loan Program—Liquidation Value Appraisals*. We detail the reasons for our determinations in Table 1.

Table 1. Recommendations with Sufficient Documentation to Achieve Final Action

Rec. No.	Recommendation	Action Taken
2 (Interim Report)	Recover approximately \$768,722 in funds due to Rural Development from lenders.	RHS reported to OCFO that RHS collected \$768,722 in funds due to RHS from lenders. RHS provided OCFO with a spreadsheet totaling \$768,722. RHS also provided OCFO with screenshots from the Guaranteed Loan System (GLS) that shows the collected amounts.
3 (Interim Report)	Issue formal guidance to address the recovery calculator issue until the system is updated or future recoveries are eliminated.	RHS provided OCFO with an email sent to the loss claim specialists to inform them on how to handle the future recovery calculator issue. RHS also provided the updated desk procedures that included the updated future recovery procedure (for loss claim specialists to follow when recovery calculators are completed before the loss claim is paid).

Rec. No.	Recommendation	Action Taken
1(Final Report)	Verify the appraisal amounts entered in GLS by the lenders for the 2,068 loans in our universe and take action to address the potential inaccuracies of \$2.1 million.	RHS provided OCFO with a sample of screen prints of the cover page to show that RHS compared the liquidation value in GLS to the cover page of the liquidation value appraisal. RHS also provided OCFO with documentation from GLS that showed the account errors were corrected for discrepancies found to include the corrected appraisal amount, the GLS field showing when receivable was established, and the date it was established for the overpayment. For underpayments, documentation included the corrected appraisal amount, adjusted payment amount, and the date it was made. RHS verified the appraisal amounts entered in GLS by the lenders for the 2,068 loans in our universe and took action to address the potential inaccuracies of \$2.1 million.
2 (Final Report)	Update procedures to ensure that errors identified by reviewing officials are corrected prior to issuance of loss claim payments.	RHS provided OCFO with a copy of the revised loss claim desk procedures RHS issued June 27, 2018, to ensure errors identified by reviewing officials are corrected prior to the issuance of loss claim payments. In addition, RHS also provided copies of the training agendas and attendees' sign-in sheets for the training provided to the risk management specialists on loss claim payment procedures and the appraisers on the appraisal review procedures.

Rec. No.	Recommendation	Action Taken
3 (Final Report)	Submit a Request for Automation to automate the process to capture the dates lenders order and receive the liquidation value appraisals for loss claims: and establish edit thresholds for late submissions, or in the future, the date of the market value appraisal, to ensure the Customer Service Center is able to track timeliness of loss claim submissions.	RHS provided OCFO the Request for Automation for changes to capture the dates lenders order and receive the liquidation value appraisals for loss claims or to capture the market value appraisal for Deed-in-Lieu/real estate owned (REO) not Sold and Settle at Acquisition claim types. RHS provided OCFO with a request for a threshold edit code to trigger for late loss claim submissions for all loss claim types, allowing the Customer Service Center to track the timeliness of late claim submissions. RHS additionally provided OCFO acknowledgement that the Customer Service Center National Financial and Accounting Operations Center received the Request for Automation.
4 (Final Report)	Review timeframes regarding the processing of liquidation value appraisals loss claims in 7 C.F.R. § 3555 ⁸ and HB 1-3555 ⁹ and correct inconsistencies. Additionally, RHS needs to clarify when late-filed loss claims may be rejected.	RHS provided OCFO with a copy of the approved amended Handbook Chapter 19. RHS updated Handbook Chapter 19 and language in 7 C.F.R. § 3555 to incorporate the new claim type Settle at Acquisition, which replaces REO Unsold claim settlements. RHS also provided OCFO with the updated 7 C.F.R. § 3555, which became effective on April 24, 2020.

⁸ 7 C.F.R. pt. 3555, Single Family Housing Guaranteed Loan Program.

⁹ HB 1-3555, Single Family Housing Guaranteed Loan Program Technical Handbook, Sec. 19.5(C).

Rec. No.	Recommendation	Action Taken
5 (Final Report)	Determine which loans, from the universe of 2,068, have outstanding future recovery funds due to Rural Development from the estimated \$6.4 million and follow up, as necessary.	RHS provided OCFO with the complete universe of the 2,068 loans to determine if they had any outstanding future recovery funds due. Of the 2,068 loans, RHS determined 508 loans had outstanding future recovery funds due to RHS. RHS also provided a copy of the modified desk procedures implemented in March 2019 with RHS' new procedures for future recovery, along with documentation that RHS has implemented the new procedures. RHS additionally provided OCFO documentation to show that it has implemented the procedures for at least 3 months by providing the lender follow up emails that include a comprehensive list of accounts.
6 (Final Report)	Develop and implement procedures to ensure that follow up on the status of REO properties with lenders is completed timely and documented.	RHS provided OCFO with a copy of the Desk Procedures they implemented in March 2019 to ensure follow-up on outstanding REO properties. RHS also provided OCFO documentation that RHS implemented the new desk procedures for at least 3 months by providing OCFO with lender follow-up emails documenting its follow-up on a comprehensive list of REO accounts.

Recommendation without Sufficient Documentation

RHS did not provide sufficient documentation to OCFO for Recommendation 1 of the interim report. Therefore, although OCFO closed the recommendation, we do not concur that the corrective action implemented achieved final action for this recommendation. We detail the reason for our determination in Table 2.

We informed RHS officials of the results of this final action verification on August 10, 2021.

Table 2. RHS’ Implemented Corrective Action Insufficient to Achieve Final Action

Rec. No.	Recommendation	Action Taken	Reason Not Sufficient to Close
1 (Interim Report)	Prepare and submit a request to update GLS and subsequent systems to either (1) ensure a loss claim cannot be submitted for payment when a premature recovery calculator has been added prior to claim payment or (2) prevent the recovery calculator from being submitted prior to loss claim payment.	RHS provided OCFO with an explanation as to why it did not need a Mission Needs Document because RHS Information Technology staff worked from a Request for Automation as the fix was considered maintenance. In addition, RHS provided an email to OCFO that it began running a report at the end of each month to capture any REO Not Sold loss claims that were paid where the future recovery calculator was input prior to the payment of the loss claim.	In the Agency Response of the interim report, RHS stated it implemented a monthly review to identify errors and take corrective actions. RHS will continue to monitor the issue until the automation change is implemented or the REO Unsold claim type is eliminated as a result of a pending regulation change. For Final Action, OIG stated RHS needs to provide OCFO with a copy of the procedures implementing a monthly review to identify errors and take corrective actions. RHS did not provide the procedures for implementing a monthly review to identify errors and take corrective actions.

OCFO should reopen Recommendation 1 of the interim report and obtain the correct documentation to support final action from RHS. We request that you provide us verification that corrective action was taken to sufficiently achieve final action for this recommendation.

As noted in its September 1, 2021, response to our draft report, OCFO agreed to reopen Recommendation 1 from the interim report, issue a memorandum to RHS to request

documentation to satisfy the recommendation, and inform RHS to follow the formal process to request final action. The response indicated OCFO expected to have these actions taken by September 10, 2021. In addition, OCFO provided OIG information informally obtained from RHS that substantiated RHS took corrective action to address the recommendation.

cc: Angilla Denton, Chief Risk Officer, Rural Housing Service



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