USDA
United States Department of Agriculture

Single Family Housing Guaranteed Loan Program—Liquidation Value Appraisals

Audit Report 04601-0001-23

August 2019

OFFICE OF INSPECTOR GENERAL

Single Family Housing Guaranteed Loan Program—Liquidation Value Appraisals

Audit Report 04601-0001-23

We reviewed whether RHS' controls over liquidation value appraisals safeguard the SFH Guaranteed Loan Program against overstated loss claims.

OBJECTIVE

Our objective was to determine if RHS' controls over LVAs safeguard the SFH Guaranteed Loan Program against overstated loss claims. As part of the objective, we assessed the corrective actions taken by RHS on applicable prior audit recommendations in Audit Report 04703-0003-Hy (Loss Claims Related to Single Family Housing Guaranteed Loans), which we released in February 2013. Specifically, we assessed the controls created to identify questionable appraisals for additional analysis by RHS appraisers.

REVIEWED

We assessed loans from June 2016–February 2018; reviewed relevant laws, regulations, policies, procedures, and documentation; and interviewed CSC officials.

RECOMMENDS

We recommend that RHS develop a process to verify LVA amounts in the system; establish a process to track claim submission timeliness; clarify when late-filed claims may be rejected; and determine which loans have outstanding future recovery funds, and recover funds, as necessary.

WHAT OIG FOUND

The Rural Housing Service (RHS), an agency within the Rural Development mission area, administers the Single Family Housing (SFH) Guaranteed Loan Program. This program is designed to provide low- and moderate-income persons in rural areas with an opportunity to own decent, safe, and sanitary dwellings. The program reduces a private lender's risk of loss because the Federal Government will reimburse up to 90 percent of an original loan amount to the lender if a borrower defaults.

We found that Rural Development's Customer Service Center (CSC)—charged with monitoring lenders' performance—generally had sufficient controls over liquidation value appraisals (LVA) to safeguard the Guaranteed Loan Program against overstated loss claims and the corrective actions taken to address recommendations from a prior audit of this program were sufficient.

However, due to processing errors, we found that CSC made inaccurate loss claim payments of almost $62,370 to lenders in our sample, resulting in an estimated $2.1 million in potential inaccurate payments across all affected loans. This occurred because CSC lacked sufficient controls to ensure that incorrect LVA amounts documented in the Guaranteed Loan System (GLS) were corrected when identified. We also found that CSC did not follow up on the payment of future recovery due, potentially resulting in lenders' noncompliance in timely reimbursing $6.4 million in loss claim payments. This occurred because CSC did not have an effective process to determine the timeliness of loss claim submissions, nor to timely follow up with lenders on the status of real estate owned properties and future recovery collections.

RHS generally agreed with our recommendations and we accepted management decision on all six recommendations.

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: August 12, 2019

AUDIT NUMBER: 04601-0001-23

TO: Bruce Lammers
Acting Administrator
Rural Housing Service

ATTN: Jacqueline Ponti-Lazaruk
Chief Risk Officer
Rural Development

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Single Family Housing Guaranteed Loan Program—Liquidation Value Appraisals

This report presents the results of the subject review. Your written response to the official draft is included in its entirety at the end of the report. We have incorporated excerpts from your response, and the Office of Inspector General's (OIG) position, into the relevant sections of the report. Based on your written response, we are accepting management decision for all six audit recommendations in the report, and no further response to this office is necessary. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer (OCFO).

In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report.

Your written response to the official draft report expressed concerns with some aspects of our report, specifically, our projections reported in Exhibit A. We have reviewed your concerns on Finding 1 and acknowledge that the estimated inaccurate loss claim payments result in a lower monetary error rate than the claim error rate when applied to the total universe of loss claims. However, our statistical analysis and projections were based on the claim error rate, not monetary error rate.

We also reviewed your concerns with Finding 2 regarding the projections for the inaccurate loss claim payments. The results in the report were calculated with an objectively defendable statistical methodology. When using a statistical sample that is representative of the audit universe, the estimates would be similar even if the projection was to only the subpopulation where future recovery is possible. This is because the percentage would need to be proportionally adjusted to reflect the change in the universe.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (http://www.usda.gov/oig) in the near future.

Table of Contents

Background and Objectives

Background

The Department of Agriculture's (USDA) Rural Development mission area endeavors to increase economic opportunities and improve the quality of life for rural Americans. Section 502 of the Housing Act of 1949, as amended, authorizes USDA to guarantee loans made by approved lenders to eligible applicants through the Single Family Housing (SFH) Guaranteed Loan Program. The SFH Guaranteed Loan Program is designed to provide low- and moderate-income persons in rural areas with an opportunity to own "decent, safe, and sanitary dwellings and related facilities," through loans with private lenders.[1] The program substantially reduces a private lender's risk of loss because the Federal Government will reimburse up to 90 percent of the original loan amount to the lender if a borrower defaults on a loan.

The Rural Housing Service (RHS), an agency within the Rural Development mission area, manages the SFH Guaranteed Loan Program through its national office in Washington, D.C., and its network of State and area offices. RHS staff are responsible for reviewing loan applications to verify that proposed loan guarantees are made to lenders for eligible borrowers. The agency staff also inputs information, such as lender and borrower names, the loan amounts, and other loan specifics, into a database recordkeeping system called the Guaranteed Loan System (GLS). To qualify for a guarantee, lenders[2] must ensure that each borrower is income-eligible and has the ability to repay the loan. Lenders are also responsible for originating, underwriting, servicing, and liquidating the loans.[3] The Customer Service Center (CSC), a unit within Rural Development, is charged with ensuring eligibility requirements are met as well as monitoring lenders' performance on an ongoing basis. According to CSC staff, the SFH Guaranteed Loan Program continues to grow with a portfolio volume of over 1 million loans, totaling over $123.5 billion, as of July 6, 2018.

If a Guaranteed Loan Program borrower defaults on a loan and the lender's loss mitigation efforts are not successful,[4] the property may be sold through a foreclosure sale. If the property does not sell to a third party at the foreclosure sale, the lender takes ownership and it becomes a real estate owned (REO) property.[5] The lender markets the REO property and tries to sell it within the permissible sales/marketing period, generally 9 months from the foreclosure date. If the property remains unsold at the end of the 9 months, the lender will obtain a third-party

[1] According to 7 CFR 3555.10, "related facilities" are defined as garages or storage sheds.
[2] For the purposes of this report, we use "lender" to encompass the servicer (the lender or a third-party servicer may carry out servicing).
[3] Servicing, or loan administration, is a mortgage banking function that includes the receipt of payments, customer service, escrow administration, investor accounting, collections, and foreclosures.
[4] Loss mitigation is defined, in part, as a lender's efforts to resolve a defaulted loan to maximize recovery and avoid foreclosure.
[5] Property that formerly served as security for a guaranteed loan and for which the lender holds title.

liquidation value appraisal (LVA)[6] and include the appraisal with the loss claim submission to RHS. The LVA will be used to calculate a loss claim payment.[7] The loss claim is the method by which RHS provides reimbursement to a lender who has fulfilled all Guaranteed Loan Program requirements, but who has incurred a loss on a guaranteed loan.

Lenders are required to submit loss claims electronically into GLS and the lender-entered information is used by the system to calculate loss claims. After the sale of the REO property, the lender must notify RHS by completing the recovery calculator in GLS to determine if the Federal Government is due reimbursement.[8] If the REO property sells for an amount greater than the liquidation value upon which the loss claim was calculated, the lender must repay a portion[9] of that difference to Rural Development as "future recovery."[10]

Once CSC receives a loss claim request, the loss claim is placed into a suspended state, pending an RHS appraisal review. The CSC appraiser completes a technical review of the LVA, verifying that the appraisal was completed in accordance with the Uniform Standards of Professional Appraisal Practices. Currently, CSC has one staff appraiser. If needed, CSC can call upon other RHS appraisers to complete the required appraisal reviews. After the appraisal review, the loss claim is released to the loss claim specialist for processing. It is the loss claim specialist's responsibility to review the loss claim submission and to verify the LVA amount input by the lender matched with the appraiser's review—prior to loss claim payment.

As part of the objective, we assessed the corrective actions taken by RHS on applicable prior audit recommendations. We found that the corrective actions taken were sufficient to address the seven prior recommendations we reviewed from Audit Report 04703-0003-Hy, *Loss Claims Related to Single Family Housing Guaranteed Loans*, issued February 2013.

Applicable Regulations

The SFH Guaranteed Loan Program was administered under 7 C.F.R. 1980D, prior to December 1, 2014.[11] In recent years, the SFH Guaranteed Loan Program has undergone changes to reduce regulations, improve customer service, and achieve greater efficiency and effectiveness in managing the program. These changes also aim to provide better services to participating

---

[6] Liquidation value is the most probable price a property is likely to bring under conditions including, but not limited to: (1) consummation of a sale within a severely limited future marketing period; (2) currently prevailing actual market conditions; (3) allowance of a limited marketing effort and time for the completion of the sale; and (4) a seller under extreme compulsion to sell.
[7] The loss claim is limited by the loan guarantee to the lesser of: (1) 90 percent of the original principal amount; or (2) 100 percent of any loss equal to or less than 35 percent of the original principal advanced, plus 85 percent of any remaining loss up to 65 percent of the principal advanced.
[8] The recovery calculator is a page in GLS used by lenders to report sale information on REO properties.
[9] The proceeds of any amounts recovered shall be shared in proportion to the amount of loss borne between the Agency and the servicer.
[10] Future recovery is the recovery of additional funds from the lender to be applied to the REO account, subsequent to the settlement of the original loss claim payment.
[11] The loans in the audit universe were processed under two different regulations: "1980 claims" and "3555 claims." The timeframes for filing a loss claim differ based upon the regulation under which the specific claim was processed.

lenders and investors by removing Rural Development internal administrative procedures and making the necessary adjustments to reduce the SFH Guaranteed Loan Program's risk of loss.

The current regulation, 7 C.F.R. 3555, addresses the requirements of Section 502(h) of the Housing Act of 1949, as amended, and includes policies regarding originating, servicing, holding, and liquidating SFH Guaranteed Loan Program loans. In June 2016, changes were made to update 7 C.F.R. 3555; specifically, lenders were given the responsibility to order the LVAs.

On August 23, 2018, RHS published a proposed rule in the *Federal Register* for public comment.[12] The rule proposes to make several changes to SFH Guaranteed Loan Program regulations to streamline the loss claim process for lenders who have acquired title to property through voluntary liquidation or foreclosure. Additionally, the proposed rule will eliminate the LVA requirement for loss claims.[13]

In September 2018, we issued an interim report, *Single Family Housing Guaranteed Loan Program Liquidation Value Appraisal–Interim Report,* 04601-0001-23(1). A copy of the report is located on the USDA Office of Inspector General (OIG) website. The report highlighted issues found as a result of an automated control that had been disabled in GLS and resulted in Rural Development recovering over $768,000 in future recovery.

Objectives

Our objective was to determine if RHS' controls over LVAs safeguard the SFH Guaranteed Loan Program against overstated loss claims. As part of the objective, we assessed the corrective actions taken by RHS on applicable prior audit recommendations in Audit Report 04703-0003-Hy, released in February 2013. Specifically, we assessed the controls created to identify questionable appraisals for additional analysis by RHS appraisers.

We did not identify any overstated loss claims during our review of RHS' controls over LVAs. We also found the corrective actions taken to address the seven prior recommendations we reviewed were sufficient; therefore, our report contains no findings or recommendations associated with the review of the prior audit recommendations portion of our audit objectives.

---

[12] The public comment period for this proposed rule closed on October 22, 2018.
[13] 83 C.F.R. 42618.

Finding 1: CSC Needs to Ensure Loss Claim Payments to Lenders are Accurate

We found CSC made inaccurate loss claim payments to lenders for 2 of the 60 loans in our sample. This occurred because CSC lacked sufficient controls that ensured incorrect LVA amounts in GLS, when identified, were corrected prior to the issuance of loss claim payments to the lenders.[14] As a result, CSC underpaid approximately $62,370 for two loss claims.[15] We estimate that 69 of the 2,068 loss claims in the universe—totaling $2.1 million—may also have been paid inaccurately.[16]

The agency handbook governing the SFH Guaranteed Loan Program states that "[t]he Agency will review the loss claim package from the servicer," including all information entered on the claim form and supporting documentation in the claim file. The servicer is responsible for the completeness and accuracy of the claim submission.[17]

For 2 of the 60 loans we reviewed, we found the value of the property listed on the LVA did not match the value of the property used to calculate the loss claim payment in GLS. For the first loan, the lender entered an inaccurate LVA amount of $150,000 into GLS instead of the correct amount of $105,000. The lender noticed errors not related to the LVA amount and requested the claim be withdrawn from the system. Prior to the claim being withdrawn, the RHS appraiser noticed the LVA amount was incorrect. When the RHS appraiser later tried to update the claim information in GLS, the claim was no longer in the system and could not be verified or corrected. However, the appraiser ensured the amount was correct on their review paperwork. At a later date, when the loss claim was reentered into the system, the lender inaccurately entered the appraised value a second time—$150,000 instead of $105,000. Since the RHS appraiser had already reviewed the information and completed the appraisal review workflow task, the loss claim was paid out. As a result, CSC underpaid the lender's loss claim by $33,078.[18]

For the second loan, the RHS appraiser reviewed the lender's LVA submitted in GLS and noted the correct amount of $18,000 on the review sheet. We observed that the RHS appraiser made notes in the system that confirmed the appraisal amount was acceptable. However, the lender entered the amount of $59,000 into the system. The loss claim specialist who reviewed the claim noticed the conflicting values and noted in the system workflow notes that the LVA amount did not match the supporting documentation. However, the loss claim specialist did not change the value due to the previous note from the RHS appraiser confirming that the amount was acceptable. This error resulted in an underpayment of $29,291 to the lender for this loan.

---

[14] Incorrect LVA amounts could result in underpayments or overpayments to the lender.
[15] The two underpaid loss claim payments ($33,078.24 and $29,291.42 equal $62,369.66) were totaled and the result was rounded to the nearest whole dollar amount.
[16] We are 90 percent confident that between 12 and 208 (0.6 percent and 10.1 percent) loss claims, totaling from $468,458 to $5,799,173, may also have been inaccurately paid.
[17] Handbook (HB) 1-3555 *SFH Guaranteed Loan Program Technical Handbook*, Sections 20.3 and 20.5.
[18] The loss claim calculation creates an inverse relationship between the LVA amount and the loss claim amount. Therefore, entering a higher LVA amount results in a lower loss claim. In the two cases we identified, when the lenders entered incorrect LVA values that were higher than the correct LVA values, the result was the lenders both received lower loss claim payments. The LVA value is only one part of the loss claim calculation and the losses are shared proportionately between the lender and the Agency.

We discussed these inaccuracies with CSC officials, who agreed the two loss claims were underpaid and issued the corrected payments in September 2018. We acknowledge CSC's quick response to address these inaccuracies and make corrective actions. Therefore, we are not making recommendations for these two loss claims, totaling approximately $62,370.

CSC officials stated that additional controls, including a review appraiser checklist and appraisal review procedures, have been implemented since the two initial loss claims were paid. CSC officials stated they believed these reviews would catch these types of errors. We recognize that CSC implemented additional controls in November 2016. Upon a cursory review of additional loans in our universe, however, we identified cases where LVA amount errors persisted past the implementation of the new reviews. Therefore, we recommend that CSC focuses on the remaining loans in the universe and verifies that accurate appraisal amounts were used to calculate the loss claim payments to lenders. If inaccuracies are noted during this review process, we recommend that the Agency take action on any inaccuracies identified. Also, even though CSC has controls in place, we recommend that the Agency strengthen its processes to ensure any identified errors are corrected prior to system or manual calculations and payments. After initial fieldwork was completed, CSC informed us that in June and August 2018, changes were made to the loss claim submission desk procedures and informal appraisal review procedures, respectively.

Recommendation 1

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.

Agency Response

In its July 17, 2019, response, RHS concurred with the recommendation to review the 2,068 loans in the audit universe for potential inaccuracies. The agency plans to compare the information entered in GLS to the liquidation value appraisal and correct account errors where discrepancies are found.

The estimated completion date for this action is July 11, 2020.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Update procedures to ensure that errors identified by reviewing officials are corrected prior to issuance of loss claim payments.

Agency Response

In its July 17, 2019, response, RHS stated they did not agree that new procedures were necessary since it had addressed the concerns and implemented new procedures and controls for appraisal reviews and loss claim processing. The revised appraisal procedures were implemented on August 23, 2018, and the loss claim desk procedures were issued on June 27, 2018. The agency proposed to provide refresher training on processing claims and liquidation appraisal reviews.

The estimated completion date for this action is July 11, 2020.

OIG Position

We accept management decision for this recommendation.

Finding 2: CSC Needs to Ensure Compliance with Guaranteed Loan Program's Timeframes

We found CSC did not establish effective controls to ensure compliance with the SFH Guaranteed Loan Program timeframe requirements. Even though the regulations require various timeframes, the IT recordkeeping system, GLS, did not have data fields for critical dates. Additionally, CSC has manual monitoring procedures in place to determine timeliness with critical dates but did not have an automated process in place to determine the timeliness of loss claim submissions, or an effective process to timely follow up with lenders on the status of REO properties. As a result, CSC paid over $501,000 in loss claims for 12 of 18 loans submitted outside the Agency's timeframe requirements. Additionally, CSC did not contact the lenders, as required by regulation, to determine the REO status of 27 of 60 unsold properties.

Office of Management and Budget (OMB) Circular A-123 requires each agency in the executive branch of the U. S. Government to ensure that programs are effectively and efficiently carried out in accordance with applicable laws and management policies.[19] Federal internal control standards require management to design appropriate types of control activities so that all transactions are completely, accurately, and promptly recorded to maintain relevance and value. The standards allow for either manual or automated control activities but state that "automated control activities tend to be more reliable because they are less susceptible to human error and are typically more efficient."[20]

The Guaranteed Loan Program has various timeframes required not only in the regulations, but also further specified in the agency handbook.[21] Specifically, we found that CSC processed the majority of loss claims within the 60-day established timeframe. However, CSC did not establish effective controls to ensure adherence to loss claim filing timeframes and did not have an effective process to follow up on the status of unsold properties and future recoveries.

Lender Noncompliance with Loss Claim Submission Timeframes

We found lenders for 12 of 18 loans we reviewed did not file loss claims within 30 days of receiving the LVAs, even though Federal regulations require lenders to file loss claims within 30 days of the end of the marketing period[22] and within 30 days of receiving the LVAs.[23, 24] Regulations allow loss claims submitted outside these timeframes to be rejected. Also, claims may be reduced or rejected if CSC determines that the amount of the loss was increased due to the lender's failure to comply.[25] Generally, we found that CSC had reduced the loss claim payment amounts as a result of the late-filed loss claims.

---

[19] OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (July 15, 2016).
[20] GAO-14-704G, *Standards for Internal Control in the Federal Government* (Sept. 2014).
[21] HB 1-3555, *SFH Guaranteed Loan Program Technical Handbook*, Sec. 20.2(C)(2).
[22] The marketing period is generally the 9 months following the foreclosure date.
[23] These timeframes only apply to loans processed under 7 CFR 3555. Loans issued under 7 CFR 1980 were not subject to a timeframe requirement for filing the loss claim after the marketing period ended.
[24] 7 C.F.R. 3555.354(b)(1), (b)(2).
[25] 7 C.F.R. 3555.354(b)(1)(ii), (b)(2) and 7 C.F.R. 3555.355(a).

Yet we noted that CSC paid over $501,000 for loss claims that could have been rejected for noncompliance with regulations. This occurred because the current GLS system does not provide data fields for lenders to record the date the LVA was ordered or received. The lack of such a data field results in either missing or inconsistently recorded dates, prevents CSC from establishing a threshold edit to document the late submission on the loss claim transaction or pull reports once late claim transactions are manually processed, and prevents CSC from developing an automated process to monitor loss claim submission timeliness. Specifically, the lender's servicing notes occasionally include the date the LVA was received. If the lender's notes do not include this information, the specialist would use the date the appraiser signed the LVA to determine if the claim was submitted timely. We estimate this applies to 422 of the 633 (66.7 percent) loss claims.[26]

We found that CSC has manual monitoring procedures in place to determine timeliness with critical dates. CSC officials agreed that the addition of a data field to capture the LVA received date would be helpful and allow them to automate a control process. Currently, CSC specialists only review a loss claim for timeliness if the claim is flagged for review due to threshold edit codes triggered for other issues.[27] Adding a threshold edit for late submissions to GLS would prevent all loss claims from paying without CSC review. CSC officials stated that the filing of late loss claims does not harm the Government but acknowledged, implementing automation for reporting and monitoring and would provide better oversight for the lenders.

Even though the regulations provide the Agency with the option to reject late loss claims,[28] officials informed us that only "egregious" cases would be rejected. However, the Agency has not defined "egregious" or any other basis for rejecting loss claims. CSC officials stated that an example of an egregious case would be a lender filing hundreds of late loss claims at a single time.

Additionally, there is conflicting information on loss claim submission timeframes in the agency handbook used by program officials and lenders. Specifically, the handbook requires that loss claims for unsold REO properties be filed within 30 days of the end of the marketing period.[29, 30] However, another section in the handbook stated that the lender must submit the loss claim within 30 days of receiving the LVA report.[31] Regulations state that the lender must submit a loss claim that includes the completed LVA within 30 calendar days of receiving the appraisal.[32] These inconsistencies prevent

---

[26] We are 90 percent confident that between 284 and 533 of the total claims paid (44.9 percent and 84.2 percent) under 7 CFR 3555 may not have filed a loss claim in a timely manner.
[27] Threshold edit codes represent acceptable values for a specific criteria. When a value that is outside of the acceptable range or otherwise violates agency policy is entered, GLS will report the threshold edit code identifying the criteria violated and suspend the automatic processing of the loss claim until either the lender provides additional documentation, CSC completes review of the claim, or both.
[28] 7 C.F.R. 3555.354(b)(1)(ii), (b)(2).
[29] HB 1-3555, *SFH Guaranteed Loan Program Technical Handbook*, Sec. 20.2(C)(2).
[30] The marketing period is the defined period a lender has to market and sell a property prior to filing a loss claim.
[31] HB 1-3555, *SFH Guaranteed Loan Program Technical Handbook*, § 19.4 (E) (Revised June 2016).
[32] 7 C.F.R. 3555.354 (b)(2).

the enforcement of program guidance and hinder the ability of the Agency to carry out the program effectively and efficiently.

We maintain that internal control standards require clearly defined timeframes. Correspondingly, we assert that correcting the inconsistencies within the regulation and agency handbook will help ensure that the program can operate effectively and efficiently. Therefore, we are recommending that the Agency establish a process to capture the date lenders order and receive the LVAs for loss claims, review timeframes and correct inconsistencies regarding the processing of LVA loss claims, and clarify when loss claims may be rejected. CSC officials stated that they planned to see if a field previously used to capture the LVA date could be repurposed to have the lenders enter the information.[33] Defining the timeframes and clarifying the inconsistencies in the program guidance should improve lenders' understanding and compliance with the timeframes required by the program.

CSC Noncompliance with Follow up Timeframes

Agency guidance states the Agency will flag a claim and contact the lender after a loss claim payment, if the actual sale information has not been received, to inquire about the REO status. In contrast, CSC did not always contact the lenders to determine the status of unsold properties[34] for 27 of 60 (45 percent) loans with loss claims.[35] This occurred because the Agency has no automated controls regarding unsold property status and follows up with the lenders regarding the status manually, as time and resources allow. Additionally, CSC does not always document follow up with the lenders regarding status or payment of future recovery in the loan files. Based on the identified errors, we estimate the Agency did not contact the applicable lenders after loss claim payments to inquire about the REO status for 931 of the 2,068 (45 percent) loss claims in the universe.[36]

Upon our review of these loss claims, we identified unreported property sales with future recovery due. In one case, CSC was unaware of the sale of one property 577 days after the sale date and had no documentation of follow-up with the lender during this time. This lender owed over $22,000 in future recovery. Another lender owed over $30,000 and did not report the sale of the REO property for 297 days. The Agency did not contact the lender within 6 months regarding the unsold property status.[37] CSC's process for following up is currently performed manually, and there is no automated or streamlined process in place as suggested by Government Accountability Office (GAO) internal

[33] The Agency used the field to capture the LVA date when the Agency was responsible for obtaining the LVA.
[34] Unsold properties here refers to REO by the lender.
[35] HB 1-3555, *SFH Guaranteed Loan Program Technical Handbook*, § 20.5 (E) (revised June 2016) requires contact quarterly and RD Instruction 1980.377 (b)(1) requires Agency contact after 6 months. Contact should continue until sale information is received.
[36] We are 90 percent confident that between 705 and 1,164 (34.1 percent and 56.3 percent) loss claims may not have been followed up on by CSC.
[37] RD Instruction 1980.377 (b)(1).

control standards.[38] When we spoke with Agency officials, they stated that they follow up as time and resources allow.

Furthermore, lenders are required to report the sale of REO property by completing the recovery calculator. If future recovery is due, lenders are required to return the funds to Rural Development within 45 days of notification. In some cases, lenders are keeping the recovered funds, interest-free, for more than a year. In 16 of the 60 (26.7 percent) loans reviewed, we found that CSC did not follow up on the payment of future recovery due, totaling $187,115.[39] Based on the identified errors, we estimate this applies to 551 of the 2,068 (26.6 percent) loss claims in the audit universe and potentially results in $6.4 million to be reimbursed later than required.[40] When we asked why follow-up did not occur, CSC officials responded that follow-up occurs as time and resources allow.

If the Agency streamlines the SFH Guaranteed Loan Program through implementation of the proposed rule, the current process for calculating the loss claim will be replaced with a new process that CSC officials refer to as "settle at foreclosure." Under the new process, loss claims will be paid based on a market value appraisal submitted with the loss claim request within 45 days of receiving the appraisal.[41] CSC needs to ensure effective controls are in place to ensure compliance with the program's established timeframes. This would include establishing procedures for capturing LVA or market value appraisal order and receipt dates, clarifying contradictory language in written guidance, and establishing sustainable procedures for monitoring REO properties.

Recommendation 3

Submit a Request for Automation to automate the process to capture the dates lenders order and receive the LVAs for loss claims: and establish edit thresholds for late submissions, or in the future, the date of the market value appraisal, to ensure CSC is able to track timeliness of loss claim submissions.

Agency Response

In its July 17, 2019, response, RHS concurred with OIG's recommendation to submit a Request for Automation (RFA) to increase efficiency. While the agency does acknowledge automation will be more efficient, it maintains the existing manual controls currently in place are effective. The RFA will automate the process to capture dates lenders order and receive the LVA or market value appraisal and include a threshold edit code for timeliness of loss claim submission. The enhancement will eliminate the automated payment of loss claims that are currently payed without agency review.

---

[38] GAO-14-704G, *Standards for Internal Control in the Federal Government* (Sept. 2014).
[39] Follow-up consists of sending a future recovery follow-up letter to the lender, by fax or email.
[40] We are 90 percent confident that between 364 and 776 loss claims (17.6 percent and 37.5 percent), totaling from $3,973,223 to $9,700,506, may not have been reimbursed in a timely manner.
[41] Market value appraisal determines the current value of a property, in accordance with the Uniform Standards of Professional Appraisal Practices.

The estimated completion date for this action is July 11, 2020.

OIG Position

We accept management decision for this recommendation.

Recommendation 4

Review timeframes regarding the processing of LVA loss claims in 7 C.F.R. 3555 and HB 1-3555 and correct inconsistencies. Additionally, the Agency needs to clarify when late-filed loss claims may be rejected.

Agency Response

In its July 17, 2019, response, RHS concurred with OIG's recommendation to correct the inconsistencies between 7 C.F.R. 3555 and HB 1-3555.

However, RHS does not agree with the second half of this recommendation that "the Agency needs to clarify when late-filed loss claims may be rejected." The agency states that it "purposely reserves the right to deny a loss claim for late submission where it deems is warranted but has adopted a policy to not deny a loss claim solely due to late claim submission when the lender serviced according to Program regulations and guidelines."

As a result, RHS claims that it "consistently followed the definition in the 3555 Regulation which is reflected in the desk procedures. As a result, the Agency strongly disagrees with the statement that CSC paid over $501,000 in loss claims for 12 of 18 loans submitted outside the Agency's timeframe requirements…"

The estimated completion date for this action is July 11, 2020.

OIG Position

We accept management decision for this recommendation.

While we agree that the claims were processed in accordance with the 7 C.F.R. 3555 Regulation, we included the amount of the claims that may have been rejected in order to provide context to the issue. While no additional interest past the settlement date was paid by the agency on the 12 claims identified, the agency did not always document that timeliness was the reason that the additional interest had been reduced for us to verify this information.

Recommendation 5

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.

Agency Response

In its July 17, 2019, response, RHS stated:

> We concur with OIG's recommendation. Desk procedures were modified and implemented for future recovery in March 2019. The Agency will pull a monthly report for all outstanding future recovery funds due. An email will be sent to each lender with outstanding future recovery due with a comprehensive list of accounts. All reports and emails will be stored in a folder for that month.

The estimated completion date for this action is July 11, 2020.

OIG Position

We accept management decision for this recommendation.

Recommendation 6

Develop and implement procedures to ensure that follow up on the status of REO properties with lenders is completed timely and documented.

Agency Response

In its July 17, 2019, response, RHS stated:

> We concur with OIG's recommendation. Desk procedures were modified and implemented for REO property follow-up in March 2019. The Agency will pull a monthly report for all outstanding REO properties. An email will be sent to each lender with a comprehensive list of outstanding REO accounts. All reports and emails will be stored in a folder for that month.

The estimated completion date for this action is July 11, 2020.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

We conducted our audit at the Rural Development CSC office in St. Louis, Missouri. The scope of our audit work covered loans with lender-ordered LVAs and loss claims completed from June 17, 2016, to February 28, 2018.[42] We performed fieldwork between October 2017 and November 2018. We gained access to Rural Development's GLS and the RD Imaging Repository (i.e., imaging system), and completed our work remotely.[43]

We identified a universe of 2,068 guaranteed loans with approved loss claim payments totaling approximately $124.7 million. For our review, we selected a statistical sample of 100 loans with loss claim payments totaling over $5.6 million. During fieldwork and after discussions with the OIG Office of Data Sciences (ODS), we concluded that limiting our review to the first 60 loans in our sample was sufficient to project the results across the universe.

The loans in the audit universe were processed under two different regulations. As a result, there are loss claims noted as either "1980 claims" or "3555 claims" because the steps for filing a loss claim differ based upon the regulation under which the specific claim was processed. CSC differentiates the claims based on the loan's due date of the last paid installment (DDLPI). Loans with a DDLPI prior to December 1, 2014, are processed under 7 C.F.R. 1980, while claims with a DDLPI on or after December 1, 2014, are processed under 7 C.F.R. 3555.[44]

To accomplish our objectives, we performed the following:

- Reviewed the corrective actions taken by RHS on seven applicable prior audit recommendations.[45]
- Reviewed applicable laws, regulations, agency policies, procedures, and guidance related to the audit objective.
- Assessed the loans in our sample.
- Obtained, through CSC, additional lender documentation not previously uploaded into the imaging system.
- Reviewed and assessed servicing records and supporting documentation, such as LVAs, RHS appraisal reviews, detailed inspection reports, final sale closing documentation, and recovery calculators for selected loans.
- Interviewed CSC staff regarding loss claim servicing and documentation.
- Verified that CSC recalculated future recovery and notified lenders of any amounts due for each of the 27 loans in the audit universe that had recovery calculators completed prior to loss claim payment.

---

[42] In 2016, a final rule was published that changed policy regarding LVAs. The rule provided that, in order to reduce overall processing time, reduce cost, and expedite loss claim submission, lenders—instead of RHS—will order the LVA used to estimate a loss claim against the SFH Guaranteed Loan Program. Prior to the final rule, if an REO property remained unsold by the lender at the end of the permissible marketing period, RHS ordered a LVA.

[43] All lender approval documents are digitally imaged and electronically stored in the Rural Development Imaging Repository.

[44] December 1, 2014, was the effective date of 7 C.F.R. 3555.

[45] Audit Report 04703-0003-Hy, *Loss Claims Related to Single Family Housing Guaranteed Loans*, Feb. 2013.

We relied on the work of specialists to develop the sampling methodology and to select a statistical sample of loans with loss claim payments. We obtained documentation to ensure these specialists were qualified professionally, competent in the work we relied upon, and met independence standards.

We conducted limited testing to evaluate the adequacy, accuracy, and reliability of the information reported from Rural Development's GLS and imaging system. Our testing consisted of verification of the data input into GLS and source documentation. The verified information included, but was not limited to, LVA amounts, original loan amounts, closing dates, RHS appraisal review completion dates, and final sale prices and dates. We relied on GLS for loss claim and future recovery calculations, and these amounts are used in our statistical projections. Because evaluating the effectiveness of the information systems was not one of the audit objectives, we make no representation regarding the adequacy of these systems as a whole or the information generated from them. We assessed the reliability of the data used for the findings in this report; the extent and results of this testing are explained in the report.

We conducted this performance audit in accordance with Generally Accepted 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 the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Abbreviations

C.F.R... ....Code of Federal Regulations
CI...confidence interval
CSC ....Customer Service Center
DDLPI....................................due date of the last paid installment
GAO ......................................U.S. Government Accountability Office
GLS ....Guaranteed Loan System
LVA ....liquidation value appraisal
ODS.......................................Office of Data Sciences
OIG ....Office of Inspector General
OMB ....Office of Management and Budget
RD ....Rural Development
REO.......................................real estate owned
RHS..Rural Housing Service
SFH ....Single Family Housing
USDA.....................................Department of Agriculture

Exhibit A: Summary of Monetary Results

Exhibit A summarizes the monetary results for our audit report by finding and recommendation number.

Finding	Recommendation	Description	Amount	Category
1	1	Potential inaccurate loss claim payments	$2,149,674[46]	Questioned costs/loans, no recovery
2	5	Future recoveries	$6,449,227[47]	Funds to be put to better use[48]
Total			$8,598,901[49]	

[46] We estimate this applies to 69 of the 2,068 loss claims (3.3 percent) in the audit universe and caused a total of $2,149,674 in inaccurate payments. We are 90 percent confident that between 12 and 208 (0.6 percent and 10.1 percent) loss claims, totaling from $468,458 to $5,799,173, may also be inaccurate payments.
[47] We estimate this applies to 551 of the 2,068 (26.7 percent) loss claims in the audit universe and caused a total of $6,449,227 to be reimbursed later than required. We are 90 percent confident that between 364 and 776 (17.6 percent and 37.5 percent) loss claims, totaling from $3,973,223 to $9,700,506, may also have been reimbursed later than required.
[48] Funds to be put to better use—management or operating improvements/savings.
[49] Projection amounts not recommended for recovery will be recorded at the point estimate, which is the best estimate based on the projection of the sample results.

Exhibit B: Results of Prior Audit Recommendations

The table below lists the results of RHS' implementation of prior audit recommendations from Audit 04703-0003-Hy.

Recommendation Number	Recommendation Detail	Corrective Action Implemented?	Corrective Action Effective?
11	Enforce each 90-day timeframe when lenders do not make timely decisions to liquidate an account or initiate foreclosures for delinquent borrowers. This should include updating GLS to automatically reduce loss claims when lenders do not meet each requirement. This reduction should be the amount of additional interest paid past each of the 90-day time limits.	Yes	Yes
13	Improve the GLS edit check system to identify property damages that result from lenders not securing properties during liquidation. This should include establishing an edit check in GLS to compare the "as is" appraised value to the "as repaired" appraised value that would prompt the agency to review the appraisals, property inspection reports and any other pertinent documents when there is a variance between the two values. If lender negligence caused the property damages, loss claims should be reduced.	Yes	Yes
15	Perform an overall evaluation of the GLS edit check system, including assessing the threshold amounts that trigger edit checks. Based on the results, make any necessary adjustments to improve the system.	Yes	Yes

Recommendation Number	Recommendation Detail	Corrective Action Implemented?	Corrective Action Effective?
16	Provide training and guidance to all personnel involved in processing loss claims to detail how to properly evaluate loss claim information when edit checks require additional review. This should include a description of the appropriate actions to take when lenders do not comply with program requirements.	Yes	Yes
17	Establish procedures to periodically analyze overpayments identified through the post quarterly reviews to determine why existing internal controls did not detect the problems found. Document the results and take steps to revise internal control measures based on these results.	Yes	Yes
19	Develop procedures for loss claim specialists to identify questionable appraisals and refer them to the Agency's certified appraisers for further analysis. These procedures should also include reducing loss claims, penalizing lenders, and possibly removing appraisers from the Guaranteed Loan Program when unacceptable appraisals are found.	Yes	Yes
20	Perform a cost-benefit analysis to determine whether program improvements can be made to pay loss claims within the 60 days as required by Federal regulations. If so, implement these improvements to prevent the agency from paying excessive interest to lenders.	Yes	Yes

Exhibit C: Sampling Methodology for Single Family Housing Guaranteed Loan Program—Liquidation Value Appraisals

Objective

This statistical sample was designed to support OIG Audit 04601-0001-23. The objective was to determine if RHS' controls over LVA safeguard the SFH Guaranteed Loan Program against overstated loss claims. This included assessing the controls created to identify questionable appraisals for additional analysis by RHS appraisers.

To help achieve this objective, we developed a representative random statistical sample of loss claims for review.

Audit Universe

To maximize the number of completed loss claims with LVA ordered by lenders, the universe comprised all loss claims CSC completed by February 28, 2018, with LVA ordered on or after June 17, 2016.[50]

Sample Design[51]

We considered various sample designs and ultimately chose to audit 60 loss claims, randomly selected without replacement, from those in the audit universe.[52] Of these, 18 were processed under 7 C.F.R. 3555, and 42 under 7 C.F.R. 1980.

The sample size was determined based on the following factors:

- Audit universe: 2,068 loss claims; of these, 633 were processed under 7 C.F.R. 3555 and 1,435 under 7 C.F.R. 1980.
- Confidence level: We are reporting two-tailed, 90 percent confidence intervals (CI).
- Precision: We wanted to report CI no wider than 20 percent (i.e., average precision of 10 percent, and ±10 percent if symmetrical around the point estimate) and consistent with sequential (or stop-or-go) sampling, per paragraph 3.64 and Appendix B of American Institute of Certified Public Accountants' Audit Guide *Audit Sampling* (May 1, 2017).
- Expected exception rate: We did not have reliable historical information to help estimate this rate, but noticed the exception rates found in the first 60 selections would result in two-tailed

[50] June 17, 2016, is the effective date of the change to the regulation requiring the lender, instead of RHS, to order these appraisals (see 81 Federal Register 31163).

[51] This statistical design is provided as evidence of the statistical sample and projections. It is simply an explanation of statistics involved with the audit work and results. This is not a reflection of the monetary results of this audit report. See Exhibit A and the related findings for the actual monetary results.

[52] ACL was used to select this simple random sample "on record" with sample parameters "random" and the Mersenne Twister algorithm (with a random seed of 378) and with ACL reporting the selection order.

90 percent CIs based on all 60 with average precision better than, or near, the desired precision described above.[53]

Results

The results in the table below are projected to the audit universe of 2,068 loss claims, except for the results at the bottom which are projected to only the 633 processed under 7 C.F.R. 3555. Due to the relatively small populations, samples, and one very low exception rate (3.3 percent), the confidence interval limits for the number of loss claims in the universe are based on the hypergeometric distribution, and those for the limits for the universe of dollars are based on empirical likelihood.[54]

Statistical Estimates

Description, number, percent and dollars of exceptions	Actual found in sample	In the audit universe: Estimated	In the audit universe: 90% confidence limits Lower A	In the audit universe: 90% confidence limits Upper B	In the audit universe: Average precision (B−A)÷2	Based on sample observations: Kurtosis	Based on sample observations: Skewness
In sample of 60 loss claims from universe of 2,068 loss claims:							
Underpayments:							
Number of claims	2	69	12	208	4.7%	27.4	5.3
Percent of claims	3.3	3.3	0.6	10.1			
Dollars	$62,370	$2,149,674	$468,458	$5,799,173		27.8	5.4
Late reimbursements:							
Number of claims	16	551	364	776	10.0%	-0.9	1.1
Percent of claims	26.7	26.6	17.6	37.5			
Dollars	$187,115	$6,449,227	$3,973,223	$9,700,506		2.4	2.0
Did not contact lenders to determine REO status:							

[53] As indicated in the table of results, this applied to all three CIs for the number and percent of loss claims based on all 60 selected (with average precisions of 4.7 percent, 10.0 percent, and 11.1 percent). But due to the much smaller number of 18 selected claims processed under 7 C.F.R. 3555, it did not apply to the 19.7 percent average precision of that CI. The precision is unknown for both of the dollar projections since the corresponding total dollars applicable to the 2,068 loss claims in the audit universe is unknown.

[54] For both dollar related projections, we used an empirical likelihood method consistent with that described by Alan H. Kvanli and Robert Schauer in endnote 15 of "Is Your Agency Too Conservative? Deriving More Reliable Confidence Intervals," *Journal of Government Financial Management*, Vol. 54, Summer 2005, pages 30-37. In addition, we incorporated the following adjustments, which in combination caused the limits on dollar amounts to be slightly more conservative (i.e., widened the CI).

- The 2.7055 (chi-square) was replaced with 2.792552 (F with 1 and 59 degrees of freedom).
- Bartlett correction for kurtosis (k) and skewness (s): $1/(1 - \alpha/n)$ with $\alpha = (k + 3)/2 - s^2/3$.
- Finite population correction factor: $(1 - 60/2{,}068)$.

In combination, these adjustments result in calculations consistent with Kvanli and Schauer (2005, endnote 15) except each 2.7055 is replaced with $2.792552 \times 1/(1 - \alpha/60) \times (1 - 60/2{,}068)$.

Number of claims	27	931	705	1,164	11.1%	–2.0	0.2
Percent of claims	45.0	45.0	34.1	56.3			
Number of claims	12	422	284	533	19.7%	–1.6	-0.8
Percent of claims	66.7	66.7	44.9	84.2			

The next section further explains these projections.

Interpreting the results

Based on our sample, we estimate the following:

- **Based on 2 of 60:** We estimate 69 of the 2,068 (3.3 percent) loss claims in the audit universe were based on inaccurate appraisal amounts that caused CSC to underpay total loss claims by an estimated $2,149,674. We are 90 percent confident this applies to between 12 and 208 (0.6 percent and 10.1 percent) loss claims and from $468,458 to $5,799,173 net underpayments.[55]
- **Based on 16 of 60**: We estimate CSC did not follow up on the payment of future recovery due on 551 of the 2,068 (26.7 percent) loss claims in the audit universe and caused $6,449,227 to be reimbursed later than required. We are 90 percent confident this applies to between 364 and 776 (17.6 percent and 37.5 percent) of them and from $3,973,223 to $9,700,506 corresponding reimbursements.
- **Based on 27 of 60**: We estimate CSC did not contact lenders, as required by regulations, to determine the REO status for 931 of the 2,068 (45 percent) loss claims in the audit universe. We are 90 percent confident this applies to between 705 and 1,164 (34.1 percent and 56.3 percent) of the loss claims.
- **Based on 12 of 18**: We estimate lenders did not file loss claims within 30 days of receiving an LVA for 422 of the 633 (66.7 percent) loss claims processed under 7 CFR 3555. We are 90 percent confident this applies to between 284 and 533 (44.9 percent and 84.2 percent) of the loss claims.

[55] While inaccurate appraisal amounts can cause overpayments, both found by OIG caused underpayments.

AGENCY'S
RESPONSE TO AUDIT REPORT

United States Department of Agriculture

Rural Development Business Center

Chief Financial Officer

Office of the National Financial and Accounting Operations Center

4300 Goodfellow Boulevard
St. Louis, MO 63120

Voice 314.457.4152
Fax 314.457.4292

July 17, 2019

TO: Gil H. Harden
Assistant Inspector General for Audit
Office of Inspector General

THROUGH: Tamara Leftridge /s/ Tamara Leftridge
Acting Associate Director for Engagement and Portfolio Management, National Financial and Accounting Operation Center

FROM: Christine Mechtly, Director /s/ Christine Mechtly
National Financial and Accounting Operation Center

SUBJECT: OIG Audit: Official Draft Response - Single Family Housing Guaranteed Loan Program Liquidation Value Appraisals
Audit Number 04601-0001-23

Recommendation 1

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.

Agency Response:

We concur with the Office of Inspector General's (OIG) recommendation to review the 2068 loans in the audit universe for potential inaccuracies. The following action will address this recommendation:

1) Compare the official audit data report indicating the liquidation value in Guaranteed Loan System (GLS), to the cover page of the liquidation value appraisal (LVA) for each account. Provide screen prints of each cover page.

2) Correct account errors in GLS where discrepancies are found.

For overpayments, this will be documented by a GLS screen shot of the corrected appraisal amount, the GLS field showing when the receivable was established and the date it was established.

For underpayments, this will be documented by a GLS screen shot of the corrected appraisal amount, adjusted payment amount and the date it was made.

Estimated Completion Date: July 11, 2020

***See Management Response regarding Exhibit A**
Recommendation 2

Update procedures to ensure that errors identified by reviewing officials are corrected prior to issuance of loss claim payments.

Agency Response:

The Agency does not agree new procedures are necessary. The Agency had already addressed these concerns and implemented new procedures and controls for appraisal reviews and loss claim processing. The updated Appraisal Review procedures and Loss Claim desk procedures have been implemented for some time. The revised appraisal procedures were implemented 8/23/18 and the revised loss claim desk procedures were issued 6/27/18.

The Agency proposes to provide refresher training to both target groups processing claims and liquidation appraisal reviews. The following action will address this recommendation**:**

1) The Agency will provide refresher training on loss claim payment procedures covering the appraisal review process. This will be provided to Risk Management Specialists and documented by the training agenda and the attendees sign-in sheet.

2) The Agency will provide refresher training on appraisal review procedures covering the appraisal review process. This will be provided to Review Appraisers and documented by the training agenda and the attendees sign-in sheet.

Estimated Completion Date: July 11, 2020

Recommendation 3

Submit a Request for Automation to automate the process to capture the dates lenders order and receive the LVAs for loss claims: and establish edit thresholds for late submissions, or in the future, the date of the market value appraisal, to ensure CSC is able to track timeliness of loss claim submissions.

Agency Response:

The Agency concurs with OIG's recommendation to submit a Request for Automation (RFA) to increase efficiency but maintains the existing manual controls currently in place are effective. Currently, each loss claim is manually reviewed to ensure the lender ordered the appraisal and submitted the loss claim timely upon receipt of the appraisal. There were no errors found in the OIG audit sample related to the manual process for verifying timeliness. The Agency does acknowledge automation would be more efficient and will proceed with the recommendation.

The following action will address this recommendation**:**

The Agency will write a RFA for GLS to automate the process to capture the dates lenders order and receive the LVA or market value appraisal for DIL/REO not Sold and Settle at Acquisition claim types. Additionally, the Agency also agrees to include in the RFA a threshold edit code to trigger for all loss claim types for timeliness of loss claim submission.

This enhancement would eliminate the automated payment of any loss claim that currently would pay without Agency review.

This will be documented by providing a copy of the RFA and acknowledgement the RFA was received.

Estimated Completion Date: July 11, 2020

Recommendation 4

Review timeframes regarding the processing of LVA loss claims in 7 C.F.R. 3555 and HB 1-3555 and correct inconsistencies. Additionally, the Agency needs to clarify when late-filed loss claims may be rejected.

Agency Response:

We concur with OIG's recommendation to correct the inconsistencies between 7 C.F.R. 3555 and HB 1- 3555. We acknowledge there is a conflict in the language between 7 CFR 3555.354 (6)(2) states "The lender must submit a loss claim that includes the completed liquidation value appraisal within 30 calendar days of receiving the appraisal." and the Handbook Chapter 20.2 (C)(2) which states "Loss claims for unsold REO should be filed by the servicer within 30 days of the marketing period ending."

However, the Agency strongly disagrees with OIG's statement under Finding 2 "CSC did not establish effective controls to ensure compliance with the SFH Guaranteed Loan Program timeframe requirements." Additionally, the Agency does not agree with the second half of this recommendation stating, "the Agency needs to clarify when late-filed loss claims may be rejected."

The Agency purposely reserves the right to deny a loss claim for late submission where it deems is warranted but has adopted a policy to not to deny a loss claim solely due to late claim submission when the lender serviced according to Program regulations and guidelines.

As stated in previous discussions with the OIG, the CSC manually verified each loss claim submitted by the lender to ensure the claim was submitted within 30 days of the receipt of the LVA appraisal. If a claim is not submitted timely, no additional interest past the settlement date is paid on the loss claim which is the penalty that the Agency applies to the claim.

The Agency consistently followed the definition in the 3555 Regulation which is reflected in the desk procedures. As a result, the Agency strongly disagrees with the statement that CSC paid over $501,000 in loss claims for 12 of 18 loans submitted outside the Agency's timeframe requirements. There were no loss claims in the OIG Sample paid outside the 7 C.F.R. 3555 Regulation.

Lenders are aware of the timeframes for submission of loss claims. The Agency intends to continue to process loss claims based upon the 7 C.F.R. 3555 Regulation.

The following action will address this recommendation**:**

The Handbook (HB) Chapter will be amended to reflect the language in 7 C.F.R. 3555 with the implementation of the Settle at Acquisition Regulation. This will be documented by submitting the revised HB chapter to National Office Guaranteed Loan Program officials for review and approval.

Estimated Completion Date: July 11, 2020

Recommendation 5

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.

Agency Response

We concur with OIG's recommendation. Desk procedures were modified and implemented for future recovery in March 2019. The Agency will pull a monthly report for all outstanding future recovery funds due. An email will be sent to each lender with outstanding future recovery due with a comprehensive list of accounts. All reports and emails will be stored in a folder for that month.

The following action will address this recommendation:

This will be documented by providing desk procedures and 3 consecutive months of lender follow-up emails.

Estimated Completion Date: July 11, 2020

***See Management Response regarding Exhibit A**

Recommendation 6

Develop and implement procedures to ensure that follow up on the status of REO properties with lenders is completed timely and documented.

Agency Response

We concur with OIG's recommendation. Desk procedures were modified and implemented for REO property follow-up in March 2019. The Agency will pull a monthly report for all outstanding REO properties. An email will be sent to each lender with a comprehensive list of outstanding REO accounts. All reports and emails will be stored in a folder for that month.

The following action will address this recommendation:

This will be documented by providing desk procedures and 3 consecutive months of lender follow-up emails.

Estimated Completion Date: July 11, 2020

*** Management Response regarding Exhibit A**

Finding 1 - Recommendation 1
Potential Inaccurate loss claim payments of $2,149,674

The OIG projection does not adequately describe the context of the findings. In the OIG sample of 60 accounts, the agency made 2 processing errors resulting in underpayments of loss claims with a 1.73% monetary error rate. The audit universe was 2068 loss claims paid over a 21-month period totaling $124,689,848. The specified amount in Exhibit A in potential inaccurate loss claim payments totals $2,149,674 represents the potential projected monthly **underpayment amount** $102,465 out of an average of $5.9M in loss claim payments monthly.

Finding 2 - Recommendation 5
Future Recoveries $6,449,247

The OIG projection is misleading and not accurate. The finding is on future recoveries which may be reimbursed later than required because the Agency failed to follow-up with the lender on the receivable.

The projected amount of accounts is based on the total audit population of 2068 accounts which is overstated. The population should only be based on accounts where future recovery could still be collected.

Future recovery was already collected on 356 accounts and no future recovery was due on 890 accounts in the audit universe if 2068. This only leaves a population of 822 accounts where future recovery collection is possible.

The OIG based the projection on 26.7% of 2068 accounts totaling 551 as noted in Exhibit A footnote 47;. $187,115 was identified on 16 accounts in the OIG sample of 60 (26.7%) where CSC did not follow-up on future recovery due. **Utilizing the same percentage (26.7%) against the population where future recovery is possible (822 accounts) would make the projected total 219 accounts totaling $2,561,137 where delayed reimbursement was possible.**

Learn more about USDA OIG
Visit our website: www.usda.gov/oig/index.htm
Follow us on Twitter: @OIGUSDA

How to Report Suspected Wrongdoing in USDA Programs

Fraud, Waste, and Abuse
File complaint online: www.usda.gov/oig/hotline.htm

Monday–Friday, 9:00 a.m.– 3:00 p.m. ET
In Washington, DC 202-690-1622
Outside DC 800-424-9121
TDD (Call Collect) 202-690-1202

Bribes or Gratuities
202-720-7257 (24 hours)