



United States Department of Agriculture
Office of Inspector General





Rural Development Single Family Housing Direct Loan Program Credit Reporting

Audit Report 04601-0002-31

What Were OIG's Objectives

We determined if Rural Development accurately reported borrower repayment statuses in a timely manner to credit reporting bureaus and appropriate databases.

What OIG Reviewed

We audited the agency's credit reporting process and related computer files in St. Louis, Missouri. Our scope covered the agency's credit reporting from fiscal years 2013-2015; we selected the March 2015 reporting for data analysis.

What OIG Recommends

The agency should identify and correct inaccurate borrower accounts, develop a plan to identify and correct errors, update guidance to eliminate future errors, and disclose DCIA and FCRA noncompliance. It needs to develop agreements before sharing consumer data, and ensure information is shared only under active agreements. Finally, since there was no active computer matching agreement, the agency needs to review \$130,951 obligated to HUD in June 2013 and September 2014 for database costs and deobligate the excess balance.

OIG reviewed Rural Development's process for reporting Single Family Housing Direct Loan Program borrower repayment statuses.

What OIG Found

We found that, although Rural Development timely reported borrower statuses to the credit bureaus, approximately 30,000 borrower accounts, with a total outstanding balance of almost \$1 billion, were either transmitted inaccurately or improperly excluded from reporting. These actions did not comply with the Debt Collection Improvement Act of 1996 (DCIA) and the Fair Credit Reporting Act (FCRA). We also found that the agency transmitted borrower data to the Department of Housing and Urban Development (HUD) Credit Alert Verification Reporting System (CAIVRS) over a year after the required Computer Matching Agreement expired in February 2013, and did not maintain documentation to support these transmissions.

This occurred because Rural Development does not have a process to thoroughly examine the data prior to transmission to credit bureaus, or to determine whether actions taken within the loan servicing system affected credit reporting. Rural Development also did not monitor the CAIVRS and credit reporting processes to ensure that information was only transmitted under active agreements.

As a result, the credit bureaus were not provided information for almost \$80 million of Federal debt, and used inaccurate information to calculate borrower credit reports and scores, which can impair decision-makers' abilities to predict credit risks and potentially cause material harm to affected borrowers in an approximately \$16 billion portfolio of loans. Also, Rural Development could not determine how many records were transmitted to HUD after the agreement lapsed, and whether its borrowers' personally identifiable information was properly protected.

Rural Development concurred with our findings and recommendations and we accepted management decision on all nine of our recommendations.



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



DATE: March 28, 2016

AUDIT
NUMBER: 04601-0002-31

TO: Tony Hernandez
Administrator
Rural Housing Service

ATTN: John Dunsmuir
Director
Financial Management Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Rural Development Single Family Housing Direct Loan Program Credit
Reporting

This report presents the results of the subject audit. Your written response to the official draft report, dated March 11, 2016, is included in its entirety at the end of this report. Your responses and the Office of Inspector General's position are incorporated into the relevant sections of the report. Based on your written response, we are accepting your management decision for all nine audit recommendations in the report and no further response to this office is necessary.

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. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publically 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	1
Section 1: Rural Development Needs to Improve Data Quality to Ensure Accurate and Complete Credit Reporting	3
Finding 1: Rural Development Reported Inaccurate and Incomplete Loan Information	3
Recommendation 1	8
Recommendation 2	9
Recommendation 3	9
Recommendation 4	10
Section 2: Rural Development Needs to Improve Controls Over CAIVRS and Credit Reporting Transmissions and Documentation	11
Finding 2: Rural Development Transmitted Borrower Information After the Required Agreement Expired Without Sufficient Documentary Support	11
Recommendation 5	15
Recommendation 6	15
Recommendation 7	16
Recommendation 8	16
Recommendation 9	17
Scope and Methodology	18
Abbreviations	20
Exhibit A: Summary of Monetary Results	21
Agency's Response	23

Background and Objectives

Background

The U.S. Department of Agriculture's (USDA) Rural Development agency's mission is to help improve the economy and quality of life in rural America. Rural Development's Single Family Housing Direct Loan Program supports rural residents who seek mortgage credit by making and servicing direct loans to very-low and low-income borrowers. In fiscal year 2015, the total outstanding principal balance of the agency's direct loan portfolio was approximately \$16 billion. To fulfill its responsibility as a credit provider, Rural Development reported the status of approximately 340,000 direct loans to credit bureaus on a monthly basis.

The Centralized Servicing Center (CSC) in St. Louis, Missouri, an organizational unit within Rural Development, is charged with servicing Single Family Housing direct loans. Rural Development's organizational structure also includes a national office in Washington, D.C., where program administration officials are located; 47 State offices; and a network of field offices. CSC's mission is to be a cost effective service provider that strives to keep individuals and families in their homes through the use of various servicing tools, including payment subsidies, moratoriums on payments, partial payment agreements, and other tools. The payback period or term for the Single Family Housing direct loans can be up to 33 years, or 38 years for very low income applicants who cannot afford the 33 year loan term.

Congress enacted various statutes to improve the repayment of Federal debt, while protecting the rights of consumers. The Debt Collection Act of 1982 required Federal agencies to report the status of delinquent loans to credit bureaus. Congress further defined the requirements for Federal agencies in the Debt Collection Improvement Act of 1996 (DCIA), requiring Federal agencies to report all Federal loans to the credit bureaus. The Fair Credit Reporting Act (FCRA), and subsequent amendments, assign responsibilities to credit reporting agencies (also referred to as "credit bureaus"), as well as to the entities that provide information to the bureaus to ensure the information they are reporting is accurate. As an "information furnisher," Rural Development provides monthly reporting files to three credit bureaus that include borrower repayment status information for the previous month. Credit bureaus collect and disseminate information about consumers that is used for credit evaluation and certain other purposes, including employment and insurance. Credit bureau databases typically contain, for instance, identifying information on a consumer, as well as a consumer's credit history and payment patterns. The credit bureaus assemble and evaluate the sensitive information in consumers' credit reports and credit scores, which creditors can use in decisions affecting the consumer.

In addition to the three credit bureaus, Rural Development also provided monthly reporting files of defaulted Single Family Housing Direct Loan Program borrower information to the Department of Housing and Urban Development (HUD) for inclusion in the Credit Alert Verification Reporting System (CAIVRS).¹ CAIVRS is a shared database of defaulted Federal

¹ CAIVRS, also called the Credit Alert System, was previously known as the Credit Alert Interactive Voice Response System. HUD developed CAIVRS in 1987 as a shared database of defaulted Federal debtors. Rural Development began reporting Single Family Housing loans to CAIVRS in 1989.

borrowers that agencies are required to check before issuing loans and other Federal financial assistance such as grants, as appropriate. CAIVRS contains social security numbers, indications of indebtedness, and other data elements, which are then matched with current data to verify that a loan applicant is not in default or delinquent on a loan from a participating Federal program. To ensure individuals' personal information is protected, the Privacy Act prohibits Federal agencies from disclosing records to other Federal agencies for use in a matching program without a matching agreement. Additionally, Congress established a Do Not Pay initiative when it passed the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). To ensure thorough review of multiple available databases with relevant information before the release of any Federal funds, the Do Not Pay portal will house databases, including CAIVRS, the Death Master File, the Debt Check Database, and others. When data and other information resources are shared between information technology systems that are owned and operated by different organizations, an interconnection security agreement (ISA) is also required. An ISA specifies the technical and security requirements for planning, establishing, maintaining, and disconnecting the interconnection.

Like many other financial institutions, Rural Development uses a commercially available loan servicing information system. Each month, the loan servicing information system generates a file containing borrower and loan repayment status information for the portfolio of Single Family Housing direct loans. The file conforms to an industry standard format that contains hundreds of defined fields for a total record length of 3,884 characters, which include the primary borrower's name, co-borrower's name, address, social security number, date of birth, loan opening date, term, delinquency date, status code, and other fields. The monthly file Rural Development transmitted to the credit bureaus for March 2015 included borrower account status records for 339,440 Single Family Housing direct loans, with a total current balance of approximately \$16 billion.

Objectives

Our objective was to determine if Rural Development accurately reported borrower repayment statuses in a timely manner to credit reporting bureaus and appropriate databases.

Section 1: Rural Development Needs to Improve Data Quality to Ensure Accurate and Complete Credit Reporting

Finding 1: Rural Development Reported Inaccurate and Incomplete Loan Information

We found that, although Rural Development timely reported Single Family Housing Direct Loan Program repayment information to the credit bureaus, approximately 30,000 borrower accounts, with a total outstanding balance of over \$1 billion, were either transmitted inaccurately or improperly excluded from reporting.² As a result, Rural Development was not in compliance with statutory requirements when it transmitted the March 2015 credit reporting information on its borrowers to the credit bureaus. Specifically, Rural Development reported 23,430 borrower accounts, with a total outstanding balance of over \$535 million, that had dates of first delinquency improperly rolled forward,³ and 4,939 borrower accounts, with a balance of over \$385 million, with other data inaccuracies. Also, Rural Development did not report any credit information to the credit bureaus for potentially 1,454 borrowers, with a balance of almost \$80 million.⁴ This occurred because Rural Development's Centralized Servicing Center (CSC) did not have a data analysis process to examine the accuracy of all of the fields in the files it transmitted to credit bureaus regarding borrowers' loan repayment statuses and the completeness of the files, nor did it determine if actions taken within the loan servicing system affected credit reporting. As a result, borrower credit reports were distorted and the credit bureaus lacked information regarding almost \$80 million of indebtedness to the Government. Together, these errors can impair decision-makers' abilities to predict credit risks and potentially cause material harm to affected borrowers in an approximately \$16 billion portfolio of Single Family Housing Program direct loans.

The Debt Collection Improvement Act of 1996 (DCIA) states that, as a condition of extending credit, agencies shall require lenders to report information about all Federally financed loans to credit bureaus.⁵ According to the Fair Credit Reporting Act (FCRA), information furnishers are

² Using the same characteristics found during the analysis of our sample borrower accounts, we conclude that approximately 29,778 borrower accounts with a total outstanding balance of \$1,002,852,578 were either transmitted inaccurately or excluded from reporting. Some borrower accounts had more than one condition and were counted only once to avoid duplication.

³ Rural Development's internal procedures for settling debts instruct its data processors to improperly change a date in the loan servicing system. This change advances the date Rural Development reports as the date of first delinquency for debt-settled accounts from the date the delinquency commenced to the date the property was sold, foreclosed upon, or otherwise liquidated. The change causes Rural Development to inaccurately report delinquencies to be more recent than they actually were. Credit reports are generally prohibited from containing delinquencies more than 7 years old.

⁴ We identified a list of accounts excluded from reporting and reviewed a sample of 13 accounts from the list. Based on review and discussion of the sampled accounts, Rural Development officials agreed 5 of the 13 should have been reported to the credit bureaus. We found that over 1,450 Single Family Housing Direct Loan Program borrower accounts on the list of accounts excluded from reporting had the same characteristics as the 5 borrower accounts in our sample. Due to limitations on the data fields housed in Rural Development's data warehouse, we were unable to verify if this list of accounts excluded from reporting included all accounts that may have been improperly excluded from reporting.

⁵ Debt Collection and Improvement Act of 1996, Pub. L. No. 104-134, § 3720B, 110 Stat. 1321, 358-80 (DCIA).

responsible for providing accurate information to credit bureaus, and are specifically prohibited from reporting information with actual knowledge of errors, including the date a delinquency commences on a delinquent account.⁶ FCRA requires information furnishers to reasonably design policies and procedures to accurately reflect the terms and liability associated with the account, and minimize the likelihood that the information may be incorrectly reflected in a credit report. Also, credit reporting industry standards state deferred loans should be reported as deferred loans with a date field indicating when the first payment will be due.⁷

We verified that Rural Development transmitted credit reporting files for each month of fiscal years 2013 through 2015 timely, and selected one month's reporting for detailed data analysis. We determined that Rural Development was not in compliance with the statutory requirements of DCIA and FCRA when it transmitted the March 2015 file of borrower account information to the credit bureaus. DCIA requires lenders to report on the status of all Federal loans; however, we found borrower accounts that were improperly excluded from Rural Development's transmission file. When we independently tested the transmission file, we were unable to arrive at the same number of borrower accounts that Rural Development reported to the credit bureaus. We asked how the officials confirmed that the file sent to the credit bureaus was complete. Rural Development officials stated they were fairly certain that the file was complete, but did not have any type of control or process in place to test the transmission file for completeness.

Additionally, we selected a non-statistical sample from the list of over 10,000 borrower accounts excluded from transmission to the credit bureaus and determined if the borrower accounts had the correct reporting status. Of 13 borrower accounts sampled from this list, we found Rural Development improperly excluded 5 borrower accounts from the report submitted to the credit bureaus. Rural Development officials agreed these loans should have been reported to the credit bureaus. They stated that staff did not code the loan servicing system to begin reporting the loans, or reporting had stopped and was not restarted when it should have been. Rural Development officials stated that all open, active borrower accounts should be reported unless there is a specified reason the borrower account is coded not to report. If that is the case, a date to resume the reporting should be set. Based on the results of our review, we found that there is the potential that over 1,450 loans, with the same characteristics of the excluded loans in our sample, also may have been improperly excluded from reporting because staff did not code the system to begin or restart reporting. Rural Development officials explained that they needed to research the issue to determine the root cause of the staff errors, but believe it can be addressed with revised procedures, such as additional guidance and edit checks. However, without analysis of the excluded data to identify all specific causes and corrective actions, we concluded that Rural Development risks transmitting incomplete credit reporting files which incorrectly omit both current and delinquent borrowers. When we spoke with Rural Development officials responsible for overseeing CSC's credit reporting to the bureaus, they agreed that data analysis tools would help CSC to analyze credit reporting information.

After testing the March 2015 transmission file for completeness, we conducted a review of the file for data accuracy to determine if it complied with FCRA requirements. We used commercially available software to identify data errors and anomalies. This software allowed

⁶ 15 United States Code (USC) § 1681s-2.

⁷ Consumer Data Industry Association, *2015 Credit Reporting Resource Guide* (2015).

OIG to test not just a judgmental or random sampling of borrower accounts, but the entire universe of borrower accounts in the transmission file. We found that Rural Development did not comply with the reporting requirement for FCRA. Specifically, we identified 28,324 Single Family Housing direct loan accounts, with a current remaining balance of \$923 million, that were reported to credit bureaus for March 2015 with incomplete or inaccurate information, or that had action taken that likely resulted in inaccurate information.⁸

Borrower Accounts with Inaccurate Dates

We identified 470 borrower accounts, with a total current balance of \$9.2 million, with inaccurate dates. For example, Rural Development reported 28 borrower accounts with dates of first delinquency in the future, 24 borrower accounts with dates of first delinquency prior to their opening dates, 2 borrower accounts with opening dates in the future, and 418 borrower accounts without an opening date.⁹ Specifically, one borrower account in the March 2015 file transmitted to the credit bureaus had a delinquency date of February 29, 2016; one borrower account reportedly opened in 2059, yet the promissory note was signed in 1998; and another borrower account reportedly became delinquent in 1970, but the borrower account did not open until 1994. The accuracy of these dates is important since inaccurate delinquency information can lead to the delinquent status not being reported by credit bureaus, allowing riskier borrowers to obtain more credit. Also, FCRA prohibits consumer reports from including certain delinquency information for more than 7 years. Therefore, delinquency dates are critical in determining how long a borrower's delinquency can be reported on a credit report.

Additionally, we found 23,430 borrower accounts, with a total outstanding balance of over \$535 million, with conditions indicating the borrower accounts were processed for debt settlements using procedures that roll forward the date of first delinquency. When we asked Rural Development officials about these borrower accounts, they said that their procedures instruct CSC data processors to move the date of first delinquency ahead when completing a debt settlement action. This results in not only delinquency dates in the future for certain borrower accounts, but also affects the delinquency dates reported to the credit bureaus for each borrower account for which CSC processors complete debt settlement actions. Rural Development officials agreed this action is not appropriate for credit reporting purposes and is in fact a noncompliance with FCRA. They further stated that processes and procedures need to be updated to avoid affecting the accuracy of information reported to the credit bureaus. When we asked the officials about borrower accounts reported as opening in the future, they confirmed the issues were data entry errors.

⁸ We identified that 45 of these borrower accounts had both dates of first delinquency rolled forward and another data inaccuracy.

⁹ Two borrower accounts had both a date opened in the future and a date of first delinquency prior to the date opened.

Borrowers Listed as “Under 18 Years Old”

We found 153 borrower accounts, with a current balance of \$8.8 million, where the dates of birth indicated the primary borrowers as under 18 years of age. Having accurate information about dates of birth is crucial because, according to a credit bureau representative, they will not report the borrower’s account if the information reveals the borrower is younger than 18 years old. Furthermore, we found that 80 of these accounts indicated the primary borrower as not born at the time of the March 2015 reporting. For instance, two borrowers were listed as having birthdates in the year 2085.

Borrower Accounts Missing Names

We identified 83 borrower accounts, with a current balance of \$2.1 million, where the record transmitted for the primary borrower omitted either a first or last name. For example, we found one case where the credit bureau report did not return the Rural Development account for a borrower who was missing a last name in the data Rural Development transmitted. Credit bureaus maintain credit files on over 200 million consumers and if an information furnisher omits a first name, the credit bureau will attempt to match it using other borrower information.

Borrower Accounts without Accurate Term Information

We found 4,234 borrower accounts, with a total current balance of \$368 million, without values listed in the term duration data field that were deferred, but were not accurately coded as such. When we asked Rural Development officials about borrower accounts with blanks in the term duration field, they stated the borrower accounts had moratoriums and, therefore, payments were deferred. However, we noted that the guidelines also state deferred loans should be reported as “deferred” in another field, and with a deferred payment start date as well. The officials agreed these borrower accounts should be reported with this information and would modify their procedures.

When we discussed the data issues in the transmission file and list of borrower accounts excluded from transmission with Rural Development officials, they informed us that data errors can be introduced at various points of the 33- or 38-year loans, anywhere from origination in local field offices to various servicing areas within CSC. For example, data can be entered incorrectly at origination, or be incomplete because information may not have converted when the agency updated its information technology systems. In September 2010, we reported that Rural Development’s information technology system needed enhancements and Rural Development agreed to implement several system changes.¹⁰ The majority of data issues stemming from origination occurred in loans opened prior to the issuance of the 2010 report. Rural Development officials also mentioned that data integrity could have been affected when CSC was officially organized back in 1996. However, the net effect of this inaccurate and incomplete data is reflected in the direct loan borrowers’ credit reports and may impact their ability to obtain additional credit.

¹⁰ Audit Report 04703-2-KC, *Single-Family Housing Direct Loans Recovery Act Controls—Phase II* (Sept. 24, 2010).

Prior to submitting the file to the credit bureaus, CSC conducted a quality control review on the data to identify and test the transmission file for special servicing circumstances unique to the Single Family Housing Direct Loan Program. The quality control review includes procedures to ensure the special modifications of the off-the-shelf software run correctly when the system generates the transmission file. However, we found that the agency's quality control review focused only on ensuring the file reflects the data in the system. The review did not include procedures to identify if the data in the system are accurate, complete, or in compliance with statutory requirements, and CSC did not have the necessary data analytic software to conduct such a review on files of this size. Without data analytic software, Rural Development officials stated there is no way to detect these errors through the scope of the monthly quality control review.

We identified these anomalies using commercially available software that was able to examine the files Rural Development transmitted to the credit bureaus. However, the agency does not currently have a data analytic process, similar software, or staff training in place to identify data integrity issues within the loan servicing system that affect credit reporting.¹¹ Additionally, Rural Development officials informed us that the agency's data warehouse does not capture all the data fields needed to verify that the agency reported the correct number of borrower accounts. In 2009, CSC submitted a request to have information that is transmitted to the credit bureaus retained in the Rural Development data warehouse. However, this request has not yet been funded. Without this information, Rural Development officials stated they were unable to identify a verifiable method for ensuring that the information reported to the credit bureaus was complete and accurate. Therefore, we recommend that CSC assess the previous request or develop a new request which provides officials with the data fields, tools, and software needed to verify the accuracy and completeness of data before transmission to the credit bureaus.

While there is the potential for inaccurate data to affect future borrower's credit worthiness, CSC demonstrated a strong process for resolving borrower credit reporting disputes. In fact, its response rate for resolving these disputes within 30 days was over 99 percent. As soon as we informed Rural Development of our results, Rural Development officials began reviewing the borrower accounts. However, these officials told us that the review and corrective actions would take a substantial amount of time and CSC does not currently have the ability to identify whether it is reporting complete and accurate information to credit bureaus on its borrowers. We then discussed this issue with the CSC national level official, who confirmed that data analysis tools would be useful to CSC, and CSC would need to work with its information technology staff and system review board to obtain them. Because we are concerned that examining almost 30,000 borrower accounts will indeed be a challenge, and because of statutory requirements to report accurate and complete information, we recommend that CSC develop an appropriate plan to promptly obtain the necessary resources to identify and correct issues with the data transmitted to credit bureaus and outside entities on an ongoing basis. This plan should include obtaining data analytic software and identifying the appropriate training needed to use this software. It should include a methodology to provide assurance the agency is reporting a complete and accurate file of borrower repayment information for the correct number of borrower accounts,

¹¹ Rural Development also conducts a management control review that includes review of core tasks CSC provides in servicing the direct loan portfolio and a sample of accounts; however, management control reviews have not covered credit reporting.

and prioritize the accuracy of the date of first delinquency field. It should also include implementing preventative controls, such as revised guidance and edit checks, as appropriate, when root causes of credit reporting data issues are identified.

Finally, CSC procedures need to be updated to ensure that reporting of loans begins when loans become permanent. All indebtedness to the Government should be reported to credit bureaus because this information assists the Government and creditors when determining the debtor's creditworthiness and ability to repay other obligations. It also assists debtors who are current with their loan payments when being considered for credit. Improperly excluding loans from credit bureau reporting is a violation of DCIA: we therefore recommend disclosure of the violation in the Noncompliance with Laws and Regulations section of Rural Development's Financial Statements, until resolved. Due to the improper reporting of dates of first delinquency, we recommend disclosure of the agency's violation of FCRA in that section as well.¹²

Recommendation 1

Develop and initiate a plan with appropriate timeframes, milestones, and procedures to identify and correct inaccurate and blank data fields. Additionally, design the plan to incorporate a verifiable methodology to provide assurance that Rural Development is reporting a complete and accurate file of borrower repayment information for the correct number of borrower accounts, and prioritize the accuracy of the date of first delinquency field. Include procedures to design and implement preventative controls, such as revised guidance and edit checks, as appropriate, when root causes of credit reporting data issues are identified.

Agency Response

In its March 11, 2016, response, Rural Development concurred with this recommendation. Rural Development will develop and initiate a project plan and assign appropriate timeframes and milestones and target completion dates. The project plan will include progressive steps to 1) identify reporting deficiencies, 2) develop solutions to resolve deficiencies, 3) implement corrective actions, and 4) perform reviews to assure the information transmitted to credit bureaus is in accordance with the Debt Collection Improvement Act and the Fair Credit Reporting Act.

As part of the project plan, Rural Development will request procurement of the data analysis software; perform data analysis; determine the number of borrower accounts that should be reported in the monthly credit reporting files, amend procedures associated with foreclosures, short sales, and debt settlements; develop and implement processes to verify accuracy of data;

¹² Federal agency management is responsible for establishing and maintaining internal control to achieve objectives including compliance with applicable laws and regulations, per OMB, *Management's Responsibility for Internal Control*, Circular A-123 (Dec. 21, 2004). If agency systems do not fully comply with requirements, annual statements are to identify weaknesses and describe plans and the schedule for correcting any such weakness, according to the Federal Managers Financial Integrity Act of 1982, Pub.L. No. 97-255, 96 Stat. 814. Federal financial accounting standards require Federal financial statements to include certain information. A section devoted to management's discussion and analysis should address the reporting entity's compliance with laws and regulations, and actions taken or planned to address problems. Federal Accounting Standards Advisory Board, *Statement of Federal Financial Accounting Standards 15: Management's Discussions and Analysis* (Aug. 12, 1999).

amend reporting methodology on deferred loans; develop and implement processes that review proposed changes to determine effects on credit bureau reporting; develop and implement a process to assure borrowers are not improperly excluded from credit reporting files; and design and implement preventative controls and edit checks to identify credit reporting data issues.

Rural Development estimates development and initiation of the project plan will be completed by March 10, 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Develop a request for automation to include the relevant credit reporting data fields in the data warehouse and any automated tools, such as data analytics software, to verify accuracy and completeness of data prior to transmission.

Agency Response

In its March 11, 2016, response, Rural Development concurred with this recommendation. Rural Development prepared a request for automation, which was developed to create new data warehouse tables to store data transmitted to credit bureaus. The request for automation will be amended to also include automated tools that will be used to analyze data contained in the credit reporting files. Rural Development estimates this corrective action will be completed by July 31, 2016.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Update procedures to ensure Rural Development begins reporting all loans to the credit bureaus when loans become permanent.

Agency Response

In its March 11, 2016, response, Rural Development concurred with this recommendation. Rural Development will update the desk procedures to ensure all construction loans are coded properly to report to the credit bureaus once the loan is converted to permanent loan status. Rural Development estimates this corrective action will be completed by December 31, 2016.

OIG Position

We accept management decision for this recommendation.

Recommendation 4

Report Rural Development's noncompliance with the Debt Collection Improvement Act and the Fair Credit Reporting Act in the Noncompliance with Laws and Regulations section of Rural Development's Financial Statements, until resolved.

Agency Response

In its March 11, 2016, response, Rural Development concurred with this recommendation. The Chief Financial Officer (CFO) of the National Finance Operations and Accounting Center will work with Rural Development staff to develop and monitor Corrective Action Plans and the CFO-Financial Management Division staff will report the findings in the monthly and annual Federal Managers Financial Integrity Act reports to be included in the Rural Development Financial Statements. Rural Development estimates this corrective action will be completed by March 10, 2017.

OIG Position

We accept management decision for this recommendation.

Section 2: Rural Development Needs to Improve Controls Over CAIVRS and Credit Reporting Transmissions and Documentation

Finding 2: Rural Development Transmitted Borrower Information After the Required Agreement Expired Without Sufficient Documentary Support

Rural Development transmitted Single Family Housing Direct Loan Program borrower information to the Department of Housing and Urban Development (HUD) for uploading into the Credit Alert Verification Reporting System (CAIVRS) for over a year after the required computer matching agreement (CMA) expired in 2013, and did not maintain the necessary documentation to support these transmissions. The agency also obligated over \$130,000 to pay HUD for CAIVRS costs when no agreement existed, and had never established an interconnection security agreement (ISA) with HUD for reporting to CAIVRS. This occurred because Rural Development did not adequately instruct staff nor coordinate and monitor the CAIVRS reporting process to ensure the agency reported borrower repayment statuses only when all required agreements were active, and accounted for the records it disclosed. Without adequate instructions and communication regarding the agreement's expiration and recordkeeping of its disclosures to CAIVRS, Rural Development could not determine how many borrower records were transmitted and has reduced assurance that its borrowers' personally identifiable information (PII) was properly protected. Also, outdated records that should have been removed after 1 month instead may have remained in CAIVRS for as long as 1 year and 8 months. This negatively impacted Single Family Housing Direct Loan Program borrowers, leading to increased disputes from borrowers about the status of their loans in the CAIVRS database.

The Privacy Act, as amended, prohibits Federal agencies from disclosing records to a recipient agency for use in a computer matching program without a written agreement.¹³ Federal officers or employees who, knowing that disclosure of specific material is prohibited, willfully disclose the material are subject to penalties.¹⁴ The Privacy Act also requires agencies to retain information about the disclosure of records from systems of records for at least 5 years or the life of the record, whichever is longer.¹⁵ USDA regulations require continuous reviews of obligated funds to optimize their use, including reviews to determine whether delivery of services or performance is expected to occur.¹⁶ Finally, the Office of Management and Budget (OMB) requires interconnection security agreements where there are system interconnections.¹⁷

CAIVRS, a shared database of defaulted Federal borrowers, requires the implementation of a CMA according to the Privacy Act. USDA maintained a CMA with HUD for CAIVRS until

¹³ Privacy Act, 5 USC § 552a(o). Amendments to the Privacy Act of 1974 include the Computer Matching and Privacy Protection Act of 1988, among others.

¹⁴ Privacy Act, 5 USC § 552a(i).

¹⁵ Privacy Act, 5 USC § 552a(c) requires agencies to keep an accurate accounting of the date, nature, and purpose of each disclosure of a record to another agency for each system of records under its control.

¹⁶ USDA Departmental Regulation 2230-001, Reviews of Unliquidated Obligations (Oct. 15, 2014).

¹⁷ OMB, *Transmittal Memorandum #4, Management of Federal Information Resources*, Circular A-130 Revised (Nov. 28, 2000).

February 2013.¹⁸ According to USDA Office of the Chief Financial Officer (OCFO) and Rural Development officials, HUD was unresponsive to several USDA OCFO attempts to contact HUD from 2012 to 2013 and allowed the agreement to lapse without renewal. However, Rural Development continued to provide tens of thousands of borrower records to HUD for uploading into CAIVRS until June 2014, approximately 16 months after USDA's CMA expired. Rural Development could not provide us with the number of borrower records transmitted in the monthly CAIVRS files because the process was designed to overwrite the file each month, nor could Rural Development provide us with the dates files were sent, received, and uploaded each month. When we asked for records showing the dates monthly transmissions were sent and the receipt notifications, Rural Development officials said they stopped keeping such files, and the notifications from HUD were discarded during a Rural Development building renovation in September 2014. When we asked why the files were not retained, the officials stated they were not aware of the Privacy Act requirement to keep the records for 5 years or the life of the record, and did not follow through with guidance pertaining to document retention. When we reviewed Rural Development's issued instructions, we observed the instructions did not provide guidance on retaining documentation of disclosures for use in a computer matching program in accordance with the Privacy Act, or include mention of CSC at all.¹⁹ We therefore recommend that Rural Development develop and implement guidance specifying computer matching agreement documentation disclosure and retention instructions in accordance with the Privacy Act, as well as CSC officials' responsibilities for document disclosures and retention.

Rural Development officials responsible for authorizing the transmissions to HUD informed OIG they did not confirm the CMA's expiration date with the USDA OCFO or HUD and, instead, presumed the CMA was renewed. Additionally, Rural Development officials did not have the information needed to monitor the interconnection with HUD and were not timely alerted when HUD stopped uploading Rural Development data into CAIVRS. In October 2013, 8 months after the CMA lapsed, HUD notified Rural Development officials that HUD had not uploaded the data to CAIVRS for months. Without records from HUD confirming the receipt and uploading of the transmission, the date of HUD's last upload is unclear to USDA. Even after receiving notification that the files were not being uploaded, Rural Development officials continued sending the monthly files of borrower information to HUD, including borrower PII.²⁰ When we asked why Rural Development continued to send transmissions to HUD even after HUD notified the officials that the data were not being uploaded to CAIVRS, the Rural Development officials stated that sending delinquent debtor data to CAIVRS helps Rural

¹⁸ USDA's CMA governed all USDA transmittals to HUD, which also included data from USDA's Farm Service Agency. HUD published Privacy Act of 1974; Notice of a Computer Matching Program Between the Department of Housing and Urban Development (HUD) and the United States Department of Agriculture (USDA), 75 Fed. Reg. 9,575 (July 9, 2010). The CMA was renewed once without change and then expired February 9, 2013.

¹⁹ Rural Development, *Records Management In Rural Development Field Offices*, Instruction 2033-A (Apr. 9, 1997) and Rural Development, *Availability of Information Under the Privacy Act*, Instruction 2015-E (Dec. 5, 2013).

²⁰ CAIVRS contains social security numbers, claim numbers, program codes, and indications of indebtedness.

Development comply with a provision of DCIA.²¹ Additionally, it was their understanding USDA OCFO was working to get the CMA back in place “soon.” Rural Development officials stated the decision to stop the monthly CAIVRS reporting was made informally in June 2014. Rural Development national office program administrators were notified of the change, and USDA OCFO requested HUD to remove the data in July 2014. However, outdated Rural Development data may have remained in CAIVRS for as long as 1 year and 8 months until its removal in October 2014. Rural Development officials informed us the agency experienced an uptick in disputes from borrowers about the data. Also, as an example, during our audit we found a complaint about outdated information in CAIVRS. Specifically, a direct loan program borrower reported that since Rural Development did not timely clear the delinquency status from CAIVRS, the borrower missed the closing date on a new home loan in 2013. Rural Development provided evidence during our audit that there was no Rural Development Single Family Housing Direct Loan Program borrower information currently in CAIVRS.

Additionally, we found that even without a CMA in force, agency officials obligated \$64,508 in June 2013 and \$66,443 in September 2014 to pay HUD for CAIVRS costs during those years. Financial management staff told us they created the obligation so they could proceed if HUD responded with a late invoice. Departmental regulations require that all current and prior year obligations be continuously reviewed to determine whether delivery of goods or services or performance is expected to occur.²² Yet we found during the course of our current audit work that these unliquidated funds are still obligated for these fiscal years. Therefore, we recommend that these funds be de-obligated and put to better use, if possible.

We observed that responsibilities for reporting to CAIVRS were dispersed across Rural Development divisions, and no single person or group was responsible for monitoring the agency’s CAIVRS reporting process as a whole to ensure loans are reported properly. For example, within Rural Development, the Operations and Scheduling Branch employed automated features of the loan servicing system software to create the monthly files and transmit files after they were approved. This branch stopped retaining the documentation of monthly transmissions to and confirmations from HUD in September 2014. The Debt Collection Improvement Branch reviewed the files and approved them for transmission to HUD for uploading to CAIVRS, even after becoming aware the CMA expired. The Information Systems Security Branch was responsible for reviewing information system agreements related to credit reporting from a security perspective. An Information System Security Branch official stated they tracked agreement expirations and assumed that the transfer was no longer taking place. He stated that the team notified relevant officials about the expiration at regular monthly meetings, but the notifications were not documented.

²¹ DCIA § 3720B prohibits delinquent Federal debtors from obtaining Federal loans or loan insurance guarantees. We reviewed laws and regulations including DCIA and the Improper Payments Elimination and Recovery Improvement Act of 2012, Pub. L. No. 112-248, 126 Stat. 2390 (IPERIA), which requires agencies to verify eligibility before issuing any payment by reviewing appropriate databases, including CAIVRS. However, our review of laws and regulations did not identify a requirement to provide monthly transmissions of borrower information to CAIVRS.

²² USDA Departmental Regulation 2230-001, Reviews of Unliquidated Obligations (Oct. 15, 2014).

Therefore, to improve Rural Development's internal coordination and monitoring of monthly transmissions of borrower records, we recommend that the agency develop and implement controls to track all CAIVRS and credit reporting-related agreements with outside entities and coordinate its credit reporting transmissions to occur only when all required agreements are active. The agency needs to assign responsibility to a person or group to monitor and update the controls, track the effective dates of all related agreements, and ensure reporting stops if an agreement expires or is not updated. To ensure the agency keeps accurate accounting of the disclosures in accordance with the Privacy Act, Rural Development also needs to develop and implement a system to track and maintain records of data transmissions sent to outside entities and confirmations as they are received. When we spoke with Rural Development officials, they agreed these issues need to be addressed and stated a corrective action plan will be developed.

Rural Development also needs to take steps to improve its external coordination and monitoring of borrower record transmissions before resuming any reporting to CAIVRS or beginning reporting to other Federal databases. To resume reporting to CAIVRS, USDA OCFO is currently drafting a new CMA with HUD that Rural Development officials have reviewed.²³ Also, the President and Congress have taken steps to intensify, prevent, and recover payment error, waste, fraud, and abuse within Federal spending, and established the Do Not Pay Initiative within IPERIA. IPERIA directs agencies to review designated databases, including HUD's CAIVRS database, as appropriate, to verify payment eligibility. IPERIA includes HUD's CAIVRS database in the Do Not Pay Initiative, and establishes requirements for a database integration plan, an initial working system, and use of the Do Not Pay Initiative when OMB determines it is appropriately established.

The inclusion of Rural Development's borrower information in these efforts will require Rural Development to establish an ISA prior to implementation.²⁴ We found that, although Rural Development has currently established ISAs with the three credit bureaus to which it reports, it had not always established ISAs before providing Single Family Housing Direct Loan Program borrower information to credit bureaus, and had never established an ISA with HUD for its reporting to CAIVRS.²⁵ ISAs address the life cycle of the data connection, including a plan for the termination of data sharing. When we spoke with Rural Development officials, they agreed that setting up an ISA with HUD was reasonable. Since Rural Development and its borrowers experienced issues related to outdated delinquency records when Rural Development's reporting to HUD ended, data sharing should be terminated in a way that avoids disruptions.²⁶ Thus, Rural Development needs to ensure all required agreements, including ISAs, are in place before disclosing information about its borrowers to HUD for inclusion in CAIVRS, the Do Not Pay Initiative, or to any other outside entity. We therefore recommend that Rural Development begin developing the CAIVRS ISA and ensure it establishes an ISA with any outside entity before sharing borrower information with the entity.

²³ Also, in accordance with the Privacy Act, 5 USC § 552a(u), USDA's Data Integrity Board must review and approve agreements for receipt or disclosure of agency records for matching programs.

²⁴ OMB, *Transmittal Memorandum #4, Management of Federal Information Resources*, Circular A-130 Revised (Nov. 28, 2000).

²⁵ Rural Development established ISAs with the three credit bureaus in 2013, 2014, and 2015, respectively. It began reporting to two of the bureaus in 1999 and to the third in 2013.

²⁶ National Institute of Standards and Technology, *Security Guide for Interconnecting Information Technology Systems*, Special Publication 800-47 (Aug. 2002).

Recommendation 5

Develop and implement updated guidance specifying Computer Matching Agreement (CMA) documentation disclosure and retention instructions, as well as Centralized Servicing Center (CSC) officials' responsibilities for document disclosures and retention.

Agency Response

In its March 11, 2016, response, Rural Development concurred with this recommendation. Rural Development will develop a CMA guidance document in accordance with USDA regulations for the computerized comparison of records for the purpose of establishing or verifying eligibility for a Federal benefit program or for recouping payments or delinquent debts in relation to the Computer Matching and Privacy Protection Act of 1988. Rural Development's Chief Information Officer (CIO) will post the guidance to the Information System Security Program Manager policy and procedure site and provide users the location and support for questions. Rural Development regulation 2033 will be updated to mention CSC. Rural Development estimates implementing these policies by March 10, 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 6

Develop and implement controls to ensure Rural Development reports borrower information only to outside entities with which it maintains appropriate, active Computer Matching Agreements (CMAs) and Interconnection Security Agreements (ISAs), and assign responsibility for monitoring and tracking when updates are needed.

Agency Response

In its March 11, 2016, response, Rural Development concurred with this recommendation. Rural Development will review the USDA Risk Management Framework Guide and ISA template to ensure all instructions are fully incorporated into the Rural Development Policy and Procedures. Rural Development CIO will conduct a thorough review of the current system diagrams to ensure the appropriate CMAs and ISA are in place and current. Rural Development CIO will develop a comprehensive list of the CMAs and ISAs that lists the business, information technology and private sector owners as a compensating control to monitor the ownership and expiration dates. Rural Development CIO will distribute the listing for concurrence to the owners on a semi-annual basis and the CIO will review continually in conjunction with the Continuous Monitoring of the National Institute of Standards and Technology 800-53 control process. All owners are responsible for the timely renewal of the documentation. Rural Development estimates implementing these controls by June 30, 2016.

OIG Position

We accept management decision for this recommendation.

Recommendation 7

Develop and implement a system to track and maintain records of data transmissions sent to outside entities and confirmations the transmissions are received.

Agency Response

In its March 11, 2016, response, Rural Development concurred with this recommendation. Rural Development will review business processes for the ISAs identified and determine when data transmissions are being sent for each system to system connection and how the transmission completion and receipt are communicated. Rural Development will create a logging spreadsheet that identifies the expected transmission, completion date and confirmation that is reviewed and stored by the appropriate business manager or centralized operations branch. Rural Development will communicate and implement this process. Rural Development estimates implementing these corrective actions by March 10, 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 8

Develop an ISA for the Credit Alert Verification Reporting System (CAIVRS) and ensure Rural Development establishes an ISA with any outside entity before sharing borrower information with the entity.

Agency Response

In its March 11, 2016, response, Rural Development concurred with this recommendation. Rural Development will develop an ISA for the CAIVRS process and ensure all appropriate party signatures are received and maintained. Rural Development CIO will ensure the ISA is documented in the appropriate business system diagrams and added to the distributed ISA checklist. The ISA checklist will include an ISA inception date and capture the first transmission date (for new ISAs initiated after March 1, 2016). Rural Development CIO will communicate to system owners and business owners that transmissions should not be initiated prior to the full execution of the ISA. Rural Development estimates completing these corrective actions by May 30, 2016.

OIG Position

We accept management decision for this recommendation.

Recommendation 9

Review the status of the \$130,951 in Rural Development funds obligated to the Department of Housing and Urban Development (HUD) for CAIVRS costs and deobligate any excess balance.

Agency Response

In its March 11, 2016, response, Rural Development concurred with this recommendation. Rural Development deobligated a total of \$130,951 on February 10, 2016, and considers this corrective action completed on that date.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

We conducted our audit of Rural Development's credit reporting process for its Single Family Housing Direct Loan Program borrowers to credit bureaus and appropriate databases at CSC in St. Louis, Missouri, including representatives from Rural Development's national office in Washington, D.C, and at OIG's regional office in Kansas City, Missouri. Rural Development provided us with access to its information systems and available data files. The scope of our audit work covered the agency's credit reporting process from fiscal years 2013 to 2015.

Rural Development reports Single Family Housing direct loan statuses to three credit bureaus. Rural Development also reported delinquent borrower information to HUD for inclusion in the CAIVRS database. We analyzed credit reporting files transmitted to the three credit bureaus and HUD by developing queries using commercially available software. We selected the credit reporting files transmitted for March 2015 for our review because it was the most recently completed reporting period at the time our field work began. We focused on the agency's reporting of credit repayment statuses, including, but not limited to, delinquencies, defaults, pay-off amounts, and current balances. We conducted our audit work from March 2015 through December 2015.

To determine if current, delinquent, defaulted, and paid-off loans were reported appropriately, accurately, and timely, we selected a non-statistical sample of 145 Single Family Housing direct loan accounts based on data conditions in the March 2015 credit reporting file or based on borrower disputes. We obtained and reviewed credit bureau reports from one bureau to which Rural Development reports for the 145 loans to determine if the bureau was reporting the borrower's account and if so the account's status. To review loan information, we also used Rural Development information systems, including the agency's loan servicing system and its imaging repository.

To accomplish our audit objective, we performed the following procedures:

- Reviewed laws, regulations, handbooks, desk guides, and other documentation applicable to the scope of the audit.
- Interviewed Rural Development officials to gain an understanding of the roles and responsibilities for credit reporting, and credit reporting actions taken.
- Evaluated whether policies, procedures, and internal controls were adequate to ensure current, delinquent, defaulted, and paid-off loan information was reported appropriately, accurately, and timely.
- Analyzed agreements including CMAs and ISAs from USDA and Rural Development.
- Obtained and reviewed documentation to verify that Rural Development transmitted credit reporting files for each month of fiscal years 2013 to 2015.
- Obtained the March 2015 credit bureau transmission and exclusion files from Rural Development and analyzed the files using data analytic software.
- Gained access from Rural Development to the universe of Single Family Housing direct loans in Rural Development's data warehouse and used it to test whether the universe of 339,440 loans with an outstanding principal balance totaling

approximately \$16 billion reported for March 2015 could be verified as complete. Due to limitations in the data fields housed in the data warehouse, we found we were unable to validate through this testing if the agency transmitted the complete number of borrowers for March 2015. However, we obtained sufficient and appropriate evidence to support our finding and conclusion that the agency did not transmit the correct number of borrowers for March 2015. The results of this testing are explained within this audit report.

- To ensure that Single Family Housing Direct Loan Program borrower information was no longer included in CAIVRS, we obtained and reviewed documentation of the removal of USDA records from CAIVRS and tested a sample of 11 delinquent OIG-selected Single Family Housing direct loan accounts. Our review did not disclose evidence of Rural Development Single Family Housing Direct Loan program data in CAIVRS during our audit work.
- We obtained and reviewed a file generated for transmission to HUD in May 2015. We performed only a limited review of the HUD file because the file was not transmitted to HUD and did not undergo all monthly preparation and review procedures.

To obtain evidence about the verifiability of the system-generated data, we performed audit procedures to determine if data were complete and accurate. We also discussed identified issues with Rural Development officials. As stated within this audit report, our evaluation of the accuracy of the credit reporting data in the agency's loan servicing system found that it contained inaccurate or illogical data. However, because credit reporting is only one Single Family Housing Direct Loan Program process among others, including loan application, origination performed at field offices, and core tasks CSC provides in servicing the direct loan portfolio, we did not perform general and application controls testing of Rural Development's data systems. Further, the agency has been unable to provide evidence to support that it reports the correct number of borrower accounts. It was not possible to corroborate all information because there is no evidence available other than that produced by the information systems, and not all fields included in the monthly transmission files are included in the data warehouse. We make no representation regarding the adequacy of any agency computer systems.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Abbreviations

CAIVRS	Credit Alert Verification Reporting System, previously the Credit Alert Interactive Voice Response System
CIO	Chief Information Officer
CFO	Chief Financial Officer
CMA	Computer Matching Agreement
CSC	Centralized Servicing Center
DCIA	Debt Collection Improvement Act of 1996
FCRA	Fair Credit Reporting Act
HUD	Department of Housing and Urban Development
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
ISA	Interconnection Security Agreement
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PII	Personally Identifiable Information
USC	United States Code
USDA	U.S. 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
2	9	Funds obligated for CAIVRS costs in Fiscal Years 2013 and 2014	\$130,951	Funds to be Put to Better Use

**USDA'S
RURAL DEVELOPMENT
RESPONSE TO AUDIT REPORT**



Rural Development

DATE: March 11, 2016

Chief Financial Officer

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

Office of the Financial
Management Division

1400 Independence
Ave SW
Washington, DC
20250
Voice 202.692.0080
Fax 202.692.0088

ATTN: Joe Mickiewicz
Food, Nutrition, Marketing, and Development
Office of Inspector General

FROM: John L. Dunsmuir /s/ JOHN L. DUNSMUIR
Director, Financial Management Division
Rural Development

SUBJECT: Rural Development Single Family Housing Direct Loan Credit
Reporting - Audit Number 04601-0002-31
(Recommendations 1, 2, 3, 4, 5, 6, 7, 8 and 9)

Please find attached Rural Development's Agency Response to the Official Draft report, dated February 9, 2016, entitled "***Rural Development Single Family Housing Direct Loan Credit Reporting***" - Audit Number 04601-0002-31. Rural Development concurs with Recommendations 1, 2, 3, 4, 5, 6, 7 and 8). Recommendation 9 is complete and we provided supporting documentation.

If you have any questions I can be reached at (202) 692-0082 or John.Dunsmuir@wdc.usda.gov.

USDA is an equal opportunity provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form (PDF), found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at program.intake@usda.gov.

Rural Development
Agency Response
To
Office of Inspector General Official Draft Audit Report
March 9, 2016

Rural Development Single Family Housing Direct Loan Credit Reporting
Audit Number: 04601-0002-31

Recommendation 1

Develop and initiate a plan with appropriate timeframes, milestones, and procedures to identify and correct inaccurate and blank data fields. Additionally, design the plan to incorporate a verifiable methodology to provide assurance that Rural Development is reporting a complete and accurate file of borrower repayment information for the correct number of borrower accounts, and prioritize the accuracy of the date of first delinquency field. Include procedures to design and implement preventative controls, such as revised guidance and edit checks, as appropriate, when root causes of credit reporting data issues are identified.

Agency Response: Concur

The following action will address this recommendation:

Rural Development will develop and initiate a project plan and assign appropriate timeframes and milestones and target completion dates. The project plan will include progressive steps to 1) identify reporting deficiencies, 2) develop solutions to resolve deficiencies, 4) implement corrective actions, and 3) perform reviews to assure the information transmitted to credit bureaus is in accordance with the Debt Collection Improvement Act and the Fair Credit Reporting Act.

The project plan will include the following action items:

- Request procurement of the data analysis software that will provide tools to examine the fields in the loan servicing system and credit reporting files
- Perform a data analysis to identify data integrity issues within the loan servicing system that affect credit reporting
- Perform data analysis of the credit reporting fields in the files transmitted to the credit bureaus to check for accuracy and completeness and assure compliance with statutory requirements
- Determine the number of borrower accounts that should be reported and included in the monthly credit reporting files

- Amend procedures associated with foreclosures, short sales, and debt settlements to prevent inaccurate reporting of date of first delinquency
- Develop and implement processes to a) verify the borrowers date of birth is logical, b) verify the borrowers first and last names are included in the credit reporting files, and c) identify and correct inaccurate loan opening dates
- Amend reporting methodology on deferred loans to assure reporting is in accordance with industry standards
- Develop and implement a process to review proposed changes to the loan servicing system before implementation to determine the effect on credit bureau reporting
- Develop and implement a process to assure borrowers are not improperly excluded from credit reporting files
- Design and implement preventative controls and edit checks to identify credit reporting data issues

Date Corrective Action Will Be Completed: March 10, 2017

Recommendation 2

Develop a request for automation to include the relevant credit reporting data fields in the data warehouse and any automated tools, such as data analytics software, to verify accuracy and completeness of data prior to transmission.

Agency Response: Concur

The following action will address this recommendation:

Rural Development prepared a Request for Automation (RFA) #CS-11287, which was developed to create new data warehouse tables to store data transmitted to credit bureaus. The RFA will be amended to also include automated tools that will be used to analyze data contained in the credit reporting files.

Date Corrective Action Will Be Completed: July 31, 2016

Recommendation 3

Update procedures to ensure Rural Development begins reporting all loans to the credit bureaus when loans become permanent.

Agency Response: Concur

The following action will address this recommendation:

Rural Development will update the desk procedures to ensure all construction loans are coded properly to report to the credit bureaus once the loan is converted to permanent loan status.

Date Corrective Action Will Be Completed: December 31, 2016

Recommendation 4

Report Rural Development's noncompliance with the Debt Collection Improvement Act and the Fair Credit Reporting Act in the Noncompliance with Laws and Regulations section of Rural Development's Financial Statements, until resolved.

Agency Response: Concur

The following actions will address this recommendation:

The CFO-NFAOC will work with RD staff to develop and monitor Corrective Action Plans (CAP) and the CFO-Financial Management Division (FMD) staff will report the findings in the monthly and annual FMFIA reports to be included in the RD Financial Statements.

Date Corrective Action Will Be Completed: March 10, 2017

Recommendation 5

Develop and implement updated guidance specifying computer matching agreement documentation disclosure and retention instructions, as well as Centralized Servicing Center (CSC) officials' responsibilities for document disclosures and retention.

Agency Response: Concur

The following actions will address this recommendation:

Rural Development (RD) will develop a Computer Matching Agreement guidance document in accordance with USDA regulations for the computerized comparison of records for the purpose of establishing or verifying eligibility for a federal benefit program or for recouping payments or delinquent debts in relation to the Computer Matching and Privacy Protection Act of 1988. RD CIO will post the guidance to the ISSPM policy and procedure site and provide users the location and support for questions.

- RD regulation 2033 will be updated to mention Centralized Service Center (CSC)

Date Corrective Action Will Be Completed: RD CIO ISSPM – March 10, 2017

Recommendation 6

Develop and implement controls to ensure Rural Development reports borrower information only to outside entities with which it maintains appropriate, active Computer Matching Agreements (CMAs) and Interconnection Security Agreements (ISAs), and assign responsibility for monitoring and tracking when updates are needed.

Agency Response: Concur

The following actions will address this recommendation:

RD will review the USDA Risk Management Framework Guide and ISA template to ensure all instructions are fully incorporated to the RD Policy and Procedures. RD CIO will conduct a thorough review of the current system diagrams to ensure the appropriate CMAs and ISA are in place and current. RD CIO will develop a comprehensive list of the CMAs and ISAs that lists the business, IT and private sector owners as a compensating control to monitor the ownership and expiration dates. RD CIO will distribute the listing for concurrence to the owners on a semi-annual basis and the CIO will review continually in conjunction with the Continuous Monitoring of the NIST 800-53 control process. All owners are responsible for the timely renewal of the documentation.

Date Corrective Action Will Be Completed: RD ISSPM – June 30, 2016

Recommendation 7

Develop and implement a system to track and maintain records of data transmissions sent to outside entities and confirmations the transmissions are received.

Agency Response: Concur

The following action will address this recommendation:

Rural Development will review business processes for the ISAs identified and determine when data transmissions are being sent for each system to system connection and how the transmission completion and receipt are communicated. RD will create a logging spreadsheet that identifies the expected transmission, completion date and confirmation that is reviewed and stored by the appropriate business manager or centralized operations branch. RD will communicate and implement this process.

Date Corrective Action Will Be Completed: March 10, 2017

Recommendation 8

Develop an ISA for the Credit Alert Verification Reporting System (CAIVRS) and ensure Rural Development establishes an ISA with any outside entity before sharing borrower information with the entity.

Agency Response: Concur

The following action will address this recommendation:

Rural Development will develop an ISA for the Credit Alert Verification Reporting System (CAIVRS) process and ensure all appropriate party signatures are received and maintained. RD CIO will ensure the ISA is documented in the appropriate business system diagrams and added to the distributed ISA checklist. The ISA checklist will include an ISA inception date and capture the first transmission date (for new ISAs initiated after March 1, 2016). RD CIO will communicate to system owners and business owners that transmissions should not be initiated prior to the full execution of the ISA.

Date Corrective Action Will Be Completed: RD CIO and Business Owner (liaison to outside entity) - May 30, 2016

Recommendation 9

Review the status of the \$130,951 in Rural Development funds obligated to the Department of Housing and Urban Development (HUD) for CAIVRS costs and de-obligate any excess balance.

Agency Response: Corrective Action Completed

The following actions addressed this recommendation:

- RD-13-36 HUD-CAIVRS PO
PO 4300106527 De-obligated \$64,508.00

Completion Date: February 10, 2016

- RD-14-43
PO# 4300162197 HUD-CAIVRS PO
De-obligated in the amount of: \$66,443.24

Completion Date: February 10, 2016

To learn more about OIG, visit our website at www.usda.gov/oig/index.htm

How To Report Suspected Wrongdoing in USDA Programs

Fraud, Waste, and Abuse

File complaint online: <http://www.usda.gov/oig/hotline.htm>
Click on Submit a Complaint

Telephone: 800-424-9121
Fax: 202-690-2474

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



The U.S. Department of Agriculture (USDA) prohibits discrimination in all of its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex (including gender identity and expression), marital status, familial status, parental status, religion, sexual orientation, political beliefs, genetic information, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD).

To file a complaint of discrimination, write to USDA, Assistant Secretary for Civil Rights, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, SW., Stop 9410, Washington, D.C. 20250-9410, or call toll-free at (866) 632-9992 (English) or (800) 877-8339 (TDD) or (866) 377-8642 (English Federal-relay) or (800) 845-6136 (Spanish Federal-relay). USDA is an equal opportunity provider and employer.