



**United States Department of Agriculture
Rural Development**

Ms. Michelle Kitchen
National Association Housing Management Association
400 N. Columbus St.
Alexandria, VA 22314

MAY 27 2008

Dear Ms. Kitchen:

I am writing to share my concerns with your group regarding the state of income verification documentation in the Rural Development Multi-Family Housing (MFH) Section 515 and Section 514 MFH tenant files.

The Section 521 – Rental Assistance (RA) program is the largest program in the Rural Development mission area of the United States Department of Agriculture. The RA program represents 24% of the Rural Development's budget authority. The outlays in Fiscal Year 2007 were over \$854.5 million. The cost of this program is approaching \$1 billion. Each year, we conduct an audit on RA payments to detect errors and improper payments.

We have been conducting the Improper Payments Information Act audit on the Rental Assistance program for the last 5 years. The audit is designed to determine if the appropriate RA subsidy is being paid on behalf of tenants. The basis for this determination is a review of the tenant's file and income verification documentation collected by the property manager. If documentation is missing, insufficient, or the subsidy calculated incorrectly, the subsidy payment is determined to be in error. While our objective is an annual reduction in the error rate, the fact is that our review of tenant files has revealed on-going and uncorrected problems in this area. The error rate continues to rise and, with it, the amount of subsidy being lost to these mistakes.

We have just recently completed this year's review and found that our error rate increased significantly this year to approximately 8.17%. The largest cause of this increase was due to incomplete paperwork, such as:

1. No verification documents to support amount of income reported
2. Tenant certification was not signed
3. Incorrect tenant certification was provided to the Agency for review

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We are currently putting measures in place internally to work on reducing the error rate. The measures include:

1. Issuance of an unnumbered letter (UL) dated February 28, 2008 entitled, "Fiscal Year 2006 Management Control Reviews, Multi-Family Loan Servicing for Section 515 Rural Rental Housing and Section 514/516 Off-Farm Labor Housing". This UL included attachments that were recommended for management agents to use to assist in evaluating eligibility and necessary file documentation. The UL can be viewed at <http://www.rurdev.usda.gov/regs/ul/ulfebruary08.pdf>.
2. Revision of the supervisory visit protocol to target specific types of tenant files. The new protocol will be implemented in June 2008.
3. Revision of HB-2-3560, Chapter 6, "Project Occupancy" to incorporate the information from the UL dated February 28, 2008.
4. Discussions with legislators regarding the possibility of Rural Development obtaining access to HSS' Directory of New Hires and authority for national wage matching, and we are seeking authority for access to HUD's Enterprise Income Verification system.

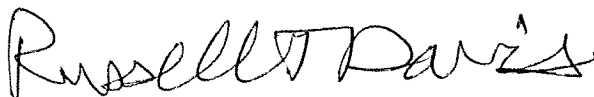
The audit results are part of the Performance and Accountability Report that Federal agencies are required to release to Congress annually. The RA program raises a red flag with each report as the error rate goes up. We are taking this issue very seriously and these errors are made at the property manager level, so we are encouraging industry groups to find ways to address this issue immediately.

We are seriously considering other actions to deal with this issue including no/limited increases in management fees, alerting tax credit monitoring agencies of problems noted and denying approval of new or renewal of management certifications.

If your organization has any suggestions or ideas on how your members can ensure complete file documentation on income verifications, income recertifications, and accurate calculations, we encourage you to share them with them.

If you have any questions, please contact Stephanie White, Director of the MFH Portfolio Management Division, at 202-720-1615.

Sincerely,



RUSSELL T. DAVIS
Administrator
Housing and Community Facilities Programs