United States Government Accountability Office

Report to the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, Committee on Appropriations, U.S. Senate

September 2017

RURAL HOUSING SERVICE

Additional Actions Would Help Ensure Reasonableness of Rental Assistance Estimates

GAO-17-725

GAO Highlights

Highlights of GAO-17-725, a report to the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, Committee on Appropriations, U.S. Senate

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Why GAO Did This Study

RHS provides about $1.4 billion annually in rental subsidies to owners of multifamily housing for more than 270,000 low-income rural households. RHS's agreements with property owners provide rental assistance payments estimated to last 1 year. In fiscal years 2013–2015, RHS was unable to renew all its agreements because it ran out of funds. For example, in fiscal year 2015, the funding gap was about $97 million. As a result, some property owners' rental assistance payments were delayed.

GAO was asked to examine the reasons why RHS ran out of funds and how RHS plans to improve its budget requests. This report examines (1) reasons RHS ran out of funds for renewing rental assistance agreements in fiscal years 2013–2015 and how it responded, and (2) what RHS has done to help prevent future funding gaps and the extent to which it has addressed related budgetary issues. GAO analyzed RHS budget and rental assistance data for fiscal years 2011–2016, reviewed RHS policies and procedures, and interviewed RHS national office officials and staff from15 (of 47) randomly selected state offices.

What GAO Recommends

GAO recommends that RHS develop plans for testing rental assistance estimation methods, develop estimation controls, create controls to ensure use of appropriate assumptions in budget requests, and provide guidance on reviews of rental assistance renewals. RHS did not comment on GAO's recommendations.

View GAO-17-725. For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or garciadiazd@gao.gov.

What GAO Found

An interplay of three primary factors contributed to the funding gaps that the rental assistance program of the U.S. Department of Agriculture's Rural Housing Service (RHS) faced in fiscal years 2013–2015:

- **Fiscal year 2013 sequestration and rescissions.** An across-the-board cancelation of budgetary resources in March 2013 decreased the program's approximately $907 million budget by about $70 million.
- **Unreliable methods for estimating rental assistance costs.** RHS used a state-wide, per-unit average cost to calculate rental assistance agreement amounts. This resulted in some properties receiving more funds than needed, tying up funds that could have been used for other properties.
- **Limited management flexibility.** RHS had limited ability to adjust its program management to help prevent funding gaps. For example, RHS does not have authority to fund agreement renewals for less than 1 year.

RHS took steps to mitigate the effects of the funding gaps on property owners, but some had negative consequences. For example, to cover fiscal year 2014–2015 gaps, RHS used unexpended rental assistance funds from properties that had exited the program. But, as a result, the program lost the associated rental assistance units and RHS could not re-assign the units to other properties.

RHS has taken steps under its existing authorities to help prevent future funding gaps but lacks certain plans and controls to help ensure its estimates of rental assistance costs are reasonable. In fiscal year 2016, RHS began using a new cost model integrated with its program information system that more accurately estimates rental assistance agreement renewals. For instance, the model estimates renewal costs based on property-level data rather than state-wide averages. RHS also began including estimates of agreements that would need two renewals in the same fiscal year (a number of which are to be expected) in budget requests. But, GAO found weaknesses in aspects of RHS's budget estimation and execution of rental assistance. Specifically, RHS:

- does not have a plan for ongoing monitoring or testing of the new estimation method. Federal internal control standards call for management to establish monitoring activities and evaluate results.
- lacks controls to detect misestimates of rental assistance, a problem RHS experienced during early use of the model. Federal internal control standards call for control activities for information systems to respond to risks.
- has not used the appropriate inflation rates in its budget estimates since fiscal year 2009. Office of Management and Budget guidance states budgets should be consistent with the economic assumptions it provides.
- has not provided staff guidance on their responsibilities for determining whether properties' rental assistance should be renewed. Federal internal control standards call for documenting responsibilities through policies.

The weaknesses may exist partly because RHS continues to refine its estimation method, which has been in effect for about 2 years. By addressing them, RHS would have greater assurance that it will develop the best possible estimates.

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Abbreviations

AMAS	Automated Multi-Family Housing Accounting System
IT	information technology
MFIS	Multi-Family Housing Information System
OMB	Office of Management and Budget
RHS	Rural Housing Service
USDA	U.S. Department of Agriculture

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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September 13, 2017

The Honorable John Hoeven
Chairman
The Honorable Jeff Merkley
Ranking Member
Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States Senate

Each year, the Rural Housing Service (RHS) of the U.S. Department of Agriculture (USDA) provides rental subsidies through the Section 521 Rental Assistance Program for more than 270,000 rural households.[1] Under the program, eligible tenants pay no more than 30 percent of their income toward the rent, and RHS pays the balance to the property owner. With an annual budget of more than $1.3 billion, the rental assistance program is the largest program within RHS, accounting for more than half of its budget.

In fiscal years 2013–2015, RHS was not able to renew all eligible rental assistance agreements because it obligated (legally committed) all its appropriated funds before the end of the fiscal year, September 30. This resulted in some owners missing or receiving delayed rental assistance payments. Additionally, RHS requested and received more than $200 million for fiscal year 2016 above the amount requested in the President's budget to cover (among other things) the cost of renewing agreements that could not be renewed at the end of fiscal year 2015.

You asked us to examine why RHS ran out of funds before the ends of fiscal years 2013–2015 and how RHS plans to improve the accuracy of its budget requests. This report examines (1) the reasons RHS ran out of funds for renewing rental assistance agreements in fiscal years 2013–2015, and how it responded to the funding gaps in those years; and (2)

[1]The program is authorized by Section 521 of the Housing Act of 1949, as amended (42 U.S.C.1490a).

what RHS has done to help prevent future funding gaps and the extent to which it has addressed related budgetary issues.[2]

To address these objectives, we analyzed rental assistance obligation and expenditure data from RHS's accounting system for fiscal years 2011–2016 to determine the timing and amount of renewals of rental assistance agreements in each year. We reviewed RHS policies and procedures for budget estimation and execution (such as allocating and obligating funds for rental assistance agreements) and compared them to federal guidance on budget preparation and federal internal control standards that apply to these processes. We also reviewed budget documents showing the amount of budget authority appropriated to the rental assistance program in fiscal years 2013–2015 and reductions in appropriated amounts due to sequestration and rescissions (cancelations of budgetary resources) in fiscal year 2013. We examined the methodology behind RHS's obligation tool for estimating rental assistance agreement amounts and budget requests. We interviewed RHS and Office of Management and Budget (OMB) officials and staff on RHS's budget estimation processes, including the inflation rates RHS used for fiscal year 2010–2018 budget requests. We interviewed staff who administer the rental assistance program at a nongeneralizable sample of 15 randomly selected Rural Development state offices (out of 47) about practices for reviewing and approving rental assistance obligations.[3] To assess the reliability of data from RHS's accounting system, we interviewed Rural Development officials, reviewed related documentation, and tested the data for missing or erroneous values. We determined the data we used were sufficiently reliable for purposes of describing the number and timing of rental assistance agreement renewals and payments. Appendix I describes our objectives, scope, and methodology in greater detail.

We conducted this performance audit from November 2015 to September 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to

[2]In this report, we use the term "funding gap" to refer to situations in which RHS exhausted its funding before the end of the fiscal year and could not renew rental assistance agreements up for renewal.

[3]Rural Development is the USDA component that oversees RHS. We interviewed staff from the following state offices: Arkansas, Delaware-Maryland, Indiana, Iowa, Kentucky, Maine, Massachusetts-Rhode Island-Connecticut, Minnesota, Mississippi, Nebraska, Nevada, New Jersey, North Carolina, Oklahoma, and South Dakota.

obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Section 521 Rental Assistance Program, started in 1978, is administered by RHS's Multi-family Housing Portfolio Management Division. The program provides rental assistance for tenants living in properties financed by direct loans from RHS's Multi-Family Housing Direct Loans and Farm Labor Housing Direct Loans and Grants programs.[4] As discussed previously, eligible tenants pay no more than 30 percent of their income toward rent and RHS pays the balance to the property owner. Tenants must be low-income (with incomes 50-80 percent below area median income) or very-low-income (with incomes below 50 percent of area median income) to be eligible for rental assistance. As of the end of fiscal year 2016, the program had 14,308 properties and 282,806 units receiving rental assistance, according to RHS.

RHS provides the rental subsidies through agreements with property owners for an amount estimated to last for 1 year as required under the program's appropriations acts, which RHS interprets as 12 monthly rental assistance payments.[5] RHS draws down on this amount for each rental assistance payment made for the property. The agreements with the owners expire when the original dollar amount obligated is fully expended, even if the period covered by the agreement is longer than the expected 1 year (that is, more than 12 payments are required to exhaust

[4]The programs were authorized by Sections 514, 515, and 516 of the Housing Act of 1949, as amended, 42 U.S.C. § § 1484, 1485, 1486. The Section 515 Multi-Family Housing Direct Loans program provides loans, subsidized as low as 1 percent interest, to developers to build rental housing. The Section 514 and 516 Farm Labor Housing Direct Loans and Grants programs provide direct loans subsidized at 1 percent interest and grants to build rental housing for farm laborers. Only "off-farm" labor housing is eligible for rental assistance subsidies.

[5]The length of agreements has changed over time. According to RHS officials, RHS issued 20-year agreements from the program's inception through fiscal year 1982, 5-year agreements during fiscal years 1983–2003, 4-year agreements in fiscal years 2004–2006, and a combination of 1- and 2-year agreements in fiscal year 2007. Officials said RHS has issued 1-year agreements since fiscal year 2008.

the obligated dollar amount), or is less than 1 year.[6] The agreements specify that owners will receive payments on behalf of tenants in a designated number of units at the property. Each month, property owners or their management companies must certify the number of rental assistance units that are occupied and submit a request for payment of rental assistance to RHS. In addition, property owners must certify tenants' incomes annually or when a tenant experiences a substantial change in income.

RHS automatically renews expiring agreements if funding is available and the owner is in compliance with program requirements. For fiscal years 2013–2015, the vast majority of rental assistance agreements were renewals of prior agreements, as opposed to new agreements for properties entering the rental assistance program. An agreement can be renewed more than once in the same fiscal year if the obligated funds are fully expended within the fiscal year. RHS refers to the second agreement in the same fiscal year as a “second renewal.”

RHS's national office and Rural Development's state and local offices manage the rental assistance program. The Portfolio Management Division within the national Multi-Family Housing office develops and implements program regulations, estimates program budgets, and tracks nationwide program statistics. It also has responsibility for executing the program's budget, including allocating funds to properties for rental assistance agreements and tracking use of the appropriated funds. Rural Development state and local offices monitor the program and interact with property owners and property management companies. State office responsibilities include budget execution duties such as approving and obligating funds for rental assistance agreements with property owners and monitoring unused rental assistance units in the state. Local offices review and approve property budgets and rent increases and review owners' compliance with program requirements.

RHS uses the Multi-Family Housing Information System (MFIS) to allocate funds, calculate obligation amounts for rental assistance agreements, and maintain data on properties and tenants. Property

[6]Rental assistance agreements are unlikely to last for 12 payments exactly because of the uncertainty in estimating rental assistance costs. Many factors can lead to rental assistance agreements lasting shorter or longer than anticipated, including changes in vacancies, tenant incomes, and the number of dwelling units undergoing repair or rehabilitation.

owners or their management companies submit tenant information and monthly requests for payment through an online portal that uploads the information directly to MFIS. As noted above, properties must be financed by the Multi-Family Housing Direct Loans or Farm Labor Housing Direct Loans and Grants programs to receive rental assistance. Because each owner also must make a monthly mortgage loan payment to RHS for the property, MFIS calculates the net rental assistance payment due to the owners each month. That is, it calculates the amount of rental assistance due to the owner and subtracts the mortgage payment that the owner must pay to RHS, among other things. If the amount owed to the owner is greater, RHS makes a cash payment to the owner. If the amount owed to RHS is greater, the owner must still make a payment to RHS.

Multiple Factors Caused Funding Gaps and RHS Took Steps to Mitigate Effects

An Interplay of Factors Contributed to Fiscal Year 2013–2015 Gaps

An interplay of factors—primarily sequestration and rescissions, unreliable estimation methods, and limits on RHS's ability to manage program funds differently—resulted in the program funding falling short of the amount needed to renew all eligible rental assistance agreements at the ends of fiscal years 2013, 2014, and 2015. In those years, RHS used all that remained of its appropriated funds for agreement renewals by July or August. According to our analysis of RHS data, the number of properties whose agreements ran out of funds but could not be renewed until the next fiscal year was 308 in fiscal year 2013, 401 in fiscal year 2014, and 943 in fiscal year 2015 (of about 15,000 properties).[7] RHS

[7]RHS provided us with a spreadsheet containing a list of the agreements that were renewed at the beginning of fiscal years 2014–2016 that would have been renewed at the end of the prior fiscal year if the program had the funding. We calculated these numbers using this list. We were not able to independently reproduce the list of agreements in RHS's spreadsheet using the data we received from RHS's accounting system because the accounting system has no indicator that would identify the properties that had not been renewed in the prior year, according to RHS. RHS developed the list using reports officials had run at the end of each fiscal year that identified properties with rental assistance payments that were in pending status because there was not enough money on their rental assistance agreements.

officials estimated that the program would have needed about $97 million more in fiscal year 2015 to renew all eligible agreements on time. RHS did not calculate the amount of funds it would have needed to renew all expiring agreements in fiscal year 2013 because no funds were available to the program for renewals, according to RHS officials. The officials noted that RHS also did not calculate this number for fiscal year 2014 because it addressed the rental assistance needs of the affected properties by using previously obligated funds associated with properties that had exited the program, as discussed below.

Sequestration and rescissions. In fiscal year 2013, sequestration and rescissions cut about $70 million of the rental assistance program's approximately $907 million budget.[8] These cuts also had implications for the rental assistance program in fiscal year 2014 because they pushed renewals that could not be funded at the end of 2013 into the subsequent year.

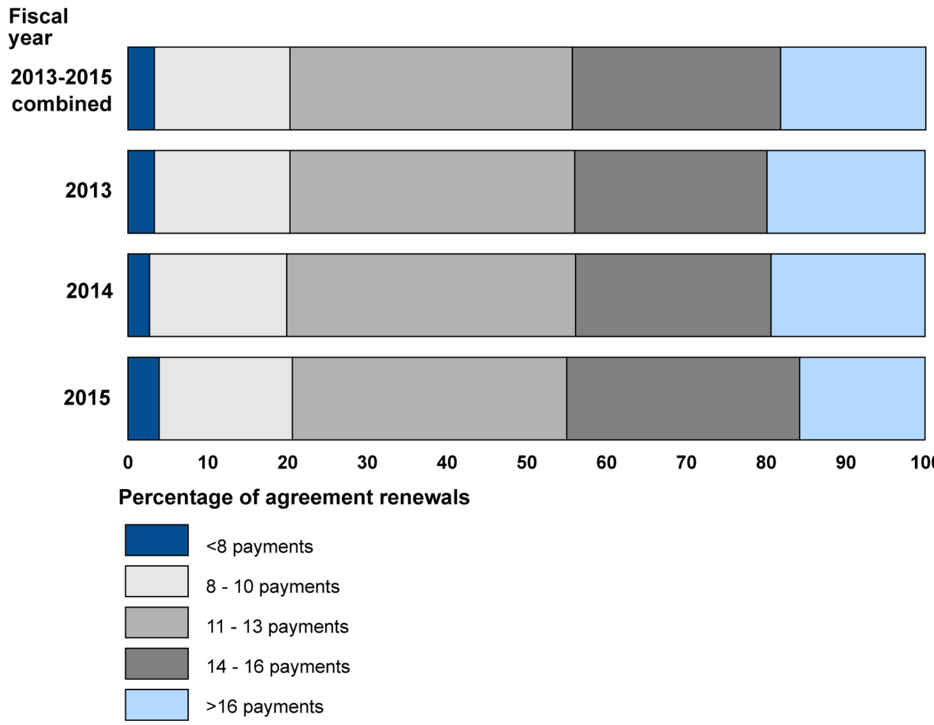
Unreliable estimation methods. RHS's methods for calculating the dollar amount for annual renewal agreements and budget requests had weaknesses. In fiscal years 2013–2015, RHS calculated the amount of renewal funding each property would receive by multiplying the number of rental assistance units by a state-wide, per-unit average cost. Because actual rental assistance costs at each property generally differed from the state-wide average, this method resulted in some properties receiving agreement renewals that provided less funds than needed for 1 year (resulting in the need for an additional renewal within the same 12-month period) and other properties receiving more funds than needed for 1 year (tying up funds that could have been obligated to other properties). In the aggregate, for agreements renewed in fiscal years 2013–2015, approximately 35 percent of the amounts were sufficient to make 11–13

[8]Specifically, sequestration cut $45.5 million of the program's budget and two across-the-board rescissions—legislation enacted by Congress that cancels budget authority previously enacted—cut an additional $24.6 million, according to a Rural Development Budget Division official. On March 1, 2013, pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985, the President ordered an across-the-board cancelation of budgetary resources—known as sequestration—to achieve $85.3 billion in reductions across accounts. The Consolidated and Further Continuing Appropriations Act, 2013 included across-the-board rescissions, which were applied to full-year appropriations for fiscal year 2013 (in addition to the reductions required by sequestration).

rental assistance payments—that is, about 1 year (see fig. 1).[9] In contrast, about 20 percent lasted for fewer than 11 payments, including 17 percent with funding that lasted for 8–10 payments and about 3 percent with funding that lasted for fewer than 8 payments. Further, about 44 percent of the agreements renewed during the 3-year period lasted for more than 13 payments, including about 26 percent with funding that lasted for 14–16 payments and about 18 percent with funding that lasted for more than 16 payments.

[9]This count includes full rental assistance payments and any partial payments funded by the agreement. A partial payment may occur, for example, when an agreement is renewed and the prior agreement has a small amount of remaining funds. In that case, the next rental assistance payment may consist partly of funds from the prior agreement and partly of funds from the renewed agreement. The count also includes agreements for properties that may have been transferred to a new owner while the agreement was in effect. When a transfer occurs, the identification number associated with the agreement in RHS's database changes. The agreement with the new identification number may appear to last for fewer payments because part of the funding was used under the former identification number. We could not identify rental assistance units that had been transferred to a new owner in the data we received from RHS.

Figure 1: Percentage of RHS Rental Assistance Agreement Renewals, Categorized by Number of Payments Made, Fiscal Years 2013–2015



Source: GAO analysis of Rural Housing Service (RHS) data. | GAO-17-725

Note: The number of payments made is based on a count of the months for which the agreement was used to make full rental assistance payments and any partial payments. In some cases, the number of payments made may be understated if the property was transferred to a new owner while the agreement was in effect, resulting in the agreement appearing to last for fewer payments than it otherwise would have. RHS renewed about 8,300 agreements in fiscal year 2013, about 10,700 agreements in fiscal year 2014, and about 10,600 agreements in fiscal year 2015.

In addition to the limitations in agreement estimates, RHS's methods for estimating program costs for its budget requests had weaknesses. For example, RHS did not account for second renewals (which occur when the same property requires two renewals of its rental assistance agreement in the same fiscal year) for its fiscal year 2013 and 2014 budget requests.[10] Some second renewals are to be expected because of the uncertainty involved in estimating rental assistance costs—vacancies at properties and tenant incomes can change from month to month. Our analysis of RHS data found that about 2 percent of properties received a second renewal in fiscal year 2013 and about 8 percent in fiscal year 2014. These percentages would have been higher if RHS had not run out of funds for renewals in these years.

Limitations on RHS's ability to manage funds differently. Program requirements limited the options available to RHS officials to manage rental assistance funds differently when faced with constrained budgets. RHS officials said they were aware in April 2013 that the program lacked sufficient funds to renew all agreements that would exhaust their funding before the end of fiscal year 2013 due to reductions in appropriations from sequestration and rescissions. However, they added that they were not able to adjust their renewal practices to address the funding gap because of program requirements.

- First, the appropriations acts that funded the program in fiscal years 2013–2015 stated that the agreements must be funded for a 1-year period, which RHS interpreted as 12 rental assistance payments. (As previously noted, RHS obligates the amount it estimates is needed for 12 payments, and the agreement expires when the funds are fully expended, even if the period covered by the agreement is longer than the expected 1 year.)
- Second, program regulations require each rental assistance agreement to be renewed when it exhausts its funding as long as the owner has complied with all program requirements.
- Third, RHS could not move funds from agreements with more funds than needed for a 12-month period to agreements with less funds than needed for a 12-month period because doing so might have breached the agreements, according to program officials. As previously stated, RHS's rental assistance agreements specify a

[10]RHS also did not include an estimate of second renewals in its fiscal year 2015 budget request for the program because officials were aware that a prohibition on second renewals was to be included in the appropriations law for fiscal year 2015. The prohibition in the Consolidated and Further Continuing Appropriations Act, 2015, Pub. L. No. 113-235, 128 Stat. 2130, 2148 (2014) was not enacted until December 2014, more than 2 months into fiscal year 2015, and any agreements entered into before this date were eligible for second renewals, according to RHS officials. This resulted in 573 second renewals that fiscal year, according to RHS.

dollar amount of funding that will be available for rental assistance at the property until fully expended. RHS officials told us that it was their understanding that RHS did not have the authority to move funds from agreements for active properties.

RHS requested certain legislative changes that RHS stated would have provided it more flexibility to manage constrained budgets. These proposals were generally not enacted. For example, the President's budgets for fiscal years 2015 and 2016 requested authorization for RHS to enter into partial-year agreements so that RHS could renew agreements for smaller dollar amounts (that is, amounts estimated to cover fewer than 12 payments) during periods of funding uncertainty. To help manage constrained budgets, the President's budgets also sought authority for RHS to prioritize agreement renewals based on factors other than the order in which agreements exhausted their funding. RHS explained that it had no ability to prioritize renewals for properties where the need might surpass that of other properties. If it had received the authority, examples of the criteria RHS said it would use to prioritize renewals included whether the rental assistance units were occupied over the prior 12 months and whether more than half of the units at a property had rental assistance.

RHS Took Steps to Mitigate the Effects of the Funding Gaps but Some Had Negative Consequences

RHS used a variety of approaches in the years it faced funding gaps to try to minimize effects on property owners, with mixed results.

- **Fiscal year 2013.** RHS offered owners who did not receive rental assistance payments at the end of the fiscal year several options to lessen the financial effect. According to RHS, 308 of approximately 15,000 properties (about 2 percent) were affected by the funding gap that year. The options RHS offered included allowing owners to use money from the property's capital reserve account for operating purposes, suspend payments to the capital reserve account, and defer payments on their RHS mortgages (loan deferral). However, according to RHS officials, some owners declined the options RHS offered and none of the owners were compensated for the rental assistance payments they did not receive that year.
- **Fiscal year 2014.** RHS used rental assistance previously obligated to properties that had exited the program due to foreclosure, mortgage prepayment, or mortgage maturity for properties with agreements

needing renewal.[11] In some cases, RHS funded 1-year renewals. According to RHS, the program used about $8.5 million in previously obligated but unexpended funds to renew agreements for properties currently in the program that had exhausted their funds in September and October 2014. In other cases, RHS provided enough funding to cover a property's September 2014 rental assistance payment. RHS officials said they used about $315,000 in previously obligated but unexpended funds in this manner in fiscal year 2014. In these cases, RHS renewed the rental assistance agreements when the next fiscal year's appropriation was available. According to RHS, agreements for 401 properties (about 3 percent) could not be renewed until the next fiscal year, but due to the use of previously obligated but unexpended funds, owners received all rental assistance payments they were due in fiscal year 2014.

- **Fiscal year 2015.** RHS used two main approaches to try to avoid or lessen the effect of funding gaps on owners of the 943 properties (about 6 percent) whose agreements RHS could not renew.
    - RHS tried to decrease the likelihood of a funding gap by asking Congress to prohibit second renewals—meaning that, if legislation were enacted, any agreement that fully expended its funding in less than 12 months could not be renewed another time in the same fiscal year. Congress enacted legislation containing the prohibition on December 16, 2014 (about 2-1/2 months into fiscal year 2015), but any agreements entered into before that date were eligible for second renewals.[12] According to RHS officials, this resulted in 573 second renewals in fiscal year 2015 that RHS had not anticipated. RHS ran out of funds to renew rental assistance agreements in July 2015.
    - In December 2015, Congress authorized RHS to use funds obligated to properties that had since exited the program to compensate owners for rental assistance payments that RHS missed at the end of fiscal year 2015 due to the funding gap.

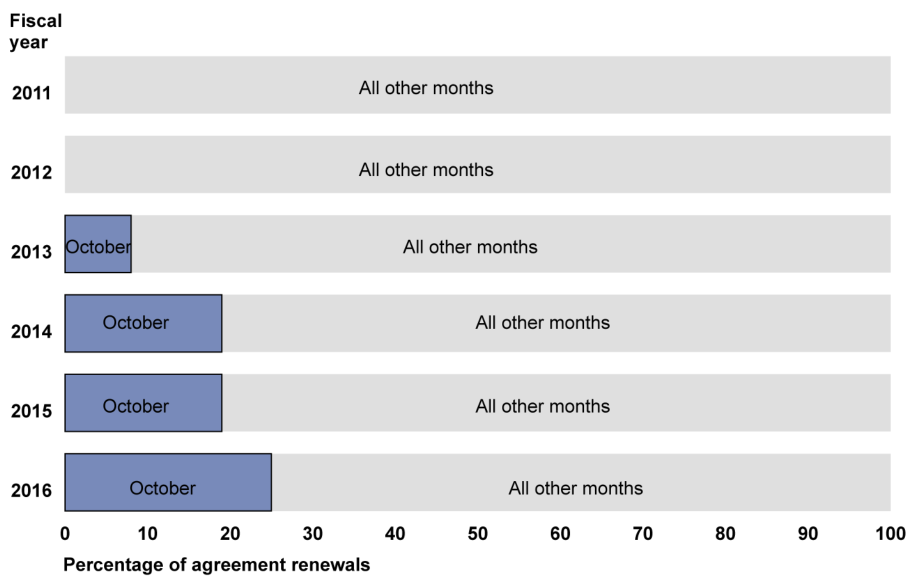
[11]Before using the same approach to address the fiscal year 2015 funding gap, RHS sought, and obtained, explicit authority from Congress to use the previously obligated but unexpended funds in this manner. See Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, 129 Stat. 2242, 2259 (2015).

[12]Consolidated and Further Continuing Appropriations Act, 2015, Pub. L. No. 113-235, 128 Stat. 2130, 2148 (2014).

Between December 2015 and early March 2016, RHS made such payments totaling about $5.4 million, according to RHS data.[13]

In each fiscal year, some or all of the agreements that could not be renewed on time due to funding gaps were renewed when the next fiscal year's appropriation became available. As previously noted, hundreds of properties fell into this situation each year. Program officials told us that these renewals happened early in the next fiscal year. Consistent with this statement, our analysis found that the number of agreements renewed in October was substantially higher in fiscal years 2014–2016 than in prior years (see fig. 2). For example, 19 percent of agreements in fiscal year 2014 were renewed in October. Agreements renewed early in the fiscal year were more likely to need a second renewal later that year, further increasing the likelihood that RHS would run out of funds before the end of the year.

Figure 2: Percentage of RHS Rental Assistance Agreements Renewed in October Compared with the Rest of the Fiscal Year, Fiscal Years 2011–2016



Source: GAO analysis of Rural Housing Service (RHS) data. | GAO-17-725

[13]RHS had used this approach to address the fiscal year 2014 funding gap. Before using the same approach to address the fiscal year 2015 gap, RHS sought, and obtained, explicit authority from Congress to use the previously obligated but unexpended funds in this manner. See Consolidated Appropriations Act, 2016. Pub. L. No. 114-113, 129 Stat. 2242, 2259 (2015).

However, some of the approaches RHS used to lessen the effects of the funding gaps at the end of each fiscal year had negative consequences, as described below:

- **Loan deferrals.** When some property owners chose to defer their mortgage payments at the end of fiscal year 2013, RHS's automated accounting system incorrectly marked the owners as delinquent on their mortgages. According to RHS officials, this created problems in the system such as charging owners late fees and remitting rental assistance checks to local Rural Development offices instead of owners. In response, RHS waived the late fees and local office staff forwarded checks to owners. It took RHS longer than expected to change the accounting system to correct the delinquencies. Since February 2017, RHS staff have been able to create deferral transactions that do not mark the owners as delinquent on their mortgages.
- **Use of unexpended funds from properties that exited the program.** When RHS uses funds obligated to properties that exited the program (due to prepayment of, foreclosure on, or maturing of an RHS mortgage) to address funding needs at other properties, the rental assistance units associated with the funds from the exited properties permanently leave the program.[14] RHS officials said that rental assistance units must have funds obligated to them in order for them to remain available to the program. RHS can preserve those rental assistance units only by assigning them to a second property in RHS's portfolio before the funds on their current obligation are exhausted.[15] The previously obligated but unexpended funds RHS used to mitigate the effects of the fiscal year 2014 and 2015 funding gaps—$8.5 million and $5.4 million, respectively—were available because RHS had not assigned the units associated with those funds to other properties. RHS officials told us they made a policy decision around the time of the 2013 sequestration to use the unexpended funds to help mitigate funding gaps rather than re-assign the units to

[14]In this context, "rental assistance unit" refers to the authorization to commit rental assistance funding for a dwelling unit.

[15]Also, according to RHS officials, tenants receiving rental assistance at properties with mortgages that are foreclosed, prepaid, or matured are provided a Letter of Priority Entitlement and may use it to move to another property in RHS's Multi-Family Housing Direct Loans and Farm Labor Housing Direct Loans and Grants programs. These tenants may transfer their rental assistance unit to the new property. The tenant has 4 months to elect to utilize the rental assistance at the new property. See 7 C.F.R. §§ 3560.259(c), 3560.502.

maintain the number of units in the program. Therefore, a trade-off of RHS's strategy is a shrinking portfolio of assisted rental units.[16]

- **Prohibition on second renewals.** Due to the statutory prohibition on second renewals in fiscal year 2015, agreements for $4.5 million in rental assistance could not be renewed that year when they exhausted their funds. While RHS requested this legislative change to help prevent the program from running out of funds for standard renewals, it put owners whose agreement funding lasted less than 1 year in a financially difficult position. Additionally, tenants in affected properties faced the prospect of rent increases to compensate for the missed payments. In fiscal year 2016, RHS paid the owners the missed rental assistance—totaling about $191,000—using previously obligated but unexpended funds from properties that had exited the program due to foreclosure or mortgage prepayment.[17] RHS also asked Congress to remove the prohibition on second renewals for fiscal year 2016, which Congress did as part of the Continuing Appropriations Act, 2016, and the Consolidated Appropriations Act, 2016.[18]

RHS officials said if they faced funding gaps in the future, they would implement the same mitigation measures they have in the past—which have included using unexpended funds from properties that exited the program and offering relief options to owners. However, RHS officials told us that as of the end of fiscal year 2016, RHS had only $5.3 million in previously obligated but unexpended funds remaining. Further, this method would reduce the number of assisted units that could be preserved.

[16]According to RHS, the program had 285,008 rental assistance units at the end of fiscal year 2014, compared with 282,806 units at the end of fiscal year 2016. However, we cannot attribute a specific number of lost units to RHS's strategy because RHS does not track the number of units associated with unexpended funds from exited properties.

[17]The Consolidated Appropriations Act, 2016 authorized RHS to recapture rental assistance provided under agreements entered into prior to fiscal year 2016 for projects that no longer needed rental assistance and use the funds for current needs and unmet rental assistance needs from fiscal year 2015, Pub. L. No. 114-113, 129 Stat. 2242, 2259 (2015). In fiscal year 2015, RHS initially offered property owners who did not receive rental assistance payments options similar to those offered in fiscal year 2013 to lessen the financial impact. However, RHS canceled these options after it received approval to make missed payments using previously obligated, unexpended funds.

[18]Pub. L. No. 114-53, §117,129 Stat. 502, 508 (2015), Pub. L. No. 114-113, 129 Stat. 2242, 2259 (2015).

RHS Improved Rental Assistance Estimates but Some Weaknesses Exist in Budget Estimation and Execution

RHS's New Tool Improved Estimates of Rental Assistance Costs

To improve its rental assistance estimates and streamline the obligation process, RHS in 2014 began developing a "rental assistance obligation tool" (obligation tool), a model that estimates rental assistance costs based on each property's rental assistance payment requests over the prior 12 months. RHS began using the tool—which is integrated with MFIS, RHS's management information system for the rental assistance program—to renew agreements in fiscal year 2016 and to estimate the program's fiscal year 2017 budget request. To calculate the amount of funding for each agreement renewal, the obligation tool averages the property owner's monthly requests for rental assistance over the past 12 months, but assigns increasingly higher weights to more recent requests. RHS officials said they chose this weighted average approach because it is more likely that future rental assistance costs at a property will be similar to the amount needed in the most recent month of the agreement than in the first month. The obligation tool also takes into account the effect of any recent or planned rent increases at the property on its future rental assistance costs.[19]

In addition to calculating renewal amounts, RHS staff use the obligation tool to allocate and obligate funds for agreement renewals. The tool tracks the use of rental assistance at every property and determines which agreements will be renewed next based on estimates that are updated daily for each property. In general, when the rental assistance program receives a funding apportionment from OMB, a program official enters the amount received into the obligation tool, and the tool allocates the funds to the agreements that will exhaust their funding next, according

[19]The obligation tool estimates costs based on the number of rental assistance units allotted to the property when the agreement was renewed, which may be greater than the number of rental assistance units occupied at that time of the renewal.

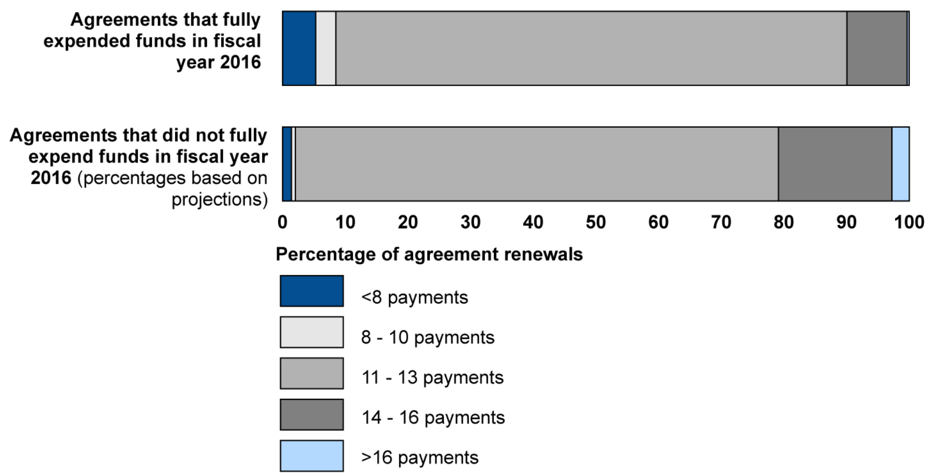
to RHS.[20] USDA Rural Development staff in state offices then use the tool to obligate the funding amount the tool calculated. According to RHS, the obligation tool was developed partly to improve efficiency, and the tool has reduced the administrative burden on state office staff of renewing rental assistance agreements. When asked about the benefits and challenges of using the obligation tool, staff with whom we spoke from 12 of 15 randomly selected Rural Development state offices told us that it reduced the amount of time it took them to obligate funds for renewals.

Our analysis of renewal amounts calculated by the obligation tool in fiscal year 2016 indicates that RHS's estimation method generally results in agreements that last for about 12 payments (see fig. 3). For agreements that fully expended their funds within the fiscal year, 82 percent of the amounts were sufficient to make 11–13 rental assistance payments (compared with about 35 percent for agreements renewed in fiscal years 2013–2015).[21] In contrast, about 9 percent lasted for fewer than 11 payments and about 10 percent lasted for more than 13 payments. For agreements that did not fully expend their funds during the fiscal year, we projected remaining payments based on the average of the prior 12 payments. We estimated that 77 percent of these agreements had funds to make 11–13 payments, while about 2 percent had funds for fewer than 11 payments and about 21 percent had funds for more than 13 payments.

[20]RHS generally receives allotments of funding quarterly, according to a Rural Development Budget Division official. When the program needs funds, Rural Development Budget Division staff write a request for an apportionment. Office of Budget and Program Analysis analysts review the request and submit the information to OMB for approval.

[21]This count includes full rental assistance payments and any partial payments funded by the agreement. A partial payment may occur, for example, when an agreement is renewed and the prior agreement has a small amount of remaining funds. In that case, the next rental assistance payment may consist partly of funds from the prior agreement and partly from the renewed agreement. The count also includes agreements for properties that may have been transferred to a new owner while the agreement was in effect. When a transfer occurs, the identification number associated with the agreement in RHS's database changes. The agreement with the new identification number may appear to last for fewer payments because part of the funding was used under the former identification number. We could not identify rental assistance units that had been transferred to a new owner in the data we received from RHS.

Figure 3: Percentage of RHS Rental Assistance Agreement Renewals Made in Fiscal Year 2016, Categorized by Number of Payments Made or Projected to Be Made



Source: GAO analysis of Rural Housing Service (RHS) data. | GAO-17-725

Note: The number of payments made is based on a count of the months for which the agreement was used to make full rental assistance payments and any partial payments. In some cases, the number of payments made may be understated if the property was transferred to a new owner while the agreement was in effect, resulting in the agreement appearing to last for fewer payments than it otherwise would have. RHS renewed about 12,700 agreements in fiscal year 2016.

In addition to improving agreement renewal estimates, RHS took steps to improve its budget estimation procedures. Besides calculating renewal amounts for each agreement, the obligation tool estimates the cost of the rental assistance program in future years. Program officials have used the estimates to help develop the program’s annual budget request, beginning with the fiscal year 2017 budget. More specifically, the obligation tool calculates the forecasted cost of the program for the upcoming 12 months, and program officials may apply an inflation rate to that number. The forecasted cost is based on the rental assistance usage at each property and is updated generally on a daily basis by incorporating new data such as utilization of rental assistance, rent increases, and other information.

This approach is an improvement over the prior budget estimation method because it is based on the actual usage of rental assistance at each property and the data are more up-to-date.[22] Also, in developing requests for the fiscal year 2016 and 2017 budgets, RHS included the estimated cost of second renewals in those years. RHS officials told us the estimates were based on prior experience. While the new estimation methods for calculating agreement renewals and program budgets are an improvement over the prior methods, we identified some issues that suggest further enhancements are needed:

- **Agreements with excess funds.** While we found that the large majority of agreement renewal amounts calculated by the new obligation tool were sufficient to make about 12 rental assistance payments, we also estimated that a limited number of agreements—about 91 out of about 11,530 renewals (less than 1 percent) in fiscal year 2016—had funding sufficient for 20 or more rental assistance payments. As noted earlier, agreements with funding that lasts for more than 12 payments tie up program funds that could be obligated to other properties. According to an RHS official, an agreement may last substantially longer than 12 months for a number of reasons. For example, a property may use less rental assistance than the tool calculated if the owner leaves units vacant in order to rehabilitate them. However, these cases also could be the result of methodological problems.
- **Seasonal farm labor housing properties.** The obligation tool may not correctly estimate renewal amounts for rental agreements at farm labor housing properties with occupancy levels that vary seasonally (as demand fluctuates with crop activity). According to an RHS official, this issue is likely most pertinent to the approximately 12–15 properties that house migrant workers and that use rental assistance funds as operating assistance.[23] A staff member at one Rural Development state office told us that she detected a misestimate for a farm labor housing property because of the way the obligation tool weights prior rental assistance usage. As previously noted, the tool puts the most weight on the most recent month's rental assistance

[22]RHS officials said that before implementing the obligation tool, they generally developed budget estimates by multiplying the number of units expected to be renewed during the budget year (based on the number that needed a renewal in the year the budget request was being calculated) by the state-wide average per-unit cost and applied an inflation rate.

[23]Section 521 rental assistance funds may be used as operating assistance in migrant farmworker projects financed under the Section 514 and 516 programs to reduce operating costs so that rents may be set at rates affordable to low-income migrant farmworkers.

payment request. Consequently, at a high-occupancy time of year for a farm labor housing property, the tool would tend to overestimate the amount of funding needed for an agreement renewal. According to RHS data, utilization of rental assistance units at the property cited by the state office official ranged from 1 to 40 units during fiscal years 2015 and 2016, depending on the month. An RHS official said that they need to adjust the tool to correctly estimate agreement amounts for these properties and are currently calculating agreement amounts manually.

- **Second renewal estimates.** Our analysis of RHS data found that the number of second renewals RHS estimated for its fiscal year 2016 budget request was low. As previously noted, RHS included an estimate of the cost of second renewals in its fiscal year 2016 budget estimate (which was calculated before the obligation tool was put into use). According to program officials, RHS initially estimated that 8 percent of the units renewed in the year would need a second renewal, and the President's budget ultimately included an estimate of 6 percent.[24] However, our analysis of RHS data found more than 14 percent of units required a second renewal in fiscal year 2016.

RHS Lacks Formalized Plans for Ongoing Testing of the New Tool and a Reasonableness Check for Rental Assistance Amounts

Limitations in Initial Testing and Monitoring and No Formalized Plan for Ongoing Evaluation

RHS had an information technology (IT) contractor test the obligation tool during its development to help ensure that it performed computations as intended, but the contractor did not conduct other tests of conceptual soundness before the obligation tool was put into use in fiscal year 2016. For example, RHS did not use earlier years' rental assistance data to assess whether the obligation tool would have accurately estimated the amount of funding a property needed in a subsequent year. RHS staff and IT contractors also did not test whether the assumptions in the tool were optimal, such as the way in which rental assistance payment requests from prior months were weighted in making estimates. RHS officials told us that the tool was a work in progress and that the first year of use (fiscal year 2016) would provide the best opportunity to evaluate its performance. They said that they intended to continuously monitor the obligation tool and make adjustments as needed.

[24]Program budget requests may be revised as agency officials weigh different budget priorities when the department-wide budget request is developed.

RHS has done some monitoring of the performance of its obligation tool, but these efforts had limitations. For example, RHS officials provided us with two analyses they conducted during fiscal year 2016 to estimate how long the obligations calculated by the tool would last. However, these analyses used the date of obligation as the starting point instead of the date on which the obligated funds were first used to make a rental assistance payment (which could be 1 or 2 months after obligation). An RHS official said that the date of first use is not in the information system from which the obligation tool pulled data. Federal internal control standards call for management to use quality information to achieve objectives, including relevant data that have a logical connection with the information requirements.[25] By not using data on the date of first use, RHS's analyses may have overstated the length of time the obligations could be expected to last.

To monitor the tool's performance, RHS officials also developed a report showing the obligation tool's daily forecasts of total program costs. RHS officials said they check the daily forecasts to detect any unexpected variances and compare these amounts to amounts appropriated for the program. During the course of our review, RHS made several changes to how this forecast amount was calculated. One change in early fiscal year 2017 was prompted by our question to RHS about why the forecasted cost grew by about $94 million at the end of fiscal year 2016. RHS officials realized that the estimate in the report was based on rental assistance costs for 13 months instead of 12 months. RHS subsequently adjusted the tool to make forecasts based on costs for 12 months. Additionally, according to RHS officials, IT contractors conducted an analysis in early fiscal year 2017 of how long agreement amounts calculated by the tool in early fiscal year 2016 lasted. But, as of June 2017, RHS was not able to provide us with the analysis because officials said it was in the clearance process.

One reason RHS has not developed plans for ongoing testing of the tool may be that RHS has been focused on initial testing of the tool's performance during its first year. RHS's obligation tool is the primary control to ensure that rental assistance allocations and obligations are calculated correctly and that program budget requests are reasonable. Federal internal control standards call for management to establish

[25]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

monitoring activities to monitor controls and evaluate results and for ongoing monitoring to be built into a program's operations and be performed continually.[26] Furthermore, useful practices for managing risks associated with models, such as the obligation tool, can include designing a program of ongoing testing and evaluation of model performance along with procedures for responding to any problems that appear.[27] Without monitoring and testing activities called for by federal internal control standards and other guidance, RHS heightens the risk that any problems with the obligation tool will go undetected.

No Automated Checks or Other Controls for Reasonableness of Rental Assistance Amounts

While the obligation tool uses an improved method to estimate rental assistance costs, RHS does not have automated checks in the tool or other controls to catch unreasonable estimates (for example, excessive amounts) that may result from unforeseen circumstances or programming errors. Early in fiscal year 2016, the tool over-allocated about $4 million to properties that had recently been transferred from one owner to another because it did not correctly account for changes in rents at the properties.[28] According to RHS officials, this error affected agreements for 43 properties. RHS did not catch the error through its own monitoring. Rather, a property manager alerted RHS that the agreement renewal for one of his properties provided significantly more funds than needed. Specifically, according to information provided by the property manager, the amount RHS provided was nearly twice the amount that should have been obligated (about $175,000 more than needed). RHS fixed the programming error that caused this particular miscalculation and de-obligated the excess funds.

[26] GAO-14-704G.

[27] For example, see Board of Governors of the Federal Reserve System and Office of the Comptroller of the Currency, *Supervisory Guidance on Model Risk Management,* SR Letter 11-7 (Washington, D.C.: April 2011), accessed on May 5, 2017, https://www.federalreserve.gov/supervisionreg/srletters/sr1107a1.pdf.

[28] Specifically, the obligation tool treated the full rent amounts at the newly transferred properties as changes to the existing rents, resulting in artificially high rents used to calculate the properties' rental assistance costs. As previously noted, the obligation tool takes into account the effect of any recent or planned rent increases at properties on their rental assistance costs.

However, according to the IT contractor who developed the obligation tool, the tool does not have an automated check to detect such errors. As previously noted, RHS said that the first year of use would provide the best opportunity to evaluate the tool's performance and an opportunity to identify any needed improvements. In addition, RHS guidance does not instruct either the RHS national office officials who use the obligation tool to allocate funds or the Rural Development state office staff who review and approve obligations to check the amount being allocated to each property for agreement renewals.[29] Federal internal control standards call for management to design control activities for entities' information systems to respond to risks.[30] Without automated checks or other controls to catch programming errors or unforeseen circumstances that may result in incorrect or unreasonable agreement amounts, RHS lacks assurance that these mistakes will be caught prior to obligating funds.

RHS Has Not Used Appropriate Inflation Rates to Estimate Its Budget Request in Recent Years

Since fiscal year 2010, RHS either has used no inflation rate or one that differed from the President's economic assumptions when calculating budget request estimates for the rental assistance program (see table 1). RHS's current budget estimation process involves applying an inflation rate to the obligation tool's estimate of the cost of the program for the upcoming 12 months. RHS officials said that before they started using the obligation tool, they generally developed budget estimates by calculating the number of units expected to be renewed during the budget year, multiplying that number by the statewide average per-unit cost, and, in some years, applying an inflation rate.

[29]However, state office staff in 3 of the 15 offices we interviewed told us that they regularly did some type of review of the obligation amounts when obligating funds.

[30]GAO-14-704G.

Table 1: Inflation Rates Used in RHS's Budget Requests for the Rental Assistance Program Compared with the President's Economic Assumptions

Fiscal year budget request	Inflation rate RHS reported using in budget request (percent)	President's economic assumption available in year budget prepared (percent)
2010	0	2.1
2011	0	1.4
2012	0	1.4
2013	0	1.7
2014	0	1.9
2015	1.69	2.2
2016	2.9	1.9
2017	3	1.9
2018	0	2.1

Source: Rural Housing Service (RHS) officials and President's budgets. | GAO-17-725

Note: According to an Office of Budget and Program Analysis official, the President's economic assumptions for the forthcoming budget are generally not available when RHS prepares its budget requests. According to the Office of Management and Budget, in those circumstances, the agency should use the President's assumptions from the prior year. The President's assumptions in the table are the prior-year assumptions available at the time RHS was preparing the budget requests.

In our 2004 report on RHS's budget estimation procedures, we recommended that RHS use the inflation rate from the President's economic assumptions when estimating rental assistance budget costs.[31] During our current review, RHS officials told us they used the rates provided by OMB (the President's economic assumptions) for the fiscal year 2005–2009 estimates and after that used no inflation rate until the fiscal year 2015 budget request. However, officials could not explain why RHS stopped using the rate from the President's economic assumptions for the fiscal year 2010 budget, other than that the RHS Administrator at the time directed the change. RHS officials also did not know the rationale for using no inflation rate in the budget requests for fiscal years 2010–2014 and did not offer the reason for using 1.69 percent for fiscal year 2015. For fiscal years 2016 and 2017, RHS officials told us they used an inflation rate based on changes in housing costs, but the rates differed from the President's economic assumptions. According to the Rural Development Budget Division, RHS used an inflation rate of zero for the fiscal year 2018 President's budget.

[31]GAO, *Rural Housing Service: Standardization of Budget Estimation Processes Needed for Rental Assistance Program*, GAO-04-424 (Washington, D.C.: Mar. 25, 2004).

OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*—which provides guidance to agency officials on preparing budget estimates—states that preparation of agency budgets must be consistent with the President's economic assumptions provided by OMB. These assumptions are listed each year in the President's budget. Consistency in budget assumptions across government programs helps clarify trade-offs among competing priorities.[32] OMB staff told us that RHS should use the inflation rate in the President's economic assumptions to develop its budget requests, as stated in the OMB circular. According to OMB staff, if the agency is preparing its budget prior to the issuance of the President's economic assumptions for the forthcoming budget, the agency should use the prior year's assumptions when developing its estimates. However, RHS also did not use the prior year's assumptions (see table 1). USDA Office of Budget and Program Analysis officials said that they were not aware that RHS was not using the inflation rate from the President's economic assumptions. Additionally, we could not identify a control procedure designed to ensure the use of the required inflation rate. Federal internal control standards state management should design control activities to achieve compliance objectives.

If RHS had used the inflation rate from the President's economic assumptions to estimate its rental assistance budget requests for fiscal years 2013–2015, the program may have faced somewhat smaller funding gaps those years. For example, according to RHS, in fiscal year 2015, the agency would have needed about $97 million more in funding to renew all eligible properties that requested a renewal that year. If RHS had used the inflation rate in the President's economic assumptions, its budget request would have been about $5.5 million higher, although several factors outside of the program's control affect the level of funding it ultimately receives.[33] Without controls for ensuring the use of proper inflation rates, RHS may continue to be out of compliance with OMB

[32]See Organisation for Economic Co-operation and Development (OECD), Senior Budget Officials, *OECD Principles of Budgetary Governance* (June 2014). OECD is an organization of 34 industrialized countries, operating by consensus, that fosters dialogue among members to discuss, develop, and refine economic and social policies. According to OECD, the principles provide a concise overview of good practices across the full spectrum of budget activity.

[33]For example, the department-wide budget request that the President sends to Congress may not include the same funding level that RHS officials estimate the program will cost in a given year because of other budget priorities. Congress also must consider and vote on requests. Therefore, even if RHS had requested different amounts in its budget request, it may not have received the amounts requested.

requirements and use rates that differ from the President's economic assumptions.

State Offices Lack a Common Understanding of Their Role in Reviewing Rental Assistance Renewals

Staff at 15 randomly selected Rural Development state offices with whom we spoke had different understandings of their roles and responsibilities for reviewing rental assistance renewal obligations. In addition, their understanding of their role frequently varied from the role that program officials in RHS's national office said they had. Federal internal control standards state that management should implement control activities through the documentation of policies, including documenting responsibilities of different units for control activities.[34]

According to RHS national office officials, state office staff should review each obligation prior to approval to confirm that renewals of rental assistance agreements are warranted. More specifically, state office staff are to review the properties in their jurisdiction that the obligation tool has indicated are in need of renewal to determine if they are undergoing a servicing action, such as a prepayment or foreclosure. In these cases, state office staff are to use their judgment about whether providing a 1-year agreement renewal would be appropriate, according to RHS national office officials. For example, state office staff may know that a property owner is in the process of prepaying the RHS mortgage on the property or if the property has started the foreclosure process, in which case a new obligation for rental assistance might not be necessary.[35] A program official in RHS's national office stated that this review provides a check on the obligations.

In contrast, state office staff with whom we spoke did not consistently perform, and in some cases were not aware of, these responsibilities. Of the 15 state offices that we interviewed, staff in 3 of the offices said that they check whether properties up for renewal are prepaying their mortgage or in the foreclosure process before approving renewal obligations. Staff at 2 of these offices told us that they have found properties that should not receive a 1-year renewal through this process. Additionally, staff in 10 offices told us that they did not believe it was their job to confirm that obligations should be provided to the properties before

[34]GAO-14-704G.

[35]Only properties that have an active RHS mortgage on the property are eligible to receive rental assistance.

approving them; rather, they believed the national office was responsible for making renewal determinations.

RHS has not clearly articulated and documented expectations for state office staff reviews, which has contributed to inconsistencies. RHS officials were not able to provide us with any written guidance on the roles and responsibilities of state office staff in reviewing obligations. Most of the state office staff with whom we spoke said they used briefing slides from the national office (intended as training on the new obligation tool) as guidance for obligating funds, but the slides do not mention a review by state staff. Rather, the slides focus on what buttons to click in the obligation tool to complete the obligation. Also, a national office official told us that the national office sends e-mails to state offices alerting them that funds are available to obligate and reminding them to review the properties. However, an example e-mail provided by the official did not directly ask for such a review or indicate what the review should consist of. Furthermore, a chapter in a program handbook that RHS officials said was the primary guidance for state office staff on the obligation process does not indicate that a review of the servicing status should be completed prior to approving obligations. By not documenting staff responsibilities for reviewing whether rental assistance obligations are warranted, RHS increases the risk that state offices may be approving obligations for properties that do not need a rental assistance agreement renewal—tying up funds that could be used by other properties and potentially contributing to program funding gaps.

Conclusions

In recent years, RHS has experienced funding gaps in its rental assistance program that created challenges for the agency and some property owners. While the agency took some steps to mitigate effects on property owners and improve its budget estimates, weaknesses remain in some of RHS's budget estimation and execution processes.

- First, RHS does not have a plan for ongoing monitoring (including testing and evaluation) of its new obligation tool and has not always used the most relevant data for monitoring, contrary to federal internal control standards calling for monitoring of control activities and use of quality information.
- Second, RHS does not have automated checks in the obligation tool or other controls to mitigate the risk of misestimates, as RHS experienced in fiscal year 2016. Federal internal control standards call for control activities that respond to risks.

- Third, RHS has not complied with OMB requirements to use inflation rates from the President's economic assumptions in developing budget estimates. RHS's lack of a related control procedure, as required by federal internal control standards, increases the risk that it will continue not to comply with the OMB requirement.
- Fourth, contrary to federal internal control standards on documentation of policies, RHS lacks written guidance on the responsibilities of Rural Development state offices for reviewing rental assistance agreement renewals before obligating funds.

These weaknesses may exist partly because RHS continues to refine its estimation method, which has been in effect for about 2 years. By enhancing monitoring and internal controls, RHS could strengthen its budget estimation and execution processes to help ensure it manages the program as efficiently and effectively as possible, including during times of budgetary challenges.

Recommendations for Executive Action

We are making the following four recommendations to RHS:

- The Administrator of RHS should develop and implement a plan for ongoing monitoring, including testing and evaluation, of the obligation tool using relevant data. (Recommendation 1)
- The Administrator of RHS should develop controls to check the reasonableness of rental assistance agreement amounts calculated by the obligation tool. (Recommendation 2)
- The Administrator of RHS should develop controls to ensure that RHS uses the inflation rates from the President's economic assumptions in developing budget estimates. (Recommendation 3)
- The Administrator of RHS should provide guidance to Rural Development state offices that specifies that prior to obligating funds, staff are to review information related to a property's mortgage servicing status. (Recommendation 4)

Agency Comments

We provided a draft of this report to OMB and RHS for their review and comment. OMB stated that it had no comments on the draft. RHS provided technical comments, which we incorporated into the report, but did not provide comments on our recommendations.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Agriculture, the Director of the Office of Management and Budget, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or garciadiazd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix II.

Daniel Garcia-Diaz
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

Our objectives were to examine (1) the reasons the Rural Housing Service (RHS) ran out of funds for renewing rental assistance agreements under the Section 521 program in fiscal years 2013–2015, and how it responded to the funding gaps in those years; and (2) what RHS has done to help prevent future funding gaps and the extent to which it addressed related budgetary issues.

Data Used in Our Analysis

For both objectives, we analyzed data from RHS's accounting system—the Automated Multi-Family Housing Accounting System (AMAS)—for fiscal years 2011–2016. We analyzed data on the dollar amount and date of obligations to renew rental assistance agreements and the rental assistance payments (expenditures) associated with those obligations. We excluded obligations that were canceled, for zero dollars, or had accounting codes generally associated with supplemental funding rather than renewal funding. As discussed in the body of this report, RHS extended the life of some rental assistance agreements by using funds from properties that had exited the program for properties that could not receive agreement renewals due to funding gaps.

To assess the reliability of the AMAS data we used, we reviewed information about the system and the data. We interviewed agency officials and contractors knowledgeable about the data—including officials from RHS, Rural Development's Office of Operations and Management, and the U.S. Department of Agriculture's (USDA) National Financial and Accounting Operations Center—to discuss interpretations of data fields and patterns we observed in the data. We also conducted electronic testing, including checks for outliers, missing data, and erroneous values. Additionally, we compared the data with RHS summary statistics, where possible. We determined that the data were sufficiently reliable for the purposes of describing the number and timing of rental assistance agreement renewals and payments.

Funding Gaps and How RHS Resolved Them

To examine the reasons why RHS ran out of funds for renewing rental assistance agreements in fiscal years 2013–2015, we reviewed documentation from RHS that provided evidence of funding gaps, including a list of properties whose agreements were due for renewal but could not be renewed at the ends of the 3 fiscal years. We reviewed budget documents showing the amount of budget authority appropriated to the rental assistance program for the 3-year period and reductions to appropriations from sequestration and rescissions (cancelations of budgetary resources) in fiscal year 2013. We also examined the methods

RHS used to estimate agreement renewal costs and budget requests for those years, as explained in greater detail below. Additionally, we reviewed legislative and regulatory requirements that affected how RHS managed the program in years with funding gaps, including requirements in the appropriations acts for fiscal years 2013–2015 and program regulations.

To assess RHS's calculations of agreement renewal amounts for fiscal years 2013–2015, we reviewed RHS documentation on the methodology behind the calculations and analyzed rental assistance payment data in AMAS. More specifically, we analyzed AMAS data to count how many full payments and partial payments RHS made from each of the agreements it renewed in fiscal years 2013–2015.[1] Our counts also included agreements for properties that may have been transferred to a new owner while the agreement was in effect, which may have resulted in some understatement of the number of payments made.[2] We used the results of this analysis to determine whether the obligation tool's estimates resulted in agreement renewals that lasted about 12 payments (that is, close to the 1-year period they are intended to last) or for fewer or more payments. We sorted the agreements into five categories based on the number of payments they provided (fewer than 8, 8–10, 11–13, 14–16, and greater than 16) and calculated the percentage of agreements in each category by year and in the aggregate. To assess RHS's methods for estimating its program budget requests for fiscal years 2013–2015, we reviewed key assumptions, including how RHS estimated the number of renewals and any second renewals (which occur when an agreement is renewed twice in the same fiscal year) expected in each year. We used AMAS data to identify the percentage of properties that had a second renewal in each year and compared the results to the percentage of second renewals RHS incorporated in its budget requests. To do this, we used a variable in AMAS that identifies second renewal obligations.

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[1]A partial payment may occur when an agreement is renewed and the prior agreement has a small amount of remaining funds. In that case, the next rental assistance payment may consist of funds partly from the prior agreement and partly from the renewed agreement.

[2]When a transfer occurs, the identification number associated with the agreement in RHS's database changes. The agreement with the new identification number may appear to last for fewer payments because part of the funding was used under the former identification number. We could not identify rental assistance units that had been transferred to a new owner in the data we received from RHS.

To examine how RHS responded to the funding gaps in fiscal years 2013–2015, we reviewed RHS documentation on the options it offered to property owners who could not receive agreement renewals due to the funding gaps (for example, allowing owners to defer payments on their RHS mortgages). Additionally, we analyzed AMAS data to assess the extent to which RHS executed renewals it could not make at the ends of fiscal years 2013–2015 early in the next fiscal year when new appropriations became available. Specifically, we compared the number of renewals RHS made in October of fiscal years 2014–2016 (years following funding gaps) to the number of October renewals RHS made in the 3 prior fiscal years (2011–2013). We also reviewed RHS documentation on obligated but unexpended funds from properties that had exited the rental assistance program (due to foreclosure or mortgage prepayment), funding that was then available for use for agreements needing renewal. The documentation included information on the amount of funds available and the amount RHS used in fiscal years 2013–2015, as well as the amount remaining as of the end of fiscal year 2016. Additionally, we reviewed RHS fiscal year 2015 and 2016 budget justifications for the rental assistance program to understand legislative changes RHS sought to give it more flexibility in managing the program in times of funding uncertainty.

Finally, we interviewed officials from the Office of the Under Secretary for Rural Development, RHS Multi-Family Housing (including the Portfolio Management Division), Rural Development Budget Division and Office of Operations and Management, and USDA National Financial Accounting and Operations Center and Office of Budget and Program Analysis. The interviews focused on the reasons for the fiscal year 2013–2015 funding gaps, including how RHS calculated agreement renewals and budget requests in those years; how RHS addressed the gaps, including processes for using previously obligated, unexpended funds; and the data systems RHS used to manage the rental assistance program, including AMAS.

RHS Actions to Prevent Future Funding Gaps and Address Related Budgetary Issues

To examine what RHS has done to help prevent future rental assistance gaps and the extent to which it addressed related budgetary issues, we reviewed RHS tools, policies, and procedures for budget estimation and execution (such as allocating and obligating funds for rental assistance agreements), including changes made since the fiscal year 2013–2015 gaps. More specifically:

- We reviewed documentation on the rental assistance obligation tool RHS developed in 2015 to estimate rental assistance costs, including the tool's methodology and controls and tests conducted on the tool during development and in its first year of use. We also examined the extent to which RHS had developed plans for future testing. We assessed RHS's development and testing efforts using federal internal control standards for monitoring activities, use of quality information, and design of control activities.[3] We also compared RHS efforts to useful practices found in federal banking regulator guidance for managing risks associated with models.[4]
- We reviewed the inflation rates that RHS officials indicated were used in budget estimates for fiscal years 2010–2018 and compared them to applicable inflation rates in the President's economic assumptions.[5] We assessed the extent to which RHS's practices were consistent with relevant parts of Office of Management and Budget (OMB) guidance on preparing agency budgets (Circular A-11, *Preparation, Submission, and Execution of the Budget*) and federal internal control standards for designing control activities.
- We randomly selected a nongeneralizable sample of 15 Rural Development state offices (out of 47) and conducted interviews with officials and staff about policies and practices for reviewing and approving rental assistance obligations for agreement renewals.[6] We assessed the extent to which the stated practices of these offices aligned with expectations of RHS Multi-Family Housing officials and whether these expectations were documented, as called for by federal internal control standards for implementing control activities through policies.

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[3]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September2014).

[4]For example, see Board of Governors of the Federal Reserve System and Office of the Comptroller of the Currency, *Supervisory Guidance on Model Risk Management,* SR Letter 11-7 (Washington, D.C.: April 2011), accessed on May 5, 2017, https://www.federalreserve.gov/supervisionreg/srletters/sr1107a1.pdf.

[5]According to an Office of Budget and Program Analysis official, the President's economic assumptions for the forthcoming budget are generally not available when RHS prepares its budget requests. According to an OMB staff member, in those circumstances, the agency should use the President's assumptions for the prior year. Accordingly, we compared the inflation rates RHS used to the President's assumptions for the prior year.

[6]The state offices were Arkansas, Delaware-Maryland, Indiana, Iowa, Kentucky, Maine, Massachusetts-Rhode Island-Connecticut, Minnesota, Mississippi, Nebraska, Nevada, New Jersey, North Carolina, Oklahoma, and South Dakota.

To supplement our review of the obligation tool, we used the AMAS data previously discussed to analyze how many full and partial rental assistance payments were made out of renewal agreements calculated by the tool in fiscal year 2016. This analysis was the same as the one we did for agreement renewals in fiscal years 2013–2015 with one exception. Specifically, we split the fiscal year 2016 agreements into two groups—those that fully expended their funds during fiscal year 2016 and those that did not—because the latter group did not yet have a full payment history as of the data's end date (end of fiscal year 2016). For that group, we projected remaining payments based on the average of the prior 12 payments. We added this number to the number of payments that were made out of the agreement in fiscal year 2016.

We also reviewed changes to RHS's budget estimation procedures. Specifically, for fiscal year 2016, we used AMAS data to calculate the percentage of second renewals in that year and compared it to the amount of second renewals RHS included in its budget request. We also reviewed how RHS used the obligation tool to estimate its fiscal year 2017 and 2018 budget requests and compared this method to its budget estimation procedures for prior years.

Finally, we interviewed RHS Multi-Family Housing officials and information technology contractors in Rural Development's Office of Operations and Management about the development of and methodology used in the obligation tool. We interviewed USDA Office of Budget and Program Analysis, Rural Development Budget Division, and RHS Multi-Family Housing officials about the program's budget estimation and execution policies and procedures. We also interviewed RHS Multi-Family Housing Portfolio Management Division officials about the roles and responsibilities of state office staff for obligating funds. Additionally, we interviewed OMB staff with responsibility for reviewing the rental assistance program's budget estimates about the inflation rates RHS used in its budget requests.

We conducted this performance audit from November 2015 to September 2017 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Steve Westley (Assistant Director); Melissa Kornblau (Analyst in Charge); Hiwotte Amare; Josie Carver; Stephen Brown; William Chatlos; John McGrail; Barbara Roesmann; and Jena Sinkfield made key contributions to this report.

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