

CHAPTER 1 RIM Reviews

Section 1 Overview

WHAT IS A RIM REVIEW?

- RIM is an acronym for Rental Integrity Monitoring.
- RIM is one strategy in a larger, HUD-wide effort, known as the Rental Housing Integrity Improvement Project (RHIP), to reduce income and rent errors and improper payments in the administration of the public housing and Housing Choice Voucher (HCV) programs.
- RIM reviews were designed to help HUD:
 - Identify the root causes of error and improper payments
 - Meet its goal under the president's management agenda to reduce errors and subsidy overpayments by 50 percent by fiscal year 2005
- RIM review activities may include:
 - Reviewing sample tenant files
 - Identifying and recording income and rent errors, both systemic and isolated
 - Assessing PHA policies, procedures, and forms for systemic weaknesses
 - Interviewing PHA staff regarding income and rent policies, procedures, and practices
 - Analyzing review results to establish root causes of systemic weaknesses and errors
 - Providing technical assistance to PHAs
 - Identifying findings and concerns/observations
 - Requiring corrective actions as appropriate
 - Following up to ensure that corrective actions have been implemented within a reasonable period of time (6 months)

RESULTS OF INITIAL RIM REVIEWS

- Between June 2002 and September 2003, 722 PHAs were selected for initial RIM reviews.
 - Selection was based primarily on level of financial exposure and field office risk assessment.
 - For PHAs that received initial reviews, follow-up reviews will be conducted throughout fiscal year (FY) 2004. Some were also conducted in late 2003.
- The results of the initial RIM reviews show that the most common errors on the income and expense components of rent determination involve:
 - Pensions, public assistance, and other income
 - Employment, or earned, income
 - Deductions
 - Asset income
- The initial reviews further show that the most common causes of errors are:
 - Lack of appropriate third-party verification of income and deductions
 - Lack of PHA quality control, which is reflected in:
 - Consistency errors
 - Calculation errors
 - Transcription errors
 - Improper transfer of data from applicant and tenant files to the PIC system

Section 1: Overview

Notes

- In addition, the initial reviews suggest that the following factors contribute to errors:
 - Outdated and inaccurate policies
 - Insufficient or incomplete policies and procedures
 - Inconsistencies between or among policies, procedures, and practices
 - The use of incomplete or inadequate forms and other tools to manage the income and rent determination process

Notes

Section 2 The RIM Review Process

- There are two phases in the RIM review process:
 - Initial reviews, which involve three steps:
 - Pre-review preparation, which is covered in Part V of HUD's *RIM Guide*
 - You can download the *Rim Guide* from HUD's website. See Appendix A of this book, page A-1, for the address.
 - On-site review activities, which are covered in Part VI of the *RIM Guide*
 - For the portions of Part VI that apply to the public housing program, see Appendix C.
 - Post-review activities
 - Follow-up reviews, or re-reviews
- For the role that independent auditors will play in the RIM review process, see Assistant Secretary for Public and Indian Housing Michael Liu's letter on page 1-23.

INITIAL REVIEWS

Pre-Review Preparation

- One of the main activities in pre-review preparation is the selection of a sample of tenant files.
 - Depending on a PHA's reporting rate with the Public and Indian Housing Information Center (PIC), the sample will be selected from PIC records, PHA records, or both.
 - HUD's initial guidance called for a targeted sample of files to be selected; its current guidance requires a random sample.
 - In preparing for a RIM review, a HUD field office may choose to pull a larger number of files than required to allow for both a random and a targeted sample.

Section 2: The RIM Review Process

Notes

- Another important activity in pre-review preparation is the examination of “in-office resources”:
 - PHA annual plan
 - Admissions and continued occupancy policy (ACOP) (if available)
 - Prior reviews and audits

On-Site Review Activities

- The second step of an initial RIM review consists of the following activities:
 - Conducting entrance and exit meetings with appropriate PHA staff
 - Reviewing the sample of tenant files
 - Reviewing the PHA’s occupancy function or process as it relates to income and rent determinations
 - Providing technical assistance to the PHA
- RIM reviewers focus on both the “big picture” and the “little picture” at a PHA during this step.
 - The sample of tenant files lets reviewers see the “little picture.”
 - Files contain the critical pieces of source documentation for income and rent determinations.
 - Files represent the results of the PHA’s income and rent determination process.
 - Reviewers see the “big picture” when they review the PHA’s occupancy function.
 - A PHA’s occupancy function is reflected in its policies, procedures, and systems.
 - This function is the **process** that leads to the results that are found in the tenant files.

Tenant File Sample Review

- In examining tenant files, reviewers will be looking for the answers to these questions:
 - Do the files contain all of the necessary documentation, data, forms, etc.?
 - Do they provide a complete picture of income and rent determination?
 - Is the information contained in the files supported by third-party verifications?
 - Is there consistency within and between files?
 - Did the PHA draw correct conclusions from the data?
 - Are the calculations accurate?
 - Is the interpretation of information clear?
 - Is the interpretation of information consistent with the regulations and with PHA policy?
- As they go through tenant files, reviewers will fill out a tenant file review checklist, which is located in Appendix A of HUD's *RIM Guide*. The following parts of the checklist apply to the public housing program:
 - A. Family composition
 - B. Annual income and assets
 - C. Dwelling unit/utility allowance
 - D. Adjusted income
 - E. Rent
- Reviewers will also fill out tenant file review checklist worksheets, which are located in Appendix C of HUD's *RIM Guide*.
 - For your convenience, the parts of *RIM Guide* Appendices A and C that apply only to the public housing program have been combined into a single document that begins on page C-33 in Appendix C of this book.

Section 2: The RIM Review Process

Notes

- Under family composition, a RIM reviewer will look at basic family information (cross-referenced to HUD-50058 Section 3):
 - The status of the head of household (e.g., elderly, disabled)
 - The age and status of other family members (e.g., dependent, full-time student, disabled)
 - The disclosure of Social Security numbers
 - Evidence of citizenship or eligible immigration status
- Under annual income and assets, the reviewer will look at basic income information (cross-referenced to HUD-50058 Sections 6 and 7):
 - Anticipated or imputed income from assets
 - Other income in four broad categories:
 - Wages and earned income (including the earned income disallowance)
 - Public assistance
 - Social security (SS), supplemental security income (SSI), and pensions
 - Other income
 - Income exclusions
- Under dwelling unit/utility allowance, the reviewer will look at basic unit information (cross-referenced to HUD-50058 Sections 1, 4, and 12):
 - Unit size and location
 - Project name and number
 - Family responsibility for utilities and use of utility allowance schedule

Section 2: The RIM Review Process

Notes

- Under adjusted income, the reviewer will look at allowable deductions from annual income (cross-referenced to HUD-50058 Section 8):
 - Dependent deduction
 - Elderly/disabled family deduction
 - Medical expenses deduction
 - Disability assistance expenses deduction
 - Child care expenses deduction
- Under rent, the reviewer will look at the calculation of rent (cross-referenced to HUD-50058 Sections 9 and 10):
 - Total tenant payment (TTP)
 - Tenant rent
 - Flat rents
 - Utility reimbursement
 - Prorated rent for “mixed” families

Policies and Processes

- On-site RIM review activities that focus on PHA policies and processes are covered in Part VI of HUD's *RIM Guide*. (For the sections that apply to the public housing program, see Appendix C.)
- Based on the number, types, and patterns of errors discovered during the tenant file review, field office staff will determine which areas of PHA policy and process need further evaluation.
 - The purpose of further evaluation is to identify the root causes of errors.
 - Field office staff may also routinely examine PHA policies and process as part of a RIM review.
- Potential areas for further evaluation include the PHA's:
 - Admissions and continued occupancy policy (ACOP)
 - Application and reexamination process and materials
 - Process for determining and calculating income and rent
 - Verification procedures
 - PIC and HUD-50058 reporting and data integrity

LEARNING ACTIVITY 1-1 ANALYSIS OF RENT CALCULATION

Case Narrative

8/4/03: Mr. and Mrs. Henderson were interviewed for their annual reexamination, due 10/1/03. The Hendersons are currently paying minimum rent (\$25) at the Lincoln Towers development and have been for several months. They pay for no utilities. Mr. Henderson reports that the family has no income because he is no longer doing odd jobs around the neighborhood. He also reports that the family is receiving food stamps.

The Hendersons were advised that they will continue to pay the minimum rent after 10/1/03. They were also advised to call if they obtain a source of income.

Caseworker: Helen Hogan

Task

- After reading the above case narrative from the Henderson family file, review the excerpt from the family’s HUD-50058 on the following pages.
- Answer the three questions below.

Questions

1. Are there any errors on the HUD-50058 form? (Specify, if any.)

2. What is the correct total tenant payment (TTP) for the Henderson family?

Section 2: The RIM Review Process

3. What documentation is needed in the Henderson family's case file for this reexamination?

Head of household name	Social Security Number	Date modified (mm/dd/yyyy)
------------------------	------------------------	----------------------------

8. Expected Income Per Year

8a. Total annual income: copy from 7i	\$ 0	8a.
---------------------------------------	------	-----

Permissible Deductions (Public Housing Only. If Section 8, Skip to 8f or 8q)

8b. Family member name	No.	8c. Type of permissible deduction	8d. Amount
			\$
			\$
			\$
8e. Total permissible deductions			\$ 8e.

If head/spouse/co-head is under 62 and no family member disabled, skip to 8q

8f. Medical/disability threshold: 8a X 0.03	\$	8f.
8g. Total annual unreimbursed disability assistance expense (if no disability expenses, skip to 8k)	\$	8g.
8h. Maximum disability allowance: If 8g minus 8f is positive or zero, put amount	\$	8h.
	If negative and head/spouse/co-head is under 62 and not disabled, put 0	\$ 8h.
	If negative and head/spouse/co-head is elderly or disabled, copy from 8g	\$ 8h.
8i. Earnings in 7d made possible by disability assistance expense	\$	8i.
8j. Allowable disability assistance expense: lower of 8h or 8i (if 8g is less than 8f and head/spouse/co-head elderly or disabled, copy from 8h)	\$	8j.
8k. Total annual unreimbursed medical expenses (if head/spouse/co-head under 62 and not disabled, put 0)	\$	8k.
8m. Total annual disability assistance and medical expense: 8j + 8k (if no disability expenses, copy from 8k)	\$	8m.
8n. Medical/disability assistance allowance:		
	If no disability assistance expenses or if 8g is less than 8f, put 8m minus 8f (if 8m minus 8f is negative, put zero)	\$ 8n.
	If disability assistance expenses and 8g is greater than or equal to 8f, copy from 8m	\$ 8n.
8p. Elderly/disability allowance (default = \$400)	\$	8p.
8q. Number of dependents (people under 18, or with disability, or full-time student. Do not count head of household, spouse, co-head, foster child/adult, or live-in aide).		8q.
8r. Allowance per dependent (default = \$480)	\$	8r.
8s. Dependent allowance: 8q X 8r	\$	8s.
8t. Total annual unreimbursed childcare costs	\$	8t.
8u. Total annual travel cost to work/school (Indian Housing only)	\$	8u.
8v. Reserved		
8w. Reserved		
8x. Total allowances: 8e + 8n + 8p + 8s + 8t + 8u	\$ 0	8x.
8y. Adjusted annual income: 8a minus 8x (if 8x is larger, put 0)	\$ 0	8y.

Head of household name	Social Security Number	Date modified (mm/dd/yyyy)
------------------------	------------------------	----------------------------

9. Total Tenant Payment (TTP)

9a. Total monthly income: $8a \div 12$	\$	0	9a.
9b. Reserved			
9c. TTP if based on annual income: $9a \times 0.10$	\$	0	9c.
9d. Adjusted monthly income: $8y \div 12$	\$	0	9d.
9e. Percentage of adjusted monthly income: use 30% for Section 8			9e.
9f. TTP if based on adjusted annual income: $(9d \times 9e) \div 100$	\$	0	9f.
9g. Welfare rent per month (if none, put 0)	\$		9g.
9h. Minimum rent (if waived, put 0)	\$	25	9h.
9i. Enhanced Voucher minimum rent	\$		9i.
9j. TTP, highest of lines 9c, 9f, 9g, 9h, or 9i	\$	25	9j.
9k. Most recent TTP	\$		9k.
9m. Qualify for minimum rent hardship exemption? (Y or N)			9m.

Head of household name	Social Security Number	Date modified (mm/dd/yyyy)
------------------------	------------------------	----------------------------

10. Public Housing, Indian Rental, and Turnkey III

10a. TTP: copy from 9j		\$	0	10a.	
10b. Unit's flat rent (see Instruction Booklet for prorated flat rent calculation)		\$	0	10b.	
Income Based Rent Calculation (if prorated rent, skip to 10h)					
10c. Ceiling rent, if any		\$		10c.	
10d. Lower of TTP or ceiling rent (if no ceiling rent, put 10a)		\$	0	10d.	
10e. Utility allowance, if any		\$	25	10e.	
10f. Tenant rent: 10d minus 10e	If positive or 0, put tenant rent			\$	10f.
	If negative, credit tenant			or CR	\$ 25 10f.
10g. Reserved					

Income Based Prorated Rent Calculation (if not prorated, skip to 10u)

10h. Public/Indian Housing maximum rent		\$		10h.	
10i. Family maximum subsidy: 10h minus 10a		\$		10i.	
10j. Total number eligible				10j.	
10k. Total number in family				10k.	
10m. Reserved					
10n. Eligible subsidy (10i ÷ 10k) X 10j		\$		10n.	
10p. Mixed family TTP: 10h minus 10n		\$		10p.	
10q. Reserved					
10r. Utility allowance, if any		\$		10r.	
10s. Mixed family tenant rent: 10p minus 10r	If positive or 0, put tenant rent			\$	10s.
	If negative, credit tenant			or CR	\$
10t. Reserved					

Type of Rent

10u. Type of rent selected:				
<input type="checkbox"/>	Income based	<input type="checkbox"/>	Flat	
10v. Reserved				

Section 2: The RIM Review Process

LEARNING ACTIVITY 1-2 ANALYSIS OF ASSET AND ASSET INCOME INFORMATION

- When an auditor is looking at a family’s file, it is important to see that all the information and calculations for that particular family are correct. However, it is also important to identify systemic problems that could affect all files because a rule was incorrectly applied or there is a misconception of how something should be calculated.
- Review the HUD-50058 excerpt and verification forms on the following pages with these assumptions about PHA policy:
 - Use the current balance to determine the cash value of savings accounts.
 - Use the average balance for the last six months to determine the cash value of checking accounts.
 - Use the current interest rate to anticipate income on savings and checking accounts.
- Then answer the following questions:
 1. Are the assets and asset incomes correctly calculated?

2. If not, what “rule” do you think the staff person is applying?

3. Could this be a systemic problem that would affect more than one file?

Head of household name	Social Security Number	Date modified (mm/dd/yyyy)
------------------------	------------------------	----------------------------

6. Assets

6a. Family member name	No.	6b. Type of asset	6c. Calculation (PHA use)	6d. Cash value of asset	6e. Anticipated Income
VERNICE	1	SAVING		\$ 1515	\$ 0
VERNICE	1	CHECKING		\$ 724	\$ 0
				\$	\$
				\$	\$
				\$	\$
				\$	\$
				\$	\$
				\$	\$
6f. 6g. Column totals				\$ 2,239 6f.	\$ 0 6g.
6h. Passbook rate (written as decimal)					0.015 6h.
6i. Imputed asset income: 6f X 6h (if 6f is \$5,000 or less, put 0)					\$ 0 6i.
6j. Final asset income: larger of 6g or 6i					\$ 0 6j.

7. Income

7a. Family member name	No.	7b. Income Code	7c. Calculation (PHA use)	7d. Dollars per year	7e. Income exclusions	7f. Income after exclusions (7d minus 7e)
VERNICE	1	W	8.25x30x52	\$ 12,870	\$	\$ 12,870
VERNICE	1	C	200x12	\$ 2,400	\$	\$ 2,400
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
7g. Column total						\$ 15,270 7g.
7h. Reserved						
7i. Total annual income: 6j + 7g						\$ 15,270 7i.

7b: Income Codes

Wages: B = own business F = federal wage HA = PHA wage M = military pay W = other wage	Welfare: G = general assistance IW = annual imputed welfare income T = TANF assistance	SS/SSI/Pensions: P = pension S = SSI SS = Social Security	Other Income Sources: C = child support E = medical reimbursement I = Indian trust/per capita N = other nonwage sources U = unemployment benefits
--	--	---	---



Bank U. S.

51 3RD ST
SEAPORT CITY, ST 55555

"We treat your money as though it were our own!"

STATEMENT OF ACCOUNT

VERNICE HENDERSON
184 SEAVIEW AVENUE
SEAPORT CITY, ST 55555

STATEMENT PERIOD: FROM 01-05-03 THRU 07-04-03

SAVINGS **BANK OF US, ST** **FDIC INSURED**

VERNICE HENDERSON

ACCOUNT NUMBER: AB98769

INTEREST RATE: 2.25%

FROM	THRU	BEGINNING BALANCE	TOTAL WITHDRAWALS	TOTAL DEPOSITS	TOTAL INTEREST	ENDING BALANCE
06-05-03	0704-03	\$1,401.85	\$200.00	\$310.00	\$2.83	\$1,514.68
05-05-03	06-04-03	\$1,199.23		\$200.00	\$2.62	\$1,401.85
04-05-03	05-04-03	\$1,071.99		\$125.00	\$2.24	\$1,199.23
03-05-03	04-04-03	\$919.98	\$150.00	\$300.00	\$2.01	\$1,071.99
02-05-03	03-04-03	\$918.26			\$1.72	\$919.98
01-05-03	02-04-03	\$591.55		\$325.00	\$1.71	\$918.26

YTD INTEREST PAID: \$13.13

DATE	WITHDRAWALS	DEPOSITS
07/01		\$310.00
06/15	200.00	
05/28		\$200.00
04/25		\$125.00

ADDITIONAL TRANSACTION DETAILS AVAILABLE ONLINE AT WWW.USBANKOFSEAPORT.COM

PAGE 01 OF 01



Bank U. S.

51 3RD ST
SEAPORT CITY, ST 55555

"We treat your money as though it were our own!"

STATEMENT OF ACCOUNT

VERNICE HENDERSON
184 SEAVIEW AVENUE
SEAPORT CITY, ST 55555

STATEMENT PERIOD: FROM 01-05-03 THRU 07-04-03

CHECKING BANK OF US, ST FDIC INSURED

VERNICE HENDERSON

ACCOUNT NUMBER: AB98765

INTEREST RATE: 1.75%

FROM	THRU	BEGINNING BALANCE	TOTAL WITHDRAWALS	TOTAL DEPOSITS	TOTAL INTEREST	ENDING BALANCE
06-05-03	07-04-03	\$712.79	\$125.00	\$310.00	\$1.31	\$899.10
05-05-03	06-04-03	\$658.75	\$350.04	\$403.04	\$1.04	\$712.79
04-05-03	05-04-03	\$722.79	\$175.24	\$110.24	\$0.96	\$658.75
03-05-03	04-04-03	\$638.74	\$188.22	\$271.22	\$1.05	\$722.79
02-05-03	03-04-03	\$711.14	\$293.33	\$220.00	\$0.93	\$638.74
01-05-03	02-04-03	\$591.10	\$229.00	\$348.00	\$1.04	\$711.14

YTD INTEREST PAID: \$6.33

DATE	WITHDRAWALS	DEPOSITS	TRANSACTIONS
07/01	125.00		CHECK # 1016
06/23		\$310.00	
06/01	125.00		CHECK # 1015
05/28	225.04		CHECK # 1013
05/27		\$403.04	
05/01	30.24		CHECK # 1014
04/29	125.00		CHECK # 1012
04/28	20.00		ATM
04/25		\$110.24	

ADDITIONAL TRANSACTION DETAILS AVAILABLE ONLINE AT WWW.USBANKOFSEAPORT.COM

PAGE 01 OF 01

Post-Review Activities

- During the post-review step of a PHA's initial RIM review, HUD field offices will:
 - Issue a report to the PHA
 - Monitor the PHA's progress in correcting findings and errors
 - Provide ongoing technical assistance to the PHA
 - Close PHA "findings" when required actions have been completed
 - Submit error reports to HUD headquarters

Report to PHA

- The report to the PHA will:
 - Identify individual tenant file errors to be corrected
 - Identify systemic "findings" and the actions required to correct them
 - Identify "concerns and observations" and the actions recommended to address them
 - Require a response within 45 days
- A RIM "finding" is a condition that is not in compliance with statutory, regulatory, or handbook requirements.
 - In addition to naming the condition, each finding must state the criteria on which the finding is based as well as the cause of the condition, its consequences (effects), and the corrective action required to remove it.
- A RIM "concern or observation" is a deficiency in performance that needs to be brought to the attention of the PHA but that is not based on a regulatory or statutory requirement.
 - Each concern or observation should include the condition, identify its cause and effect, and recommend a corrective action.

Corrective Action Plan

- If a PHA has not resolved all findings before it responds to its RIM review report (within 45 days after the report is issued), the PHA must develop a corrective action plan for all unresolved findings.
- HUD field offices cannot approve corrective action plans longer than six months in duration without the approval of HUD headquarters.
- A PHA's field office will monitor post-review progress and provide ongoing technical assistance to ensure that the PHA:
 - Responds to its RIM review report within 45 days
 - Corrects individual tenant file errors
 - Implements corrective actions to resolve systemic findings and prevent future errors

FOLLOW-UP REVIEWS

- PHAs that receive an initial RIM review will receive a follow-up review, or re-review.
- The purpose of follow-up reviews is to:
 - Monitor progress
 - Ensure that corrective actions:
 - Have been implemented
 - Have resulted in error reduction
- HUD field offices will follow up to ensure that:
 - Individual tenant file errors have been corrected
 - Overall corrective actions identified in the initial baseline review have been corrected and completed
- In conducting a follow-up review, a field office will pull a new sample of tenant files.
 - For systemic deficiencies, the new sample will be drawn at random. For specific deficiencies, a targeted sample, if appropriate, will be drawn.
 - The review should be limited to files with effective dates after the date by which corrective actions should have been implemented.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

ASSISTANT SECRETARY FOR
PUBLIC AND INDIAN HOUSING

August 26, 2003

Dear Certified Public Accountants:

We are writing to inform you of the Department's concentrated efforts at correcting a material weakness in the Department's financial statements which has now risen to the level of a Presidential Management Agenda item: the improper calculation of subsidy payments. You are receiving this letter because your firm has been identified by the Real Estate Assessment Center as having performed independent audits of Public Housing Agencies (PHAs) over the past two years. We are reaching out to you because the Department relies on the results of your audits to assess/mitigate risk and to target our scarce resources.

The Presidential mandate requires that the Department reduce income/rent errors 50 per cent by Fiscal Year (FY) 2005, with incremental error reduction goals of 15 per cent by FY 2003 and 30 percent by FY 2004, for both the Public Housing and Housing Choice Voucher (HCV) programs. An independent study performed in FY 2001 by Macro, Inc., on behalf of the Office of Policy Development and Research, disclosed that the Department is currently paying over 1.7 billion dollars in excess subsidy and is underpaying over 600 million dollars to low-income families. The Improper Payments Act requires the annual reporting and recovery of erroneous federal payments. A copy of the study can be downloaded at <http://www.huduser.org/publications/pubasst/qualitycontrol.html>.

To achieve its error reduction goals, the Department has implemented a new initiative: the Rental Housing Integrity Improvement Project (RHIP). *Rental Integrity Monitoring (RIM) reviews* are a key component of RHIP. The RIM initiative represents an approach that focuses on a PHA's income/rent calculations and those occupancy activities (e.g., PHA's quality control procedures) that directly impact upon the accuracy of income/rent calculations. The reviewer's primary task, during both the *initial* and *follow-up* RIM reviews, is to make a determination for each tenant file as to whether the PHA's income and rent calculations are accurate and to assist the PHA in the development of a Corrective Action Plan (CAP) wherever egregious income/rent errors exist. The conduct of initial and follow-up reviews enables the reviewer to determine if a PHA has corrected income/rent errors and implemented measures to prevent the reoccurrence of errors.

Although a substantial reason for the error is due to underreported and unreported income, which may be beyond the scope of the audit, both the results of the Macro Inc. study and the *RIM* reviews show many items that are routinely tested as part of the compliance and internal controls section of the audit pursuant to OMB Circular A-133 are contributing to the problem. Findings identified during a RIM review such as calculation errors, use of outdated payment standards for the HCV program, lack of third party verification to support tenant income as well as exclusions/deductions, and other internal control problems substantially contribute to the overall error.

Over the past nine months, staff from the Office of Public and Indian Housing, implemented detailed on-site *RIM* reviews of PHAs' income and rent calculations throughout the 10 (ten) HUD regions to assure the accuracy of the subsidy calculations. The reviewers randomly selected tenant files from over 650 of the Department's largest PHAs. Errors, identified during the RIM reviews, are being compared to the income and rent findings identified in the PHAs' audit reports.

Additionally, staff from Headquarters is tracing the subsidy determinations for a sample of tenants through the PHAs' accounting systems; comparing aggregate subsidy determinations to the subsidy payments made by HUD for the year. We have asked the Public Housing Directors in the HUD field offices to mail the results of our reviews to you and to the PHAs' Board of Commissioners. Where we find an audit report inconsistent with our findings (e.g., lack of internal controls, calculations errors, etc.) we have instructed our field offices to refer those firms to the Audit Quality Assurance team at the Real Estate Assessment Center to determine the best course of action.

We ask that you serve as a partner in assuring compliance with those sections of the *A-133 Compliance Supplement* (see Enclosures) that apply to the income and rent requirements for the Public Housing and HCV programs. Collectively, the compliance documents instruct the auditor to take actions that include an independent determination based on random file selection as to whether or not the PHA made improper payments (e.g., overpayments and underpayments), calculated the tenant's rent payment using documentation from third party verification, etc. The RIM review parallels the requirements outlined in the *Compliance Supplement*. Thus, the auditor's focus on compliance requirements for the Public Housing and HCV programs reinforces the Department's efforts to ensure that PHAs implement their CAPs.

David A. Vargas, MSA, CPA, Senior Advisor of my staff will be following up with the American Institute of Certified Public Accountants, the Association of Government Accountants, and other entities to reinforce these requirements. Should you have questions, please contact Mr. Vargas at (202) 708-0614, ext., 6192.

Sincerely,

Michael Liu,
Assistant Secretary

Enclosures