



Office of Inspector General

ACCURACY OF DATA USED TO COMPUTE THE FORECLOSURE AVOIDANCE THROUGH SERVICING RATIO

Documentation supporting one of the five numbers used to compute the foreclosure avoidance through servicing ratio was not available, but a new computer system will retain the necessary documentation in the future.

Report No.: 99-00177-14
Date: November 16, 2000



DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the Under Secretary for Benefits (20)
Accuracy of Data Used to Compute the Foreclosure Avoidance
Through Servicing Ratio

1. The Office of Inspector General (OIG) conducted an audit to determine whether Veterans Benefits Administration (VBA) officials accurately reported the foreclosure avoidance through servicing (FATS) ratio. This was one in a series of audits assessing the accuracy of data used to measure the Department of Veterans Affairs' (VA's) performance in accordance with the Government Performance and Results Act.
2. To reduce benefit delivery costs in the home loan guaranty program, VBA pursues alternatives to foreclosure when veterans cannot make their mortgage payments. VBA measures its success in assisting veterans who are facing foreclosure with the FATS ratio. The ratio was developed to identify the extent to which the number of foreclosures would have been greater had VBA not pursued alternatives to foreclosure. VA's Annual Accountability Report for Fiscal Year (FY) 1998 showed the FATS ratio was 36.7 percent, which was less than the goal of 40 percent.
3. To assess the accuracy of VBA's computation of the FATS ratio for FY 1998, we attempted to verify each of the five components of the computation. The five components were the numbers of refundings, voluntary conveyances, compromises, foreclosures, and successful interventions which were recorded in the Liquidation and Claims System (LCS) during the year. We randomly selected a sample of records in each category and reviewed the corresponding loan folders to determine whether the LCS records were properly categorized. For example, we reviewed records categorized as foreclosures to verify that the loans were actually foreclosed.
4. Records in four of the five categories were categorized accurately. In our samples of refundings, voluntary conveyances, compromises, and foreclosures, we identified only two inaccurate records, as shown in the following table:

Number of Inaccurate LCS Records

Category Shown in LCS	Number Reviewed	Number Inaccurate
Refundings	94	0
Voluntary Conveyances	98	1
Compromises	80	1
Foreclosures	98	0

One voluntary conveyance was improperly categorized in the LCS as a compromise, and one compromise was improperly categorized as a voluntary conveyance. Both were correctly identified as alternatives to foreclosure, and we concluded the improper categorizations were not material errors.

5. Records categorized as successful interventions could not be verified. We could not verify 66 of the 77 successful interventions (85.7 percent) in our sample because supporting documentation was not available. Evidence of defaults, intervention efforts, and cures was generally not retained in loan folders. VBA encouraged Loan Guaranty personnel to document loan servicing efforts, including successful interventions, in electronic notes in the LCS. However, the LCS did not retain the notes. With neither supporting documentation in the loan folders nor electronic notes, we could not determine whether the successful interventions recorded by VBA personnel actually occurred. Accordingly, we could not attest to the accuracy of the FATS ratio reported in VA's Annual Accountability Report.

6. During our audit, VBA activated a new computer system for its loan servicing activities. The new Loan Servicing and Claims System now retains the electronic notes which are used to document successful interventions. Since this should correct the only material deficiency identified, we are not making any formal recommendations.

7. The Deputy Under Secretary for Management agreed with our findings and conclusions. Consequently, we consider the issue resolved.

For the Assistant Inspector General for Auditing,

(Original signed by:)

MICHAEL E. GUIER
Director, Dallas Audit Operations Division

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The purpose of the audit was to determine whether VBA officials accurately computed the foreclosure avoidance through servicing ratio. This was one in a series of audits to assess the accuracy of data used to measure VA's performance in accordance with the Government Performance and Results Act.

Scope and Methodology

We audited the accuracy of the FATS ratio as reported by VBA officials for FY 1998. To determine the accuracy of the FATS ratio, we:

- Reviewed the processing of LCS data and related controls at the Austin Automation Center.
- Assessed controls over LCS data at the VBA regional loan centers in Houston, Roanoke, and Denver.
- Reviewed available records in five pilot samples to assess the accuracy of data input into LCS.
- Reviewed available records in two pilot samples to assess the completeness of data input into LCS.
- Discussed the computer program which was used to compute the FATS ratio for FY 1998 with officials of Loan Guaranty Service and the OIG's Data Analysis Section.

We were unable to verify the number of successful interventions which was used in the computation of the FATS ratio because documentation to support the reported interventions was not retained. Accordingly, we could not confirm that the FATS ratio reported by VBA was accurate.

The audit was conducted between April 1999 and July 2000 in accordance with generally accepted government auditing standards.

BACKGROUND

The Government Performance and Results Act of 1993 requires federal agencies to set goals, measure performance against those goals, and report on their accomplishments. The law is part of a statutory framework for improving management of the federal government.

In accordance with the law, VA has set goals for each of its major business lines and identified related performance measures. One of the Department's general goals is to reduce benefit delivery costs and improve productivity. To reduce benefit delivery costs in its home loan guaranty program, VBA pursues alternatives to foreclosure when veterans cannot make their mortgage payments. VBA measures its success in assisting veterans who are facing foreclosure with the FATS ratio. The ratio was developed to identify the extent to which foreclosures (F in the formula below) would have been greater had VBA not pursued alternatives to foreclosure. Four alternatives to foreclosure are included in the computation of the FATS ratio:

- Successful Intervention (SI) -- VA personnel may intervene with the mortgage holder on behalf of the borrower to set up a repayment plan or take other action that results in reinstatement of the loan.
- Refunding (R) -- When VA personnel believe a borrower has the ability to make mortgage payments, or will have the ability in the near future, but the mortgage holder is unwilling to extend forbearance, VA may purchase the loan from the mortgage holder.
- Voluntary Conveyance (VC) -- VA may accept a deed from the borrower in lieu of foreclosure if it is in the best interest of the government.
- Compromise (C) -- If a borrower in default is trying to sell the home but cannot sell it for an amount equal to, or greater than, the amount owed on the loan, VA may pay a compromise claim for the difference in order to complete the sale.

The weighted formula used to compute the FATS ratio for FY 1998 is provided below:

$$\frac{.93SI + 1.58R + .93VC + 1.24C}{F + SI + R + VC + C}$$

VBA officials assigned a weight to each alternative to foreclosure based on the expected benefit of the alternative and the relative effort expended by VA personnel.

The data used to compute the FATS ratio for FY 1998 were extracted from the LCS. Regional office personnel established a record in the LCS when they received evidence

that a borrower was in default on a VA-guaranteed loan. Changes in the status of the loan and servicing efforts by VA personnel were recorded in the LCS until the default was resolved. A default could be resolved with a foreclosure, one of the four alternatives to foreclosure described previously, or a cure without VA intervention. At the end of FY 1998, Loan Guaranty Service personnel used a computer program to count the foreclosures and alternatives to foreclosure which had been recorded in the LCS during the year.

VA's Annual Accountability Report for FY 1998 showed that the FATS ratio was 36.7 percent. The reported ratio was less than the stated goal of 40 percent.

SAMPLING PLAN AND RESULTS

Audit Universe

Each of the seven samples was selected from a unique universe identified by the OIG's Data Analysis Section. Universe sizes are provided in the following table:

Universe Sizes

Type of Record	Number in Universe
Successful Interventions	5,717
Refundings	2,007
Voluntary Conveyances	911
Compromises	4,965
Foreclosures	28,565
Cures Without VA Intervention	87,761
Loan Claim Payments	9,582

Records in the first six categories were extracted from FY 1998 data in the LCS. The universe of loan claim payments was extracted from data in the Automated Vendor and Payments System for the fourth quarter of FY 1998.

Sample Sizes

The following table shows the number of records we reviewed:

Sample Sizes

Type of Record	Number Reviewed
Successful Interventions	77
Refundings	94
Voluntary Conveyances	98
Compromises	80
Foreclosures	98
Cures Without VA Intervention	75
Loan Claim Payments	82

Sample Design

Using random sampling techniques, the OIG's Data Analysis Section selected separate samples of successful interventions, refundings, voluntary conveyances, compromises, foreclosures, cures without VA intervention, and loan claim payments. Since we did not know what error rates to expect, we obtained listings of 500 records in randomly

generated order from each universe. We requested the first 100 records on each listing from VBA regional offices and reviewed all of the records received by May 8, 2000.

Some of the records we requested were not available for review. We have no reason to believe the review of those records would have materially affected our results.

We intended to use the error rates in our initial samples to determine the number of records to review during the verification phase of the audit. However, based on the small number of discrepancies identified during our review, we concluded there was no need to expand the samples of refundings, voluntary conveyances, compromises, foreclosures, and loan claim payments. Also, given the absence of supporting documentation for successful interventions and cures without VA intervention, we concluded no purpose would be served by expanding those samples.

Attributes

We reviewed the records in the samples of successful interventions, refundings, voluntary conveyances, compromises, and foreclosures to determine whether the records were properly categorized. For example, we reviewed records coded as refundings to verify that the loans were actually refunded.

Records in the sample of cures without VA intervention were reviewed to determine whether they were properly excluded from the universe of successful interventions. Records in the sample of loan claim payments were reviewed to determine whether they were included in the universes of refundings, voluntary conveyances, compromises, or foreclosures when appropriate.

Sample Results

The results of our reviews of successful interventions, refundings, voluntary conveyances, compromises, and foreclosures are reported on pages 1 and 2.

Completeness tests of LCS data yielded similar results. We reviewed the available evidence for 75 cures without VA intervention and verified that 10 (13.3 percent) were properly excluded from the universe of successful interventions. However, we could not determine whether the remaining 65 cures were properly excluded from the universe of successful interventions because supporting documentation was not available. The new Loan Servicing and Claims System, which was activated during the audit, retains supporting documentation for cures without VA intervention as well as successful interventions.

Our review of selected loan guaranty claim payments showed that the refundings, voluntary conveyances, compromises, and foreclosures which resulted in the claim payments were generally included in the LCS when appropriate. We verified that all but two of the foreclosures or alternatives to foreclosure which should have been recorded

during FY 1998 were included in the LCS. At the time this report was prepared, we were still trying to obtain information concerning the two unverified payments. According to the OIG Statistician, the number of potential discrepancies was within the range of expected occurrence, and we concluded that two unverified payments would not materially alter our assessment of the accuracy of the FATS ratio.

Department of Veterans Affairs

Memorandum

Date: October 25, 2000

From: Deputy Under Secretary for Management (201)

Subj: Draft Report, Accuracy of Data Used to Compute the Foreclosure Avoidance
Through Servicing Ratio, Project No. 1999-00177-R5-0008

To: Assistant Inspector General for Auditing (52)

1. We appreciate the opportunity to review the subject draft report. We agree with your findings and conclusions.

2. Thank you for this report.

/s/
Nora E. Egan

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