

Resources, Community, and
 Economic Development Division

B-252534



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March 29, 1993

The Honorable John D. Rockefeller
 Chairman, Committee on Veterans' Affairs
 United States Senate

Dear Mr. Chairman:

As the Committee requested and as we agreed in subsequent discussions with the Committee's office, this letter provides our comments on the Booz·Allen & Hamilton Inc.'s (Booz·Allen) January 1991 report on the Department of Veterans Affairs' (VA) Guaranty Home Loan Program.¹ The Booz·Allen report presents extensive information on the history of the VA home loan program, the types of benefits provided to veterans, and the ways in which the program differs from home mortgage programs provided by the Department of Housing and Urban Development's Federal Housing Administration (FHA) and the private sector. In addition, the report contains seven recommendations designed to improve the VA home loan program's economy, efficiency, and management. Our review focused on whether the report (1) presents sufficient evidence to support its recommendations and (2) contains errors in fact or analytical weaknesses.

As agreed, our work on the first objective was limited to determining whether adequate support for the recommendations appears in the report itself. To accomplish this, we reviewed the report and discussed with Booz·Allen officials the information that they had used to support the recommendations. We did not determine the reasonableness of the report's recommendations. Similarly, our work on the second objective was limited to determining, from our reading of the report and our knowledge of the VA home loan

¹Veterans Housing Loan Program Evaluation Final Report, Office of Program Coordination and Evaluation, Department of Veterans Affairs, prepared by Booz·Allen & Hamilton Inc. (Report No. 91-01).

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program, whether the report contained any obvious inaccuracies or analytical weaknesses. We did not assess the report's accuracy or technical merit in depth.

In summary, for nearly all of the recommendations (six of the seven), the report does not present evidence to support one or more of the following: (1) the existence of a problem in the program, (2) the adverse impact of that problem on the program's operations, and (3) the adequacy of the recommendation to address the cause of the problem. While the absence of this kind of evidence does not necessarily make the recommendations incorrect or invalid, providing such evidence would have made the report more persuasive by more fully explaining Booz·Allen's basis for believing that VA needs to take corrective actions to improve its housing program.

Also, some of the information contained in the report--but not used to support its recommendations--could be misleading to users of the report because it is not accurate or is derived from questionable analytical practices.

According to VA officials, VA has fully implemented one of the Booz·Allen report's seven recommendations and has partially implemented two others as of January 29, 1993. VA may later fully implement another. VA has not fully implemented most of the Booz·Allen report's recommendations because it considers the recommendations redundant of practices already followed under the program or not feasible under existing legislative requirements, according to the Director of VA's Loan Guaranty Service.

Among other things, the Booz·Allen report recommends that VA more clearly define the home loan program's desired impacts and purpose, ensure that appraisers are certified by the state or conform to established standards, and perform cost-benefit analyses to ensure that the benefits derived from repairing foreclosed properties outweigh their associated costs. In general, these recommendations appear to have merit because they seem logical and conform to sound management principles. However, we were not persuaded by the information contained in the report that these recommendations are applicable to VA or that the specific problems they are designed to correct exist in the VA home loan program.

The following example illustrates our concerns about the adequacy of the evidence presented to support the recommendations made in the Booz·Allen report. The report

states that in cases when VA is required to make extensive repairs (over \$2,000) and must obtain title before making the repairs, the additional management broker payments required by the extended holding times may not be recoverable in the sales price of the home. The report recommends that VA improve its property disposition activities by conducting a cost/benefit analysis to ensure that the repairs it makes to a foreclosed home are cost-effective. Such an analysis compares the increased value of the repaired home with the costs of the repairs and of the additional time that the property may be held off the market to make the repairs. However, the report does not contain evidence that property disposition costs are too high because cost/benefit analyses have not been performed or have been performed ineffectively. Neither does the report contain evidence that properties are currently held off the market to conduct repairs. Under current VA practice, repairs are conducted after costs and benefits have been assessed and while title is being acquired before the property is placed on the market. Only when properties are adversely occupied and eviction proceedings are required will repairs be delayed. Booz·Allen officials told us that they had based this recommendation on the results of interviews with lenders who managed acquired properties and said that they had found cost/benefit analysis effective. However, these interview results do not appear in the Booz·Allen report. In addition, the Booz·Allen report does not discuss the effectiveness of the existing VA requirement that repairs not be initiated unless the repair costs are recoverable in the sale price of the property. Also, the report does not quantify either the costs of holding properties off the market while large repairs are conducted or the amount that is not recovered in the sales price of the property. According to VA, the agency rarely makes repairs costing over \$2,000, and management broker payments are only \$20 per month during the time that the property is off the market. Such information is needed to explain how the actions that Booz·Allen is recommending differ from VA's existing requirements and how these actions would ensure the cost-effectiveness of repairs.

The following examples illustrate some of the inaccuracies in the information presented in the Booz·Allen report.

- The Booz·Allen report states that VA's inability to invest government matching contributions appropriated for the home loan program reduces program revenues and increases program costs. However, government matching contributions are federal appropriations and, according

to the U.S. Treasury, appropriations cannot be invested because they are not actual sums of money. An appropriation is an authorization to spend funds up to the amount appropriated. As such, the contributions represent funds available to VA to help offset its losses but not to invest. In addition, appropriated funds do not affect the program's costs.

- The Booz·Allen report also incorrectly identifies the percentage of the appraised property value that can be financed through an FHA mortgage (the maximum loan-to-property-value ratio) as 90 percent and 95 percent. At the time of Booz·Allen's analysis, however, up to 98.75 percent of the appraised value of the property excluding allowable closing costs could be financed through an FHA mortgage. In addition, because the FHA borrower could finance the 3.8-percent mortgage insurance premium as part of the mortgage, the maximum loan-to-property-value ratio was in excess of 100 percent.

An example of a questionable analytical practice concerns a conclusion in the Booz·Allen report that VA's property disposition efforts are generally effective. Booz·Allen officials told us that they derived this conclusion from a comparison showing that VA's average loss per property was lower than FHA's average loss per property. However, in reaching this conclusion, Booz·Allen did not consider the effect of VA's no-bid policy on property losses. The no-bid policy is a loss-limiting option that allows VA to take back the property or leave it with the lender, depending on which is more in the government's financial interest. VA decides which option to follow after estimating and comparing the cost of taking possession of and reselling a foreclosed property with the cost of leaving the property with the lender and paying the lender the guaranteed portion of the mortgage loan. The VA guaranty ranges from 25 percent to 50 percent of the loan amount, depending upon the amount of the original loan. By contrast, FHA does not have this option because it insures 100 percent of the mortgage. VA's no-bid policy is possible because VA guarantees a portion of the mortgage and not the entire mortgage. Since VA guarantees a smaller portion of the mortgage than FHA, VA's losses would logically be lower. Booz·Allen officials told us that they had not considered the effect of VA's no-bid policy on property losses. Booz·Allen officials also told us that they had not tried to identify the reason for the lower VA loss figure, since they were looking for a measure for determining whether VA's performance was reasonable and had not been asked to perform a detailed comparison.

Booz·Allen officials characterized their report as a management report rather than as an audit or an efficiency and effectiveness review of the VA home loan program. They noted that time constraints (6 months) had limited the scope of their work. They compared their evaluation to a management consulting firm's market or utilization analysis, which may be based on logic rather than limited to actual data.

We recognize that, to be of value, studies do not have to be based solely on an analysis of data. Nevertheless, including evidence that defines each identified problem, describes its adverse impact on operations, and identifies its cause strengthens a report by making the recommendations more convincing. Furthermore, whether a study is described as an audit, evaluation, or market analysis, it is important to users of the report that it be factually accurate and derived from sound analytical practices.

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We provided a draft of this correspondence to the Director of VA's Home Loan Guaranty Service and to the Booz·Allen principal responsible for the evaluation of the VA home loan program. The Director of VA's Home Loan Guaranty Service agreed with the facts as presented. He also believed that the Booz·Allen report would have been more persuasive if evidence to support its recommendations had appeared in the report.

The Booz·Allen principal stated that our facts as presented reveal many valid points about the Booz·Allen study. He also stated that we correctly point out several factual deficiencies that Booz·Allen was unable to correct, despite extensive review by its study team and by VA. In response to our concerns about the adequacy of the evidence presented to support the recommendations made in the Booz·Allen report, this official stated that the study constraints delineated by VA limited Booz·Allen's ability to collect primary data for this study. He pointed out that, because of resource constraints, the statement of work developed by VA on this study limited the collection of primary data and called instead for a synthesis and reexamination of findings and data that had been collected, analyzed, or presented by other sources.

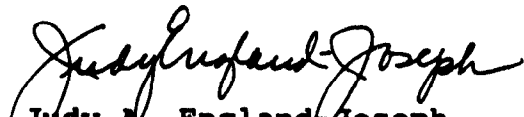
Although VA's statement of work for this study does limit the collection of primary data and calls for a synthesis of previously collected data, the evidence that Booz·Allen

B-252534

relied on to support most of its recommendations was primary data that Booz·Allen had obtained through interviews with persons involved in the VA housing program or program data that Booz·Allen had analyzed. In fact, in the introduction of the report, Booz·Allen refers to the study as "A Comprehensive Assessment of the VA Housing Programs" that includes a comparative analysis of the practices of VA, HUD, and private mortgage lenders and an in-depth assessment of key issue areas performed to assist VA in developing recommendations. Only in the section of the report that describes the methodology employed to develop the history and evolution of the VA housing program does Booz·Allen explicitly state that this task was accomplished through the review and synthesis of written information, as well as of information obtained from interviews.

As agreed with your office, unless you make this correspondence public earlier, we plan no further distribution of it until 10 days from the date of this letter. At that time, we will send copies to the Secretary of Veterans Affairs and to Booz·Allen & Hamilton Inc. We will also make copies available to others upon request. If we can be of further assistance, please contact me at (202) 512-7631.

Sincerely yours,



Judy A. England-Joseph
Director, Housing and
Community Development Issues

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