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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
502 U S CUSTOMHOUSE, SECOND AND CHESTNUT STREETS
PHILADELPHIA, PENNSYLVANIA 19106

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JAN 18 1971

Mr. Warren P. Phelan
Regional Administrator
Department of Housing and Urban Development
Region III
900 Curtis Building
6th & Walnut Streets
Philadelphia, Pennsylvania 19106

Dear Mr. Phelan:

We have made a review for the settlement of the accounts of the certifying officer of Region III, Department of Housing and Urban Development, Philadelphia, Pennsylvania, through fiscal year 1969. *see below impact*

The review consisted of an evaluation of selected administrative procedures and internal controls relative to receipts and disbursements and included such tests of financial transactions and records as we considered appropriate. Examinations into selective program activities were made to determine the adequacy of the financial management system as it pertained to transactions for which the certifying officer was responsible. We also reviewed the audit reports issued by the HUD Office of Audit as they related to the activities we examined into.

We found the administrative procedures and internal controls to be generally satisfactory and the tested financial transactions to be processed in a satisfactory manner. Further, our review of selected program activities showed that the financial management system was generally adequate to assure that disbursement and collection transactions were valid, appropriate, and legal. We did note, however, certain indications of weaknesses in the implementation of the system, which are described below. These were discussed with the Acting Assistant Regional Administrator for Administration, who informed us that corrective actions had been taken or were planned.

1. We found that an inspection and audit fee of \$750 was not deducted from the initial grant payment made to a public body participating in the urban beautification and improvement program. The grant contract provided that the Government be compensated at a fixed fee for its inspections and audits of the project, that this fee be payable when the first requisition for a grant payment was approved, and that it be paid by deducting

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the entire amount from the first grant payment made to the public body. We found, however, that the inspection and audit fee was not deducted from the initial payment made to the public body, on March 10, 1969. After we brought this matter to the attention of the officer who had certified the disbursement voucher, an invoice for repayment of the \$750 was mailed to the public body, this amount was subsequently remitted to the Government.

2. Our audit of the imprest fund showed the following weaknesses in internal controls
 - a. The cashier had made one of the purchases as shown by a receipt in the fund. HUD Handbook 1911.1, dated August 1969, provides that for sound internal control the person designated as a cashier should not make or approve purchases.
 - b. No alternate cashier had been designated for the imprest fund. We were informed that, in the absence of the imprest fund cashier, one of the certifying officers acts as the fund cashier. This situation is contrary to sound internal control procedures and HUD instructions, which require that the performance of both certifying and disbursing functions by one individual be avoided. This point will take on added significance if the Regional Office implements its plan to increase the amount of the fund from \$75 to \$500 in order to handle travel advances on a cash basis.
3. We found that employees who kept time and attendance records also engaged in the distribution of employees' salary checks. The General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, title 6, section 15.7 provides that persons who keep time and attendance records should not deliver salary checks. This internal control weakness was also reported on June 2, 1967, at the completion of our prior settlement review.
4. Our review showed a need for improvement in the procedures for posting hours used and leave taken to the time and attendance reports. In three of the four sections reviewed, we noted that the timekeepers were preposting 80 hours at the beginning of each pay period and posting all absences in total at the end of the period. The total absences were posted from daily entries made on the timekeepers' desk calendars or from the employees' leave records. This practice is in violation of HUD instructions which require daily postings to the time and attendance reports.

5. Our review of the Elderly and Handicapped Housing Loan Program disclosed the following weaknesses in the administration of the program:

- a. HUD procedures require that the field engineer approve certain designated project costs prior to the payment of costs from the applicant's construction account. Our detailed review of one project showed that the field engineer did not approve the project costs designated for his approval even though the costs had been paid by HUD. We were advised by cognizant HUD officials that this same situation existed with respect to other projects within the program and this was primarily due to the failure of the borrowers to provide sufficient documentation supporting the project expenditures. When documentation was provided, it was not understandable and did not contain sufficient data upon which to base an approval. We were also advised that HUD program personnel did not take positive action to assure that project administrators provided the required supporting data.

We recommend that responsible HUD personnel be informed of the importance of having adequate documentation to support project expenditures prior to approval and payment of such costs.

The above situation was also brought to your attention by the HUD Office of Audit in a report dated May 19, 1969.

- b. Our review of one project disclosed three instances in which funds requisitioned and received by the borrower exceeded the HUD-approved line item costs by a total of about \$809. Our review of the project showed no indication as to the reason for the excess payments. Program personnel suggested that the overpayment was most likely the result of an oversight.
- c. Our review of this project also disclosed that the borrower was billed for six interest payments during the period May 29, 1969 to August 30, 1970, in accordance with the requirements of HUD Regional Circular Number 882 but paid HUD for only one billing. As of September 30, 1970, outstanding interest on this project amounted to \$63,948.54. During the

period when interest was outstanding, the borrower submitted a requisition for construction funds, however, when providing them, HUD did not make an offset for the outstanding interest. We believe that most of the outstanding interest charges should have been obtained in this manner.

In discussing this matter with us, the Chief of the Elderly Housing Programs Branch agreed that interest should be collected on a timely basis. Further, he said he is investigating the feasibility of deducting the interest charge from project requisitions rather than billing the borrower.

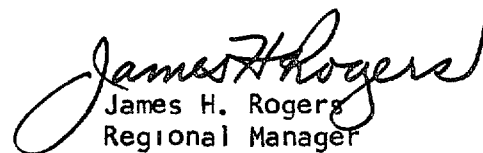
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We wish to acknowledge the cooperation extended to our representatives during their review. We would appreciate receiving your comments as to actions taken or planned with respect to the matters described above.

In accordance with title 8, chapter 3, of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, the records of financial transactions through June 30, 1969, may be transferred to the Federal Records Center for storage.

A copy of this report is being furnished to the Secretary of Housing and Urban Development, to the Assistant Secretary for Administration, and to the Director of the Office of Audit.

Sincerely yours,


James H. Rogers
Regional Manager