

089310



**UNITED STATES GENERAL ACCOUNTING OFFICE**

REPORT ON REVIEW

FOR

THE SETTLEMENT OF ACCOUNTS OF THE ACCOUNTABLE OFFICERS

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

REGION IX

SAN FRANCISCO, CALIFORNIA

FISCAL YEARS 1967 THROUGH 1970



SAN FRANCISCO REGIONAL OFFICE

~~914426~~

089310



UNITED STATES GENERAL ACCOUNTING OFFICE  
REGIONAL OFFICE

143 FEDERAL OFFICE BUILDING, 50 FULTON STREET  
SAN FRANCISCO, CALIFORNIA 94102

IN REPLY REFER TO:

38005

MAR 31 1971

Mr. Robert H. Baida, Regional Administrator  
Department of Housing and Urban Development, Region IX  
450 Golden Gate Avenue - Box 36003  
San Francisco, California 94102

Dear Mr. Baida:

Here is our report on the review for the settlement of accounts of accountable officers of the Department of Housing and Urban Development, Region IX, San Francisco, California.

The deficiencies reported were discussed with your representatives on January 29, 1971. For the most part, these representatives concurred with our observations and corrective action was either taken or promised. Our report contains recommendations for corrective action for those findings where concurrence was not obtained.

Copies of this report are also being sent to the Secretary, Assistant Secretary of Administration, and the Director, Office of Audit Department of Housing and Urban Development.

We wish to acknowledge the courtesies and cooperation given our representatives during the review. Your comments and advice as to the action taken or contemplated on the matters in the report will be appreciated.

Sincerely yours,

A. M. Clavelli  
Regional Manager

C o n t e n t s

	<u>Page</u>
INTRODUCTION	1
FINDINGS AND RECOMMENDATIONS	2
WEAKNESSES IN CONTROLS OVER RECEIPTS	2
Need for periodic review of collection activities	2
Undue delays in deposits of collections	3
WEAKNESSES IN DISBURSEMENT CONTROLS	5
Subscription renewal payments	5
Purchase orders issued after receipt of goods and services	5
Untimely submission of travel vouchers	6
Use of first class air travel	7
SECTION 1311 SUPPLEMENTAL APPROPRIATIONS ACT, 1955	8
RECORDING OF ASSETS	9
Need to insure timely posting of accounts receivable	9
Need for project status reviews and better coordination between program administration and accounting division	10
Need to follow-up on status of Public Works Planning Advances	11
Need for better internal communications	13
NEED FOR BETTER MANAGEMENT OF ACCOUNTABLE PERSONAL PROPERTY	15

REPORT ON REVIEW  
FOR  
THE SETTLEMENT OF ACCOUNTS OF  
THE ACCOUNTABLE OFFICERS  
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
REGION IX  
SAN FRANCISCO, CALIFORNIA  
FISCAL YEARS 1967 THROUGH 1970

INTRODUCTION

We have completed a review for the settlement of accounts of the accountable officers of the Department of Housing and Urban Development, Region IX, (formerly Region VI), San Francisco, California. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The period covered by our review was fiscal year 1967 through fiscal year 1970.

Our review, which was completed in January 1971, was directed primarily toward evaluating current administrative procedures, controls and accounting practices, and included such tests of financial transactions as we determined to be appropriate. We also examined into the activities of the Office of Audit at Region IX and were able to utilize the work of the internal auditors in certain selected areas. We did not examine the program activities of Region IX except as they related to financial transactions.

## FINDINGS AND RECOMMENDATIONS

Our review for the settlement of accounts of Region IX accountable officers resulted in the identification of several areas of financial management which we believe are in need of improvement. Each of these areas, which fall into the general categories of (1) receipts, (2) disbursements, (3) Section 1311 of the Supplemental Appropriations Act of 1955, (4) recording of assets and (5) management of accountable personal property, are discussed in the sections which follow.

### WEAKNESSES IN CONTROLS OVER RECEIPTS

Department of Housing and Urban Development (HUD) collection procedures were not consistently followed resulting in a loss of control over cash receipts and a loss of interest income to the Government.

#### Need for periodic review of collection activities

Sections 2-10c and f of HUD Handbook 1911.1 require that the Collection Register, HUD Form 235, be prepared in duplicate by the mailroom personnel. Copies of the Collection Register are retained by the mailroom and should be compared on a test basis at least quarterly with the Collection Officer's copies in order to detect discrepancies.

We found that the HUD Form 235 was not prepared at the mail opening point but by the Collection Officer, and that the actual log used and maintained by mailroom personnel had not been compared to the HUD Form 235 for more than two years. We took a random sample of 149 entries from the fiscal year 1970 mailroom register of receipts and found one check for \$5.25 which to date is unaccounted for. Although the dollar amount in this case was small, we believe this loss demonstrates the need for HUD to follow its internal control procedures.

We also noted that Section 2-10h of HUD Handbook 1911.1 requires that collections received for credit to other Federal agencies shall be forwarded and receipts obtained and kept on file. From the random sample of 149 records of receipts, we found eight collections totalling \$13,902 which were mailed from HUD and for which HUD did not secure receipts.

We believe that the HUD regulations and controls are adequate to safeguard receipts if applied and consistently followed. We discussed our findings and conclusions with responsible officials who concurred in our views and have taken measures to assure safeguard of all receipts.

Undue delays in deposit of collections

Section 2-3a(2)(c) of Handbook 1911.1 requires deposits of collections daily, and in no case later than the end of the workday immediately following the day of collection.

Out of our sample of 149 records of receipts, we found that 39 checks were not deposited in a timely manner. These delays varied from one check for \$120,284 deposited one day late, to one check for \$4.75 received on August 7, 1969, and on April 15, 1970, returned to the maker for a new check. The new check was received on April 29 and not deposited until June 30, 1970. Tabulated below are the statistics on the 39 checks:

<u>Number of Checks</u>	<u>Working Days in Excess of HUD Criteria</u>	<u>Amounts of Checks</u>
12	1	\$215,359
3	2	2,528
6	3	76,598
2	4	662
1	5	42
3	6	4,185
2	7	269
1	8	2,654
1	9	2,300
1	23	88
3	24	51,525
1	36	22
1	62	80
1	155	4
<u>1</u>	<u>172*</u>	<u>5</u>
39		\$356,321

\* Elapsed working days calculated up to date returned to maker

We also found two checks, payable to HUD for \$12,367, which were forwarded to Washington for deposit. In our opinion, HUD should have deposited the checks immediately upon receipt and forwarded an advice of deposit to Washington.

We brought the above weaknesses to the attention of HUD supervisory personnel and they have instructed Accounting Division personnel to deposit all collections in accordance with the regulations. In addition supervisory personnel have been instructed to make periodic reviews to assure compliance with these instructions.

#### WEAKNESSES IN DISBURSEMENT CONTROLS

Our review showed several different types of disbursement-related practices which we believe contribute to an overall weakness in control of disbursements. These practices fall into the following areas:

- Subscription renewal payments
- Purchase orders issued after receipt of goods and services
- Untimely submission of travel vouchers
- Use of first class air travel

### Subscription renewal payments

We found that it was HUD practice to require the disbursing office to return all Treasury checks for HUD subscription renewal payments to HUD for distribution. We were told that this was a control on subscription advance payments.

We questioned the benefits of the above "control" on the basis that direct mailing to the payee would, in fact, provide greater control over these checks. HUD supervisory personnel subsequently agreed to revise their subscription renewal payment practices to provide for direct mailing of payment checks.

### Purchase orders issued after receipt of goods and services

HUD Handbook 1905.1 provides that all liabilities shall be recorded in the accounts in the month in which incurred. From a discovery sample of purchase orders, we noted eleven instances where purchase orders were issued and recorded as obligations after goods or services had been received. In one case more than two months elapsed after receipt of goods before the liability was posted to the accounting records.

The most current instance was the case of David Harris, Jr., Graphic Design. In this case (1) a purchase order was issued on December 29, 1970; (2) the obligation of funds was posted on December 29, 1970; and (3) although the receiving report was also dated December 29, 1970, it itemized services performed in August, September, October, and November of 1970. The receiving report also listed invoice dates of October 3rd and October 30, 1970, which appear to indicate awareness of the liabilities at those times. Despite this awareness, no action was initiated, and the purchase order and recording of the liabilities in the accounting records were not made until December 1970.



HUD supervisory personnel agreed that there was a weakness in the procurement system, and suggested that a Regional circular be issued to advise all personnel to channel all procurement requirements through the procurement control point.

#### Untimely submission of travel vouchers

We found that the travel vouchers of four HUD travelers were not submitted on a timely basis. One traveler submitted his entire fiscal year 1969 travel expenses--totalling about \$950--in July 1969. We did not expand our discovery sample in this area because the HUD Office of Audit had previously reported in October 1970 that there were ineffective procedures to obtain timely submission of travel vouchers.

We believe that untimely submissions of travel vouchers, (1) creates an uneven workload for the voucher examiners, (2) results in large travel advance balances outstanding, and (3) could result in inaccurate remembrance of travel data and submittal of inaccurate claims. In August 1970, HUD issued Circular 2300.2, SF Supplement No. 5, requiring monthly submissions of travel vouchers. If enforced, the procedures called for in this instruction should correct the above problem.

#### Use of first class air travel

We found several instances when first class air travel between Hawaii and Guam was used and approved. One traveler went first class on nine round trips between Guam and Hawaii, resulting in increased costs to the Government of about \$3,000. We also noted that the Regional Administrator has a blanket justification for first class travel for all trips because he has to utilize flight time to prepare for meetings.

Section 3.6c of the Standardized Government Travel Regulations (SGTR) states that less than first class accommodations should be used except when

(1) only first class space is available, (2) the traveler's health requires first class, and (3) required for reasons of sanitation, health, or comfort when traveling to, from, or in foreign areas. HUD Travel Handbook 2300.2, paragraph 27 has the same provisions.

We were told that it was HUD Regional Office policy to permit first class travel between Hawaii and Guam because the trip takes 7-1/2 hours. Despite the time factor, we do not believe that general use of first class air transportation is warranted. Flights from Hawaii to Guam are made on domestic airlines which maintain adequate standards of sanitation and comfort. We also question the reasonableness of the blanket first class authorization of the Regional Administrator, and recommend that HUD take action to ensure that all travel be accomplished in accordance with the Standardized Government Travel Regulations.

SECTION 1311 SUPPLEMENTAL APPROPRIATIONS ACT, 1955

The HUD Office of Audit recently completed its audit of unliquidated obligations and found weaknesses and inaccurate reporting of unliquidated obligations. We noted that HUD has implemented some of the audit recommendations to strengthen internal controls and procedures, and for this reason we limited the extent of our review in this area.

From our random sample, we found that in May 1969 a purchase order was issued to David J. Harris, for graphic art services in the amount of \$1,700. Our review of expense vouchers, however, showed that services costing \$1,375 were performed in fiscal year 1970 during the period September 3, 1969 through May 8, 1970. Because the purchase order was issued in May 1969, these expenses were obligated and expensed to the fiscal year 1969 appropriation.

The Comptroller General (35 Comp. Gen. 319 - Appropriations - Fiscal Year Obligations Maintenance Service Contracts - French Law - Section 1311, Supplemental Appropriations Act, 1955) determined that maintenance service contracts which are entered into near the end of the fiscal year for services to be performed in the succeeding fiscal year are contracts for continuous services which do not represent a bona fide need of the fiscal year and such contracts may not be recorded as valid obligations against the ending fiscal year funds.

We believe that the David J. Harris Graphic Design services, although not maintenance services, fall into the above determination and were not bona fide needs of fiscal year 1969. We believe that future year-end procurements of this type should be thoroughly scrutinized to assure classification of expense to appropriate fiscal years.

#### RECORDING OF ASSETS

Our observations related to the assets carried on Region IX financial statements fell into two categories. We found that (1) accounts receivable for two appropriation funds were not posted in a timely manner, and (2) there was a need for better coordination between program functions and the accounting division so as to insure the validity of selected accounts balances.

#### Need to insure timely posting of accounts receivable

Accounts receivable for two appropriation funds were not posted in a timely manner. As a result HUD assets as recorded in these two general ledger balances on June 30, 1970, were incorrect, and any financial statements which consolidate the regional reports for the period then ended are misstated.

Our review of transactions relating to appropriation symbol

86X0104 showed that four invoices for Urban Comprehensive Planning Grant overpayments were prepared and rendered as of June 30, 1970, but were not posted to the accounting ledgers as required by HUD regulations. As a result accounts receivable were understated and the grant payments account was overstated by \$23,513.64.

In the Administrative Operations Fund, we found one invoice dated October 1, 1970, for a damage claim of \$31.20 which was not posted to the records as of January 13, 1971. This claim was for damages suffered in fiscal year 1968; however, the actual replacement value was not determined until receipt of the invoice in August 1969.

The delayed preparation of the claim invoice and delayed posting in the correct fiscal year has resulted in misstatements of both accounts receivable and disbursements for fiscal year 1969 and accounts receivable in fiscal year 1970.

We brought these observations to the attention of responsible HUD personnel who took steps to correct the matters.

Need for project status reviews and better  
coordination between program administration  
and accounting division

We found that there was poor coordination between HUD program and accounting activities. Our test of Accounting Division records showed that (1) the Accounting Division did not follow-up on projects with accounts outstanding for long periods of time, (2) program administrators also failed to make follow-up project status reviews, and (3) projects considered completed by program administrators and carried on financial records were not closed out because the Accounting Division was not advised as to the project status.

Need to follow-up on status of Public Works Planning Advances

In response to our confirmation requests of outstanding balances due HUD, many local public agencies responded that there was no intention to build or use the plans paid for by HUD Public Works Planning Advances and hence their records showed no liability to HUD.

The following are examples of the responses we received and the lack of follow-up action taken by HUD.

1. Account 191.17 - First and Second Planning Advances Billed.

Invoice No. B-28-70 was dated September 15, 1969, for \$3,575 and rendered to the Val Vue Sewer District, Washington, Project 45-P-1036. The invoice was due and payable November 11, 1969; however, as of September 30, 1970, the amount was still outstanding and no follow-up collection action had been taken.

2. Account 191.15 - First and Second Planning Advances.

Our confirmations of Account 191.15 showed:

- a. The city of Richmond, California, received a \$30,000 advance in 1945 (4-P-166). In 1969, a central city construction project was completed. The local public agency (LPA) contended that the 1945 plans were not applicable or useful for the project actually constructed. As of December 31, 1970, HUD had not resolved the matter and the \$30,000 was still outstanding.
- b. The Town of Los Gatos, California, received \$3,750 in advances prior to 1949 (4-P-201). The town filed a resolution in April 1970 requesting relief from the liability. As of December 1970, program personnel had not resolved this issue and the entire amount is included as a valid advance on the financial records.
- c. The State of Oregon Fish Commission (35-P-67), for which HUD showed advances outstanding of \$7,250 responded that they had no record of this project. Furthermore, the HUD Portland Office was unable to locate the contract project file.
- d. HUD records showed that the City of Oakland, Oregon has a \$7,850 advance outstanding since 1949 (35-P-69). The LPA did not respond to our confirmation request and in view of the time lapse, we question the validity of the advance.

- e. School District No. 1, Butte, Montana (24-P-8) notified HUD in April 1959 that they constructed new facilities to substitute for the planned project. HUD still carried the \$15,750 advance as outstanding on June 30, 1970. Normally when substitute facilities are built, a determination of liability should be made by program administrators as to the amount to be written off and/or repaid.
- f. The city of Ronan, Montana, stated that it passed a resolution on July 6, 1968, requesting relief from liability on projects 24-P-42 for \$3,500 and 24-P-65 for \$2,750. The amounts were still outstanding at June 30, 1970, and apparently no determination of liability was made.

3. Account 131.11 Accounts Receivable (Third Planning Advance Program)

Our review of this account as of June 30, 1970, showed that \$4,733 in accounts receivable were denied as liabilities by three local public agencies. The denials are discussed below:

- a. The Gila Bend Sanitary District (P-Ariz.-3065) was invoiced for \$2,000 in February 1969. The Town of Gila Bend responded to our confirmation request and stated that the sanitary district was dissolved in 1962 and that the town had no liability to HUD.
- b. Valley County, Montana (P-Mont-3200) responded that the HUD invoice for \$2,000 was incorrect and should be about \$400 based on actual benefits derived from the 1963 plans.
- c. The City of Talent, Oregon, in answer to our confirmation request to the South Talent Sanitary District (P-Ore-3164), denied the correctness of the HUD accounts receivable of \$1,400. HUD subsequently wrote off \$467 in September 1970.

Need for Better Internal Communication

In addition to finding a need for follow-up on the status of Public Works Planning Advances, there is also a need for more effective communication between program and accounting personnel once any project status is known to have changed and the change affects accounting records. Due to a breakdown in such communication, the June 30, 1970 general ledger balances for the Urban Renewal Program and Public Works Planning Advance Program, were misstated at least by \$211,000.

Urban Renewal Programs (86X4034)

Projects Alaska R-24 (FS) with an advance of \$4,906, and Alaska R-27 with an \$83,871 advance were terminated in July 1965 and February 1968, respectively; however, no action was taken to write off these amounts from the accounting records. As a result, Account 111.41, Advances, was overstated by \$83,777 and Account 121.41, Accrued Interest Receivable-Advances, was overstated by \$14,967.

Public Works Planning Advance Program (86X4113)

In our review of Account 191.12, Planning Advances (Third Program), we found that eight third program planning advance projects totalling \$107,175 were determined by HUD to be invalid assets, but were not written off the records as of June 30, 1970. Although the local public agencies were advised of their release from liability, the HUD Accounting Division was not so notified.

<u>Project No.</u>	<u>As of 6/30/70 Advance Outstanding</u>	<u>Valid Asset Determined by Internal Letters</u>	<u>Amount of Invalid Assets</u>
P-Calif-3012	\$ 10,802.71	--	\$ 10,802.71
P-Calif-3013	6,579.03	\$ 292.11	6,286.92
P-Calif-3014	5,902.54	--	5,902.54
P-Calif-3015	5,052.18	--	5,052.18
P-Calif-3210	36,000.00	--	36,000.00
P-Calif-3482	5,050.00	1,473.00	3,577.00
P-Calif-3646	16,536.06	4,000.00	12,536.06
P-Utah -3051	<u>27,018.00</u>	<u>--</u>	<u>27,018.00</u>
Totals	<u>\$112,940.52</u>	<u>\$ 5,765.11</u>	<u>\$107,175.41</u>

Corrections to write off these amounts were made during our review, or we were told corrections would be made by the applicable HUD Regional Office.

We believe that the Regional Administrator should take action to assure (1) timely and periodic follow-up on the status of Urban Renewal and Public Works Planning Advances and (2) coordination of efforts within his Region between program operating groups. The Regional Administrator may wish to consider, as a control measure, a semi-annual status report from each Assistant Regional Administrator which would show the various phases of each project such as follow-ups, completions, terminations, reliefs from liability, final closing, et cetera.

NEED FOR BETTER MANAGEMENT  
OF ACCOUNTABLE PERSONAL PROPERTY

Our review has shown a need for better management of personal property as required by HJD regulations. Of 14 separate control functions required for the management of accountable personal property, only three are currently being performed. These are (1) identification of equipment with decals, (2) maintenance of subsidiary records for office machines and (3) obtaining receipts for assigned property.

Examples of HUD property requirements which are not being met include:

- annual physical inventory and reconciliation with subsidiary records (last performed June 30, 1967)
- maintenance of control cards for various classes of equipment (no posting of fiscal year 1970 transactions)
- quarterly reconciliation of control cards with the financial records (last performed March 31, 1967)

We were told that some of the reasons for the deficiencies noted in managing administrative property were the lack of staff and the priority of operational type functions. The recent reorganization was



also mentioned, as well as a Washington Central Office memorandum waiving the HUD requirements for the June 30, 1970, inventory.

While we agree that current operational functions of the Office of Administration may be of a more immediate nature, we do not believe they are necessarily more important than property management. Furthermore, because of the deficiencies noted we cannot express an opinion as to the fairness of the balance of \$421,159.99 recorded in the Administrative Property Ledger of Region IX at June 30, 1970. Also, since there were no reconciliations of inventory to the general ledger balances since June 30, 1967, we express no opinion as to the fairness of the fiscal year 1968 and 1969 balances.

In view of our observations and the findings of the HUD internal audit group which identified similar problems in its fiscal year 1969 internal audit, we believe that an accurate physical inventory should be taken immediately, and that this inventory be reconciled with the records as required by HUD regulation.