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# REPORT TO THE CONGRESS

092045

Greater Benefits Can Be Derived  
From Improved HUD Audits Of  
Program Participants B-114860

Department of Housing and Urban Development

*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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To the President pro tempore of the Senate  
and the Speaker of the House of Representatives

This is our report on how greater benefits can be derived  
from improved HUD audits of program participants.

We made our review pursuant to the Budget and Accounting  
Act, 1921 (31 U.S.C. 53), and the United States Housing Act of  
1937, as amended (42 U.S.C. 1401).

We are sending copies of this report to the Director, Office  
of Management and Budget, and to the Secretary of Housing and  
Urban Development.

*James B. Stacks*

Comptroller General  
of the United States

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ABBREVIATIONS

CDA	city demonstration agency
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
IPA	independent public accountant
LHA	local housing authority
LPA	local public authority

*COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS*

GREATER BENEFITS CAN BE DERIVED  
FROM IMPROVED HUD AUDITS OF  
PROGRAM PARTICIPANTS  
Department of Housing and Urban  
Development B-114860

D I G E S T

WHY THE REVIEW WAS MADE

HUD programs and activities provide assistance for housing and for development of the Nation's communities and metropolitan areas. The fiscal year 1975 programs and activities will require expenditures estimated at \$5.3 billion.

The audit function serves as an important part of HUD's system of management control over these programs and activities. It insures that Federal funds are properly expended, that Federal requirements are being met, and that programs are efficiently administered.

Accordingly, GAO reviewed certain aspects of HUD's system of internal audit.

FINDINGS AND CONCLUSIONS

Recent achievements of the  
HUD audit function

In May 1969, responsibility for the HUD audit function was consolidated from three organizations into one organization--the Office of Audit.

In January 1972, the Offices of Audit and Investigation were transferred to the newly established Office of Inspector General, which reports directly to the Secretary of HUD.

The Office of Audit makes management audits--reviews of HUD management activities--and project audits--reviews of program participants' performance in HUD's numerous programs. According to HUD records, HUD audits during this period resulted in reducing program costs by \$15.9 million.

In recent years, the Office has been using more of its resources for management audits and has a goal of using 50 percent of its resources for such audits.

Despite these significant achievements, GAO believes that greater benefits can be derived from the Office's audits of program participants.

Project audits could better  
serve HUD management

HUD's project audits could have served management better if HUD's Office of Audit had always identified what

caused the major deficiencies at the program participant level.

The HUD audit manual requires that audit reports include information on the causes of problems identified, including those which are considered obvious.

GAO's analysis of 45 audit reports in three HUD regions showed that 297 deficiencies were disclosed but that causes of 125 or 42 percent were not included in the reports.

Because the audit reports did not identify the basic causes of deficiencies, HUD's audit recommendations were usually directed toward correcting the specific deficiencies rather than their causes.

*Example: A program participant charged improper and excessive costs amounting to \$13,917 to its overhead account. The report did not show why the costs were so charged and recommended only that HUD officials disallow the costs. (See pp. 8 to 10.)*

When HUD's Office of Audit identified deficiencies at the program participant level, it usually made recommendations directing HUD management to require the participant to take corrective action. For various programs, many of the same deficiencies were reported

repeatedly but the causes at the participant level were generally not identified.

*Example: Twelve of the 14 Model Cities Program audit reports GAO reviewed disclosed 33 findings relating to inadequate monitoring by a city government unit responsible for administering the program. The audit reports generally did not show why the city government units were not adequately monitoring and recommended only that HUD area office directors insure that the units adequately monitor program activities.*

*If the cause of the deficiency at one program participant had been identified and reported, HUD management would have been in a position to take corrective action to preclude the same deficiency from occurring at other program participants. (See pp. 10 and 11.)*

Need for continuing action on clearing findings in project reviews

HUD program managers are responsible for telling program participants about the reported findings and recommendations of HUD audits and for making sure that the participants correct or otherwise resolve (clear) the reported deficiencies.

A large number of reported deficiencies, however, remained uncleared for long periods of time because HUD area and insuring office officials assigned a low priority to this function.

Nationwide, over 60 percent of the 3,240 outstanding audit findings over 4 months old for reporting periods ended November 1972 and January 1973 had been uncleared for over 1 year, with 834 outstanding from 2 to over 5 years.

HUD area and insuring office officials did not

- promptly tell program participants about HUD audit findings and obtain agreements on what would be done to correct the deficiencies and
- adequately follow up with the program participants to insure that deficiencies were being corrected.

For 20 of 45 audit reports, HUD officials took from 40 to 191 days--after the reports were issued--to send them to the program participants. For 28 of the 45 reports, HUD officials did not adequately follow up with the program participants, which resulted in some findings remaining uncleared for over 1 year.

During GAO's review, the HUD Inspector General, early in July 1973, advised the HUD regional administrators of the need to clear audit findings

promptly. In addition, he advised his regional audit staffs to help area and insuring offices to reduce the backlog of uncleared findings and report the results of these efforts in 30 days.

Later in July, the Secretary of HUD directed top-level managers at all organizational levels of HUD to begin a concerted effort to clear all audit findings outstanding for an inordinate period of time. This reduced the number of uncleared findings from 3,240 in the November 1972 and January 1973 reporting period, to 2,100 as of December 31, 1973. As of March 31, 1974, 2,087 findings were still uncleared.

#### RECOMMENDATIONS

GAO recommends that the Secretary of HUD

- Require HUD's Office of Audit to identify and report what caused the major deficiencies reported at the program participant level. (See p. 14.)
- Require HUD management to devote high priority to resolving uncleared audit findings and to adequately follow up to insure that program participants have implemented their proposed corrective actions. (See p. 25.)
- Require the Inspector General to periodically report to the Secretary on the status of uncleared audit findings to insure that the backlog is eliminated. (See p. 26.)

AGENCY ACTIONS AND UNRESOLVED  
ISSUES

HUD said that it concurred in the objective of GAO's findings but said that its current audit policies and practices substantially achieved these objectives. GAO believes that while HUD is partially achieving the objectives, there is room for further improvement.

HUD stated that, without an indication of fraud or basic management weakness, some findings would not require that their causes be developed. HUD said that the causes of many deficiencies are obvious, and in some cases the cost of added work to identify causes would not justify the result.

GAO's review showed, however, that HUD auditors generally reported deficiencies that were major but did not identify the cause. HUD's audit manual requires that the causes of such deficiencies should be identified. Causes should be identified as a general rule to insure that the deficiencies noted do not

indicate fraud or some basic management weakness. (See pp. 13 and 14.)

HUD stated that many of the delays in clearing audit findings relate to a period when HUD was reorganizing its field offices, and that the number of uncleared findings was later reduced. GAO noted, however, that during the 9 months ended June 30, 1974, little progress was made in clearing outstanding audit findings. (See pp. 24 and 25.)

MATTERS FOR CONSIDERATION  
BY THE CONGRESS

The Congress and its committees have shown considerable interest in Federal agencies' use of their auditing function as a management control to help insure proper expenditure of Federal funds and efficient administration of authorized programs.

This report shows the need for HUD to improve the effectiveness of certain aspects of its audit activities.



## CHAPTER 1

### INTRODUCTION

The Department of Housing and Urban Development (HUD) administers the U.S. Government's principal programs and activities which provide assistance for housing and for the sound development of the Nation's communities and metropolitan areas. In carrying out its programs, HUD encourages States, counties, towns, villages, or other local and private interests to solve their housing and urban development problems and to promote interstate, regional, and metropolitan cooperation. It also encourages private homebuilding and mortgage lending industries to contribute as much as possible to housing, urban development, and the national economy. The wide range of programs and activities which HUD administers includes the urban renewal and Model Cities Programs, housing subsidies for low- and moderate-income families, planning assistance, and disaster assistance.

For the most part, these programs and activities are carried out on a decentralized basis through 10 regional offices, 39 area offices, and 38 insuring offices. Also, in the renewal and housing areas, HUD channels its assistance activities through local housing authorities (LHAs) and agencies. HUD's appropriation for fiscal year 1974 was \$3.5 billion and is estimated at \$5.3 billion for fiscal year 1975.

### INTERNAL AUDIT

The Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66a) requires each Federal agency to establish and maintain management systems that provide effective control over and accountability for all funds, property, and other assets for which the agency is responsible. An integral part of such a system is internal auditing, which uniquely supplements routine management controls through its independent approach and review methods. The overall objective of internal auditing is to help agency management attain its goals by furnishing information, analyses, appraisals, and recommendations on how management responsibilities are being carried out and the extent to which management is achieving its objectives.

In HUD, the Office of Inspector General has overall responsibility for the internal audit functions. The Inspector General, who reports directly to the Secretary of HUD, has authority to review the Department's program and administrative activities and the related activities of outside parties carrying out HUD programs under contracts, grants, or other agreements.

To carry out the internal audit responsibilities for the Inspector General, the Office of Audit makes management and project reviews. Management reviews (which HUD refers to as internal audits) are evaluations of whether management controls, practices, and procedures at the central office and at regional, area, and insuring offices have been followed and are adequate and effective. In carrying out these reviews, the Office of Audit reviews the programs and activities of HUD offices and of program participants, such as LHAs, which carry out HUD programs.

On the other hand, project reviews (which HUD refers to as external audits) provide HUD management with information on participants' performance. The purpose of these reviews is to determine the participants' degree of compliance with statutes, regulations, and terms and conditions of the agreements under which Federal funds were made available to the participants. The scope of these reviews generally is limited to (1) analytical reviews of the program participants' books, vouchers, and other evidence to determine if costs incurred are reasonable and eligible under HUD policies, regulations, and contract provisions and (2) evaluations of the participants' internal controls.

HUD audit activities are carried out by 10 regional office audit staffs, each headed by a regional inspector general for audit. The Office of Audit's projected manpower needs for fiscal year 1973 were 292 full-time auditors--27 at the central office in Washington, D. C., and 265 in the 10 regional offices. As of June 30, 1973, the Office had a staff of 258 professional auditors--27 located at the central office and 231 in the 10 regional offices. For fiscal year 1973, the estimated cost of operations of the Office of

Inspector General was \$8.3 million. HUD officials estimate the cost of operations for fiscal year 1974 at \$10.2 million and for fiscal year 1975 at \$10.5 million

Procedures for processing reports and clearing findings of project reviews

After the Office of Audit staff completes its report on a project review, the regional inspector general for audit sends the audit report to the director of the area or insuring office, who is responsible for taking corrective action on reported findings and recommendations. Copies of the report are also sent to HUD regional and central office officials having an interest in the program. The director of the area or insuring office sends the report to the program participant and, if there are findings in the report, advises the program participant on the corrective measures needed to clear the findings.

Within 30 days after receiving the report, the director must notify the regional inspector general of corrective actions taken on findings. If the findings have not been cleared by this time, the director must notify the regional inspector general at 45-day intervals of further developments and the probable date each finding will be cleared.

The regional inspector general is responsible for determining that the findings and recommendations are acted on properly. He reviews documentation submitted by the director of the area or insuring offices and by the program participants to determine if it is sufficient to clear the reported deficiencies. If it is insufficient, he requests the additional information needed.

SCOPE OF REVIEW

Our review of Office of Inspector General audit activities was directed at answering two questions:

- Are the project audits conducted by the Office of Audit adequately serving HUD management?
- Is HUD management effectively using the results of such project audits?

We made our review at HUD's central office in Washington, D.C.; HUD's regional offices in Atlanta, Chicago, and San Francisco; and HUD's area offices in Atlanta, Detroit, Los Angeles, and San Francisco.

We selected 45 HUD project audit reports--issued during fiscal years 1970-73--to determine the scope of the reviews made, the types and causes of findings reported, and the actions taken by HUD officials to correct deficiencies reported. We also selected 99 project audit reports to determine if the same types of findings were being reported about other program participants. We held discussions with HUD officials and reviewed manuals and audit guides.

We did not review the program participants' activities to verify the deficiencies reported by HUD's Office of Audit or evaluate HUD management's reviews of program participants' actions to correct the deficiencies.

## CHAPTER 2

### RECENT ACHIEVEMENTS OF THE

#### HUD AUDIT FUNCTION

In May 1969, responsibility for the HUD audit function was consolidated in a single organization--the Office of Audit--responsible to the Assistant Secretary for Administration. Previously, audit activities were carried out by the Office of Audit; the Audit Division of the Federal Housing Administration; and the Examination Branch, Inspection Division, Office of the Secretary.

On January 29, 1972, the Offices of Audit and Investigation were transferred to the newly established Office of Inspector General, which is now the focal point for reviews of program operations. The Office of Inspector General reports directly to the Secretary rather than to the Assistant Secretary for Administration.

Both of these actions represent a significant improvement and are consistent with recommendations made in an earlier GAO report.

During fiscal years 1970-73, the Office of Audit issued 7,890 project audit reports, or about 2,000 reports each year. These audit reports covered such programs as urban renewal, low-rent public housing, and code enforcement. During the same period, the Office issued 334 internal audit reports, or about 84 each year. These reports covered such programs as Model Cities and multifamily housing.

Increased emphasis has been placed on management audits, rather than project audits, during the past 6 years. In fiscal year 1970, the Office issued 2,515 project audit reports and estimated that 801 reports would be issued in fiscal year 1975. HUD made this shift away from project audits so that it could devote an increasing percentage of its resources to making management audits, as shown below.

<u>Fiscal year</u>	<u>Percentage of man-years expended</u>		
	<u>Project audits</u>	<u>Management audits</u>	<u>Total</u>
1972	79	21	100
1973	55	45	100
1974	63	37	100

Office of Audit officials said their goal was to allocate 50 percent of their resources to making management audits and 50 percent to making project audits.

In fiscal year 1973, the Office began using independent public accountants (IPAs) to make certain project audits of program participants as a means of reducing the backlog of planned project audits and helping to meet lower manpower ceilings. Most IPA audits are of local housing authorities with less than 5,000 dwelling units; the Office audits authorities with over 5,000 units.

IPAs' audits are similar to those still made by the Office. If program participants contract with IPAs for audits, the Office is responsible for preparing audit guidelines for the IPAs, concurring in the contracts between the program participants and the IPAs, and evaluating the results of the IPAs' work. As of June 30, 1974, the Office had approved contracts for 2,264 audits of various HUD programs at a cost of \$4.8 million, as shown below.

<u>HUD program</u>	<u>Number of audits</u>	<u>Cost</u>
Low-rent housing	1,871	\$3,866,736
Urban renewal	178	466,962
Combined urban renewal and low-rent housing	92	420,824
Neighborhood facilities	90	62,859
Public facility loans	32	24,765
Comprehensive planning	1	6,510
Total	<u>2,264</u>	<u>\$4,848,656</u>

According to HUD records, HUD audits during fiscal years 1970-73 identified \$33.9 million in costs that program officials had concurred in and requested the grantee or the borrower to make restitution or to take corrective action on. These program participants' actions resulted in reducing HUD program costs by \$15.9 million of the \$33.9 million.

Although significant achievements have been made in recent years, we believe that greater benefits can be derived from HUD audits of program participants, as discussed in the next sections of this report.

## CHAPTER 3

### PROJECT AUDITS

#### COULD BETTER SERVE HUD MANAGEMENT

Most of the Office's audits were project audits directed toward evaluating program participants' activities. We believe that HUD's project audits could have better served management if the Office had always identified what caused major deficiencies at the program participant level. As a result of not identifying causes of major deficiencies, the Office of Audit could not advise HUD management of the actions needed to correct the underlying problem which caused the deficiencies at the program participants and which could cause similar deficiencies at other program participants.

HUD's audit manual requires that audit reports include information on the causes of problems identified--including those that are considered obvious.

According to the manual, even though some readers of the report may already know or at least have some ideas about the causes, other readers at various management levels may not know and should be given the full story. In addition, the manual states, individuals who may know or have a fair idea of the causes of audit findings without the auditors stating them need to be reminded of their responsibilities, in writing, to help insure corrective actions. In short, according to the manual, the strengths or weaknesses of every audit finding and the corrective actions carried out depend on how well and how convincingly the auditors develop and present evidence on the reported problems.

Our analysis of 45 audit reports in 3 regions showed that the causes of 42 percent of the major deficiencies were not reported, as follows.



<u>Regional office issuing report</u>	<u>Number of reports</u>	<u>Number of major deficiencies</u>	<u>Deficiencies reported without showing causes</u>	
			<u>Number</u>	<u>Percent</u>
Atlanta	15	101	43	43
Chicago	13	79	29	37
San Francisco	<u>17</u>	<u>117</u>	<u>53</u>	45
Total	<u>45</u>	<u>297</u>	<u>125</u>	42

Because the audit reports did not identify the basic causes of reported major deficiencies, HUD's audit recommendations were usually directed toward correcting specific deficiencies rather than their causes. For example, one report showed that a program participant had charged improper and excessive costs for supervision, vehicle expenses, and salaries amounting to \$13,917 to its overhead account. The report did not show why the costs were charged to the overhead account and recommended only that HUD officials disallow the costs. If the causes for charging the costs to overhead had been identified, HUD officials could have determined if the deficiency was due to weaknesses in HUD's management of the program and could have required action to prevent similar deficiencies from occurring at other program participants.

In another report, costs of \$89,002 were disallowed generally because the program participant claimed costs which were not eligible under the program or which were not included in the application HUD approved. The report did not show the causes for the findings and did not contain any recommendations to HUD officials to either make restitution of the disallowed amount or correct the underlying problem which causes the disallowed claims and which could cause similar deficiencies at other program participants.

Following are other examples of major deficiencies where the cause was not identified and reported.

--A program participant charged improper off-site improvement costs amounting to \$30,256. The participant had also charged \$45,617 for general overhead, profit, and

unsupported costs. These costs were charged to the participant by two wholly-owned subsidiary companies which had been formed solely to do business with the program participant.

- A program participant operated a 193-unit multifamily housing project for almost 17 months without setting up the HUD prescribed books of account or maintaining the required accounting records.
- Because of a lack of documentation, the auditors could not determine the eligibility of \$44,458 one program participant expended for rehabilitation activities.

In each case, the report did not show why the program participant had charged the improper costs or had not followed prescribed regulations and recommended only that HUD officials disallow the costs or require the program participant to follow the regulations.

We noted that, for various programs, many of the same deficiencies were reported repeatedly, but the causes of these deficiencies were generally not identified.

Our analysis of 99 audit reports on participants carrying out four HUD programs--urban renewal, low-income housing, rental assistance, and Model Cities--showed that many of the deficiencies found at one program participant were also found at other participants under the same program. Moreover, some of the deficiencies were common among participants under all four programs. The type of deficiencies most prevalent were

- improper monitoring by program participants for 12 of 14 Model Cities projects,
- ineligible or questionable project costs for 13 of 18 urban renewal projects, and
- improper contracting procedures for 8 of 14 Model Cities projects and 11 of 18 urban renewal projects.

For projects under all four programs, the Office reported that accounting procedures and records were improper or inadequate for

- 19 of 26 rental assistance projects,
- 12 of 14 Model Cities projects,
- 8 of 18 urban renewal projects, and
- 27 of 41 low-income housing projects.

The recurring nature of these deficiencies indicated the need for improvement in HUD's management of these programs.

For example, 12 of 14 Model Cities Program audit reports disclosed that city demonstration agencies (CDAs)-- components of city governments responsible for administering the program--were not effectively monitoring the various activities under the program. There were 33 individual findings relating to inadequate monitoring. The audit reports generally did not show why the CDA's were not adequately monitoring, and in 29 cases the audit reports recommended only that the HUD area or insuring office director insure that the CDA's adequately monitor program activities. If the cause of the deficiency at one program participant had been identified and reported, HUD management would have been in a position to take corrective action to preclude the same deficiency from occurring at other program participants.

HUD regional audit officials stated that causes for the deficiencies at the program participants' level often were not reported because they were "obvious." For example, one HUD regional audit official pointed out that deficiencies at an LHA occurred because housing authority officials were not familiar with HUD regulations. This official thought it was unnecessary to include this cause in audit reports.

Most HUD regional audit officials said that causes of problems had not been identified and reported because of the limited time available for the auditors to review participants' activities.

One regional inspector general for audit said that some of his staff lack the experience to develop underlying causes and that development of causes was not a high priority item based on the amount of available audit time. Several auditors indicated that in some cases they are reluctant to report underlying causes because the issues involved are too sensitive. One auditor said he believed deficiencies included in one of our selected reports on a local housing authority were caused by the authority's executive director's willful disregard for HUD regulations. An assistant regional inspector general said that some deficiencies occurred because project personnel were incompetent but that generally this cause would not be reported unless the auditors felt the responsible individuals should be replaced. Another HUD regional audit official said causes were not reported because the additional time needed to do the work would offset any possible benefit.

Several HUD management officials responsible for clearing the audit findings said that identifying the causes of reported deficiencies would help to insure that program participants took the proper corrective action. For example, the officials said that it would help to know why a particular participant did not follow HUD regulations. On the other hand, some HUD management officials said they knew the causes of the reported deficiencies--even though they were not reported--and they had no difficulty in insuring that adequate corrective action was taken.

### CONCLUSIONS

A primary objective of internal auditing is to help agency management achieve program goals and objectives by furnishing information on management activities that can be used for recommending corrective actions. To accomplish this objective, the audit activities should be structured to meet the needs of various management levels. The project audits of program participant's activities, however, identified deficiencies in how program participants were carrying out HUD programs but did not always identify what caused the deficiencies.

To better serve the needs of all levels of HUD management, the scope of the project audits should be expanded to identify the cause of major deficiencies noted.

#### AGENCY COMMENTS AND OUR EVALUATION

HUD said that it concurred in the objective of our finding but said that its current audit policies and practices substantially achieved this objective (see app. II). In commenting on our proposal that the causes of deficiencies be identified and reported, HUD said its audit manual did not require that the cause of every deficiency reported in a project audit report be developed. HUD said, for instance, that without an indication of fraud or a basic management weakness, disallowing an expense that was charged contrary to HUD regulations generally would not require that the cause of the erroneous charge be developed. The fact that the expense is ineligible and that the ineligibility would be discussed with the program participant during the exit conference and included in the report should, according to HUD, be sufficient to prevent similar charges from recurring.

HUD said it agreed with the comments of some HUD officials who told us that the causes of many deficiencies were obvious and that in some cases the cost of the added work to precisely identify causes would not be justified by the result.

The HUD audit manual states that in deciding whether a finding is minor or major, an auditor must use good, professional judgment. The manual suggests some factors which help make a finding minor: a relatively small amount of money is involved, it is a single isolated deficiency or item of noncompliance, or there is little or no chance that a disallowed amount will be upheld or the money will be recovered by the Government. The 125 deficiencies reported without showing causes, however, were generally deficiencies that, in our opinion, were major and therefore their causes should have been identified.

Discussing an ineligible charge with the program participant should keep the participant from making a similar charge; however, weaknesses or deficiencies in HUD's management of the program might be revealed if the cause of the deficiency were identified, which could mean that other participants in the same HUD office jurisdiction might be unaware of the ineligibility of this type of expense. In any event, causes should be identified as a general rule to insure that the deficiencies noted, regardless of how obvious they appear, do not indicate fraud or some basic management weaknesses. In this connection, the HUD audit manual requires that causes of problems be identified, even those considered obvious.

Further, the comments of other HUD management officials we talked to--who stated that knowing the causes of deficiencies would help insure that program participants took the proper corrective action--are also valid. GAO's statement of basic principles and concepts on internal auditing in Federal agencies states that, to be effective, audit reports should include information on causes of deficiencies reported to assist in implementing or devising corrective actions.

#### RECOMMENDATION

We recommend that, to improve the benefits obtained from audits of program participants' activities, the Secretary of HUD require the Office of Audit to identify and report what caused major deficiencies at the program participant level.

CHAPTER 4  
NEED FOR CONTINUING ACTION  
ON CLEARING FINDINGS  
IN PROJECT AUDITS

HUD program management officials are responsible for taking corrective actions on reported findings and recommendations on time. These officials advise program participants of the results of HUD audits and make sure the program participants correct or otherwise resolve (clear) the reported deficiencies.

However, a large number of reported deficiencies were uncorrected for long periods of time because HUD area and insuring office officials assigned a low priority to this function.

During our review, the Secretary of HUD, in July 1973, directed top-level management at all organizational levels to begin a concerted effort to clear all audit findings outstanding for unusually long periods of time. This effort resulted in a reduction in uncleared findings, but a sizable backlog remained as of December 31, 1973.

EXTENT OF DELAYS IN  
CLEARING FINDINGS

Nationwide, there were about 1,100 project audit reports on participants' activities, with 3,240 uncleared audit findings over 4 months old as of HUD's reporting periods ended November 1972 and January 1973. Over 60 percent of these findings--1,976--had been uncleared for over 1 year, with 834 uncleared for 2 to over 5 years. The status of the uncleared audit findings nationwide and in the three HUD regions we reviewed--Atlanta, Chicago, and San Francisco--were:

<u>Location</u>	<u>Total</u>	<u>Period uncleared</u>					
		<u>4 to 12 months</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Over 5 years</u>
Nationwide	3,240	1,264	1,142	532	165	76	61
Atlanta regional office	793	317	284	166	19	7	-
Chicago regional office	289	144	96	21	13	11	4
San Francisco regional office	294	174	100	10	10	-	-

LOW PRIORITY ASSIGNED TO  
CLEARING AUDIT FINDINGS

According to HUD procedures, the Office of Audit is to submit reports on project audits to HUD area and insuring office officials, who are responsible for insuring that corrective action is taken on reported findings and recommendations. Within 30 days of receiving a report, the HUD officials are to advise HUD's regional audit staff of actions taken or planned on all findings in the report. If the findings are not cleared within 30 days, the officials must advise the Office of Audit, at 45-day intervals, of further developments. The officials also are responsible for following up with program participants to help insure that promised corrective actions have been or will be taken.

Our review showed that HUD area and insuring office officials did not

- promptly tell program participants about the Office of Audit's findings and obtain agreements on what would be done to correct the deficiencies reported and
- adequately follow up on program participants to insure that corrective actions were being carried out.



HUD area office directors in three of the four area offices included in our review informed us that the primary reason for delays in clearing audit findings was because that duty had lower priority than the staff's other duties. One area office director pointed out that HUD program managers generally were more concerned with starting new projects and trying to keep them going than with evaluating the participants' performance in ongoing projects.

#### Initiation of actions to clear audit findings

Our analysis of 45 project audit reports on participants' activities showed that, for 20 of these reports, HUD officials took from 40 to 191 days--after the reports were issued--to send them to the participant. Three of the 20 reports are discussed below.

#### Urban renewal and low-income housing, Michigan

This audit report contained four findings and questioned project costs of \$84,832. The findings were that there was no apparent justification for the rental costs being incurred, land was purchased at a price higher than the price approved by HUD, contracting procedures were generally not followed, and travel had been taken without approval.

Although HUD's Detroit area office received the report on June 8, 1971, the official did not submit it to the LHA until September 23, 1971--3-1/2 months later. The findings were not cleared until April 2, 1973--664 days after the area office received the report. The Detroit area office disallowed the rental costs being incurred and the costs for unapproved travel which totaled \$5,506.

#### Code enforcement project, California

The audit report on this project contained three findings disallowing costs of \$70,756 and one finding questioning costs of \$4,663. The findings were that program costs had been incurred prior to the project period, public improvement costs were not eligible, project costs from the prior project were charged to the current project, and the method of computing accounting charges was not permitted by HUD regulations.

The report was issued to HUD's San Francisco area office on May 31, 1972. The area office did not forward this report to the program participant until September 22, 1972--114 days later. The audit findings were not cleared until March 1, 1973--274 days after the report was issued. The area office disallowed the \$70,756 in costs the auditors had previously disallowed.

#### Urban beautification project, California

This report contained two findings and questioned costs of \$90,642. The findings were that costs were incurred in excess of the amount HUD approved and other costs were incurred for items HUD did not approve.

The report was issued to HUD's Los Angeles area office on May 28, 1971. The area office did not forward the report to the program participant until November 5, 1971--161 days later. HUD officials did not clear the audit findings until February 1, 1972--249 days after the audit report was issued. The HUD area office disallowed \$48,899 of the costs questioned by the auditors.

#### Followup with program participants

Our review of 45 project audit reports disclosed 28 instances when HUD officials did not adequately followup with program participants to insure that the promised corrective actions had been or would be taken. Three examples are discussed below.

#### Urban renewal project, California

The report on this project contained 12 findings and was issued to HUD's Los Angeles area office on November 19, 1971. Six of the findings concerned weaknesses in the local public authority's (LPA's) control over payments made to relocate residents affected by the project. The Office of Audit reported disallowed costs of \$21,533 and questionable costs of \$55,478. Of the six remaining findings one recommended disallowing \$50,365 in budget overruns, three pointed out a need for strengthening the LPA's management of acquired property, one concerned a possible conflict of interest

between two LPA employees and a contractor doing business with the LPA, and the last concerned the lack of progress of the neighborhood development program.

HUD officials sent the report to the LPA 28 days after it was issued and met with LPA officials 34 days later--on January 20, 1972. However, not until 6 months later--on July 21, 1972--did HUD officials request a written explanation from the LPA regarding the actions taken to resolve the findings. The LPA's response was not received until November 1972 and was still under review in May 1973--16 months after the LPA had agreed to take corrective action.

#### Low-rent housing project, Georgia

This report, issued June 29, 1972, contained five findings. According to the report, the LHA needed to adopt and enforce an effective rental collection policy. Also, the LHA had not fully invested its excess funds and, as a result, lost interest income of about \$10,560 for the period July 1, 1968, through December 31, 1971. In addition, the Office of Audit reported that the LHA did not adequately account for nonexpendable equipment and cited other accounting deficiencies.

HUD's Atlanta area office sent a copy of the report to the LHA on July 25, 1972, and requested a reply. The request was not answered. The area office requested another reply 2 months later. The request again was not answered. As a result, the findings still had not been cleared as of April 4, 1973--279 days after the report was issued.

#### Subsidized housing project, Michigan

This report, issued on November 16, 1971, contained nine findings relating to inadequacies in the participant's administration of the rental program, including failure to remit to HUD the excess rents collected. HUD area office officials sent the audit report to the participant on January 28, 1972, and requested the participant to remit the amount. On February 15, 1972, the participant remitted \$5,035 to HUD which covered the period July to December 1971.

HUD, however, did not communicate with the participant about the other eight findings until February 16, 1973--1 year after its first inquiry. Some of the findings were: the tenants' income exceeded program limits, some tenants were not charged the proper rent, some rental units were not occupied, and the number of single persons occupying the units exceeded program guidelines. In the February letter, HUD also advised the participant that an independent audit by the mortgagee showed that the participant had continued its earlier practice of not remitting excess rents to HUD. HUD officials sent followup letters to the participant on April 9 and May 10, 1973, indicating their intention to meet with the participant's officials on the actions to be taken on the remaining findings.

The participant, on May 17, 1973, submitted a plan for paying HUD \$4,607 in excess rents collected during the period January through June 1972. HUD accepted the plan. On June 5, 1973, HUD cleared the remaining eight findings without meeting with the participant officials. However, we found no indication that HUD obtained any evidence from the participant to clear the findings.

#### ADVERSE EFFECTS OF NOT ADEQUATELY CLEARING AUDIT FINDINGS

Clearing audit findings promptly can help prevent deficiencies from recurring and can improve program management.

Our review of the 45 project audit reports and HUD officials' actions to clear reported findings disclosed two instances when delays or inadequate actions in clearing audit findings may have had an adverse impact on HUD programs.

#### Loss of project revenues

During the February 1972 followup audit on a low-rent housing project, the Office of Audit found that the responsible LHA continued to have ineffective rent collection policies. The Office first reported this finding in August 1969. At that time, the audit report showed the LHA's ineffective collection policies had resulted in the tenants' owing excessive

amounts of delinquent rent. About 2-1/2 years later, in its February 1972 audit report, the Office stated that the LHA had adopted a new rental collection policy in May 1971 but had never carried it out.

During the period between the two reviews, unpaid rents receivable increased from \$64,327 to \$107,311. The February 1972 report pointed out that \$31,598 owed by tenants who had moved would probably be written off as uncollectible--which may necessitate the payment of a Federal subsidy to make up the loss--and noted also that the LHA had written off uncollectible rents totaling more than \$107,000 for the period April 1, 1969, through June 30, 1971. In January 1973, 11 months after the second audit report was issued, this finding was cleared on the basis that a rent collection coordinator had been appointed and that the LHA had assured HUD that it was implementing an aggressive plan to collect the rents.

#### Default of a project

An October 1969 HUD report on the review of a HUD-insured housing project identified several deficiencies relating to management of the project by a private management agency. The findings showed that certain tenants' eligibility was not documented, tenants were not paying their rent on time, financial statements were not submitted to HUD on time, and the property site was not properly maintained.

The findings contained in this report were "cleared" 4 months later on the basis of a meeting between HUD officials, a project official, and representatives from the agency that was hired to manage the project. Generally the project officials told HUD officials that certain action was being or would be taken at a later date. For example, the project officials stated that they would fully comply with the tenant eligibility requirements and that they would submit the financial statements by a specified date. HUD officials accepted these comments as evidence to clear the findings.

An Office of Audit report, issued in March 1972, pointed out that many of the same deficiencies cited in the earlier audit report had not been corrected. The primary problems identified

in the second report were poor internal controls and inadequate performance by the management agency. For example, the audit report stated that the tenants' eligibility was not recertified and that the financial statements could not be audited because of the poor condition of the records.

In June 1972, the mortgagor defaulted and the project was turned over to HUD. HUD records indicate that, as a result, HUD lost about \$1,507,600. Had HUD officials acted more aggressively to correct the problems at an earlier date, they may have avoided the default or at least minimized the loss.

#### HUD ACTS TO CLEAR FINDINGS

During our review, the HUD Inspector General, early in July 1973, advised HUD's regional administrators of the need to resolve audit findings on time. In addition, he advised his regional audit staffs to help area and insuring offices reduce the backlog of uncleared findings and report the result of these efforts in 30 days. For example, on July 5, 1973, the Inspector General advised the Regional Administrator for the Chicago region that the region had 289 uncleared audit findings over 3 months old. The Inspector General suggested that the Regional Administrator instruct the area and insuring offices to give this matter their immediate attention.

On July 11, 1973, the Administrator of the region, in a memorandum to all area and insuring office directors in the region, insisted that each director ". . . take a personal interest in closing out as many of these items [audit findings] as possible as soon as possible . . ." As a result, the region reported a 42-percent reduction in uncleared findings as of July 23, 1973.

Also during our review, the Secretary of HUD--on July 24, 1973 -issued a memorandum to the top-level HUD management officials in the central, regional, area, and insuring offices, asking them to begin a concerted effort to eliminate the backlog of uncleared audit findings. The Secretary pointed out that findings and recommendations in audit reports can be a valuable management tool if considered and, where accepted, acted on

promptly. The Secretary asked the Inspector General to provide a detailed report by September 1, 1973, on the status and age of uncleared audit findings.

On September 6, 1973, the Inspector General reported to the Secretary of HUD that some progress had been made in clearing outstanding audit findings but that a sizable backlog still existed. Specifically, the Inspector General reported that 2,339 audit findings had been uncleared for 4 months or more as of July 31, 1973, compared with 3,240 in the prior reporting periods ended November 1972 and January 1973. This represented a 28-percent decrease in audit findings uncleared for 4 months or more.

A sizable backlog of uncleared findings on project reviews remains. At September 30, 1973, 2,381 audit findings had been uncleared for more than 4 months and as of December 31, 1973, 2,100 audit findings remained uncleared. Most of the reduction in the number of uncleared findings related to findings less than 1 year old. Few audit findings outstanding for over 1 year have been cleared.

The Office of Inspector General has not evaluated the appropriateness of the actions taken by HUD management to clear these findings. In its fiscal year 1975 audit plan, however, the Office of Inspector General is allocating time for reviews of each area and insuring office's control over actions taken on audit findings. The plan provides that a report be sent to each HUD regional administrator showing whether each office under review has complied with HUD's procedures for clearing open findings, is resolving findings on time, and has set targets for clearing each finding. For findings that have been uncleared for more than 6 months, the regional inspectors general for audit will be required to help the area or insuring office directors find ways to resolve and clear the findings.

The Inspector General told us that he had advised the Secretary that one of his management goals and objectives was to obtain prompt action by program officials on reported audit findings and recommendations. The Inspector General planned to (1) bring to the attention of departmental officials for corrective action

any indications of unnecessary delays in the clearance process and (2) by March 31, 1974, clear 50 percent of the 2,339 uncleared findings over 4 months old as of July 31, 1973. As of March 31, 1974, 2,087 findings were still uncleared.

### CONCLUSIONS

HUD officials were not taking full advantage of the results of HUD audits of program participants' activities. Instead of using these audits as a means of correcting reported problems, HUD officials assigned a low priority to clearing audit findings. As a result, excessive periods elapsed between HUD officials' receipt of audit findings and transmittal of the findings to participants. Moreover, once participants had been notified of the audit findings, HUD officials frequently failed to followup so that the findings could be promptly resolved.

The Secretary of HUD's effort to assign a high priority to clearing audit findings had resulted in some progress in reducing the sizable backlog. However, as indicated by the large number of audit findings still uncleared as of December 31, 1973, efforts to eliminate this backlog must continue.

### AGENCY COMMENTS AND OUR EVALUATION

In commenting on our proposals that the Secretary require HUD management to devote high priority to resolving uncleared audit findings and require the Inspector General to periodically report to him on the status of uncleared audit findings to insure that the backlog is eliminated, HUD responded that it had already done so. HUD said that some findings can be cleared rapidly and that auditors consider the matter of resolving uncleared findings to be a top-priority item; however, from the HUD management point of view, clearing findings, while important and necessary, will not take precedence over the initiation and implementation of significant new programs or projects.

HUD said that the delays in clearing findings unfortunately related to a period when HUD was reorganizing its field offices--effective September 1, 1971--which meant that many HUD employees were transferred from the central office and from regional offices to positions with which they may not have been



familiar. HUD said also that, after the Office of Inspector General was created, emphasis was again given to effective processing of audit report findings, and that, as noted in the GAO report, the number of findings uncleared for over 3 months had been reduced. HUD concluded that it was continuing to devote considerable attention to the problem of uncleared audit findings and that, although there would be occasional delays in submitting reports for clearance to the participant this would no longer be a significant problem.

With respect to the Inspector General's comment that HUD's reorganization had an impact on the clearance problems, program managers told us that, without exception, the basic cause of HUD's failure to clear audit findings was the lack of interest and/or the low priority the managers assigned to the task, not unfamiliarity with their responsibilities.

The number of uncleared audit findings remains high. At March 31, 1974, there were 2,087 uncleared findings, or only 13 less than at December 31, 1973. At June 30, 1974, there were 2,320 uncleared findings. The figure for June is not fully comparable to the figures for March and December because the March and December figures represent findings which remained uncleared for 4 months and over whereas the June figure represents findings which remained uncleared for 3 months and over. We also noted that the Inspector General's March 31, 1974, goal of reducing by 50 percent the 2,339 uncleared findings over 4 months old as of July 31, 1973, was not met.

To deal with the continuing problem of uncleared audit findings, the Inspector General's audit plan for fiscal year 1975 includes a review of the followup on audit findings. The review is scheduled to be done in five regions, will cover 27 area and 14 insuring offices, and will take about 2 man-years to complete. The objective of the review is to determine whether area and insuring offices are adequately controlling audit findings and are taking action to clear the findings promptly and effectively.

#### RECOMMENDATIONS

We recommend that the Secretary of HUD (1) require HUD management to give high priority to resolving uncleared audit findings and to adequately followup to insure that program

participants implement their proposed corrective actions and (2) require the Inspector General to periodically report to the Secretary on the status of uncleared audit findings to insure that the backlog is eliminated.



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
OFFICE OF INSPECTOR GENERAL  
WASHINGTON, D.C. 20410

August 14, 1974

IN REPLY REFER TO:

Mr. Henry Eschwege  
Director, Resources and Economic  
Development Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Eschwege:

The Secretary has asked that I furnish you the Department's comments on your proposed report to the Congress on how benefits derived from HUD audits of program participants could be improved. We feel that the dialogue that took place after the receipt of the draft report has been most useful and appreciate the opportunity to comment on the revised draft.

The report primarily concerns the presentation of audit findings in external (project) audit reports, as distinguished from reports on our internal reviews and audits, and the time it takes to clear such findings.

The two findings and related recommendations in the report are:

1. Project audits could better serve HUD management if the causes of deficiencies at the program participant level were always identified. [See GAO note, p. 28.]
2. The need for continuing action on clearing long outstanding audit recommendations on such project audits.

We concur in the objectives of the two findings but believe that our current audit policies and practices substantially achieve these objectives.

Replying specifically to your findings, the cause of every deficiency reported in a project audit report is not required by our audit manual. For instance, the disallowance of an expense that was charged contrary

## APPENDIX I

to HUD regulations generally would not require the development of the motivating cause for the erroneous charge in the absence of an indication of fraud or unless it indicates a basic management weakness. The fact that it is ineligible and that the ineligibility would be discussed with the program participant during the exit conference and included in the report should be sufficient to prevent a recurrence of similar erroneous charges. We agree with the comments set forth in your report of HUD officials that the causes of many deficiencies are obvious, and that in some cases the cost of added work to precisely identify causes would not be justified by the result.

GAO note: The deleted comments relate to matters discussed in the draft report but not discussed in this report.

[See GAO note, p. 28.]

The second finding in your report refers to the need for continuing action on clearing findings in project reports in that HUD area and insuring officials did not (1) promptly advise program participants of HUD audit findings and obtain agreements as to what must be done to correct the deficiencies reported, and (2) adequately follow-up with the program participants to insure that corrective actions were being carried out.

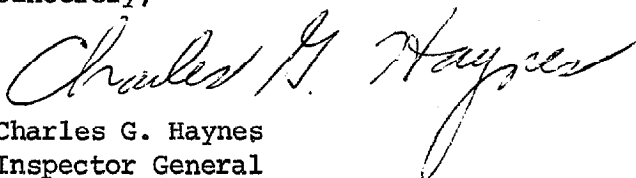
In effect, your recommendation related to this finding suggests we continue doing what we are now doing. All audit agencies that make comprehensive reviews of agency program participants as well as the agency's internal operations are bound to have a number of audit findings. Some of these can be cleared rapidly. Auditors, of course, consider the matter of open uncleared findings to be a top priority item. From the Department management point of view, however, we must place things in relative perspective. The clearance of findings while important and necessary will not take precedence over the initiation and implementation of significant new programs or projects.

Many of the comments on delays in clearing findings unfortunately relate to a period when HUD was undergoing reorganization in its field offices. As you are probably aware, during Phase I HUD realigned into a ten region pattern and set up 23 area offices effective September 1, 1970. In Phase II effective September 1, 1971, an additional 16 area offices were established. Establishment of these offices resulted in transfer of many HUD employees from the Central Office and from regional offices to positions with which they may not have been familiar. After the creation of the Office of Inspector General emphasis was again given to effective processing of audit report findings, and as commented on your report, the number of outstanding findings over three months old has been reduced from 3,240 in the November 1972 and January 1973 reporting periods to 2,100 as of December 21, 1973. The number outstanding averaged 27 per HUD office at the latter date. We are continuing to devote considerable attention to the problem of the audit findings remaining uncleared and have been assured that while occasionally there will be delays in submission of reports for clearance to the auditee that this will no longer be a significant problem.

APPENDIX I

We appreciate the constructive nature of your review and recommendations and look forward to our continuing cooperative relationship.

Sincerely,

A handwritten signature in cursive script that reads "Charles G. Haynes". The signature is written in dark ink and is positioned above the typed name and title.

Charles G. Haynes  
Inspector General

Attachment-1

APPENDIX II

PRINCIPAL OFFICIALS OF THE  
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
RESPONSIBLE FOR ADMINISTERING ACTIVITIES  
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
James T. Lynn	Feb. 1973	Present
George W. Romney	Jan. 1969	Jan. 1973
INSPECTOR GENERAL, OFFICE OF INSPECTOR GENERAL:		
Charles G. Haynes	Jan. 1972	Present

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