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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20543

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

MAY 05 1976

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The Honorable
The Secretary of Housing and Urban Development



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Dear Mrs. Hills:

[HUD's System

This is an interim report on our review of the Department of Housing and Urban Development's (HUD's) ~~accounting system~~ for billing and collecting ~~Federal Housing Administration (FHA)~~ mortgage insurance premiums from mortgagees.]

The primary purpose of this report is to bring to your attention the need to take prompt and aggressive action to collect millions of dollars of delinquent mortgage premiums due from mortgagees.

MILLIONS OF DOLLARS IN DELINQUENT INSURANCE
PREMIUMS NOT COLLECTED

HUD's accounting records show that as of February 1, 1976, mortgagees were delinquent in paying mortgage insurance premiums amounting to over \$20 million.

FHA administers mortgage insurance programs under which lending institutions (mortgagées) are insured against loss in financing mortgages on housing. The homeowners (mortgagors) pay the insurance premiums monthly to the mortgagées. HUD's Office of Finance and Accounting procedures provide for annual billing of the mortgagées for premiums due on the mortgage anniversary dates. The procedures also require that mortgagées be notified of delinquent premiums if payment has not been received within 20 days after the due date. HUD officials said their policy is to send a letter to mortgagées after premiums are 60 days delinquent stating that, if payment is not received within 15 days, the case will be referred to HUD's General Counsel for necessary action.

HUD's accounting records show that as of February 1, 1976, about 6,400 mortgagées were delinquent in paying about 285,000 mortgage insurance premiums amounting to over \$20 million. Of this amount, \$8.7 million had been delinquent for 6 months or longer. Although HUD had not collected the premiums from the mortgagées, the insurance

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remained in force because the homeowners had paid the premiums to the mortgagees.

When mortgagees fail to pay HUD the premiums on a timely basis, HUD is denied the use of these funds to meet program needs and is required to obtain needed funds through appropriations or borrowing. As a result, the Government incurs unnecessary interest costs. Also, we believe mortgagees unfairly gain substantial monetary benefits from the use of the funds by retaining premiums paid by mortgagors past the due dates.

During our review we found circumstances surrounding \$1.6 million in delinquent premiums due from one mortgagee--the Cameron Brown Company, Raleigh, North Carolina--which further emphasizes the need for prompt aggressive action.

Failure of Cameron Brown Company
to pay premiums when due

3 According to HUD records, as of February 1, 1976, the Cameron Brown Company owed about \$1.6 million in premiums it had collected for 23,508 FRA-insured properties. This mortgagee, to which HUD had sent monthly billings for current premiums due, had not remitted any premium payments since March 1975. As a result of our analysis of these outstanding premiums and with the assistance of HUD officials, premiums due were collected, as follows.

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Premiums collected from April through June 1975	\$ 449,645
Premiums collected from July 1975 through January 1976	1,121,706
Additional premiums collected from July 1975 through January 1976	<u>55,978</u>
Total premiums collected	<u>\$1,627,329</u>

The events leading up to the collection of the premiums due are discussed below.

On January 20, 1976, at our request, an employee of HUD's Office of Finance and Accounting telephoned the Cameron Brown Company to request payment of the delinquent premiums. The mortgagee promised that the delinquent premiums would be paid by January 30, 1976. However, the payments were not made. Additional telephone inquiries made at our request resulted in similar promises of payment, but no payments were forthcoming.

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On February 18, 1976, we requested the Office of Finance and Accounting to notify the Cameron Brown Company that our representatives would begin an audit at their firm on February 24, 1976, to determine the reasons for their failure to pay \$1.6 million in premiums overdue and to evaluate their premium payment procedures. After we discussed this delinquency with the Office of Finance and Accounting, it notified the Cameron Brown Company that, if payment was not made in 15 days, the matter would be referred to HUD's General Counsel for necessary action. 126 0153

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On February 20, 1976, immediately before our visit to the mortgagee, Mr. W. Frank Ross, Vice President, Cameron Brown Company, visited HUD's Office of Finance and Accounting and remitted checks totaling \$1,121,706.73 for the July-1975 through January 1976 delinquent premiums. Mr. Ross stated the April, May, and June 1975 premiums totaling \$449,645 had been mailed to HUD about February 10, 1976. According to HUD officials, these payments were not received.

During our audit at the Cameron Brown Company, the checks for the April, May, and June premiums were reissued. Also, as a result of a reconciliation between HUD's billings and Cameron Brown Company's records, the company prepared additional checks totaling \$55,978 for additional premiums found to be due during the period July 1975 through January 1976.

When asked why the payments were not paid when due, the Cameron Brown Company said the monthly insurance premium checks had been prepared in the month the premiums were due, but the checks were not mailed to HUD because of other administrative matters that were given higher priority.

On March 26, 1976, we sent the Cameron Brown Company a summary of our findings and requested that they notify us of the action taken to insure that future FHA mortgage premiums are paid when due. Their reply (see enclosure) indicates the action taken.

Established procedures to collect delinquent premiums were not followed

Although the Cameron Brown Company had not remitted any mortgage insurance premium payments since March 1975, HUD made little effort to collect these delinquent premiums. Office of Finance and Accounting personnel interviewed could not recall whether delinquent premium notices had been sent for each month's delinquent premiums as required by HUD procedures; we could not identify any evidence to indicate

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the notices had been sent. In response to our inquiries, officials of the Cameron Brown Company stated they could not recall receiving delinquent notices. In addition, HUD did not issue a letter requesting payment within 15 days until after we discussed the delinquency with Office of Finance and Accounting officials.

We believe the delinquent premiums could have been collected much earlier if HUD had taken aggressive and timely followup action according to their established collection procedures.

Mortgages with premiums due but not billed to the Cameron Brown Company

Our review of Cameron Brown Company's computer-prepared listing of FHA mortgage insurance premiums due in December 1975 showed that the Cameron Brown Company did not receive and therefore did not pay premium billings for 44 mortgages. Our analysis of HUD records showed that premium billings for 39 of the mortgages had been erroneously sent to other mortgagees. The 39 mortgages had been previously held by other mortgagees but were redirected to the Cameron Brown Company, and HUD's records had not been corrected to show the current mortgagee. Of the 39 mortgages with premiums due from the Cameron Brown Company in December 1975, 25 also had premiums due for December 1974 and 3 had premiums due for December 1973. The total unpaid premiums for these mortgages was \$5,220.

An additional five mortgages with premiums due from the Cameron Brown Company were insured in December 1973 but were not entered on HUD's computerized billing records because of an erroneous interest rate. These premiums totaling \$740 were not billed to the Cameron Brown Company in 1974 or 1975.

After discussing our findings, Office of Finance and Accounting officials stated HUD's records would be corrected and premium billings would be sent to the Cameron Brown Company. On March 18, 1976, premium billings totaling \$5,220 for 39 mortgages were sent to the Cameron Brown Company. HUD also took action to correct its computer records for the remaining five mortgages. The Cameron Brown Company, in its letter of April 1, 1976, advised us that they had remitted the amounts due for the 39 mortgages.

NEED FOR IMPROVEMENTS IN HUD'S SYSTEM OF ACCOUNTING FOR INSURANCE PREMIUMS

Our review to date indicates that there are major problems in HUD's system of accounting for insurance

premiums, especially in the accuracy of the master files used in the billing of mortgage insurance premiums.

During our visit to the Cameron Brown Company, we noted that HUD had sent bills to the company amounting to \$70,716 for mortgages that had been foreclosed, paid in full, or redirected (sold or transferred) to other mortgagees. The premiums, therefore, were not owed or paid by the Cameron Brown Company. If HUD's accounting system had operated effectively, mortgages that were foreclosed or paid in full would have been removed from the billing files and mortgages that were redirected would have been appropriately transferred to the billing records of the new mortgagees.

Our review to date indicates that the problems at HUD with the Cameron Brown Company records, billing, and collections are not isolated but apply to many other mortgagees. These problems appear to be caused by weaknesses in maintaining the master files and in operating HUD's accounting system, such as (1) poor document control resulting from the failure of accounting clerks to follow established procedures, (2) failure to submit all source document data into the computerized system and failure to reenter data initially rejected by the system, (3) failure to correct errors reported by mortgagees, and (4) inadequate control and coordination in processing transactions between the Office of Finance and Accounting and the Office of ADP Operations.

On the basis of our review of the system of accounting for insurance premiums, we believe that the problems and their causes are similar to those we reported concerning HUD's system of accounting for taxes on acquired residential properties (FGMSD-76-24, Nov. 26, 1975). As you know, the failure to establish and maintain an accurate property tax master file at the central office was the fundamental cause of the many problems found in that system.

We are continuing to review the system of accounting for insurance premiums at the central office and at mortgagees to fully identify the action needed to achieve an effective and efficient system. We have discussed our findings to date with officials at the Office of Finance and Accounting so that they may initiate prompt corrective action.

CONCLUSIONS

We believe that much needs to be done to improve the system of accounting for mortgage insurance premiums and to insure that timely and effective collection action is

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taken when premiums become delinquent. Specifically, adequate procedures and controls need to be instituted so that accurate bills are sent to proper mortgagees, delinquent notices are sent to mortgagees as required, and demand letters are sent to mortgagees when they are 60 days delinquent.

We also believe that the substantial amount of outstanding delinquent premiums--\$20 million as of February 1, 1976--and the circumstances surrounding the Cameron Brown Company case also indicate a need for immediate collection action.

RECOMMENDATIONS

Accordingly, we recommend that you direct the Office of Finance and Accounting to:

- Take prompt and aggressive action to collect the millions of dollars of delinquent mortgage insurance premiums.
- Review the circumstances involving the Cameron Brown Company's failure to pay the premiums when due and determine whether any further action regarding this firm is warranted.
- Initiate action to improve the accounting system for mortgage insurance premiums and related billing and collection procedures.

In view of the interest cost to the Government and the financial benefits that accrue to mortgagees when premiums are not paid when due, we also recommend that you consider whether interest should be charged when payments are delinquent.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

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We are sending copies of this report to the House and Senate Committees on Government Operations, the House and

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Senate Committees on Appropriations, the House Committee on Banking, Currency and Housing, and the Senate Committee on Banking, Housing, and Urban Affairs. Copies are also being sent to the Director, Office of Management and Budget.

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We would be pleased to discuss the matters included in this report with you or your representatives. We request, however, that you advise us of the actions taken to collect the delinquent premiums, review the Cameron Brown Company case, and improve the accounting system for billing and collecting mortgage insurance premiums.

Sincerely yours,



D. L. Scantlebury
Director

Enclosure

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ENCLOSURE

ENCLOSURE



April 1, 1976

Mr. D. L. Scantlebury
Director
United States General Accounting Office
Division of Financial and
General Management Studies
Washington, D. C. 20548

Dear Mr. Scantlebury:

This is in answer to your letter of March 26 relative to the findings of delay in payment of FHA insurance premiums. We concur with the report as written; however, without attempting to justify our actions, we might point out that the one person contacted at Cameron-Brown Company about this matter was not an officer.

As of this date we are pleased to advise you that all funds due have been forwarded to HUD and their records should now be correct. Please accept my sincere apologies for the delay. Of the 39 mortgages reported in your last paragraph, we received on March 23 invoices representing those premiums due. Disbursements for these invoices are being delivered to Mr. Marlowe Tolbert under separate cover.

Up until this situation occurred we had confidence that proper controls for disbursing these funds were quite adequate. In reviewing our controls we recognize a shortcoming in that too much responsibility was placed on one individual. As of this date we have taken the following measures to improve our controls and assure ourselves that problems of this nature will not reoccur:

1. Mr. David Turner has been relieved of this responsibility.
2. In addition to the several employees already charged with this overall responsibility, we have assigned to the Controller's Division the responsibility for following up on a monthly basis to make sure timely disbursement of these funds is made.

4300 SIX FORKS ROAD, RALEIGH, NORTH CAROLINA 27609 PHONE (919) 782-3911
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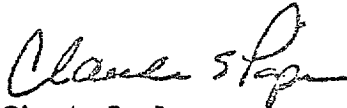
Mr. D. L. Seantlebury
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3. We have installed in our payment processing system a procedure whereby exceptions will be listed on those premiums which we show due but not billed by FHA. This will be shown on the reconciliation much like the foreclosures and paid-in-fulls and will enable FHA to correct their records and subsequently bill Cameron-Brown Company for any payments due.

I feel that the ~~above~~ mentioned measures will assure the proper and timely payment of premiums due.

It was certainly a pleasure to have Mr. Bachman and Miss Patterson with us in February and I am sure their visit with us and other mortgage bankers will benefit our industry.

Very truly yours,



Claude E. Pope
President

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