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Weaknesses in the Department of Housing and Urban Development's Financial Management System. FGMSD-77-75; B-183363. December 28, 1977. 2 pp. + enclosure (7 pp.).

Report to Secretary, Department of Housing and Urban Development; by D. L. Scantlebury, Director, Financial and General Management Studies Div.

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A questionnaire survey was conducted to evaluate the adequacy of procedures and controls for revenue and expenditure transactions of the Department of Housing and Urban Development (HUD). The questionnaire was designed to identify potential problem areas and covered the system of internal controls over collections, imprest funds, disbursements, and obligations. Findings/Conclusions: Collections were not promptly deposited by three regional accounting stations because these regions were not following established HUD procedures. Three regions were also taking excessive time to deposit collections received from delinquent borrowers. It was not uncommon for these collections to be deposited between 1 and 2 months after the date of remittance. In several instances, this time period exceeded 100 days. Several regional accounting stations did not adequately account for or physically control collections promptly upon receipt. Collections were not adequately safeguarded at four stations. Individual employees were given too many responsibilities in the handling of collections at three stations; consequently, internal controls over collections were compromised. Imprest fund cashiers at most accounting stations did not adequately safeguard, account for, or control imprest funds. Travel advances at four stations were not systematically or consistently aged. Several regional accounting stations did not adequately support disbursements or show the basis and computation of estimates on obligating documents. (Author/SW)

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

04568

B-183363

DEC 28 1977

The Honorable
The Secretary of Housing and
Urban Development

Dear Madam Secretary:

This report contains the results of a questionnaire survey to evaluate the adequacy of procedures and controls for revenue and expenditure transactions of the Department of Housing and Urban Development. This work was done pursuant to our responsibilities set forth in the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Designed to identify potential problem areas, the questionnaire covered the system of internal controls over collections, imprest funds, disbursements, and obligations. To obtain responses, we primarily interviewed and talked with responsible officials at 10 regional accounting stations and at the Department's Office of Finance and Accounting and the Federal Disaster Assistance Administration headquarters. These responses indicated some potential weaknesses in the Department's financial management system. We tested selected transactions, and limited our work to identifying weaknesses in the internal control system. We did not determine the extent of the weaknesses nor the precise corrective action needed.

We discussed our survey results with responsible headquarters and regional accounting station officials and in most instances they initiated or promised corrective action. We are informing you of the identified weaknesses to help you in discharging your responsibilities under 31 U.S.C. 66a, which requires agency heads to provide effective control over and accountability for all funds under their responsibility.

Our observations of the identified system weaknesses are included in enclosure I; the locations of the weaknesses are in enclosure II. Generally, controls over collections,

FGMSD-77-75
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imprest funds, travel advances, disbursements, and obligations need improvement. We believe most of the weaknesses could be corrected if accounting station personnel comply with existing policies and procedures.

The Office of Inspector General and regional administrative reviews had previously identified similar weaknesses. These were in the areas of accounting for and physical control of collections (1974--Philadelphia, 1975--Atlanta, 1976--Chicago, and 1977--Atlanta and Chicago), accounting for and physical control of imprest funds (1975--Atlanta and 1976--Dallas), and control over travel advances (1975--Atlanta and 1976--New York). Corrective actions, if taken, did not correct the weaknesses permanently

We are not making any formal recommendations at this time because headquarters officials have assured us that corrective actions will be taken. We suggest, however, that you follow up to determine whether the actions were adequate. You should also request the Office of Inspector General to check the adequacy of corrective action during future reviews at the regional accounting stations, Office of Finance and Accounting, and Federal Disaster Assistance Administration. We would appreciate being informed in writing of the actions taken and planned to correct problems noted in this report.

We appreciated the courtesies and cooperation extended to us by your staff.

A copy of this report is also being sent to your Office of Inspector General.

Sincerely yours,

D. L. Scantlebury

D. L. Scantlebury
Director

Enclosures - 2

GAO OBSERVATIONS ON QUESTIONNAIRE RESPONSES AT 12 DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT ACCOUNTING STATIONS

NEED TO IMPROVE CONTROL OVER COLLECTIONS

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 11.1 and 12.2) states that agencies shall place collections under appropriate accounting and physical control promptly upon receipt and shall deposit these collections daily.

The regional accounting stations of the Department of Housing and Urban Development (HUD) did not have good internal control of their collections, nor did they deposit them promptly. Prompt deposits allow the Treasury to use the funds earlier, thereby reducing costs of borrowing; and good internal controls over collections reduce risks of collections being lost.

Collections not promptly deposited

Collections were not promptly deposited by three regional accounting stations because these regions were not following established HUD procedures. One station was making deposits on the average of about once weekly. Another station held collections until the proper accounts to which the collections applied were identified, rather than recording the collection in a suspense account and making the deposit immediately. Three regions were also taking excessive time to deposit collections received from delinquent borrowers under section 312 of the Housing Act of 1964, as amended (rehabilitation loan program). It was not uncommon for these collections to be deposited between 1 and 2 months after the date of remittance. In several instances this time period exceeded 100 days.

Section 312 loans provide funds for rehabilitating property located in certain project areas. These loans are serviced directly by the Federal National Mortgage Association under agreement with HUD. If any loan becomes delinquent, the Association returns the loan to HUD for direct collection. HUD procedures require that delinquent borrowers be notified to send their payments directly to the regional offices' accounting divisions. This was not done. Instead borrowers were instructed to send their payments to local area offices. After recording payments, area offices forwarded collections to the regional offices for deposit. This practice, by its very nature, delays deposit action.

Holding collections increases the potential for their loss or misplacement and delays use of the funds by the Department of the Treasury to finance Government operations. HUD officials informed us that corrective action would be taken to expedite deposits.

Collections not logged in or adequately safeguarded

Several regional accounting stations did not adequately account for or physically control collections promptly upon receipt. Both the GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 11.1) and the HUD Handbook (1911.1A, pars. 1.3 and 2.5) require agency officials to record collections promptly and properly upon receipt, safeguard collections until deposited, and adequately separate duties of personnel handling receipts.

At three regional accounting stations, we observed that collections received through the mail were not promptly and properly recorded upon receipt. For example, two regional accounting stations did not open all mail containing remittances at a central control point. Personnel opening the mail at three stations did not log in all collections as they were received. When personnel at two of these stations eventually logged in the receipts, they did not use sequentially numbered control sheets, thereby compromising control over collections. The third station had no systematic administrative examination to verify the legality, propriety, correctness of collection transactions, or deposit data. If remittance control is not established at a central point and periodic audits are not made, there is no assurance that all collections are accounted for.

Collections were not adequately safeguarded at four stations. These stations stored collections in safes that were accessible to more than one employee (that is, unlocked during regular office hours). One station stored receipts in a desk overnight. Such easy access to the collections increases the risk of loss and obscures responsibility.

Individual employees were given too many responsibilities in the handling of collections at three stations. Consequently, internal controls over collections were compromised. At one station one individual handled collections and helped with the accounts receivable records. At another station an individual was permitted to open, record, and deposit collections. One individual at the third station had exclusive control of deposits without independent review. Allowing one person to perform multiple duties in an area such as collections greatly increases the risks for fraud, unintentional errors, and misappropriation.

Collections rarely were received over the counter or involved cash. But, in three locations the receipts used to record over-the-counter transactions were not numbered. Using unnumbered receipts can result in the loss of control over collections.

HUD officials agreed to log collections as they are received and to improve the control and safeguarding of collections.

NEED TO IMPROVE CONTROL OF IMPREST FUNDS

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 27.6) requires agency officials to insure that imprest fund cashiers can, at all times, account for funds advanced to them. Imprest fund cashiers at most accounting stations did not adequately safeguard, account for, or control imprest funds. Treasury Department guidance provides that each cashier should have a separate cash box, should not commingle imprest funds with personal or unofficial funds, and should not make or approve purchases with imprest funds.

Specifically, we noted the following:

--Cashiers and alternate cashiers at eight stations did not have separate imprest fund cash boxes. At one of these stations the funds were not kept in locked boxes. Another station did not use receipts to transfer funds between cashiers. Such situations do not comply with accepted standards because only the individual who is responsible and accountable for a specific fund should have access to it.

--Officials at seven stations did not change safe combinations annually. Additionally, at five stations appropriate officials did not keep cashiers' duplicate keys or safe combinations in sealed and dated envelopes. Changing the combination annually provides a minimum level of security if the safe combination becomes unknowingly compromised. Furthermore, keeping keys and combinations in sealed envelopes provides access to the funds by a third party in the cashiers' absence or in an emergency.

--Cashiers at three stations did not promptly cancel documents supporting imprest fund payments. Also, at two stations cashiers did not start numbering vouchers beginning with each fiscal year. These two practices fall short of providing systematic control for documents supporting fund disbursements.

--Four cashiers either made purchases with funds or were authorized to approve payments for purchases from these funds. Such authority increases the risk of manipulation and unintentional misappropriation of funds and could permit cashiers to use funds for their personal needs.

--Imprest funds at four accounting stations were verified semiannually or less often instead of quarterly. Quarterly, unannounced, and independent verifications of cashiers' funds aid in insuring that cashiers comply with procedures and do not misuse the funds.

HUD officials generally agreed to improve controls over imprest funds by correcting the problems discussed above.

NEED TO IMPROVE CONTROL OVER TRAVEL ADVANCES

According to the GAO Policy and Procedures Manual for Guidance of Federal Agencies (7 GAO 25.6), agency officials must periodically review and analyze travel advances. The purpose of this procedure is to keep employee travel advances to the minimum needed and to insure that outstanding travel debts are uniformly and vigorously pursued. This includes insuring that employees separating from the agency repay outstanding travel advances, as stated in HUD's Handbook (550.3).

Travel advances at four stations were not systematically or consistently aged. One station had not reconciled detail accounts to the control register for several months. Without this information an agency cannot adequately control or manage travel advances. Some of the consequences of inadequate review and control are shown below.

--Travel advances at three stations were outstanding for an excessive period of time. Two stations had travel advances of $8,600, which had not been repaid to HUD when 38 employees resigned between 1969 and 1975. In addition, records at several accounting stations indicated that travel advances for employees moving from one location to another had been outstanding since 1973.

--At two stations outstanding travel advances were recently written off as bad debts for four former employees for a total of $599.11. Another station wrote off over $2,800. If officials at these stations followed HUD procedures, these these advances could have been collected.

--Travel vouchers at one location were not promptly submitted to liquidate advances. As many as 127 days elapsed between the end of travel and the submission of vouchers.

HUD officials agreed to tighten controls over travel advances to keep outstanding advances to a minimum.

NEED TO IMPROVE CONTROLS OF DISBURSEMENTS AND OBLIGATIONS

The GAO Policy and Procedures Manual for Guidance of Federal Agencies requires agencies to insure that:

--Disbursements are legal, proper, correct, and accurately and properly recorded (7 GAO 24.1).

--Obligations are properly documented, recorded, and periodically reviewed (7 GAO 17).

Several regional accounting stations and the Office of Finance and Accounting, however, did not adequately support disbursements or show the basis and computation of estimates on obligating documents.

Disbursements not adequately supported

Officials at one accounting station did not properly certify payments of long-distance telephone calls or tort claims. Thus, there was no assurance that the payments were made for only official Government business expense or that goods and services had been received.

At six stations explanations for lost discounts were not provided on documents supporting disbursements. Without this data it is difficult for management to identify and eliminate the problems that prevent taking discounts.

HUD officials agreed to adequately support disbursements and to provide reasons for not taking discounts on documents supporting disbursements.

Basis and computation of estimates not shown on obligating documents

Officials at five locations did not show the basis for or computations of estimates made at the beginning of the month on the obligating documents. Recording such information insures consistent application of established methods. It also provides management a basis for evaluating whether current methods are satisfactory.

HUD officials agreed to show the basis for and computation of estimates on obligating documents.

ENCLOSURE II

SUMMARY OF GAO OBSERVATIONS AT 12 DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT ACCOUNTING STATIONS

WEAKNESSES NOTED	ATLANTA	BOSTON	CHICAGO	DALLAS	DENVER	KANSAS CITY	NEW YORK	PHILADELPHIA	SAN FRANCISCO	SEATTLE	FDAA	OFA
NEED TO IMPROVE CONTROL OVER COLLECTIONS:												
COLLECTIONS NOT DEPOSITED PROMPTLY			X				X	X				
COLLECTIONS NOT PROPERLY LOGGED IN			X				X	X				
COLLECTIONS NOT LOGGED ON SEQUENTIALLY NUMBERED CONTROL SHEETS			X					X				
COLLECTIONS NOT SAFEGUARDED	X					X		X	X	X		
DUTIES OF PERSONS HANDLING COLLECTIONS NOT ADEQUATELY DIVIDED		X		X	X							
RECEIPTS FOR OVER-THE-COUNTER COLLECTIONS NOT NUMBERED	X					X				X		
NEED TO IMPROVE CONTROL OF IMPREST FUNDS:												
SEPARATE CASH FUNDS NOT MAINTAINED	X	X	X		X		X	X		X	X	
FUNDS NOT ADEQUATELY SAFEGUARDED	X										X	
SAFE COMBINATIONS NOT CHANGED ANNUALLY	X	X	X				X		X		X	X
SUBVOUCHERS NOT CANCELLED				X			X				X	
UNANNOUNCED VERIFICATIONS NOT MADE QUARTERLY	X		X			X						X
VOUCHERS NOT PROPERLY NUMBERED					X						X	
FUNDS NOT AVAILABLE IN EMERGENCIES	X			X			X	X			X	
CASHIER NOT PROHIBITED FROM AUTHORIZING FUND EXPENDITURE	X					X				X		X
DOCUMENTS SUPPORTING REIMBURSEMENT DID NOT SHOW ACTUAL FUND VOLUME	X											
NEED TO IMPROVE CONTROL OVER TRAVEL ADVANCES:												
TRAVEL ADVANCES NOT REVIEWED AND/OR AGED NOR AGGRESSIVELY PURSUED	X		X			X	X	X	X			X
NEED TO IMPROVE CONTROL OF DISBURSEMENTS:												
TELEPHONE CERTIFICATIONS NOT MADE			X									
LOST DISCOUNTS NOT DOCUMENTED		X	X	X		X		X				X
NEED TO IMPROVE CONTROL OF OBLIGATIONS:												
BASIS AND COMPUTATION OF ESTIMATES NOT SHOWN ON OBLIGATION DOCUMENTS			X	X	X	X	X					