

DOCUMENT RESUME

03454 - [A2553677]

Millions of Dollars in Delinquent Mortgage Insurance Premiums Should Be Collected by the Department of Housing and Urban Development. FGMSD-77-33; B-114860. September 8, 1977. 18 pp. + 2 appendices (5 pp.).

Report to the Congress; by Elmer B. Staats, Comptroller General.

Issue Area: Domestic Housing and Community Development (2100); Accounting and Financial Reporting (2800).

Contact: Financial and General Management Studies Div.

Budget Function: Miscellaneous: Financial Management and Information Systems (1002).

Organization Concerned: Department of Housing and Urban Development.

Congressional Relevance: House Committee on Banking, Currency and Housing; Senate Committee on Banking, Housing and Urban Affairs; Congress.

Authority: National Housing Act of 1934 (12 U.S.C. 1709).

In a 14-month period ended March 1977, an average of \$38 million per month in mortgage insurance premiums was past due to the Department of Housing and Urban Development (HUD) because many lending institutions did not pay their bills on time. By changing its premium collection cycle from a yearly to a monthly basis, the agency could save the Government \$16.5 million in interest costs. Findings/Conclusions: HUD does not promptly identify delinquent premiums due and notify lending institutions of the delinquencies; use effective collection procedures; charge interest for late payments; or use its authority to suspend persistently delinquent lending institutions from the program. HUD's Assistant Secretary for Administration has outlined specific actions taken and planned to collect delinquent premiums, improve accounting and supporting computer systems, and get prompt payments of future premiums. However, HUD does not agree that insurance premiums should be collected monthly. Recommendations: The Secretary of Housing and Urban Development should: collect all delinquent mortgage insurance premiums; identify all mortgage insurance premiums that have not been received at the agency within 15 days after the due date and promptly notify institutions that have not paid the premiums; amend agency regulations to provide for late payment charges on premiums paid more than 15 days after the due date; suspend from agency programs institutions that consistently pay premiums late; establish effective internal controls to make sure that all mortgage transaction data submitted by mortgagees are properly entered in the agency's insurance file; and consider collecting mortgage insurance premiums from institutions in the same month the premium installments are paid by homeowners and annually reconciling differences between institutions' insurance records and the agency's billing data base. (Author/SC)

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REPORT TO THE CONGRESS

03454



BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

Millions Of Dollars In Delinquent Mortgage Insurance Premiums Should Be Collected By The Department Of Housing And Urban Development

In a 14-month period ended March 1977 an average of \$38 million per month in mortgage insurance premiums was past due to Housing and Urban Development because many lending institutions did not pay their bills on time. By changing its premium collection cycle from a yearly to a monthly basis, the agency could save the Government \$16.5 million in interest costs.

In line with GAO recommendations, the agency is taking or plans to take aggressive action to reduce its delinquent premiums and get prompt payment of future premiums. The agency is, however, reluctant to change its collection cycle.



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

B-114860

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

This report on Department of Housing and Urban Development mortgage insurance programs--under which mortgage payments on 4.9 million single-family residences were guaranteed as of December 31, 1976--discusses shortcomings in the Department's accounting and collection of insurance premiums for the guarantees and recommends a series of actions to more promptly collect premiums from lending institutions such as banks and mortgage companies.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

The Government's cost to borrow money to cover defaults on mortgages insured through the guarantee program could be substantially reduced--by as much as \$19 million annually. We recommend requiring payments of mortgage insurance premiums within 15 days after their due dates and assessing late charges on premiums not paid within that period. The Department has agreed to take actions on these recommendations, which could save as much as \$2.5 million a year in interest expense. The Department has also agreed to study the feasibility of implementing our recommendation to collect mortgage premiums each month instead of annually, an approach that could save as much as \$16.5 million annually in interest costs.

Copies of this report are being sent to the Director, Office of Management and Budget, and the Secretary, Department of Housing and Urban Development.

James B. Stauts
Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

MILLIONS OF DOLLARS IN
DELINQUENT MORTGAGE INSURANCE
PREMIUMS SHOULD BE COLLECTED
BY THE DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT

D I G E S T

The Department of Housing and Urban Development insures home mortgages financed by lending institutions, such as banks and mortgage companies. The insurance is paid by the homeowner, and is included in the monthly mortgage payment made to the lending institution. Housing and Urban Development annually bills the lending institution for the insurance premiums collected from the homeowner over the preceding 12 months.

Housing and Urban Development insured 4.9 million mortgages for single-family residences as of December 31, 1976, and annually collects over \$300 million for mortgage insurance premiums on these properties.

Once again, GAO recommends ways the agency can improve its collection procedures and save millions.

\$38 MILLION IN DELINQUENT PREMIUMS

Each month from January 1976 to March 1977, about \$18 million in delinquent premiums was outstanding from lending institutions. However, if Housing and Urban Development had used the accepted mortgage banking industry criterion of 15 days to identify delinquent accounts, each month \$38 million in insurance premiums would have been delinquent. Of this amount, over \$8 million would have been delinquent 6 months or more. Because the lending institutions pay the premiums late, Housing and Urban Development must borrow more money from the U.S. Treasury to pay mortgage defaults

FGMSD-77-33

and annually incurs \$2.5 million in additional interest expense. On May 31, 1976, the agency borrowed \$168 million from the U.S. Treasury for its general insurance fund from which default payments are made.

Housing and Urban Development does not:

- Promptly identify delinquent premiums due and notify lending institutions of the delinquencies.
- Use effective collection procedures.
- Charge interest for late payments.
- Use its authority to suspend lending institutions from its program when they are persistently delinquent.

One institution did not pay its premiums for over 10 months and owed \$1.6 million in delinquent premiums. Housing and Urban Development took no action to collect. As a result of GAO's audit, which included a visit to the institution's office, the institution paid the \$1.6 million owed. (See ch. 2.)

SYSTEM OF ACCOUNTING NEEDS STRENGTHENING

Housing and Urban Development does not follow internal controls established in its automated accounting and billing system for mortgage insurance premiums. Some premiums are delinquent because the agency does not update its billing data when mortgages are sold, transferred, foreclosed, or prepaid. These bills get sent to the wrong institutions and the premiums are not paid.

Of 200 institutions about 7 percent had erroneous premium billings. Further, 134 institutions had not paid Housing and Urban Development \$2.2 million in insurance premiums because the agency

had not yet billed them for these premiums. (See ch. 3.)

OPPORTUNITY TO IMPROVE CASH
MANAGEMENT FOR INSURANCE PREMIUMS

Homeowners prepay insurance premiums with their monthly mortgage payments, but Housing and Urban Development bills the institutions only once each year, in the anniversary month of the insurance contract. Funds from premiums not collected each month cannot be used, and the agency must borrow more from the U.S. Treasury to pay mortgage defaults. If the institutions transferred the monthly insurance installments collected from homeowners to Housing and Urban Development each month, it could reduce interest costs about \$16.5 million annually. (See ch. 4.)

ACTION STILL NEEDED TO IMPROVE
ACCOUNTING AND COLLECTION SYSTEMS

In May 1976, December 1976, and April 1977, GAO reported to the Secretary of Housing and Urban Development the need to

- collect delinquent mortgage insurance premiums from lending institutions,
- improve its collection procedures, and
- improve its accounting system and supporting computer system.

At congressional hearings, during which both Housing and Urban Development and GAO officials testified, the agency agreed with the need for improvement and promised to take aggressive corrective action. (See p. 2.)

In the reports and in the hearings, GAO recommended that the Secretary of Housing and Urban Development:

- Collect all delinquent mortgage insurance premiums.
- Identify all mortgage insurance premiums that have not been received at the agency within 15 days after the due date and promptly notify institutions that have not paid the premiums.
- Amend agency regulations to provide for late payment charges on premiums paid more than 15 days after the due date.
- Suspend from agency programs institutions that consistently pay premiums late.
- Establish effective internal controls to help make sure that all mortgage transaction documents submitted by mortgagees are properly entered in the master billing file.
- Consider collecting mortgage insurance premiums from institutions in the same month the premium installments are paid by homeowners and annually reconciling differences between institutions' insurance records and the agency's billing data base.

On July 1, 1977, Housing and Urban Development's Assistant Secretary for Administration outlined specific actions taken and planned to collect delinquent premiums, improve its accounting and supporting computer systems, and get prompt payments of future premiums. (See app. I.)

These actions should correct the major problems. Housing and Urban Development does not agree that insurance premiums should be collected from institutions in the same month the premium installments are paid by homeowners. In view of the annual collection of \$300 million in premiums and the potential of \$16.5 million in interest costs that could be saved, the agency should further consider this recommendation. (See p. 18.)

C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
Scope	2
2 MILLIONS OF DOLLARS IN DELINQUENT MORTGAGE INSURANCE PREMIUMS NOT COLLECTED	4
Need to promptly identify delinquent premiums and take effective collection action	4
HUD regulations should be amended to provide for late payment charges	5
Authority to suspend mortgagees not used	6
A case that could have called for late pay- ment charges or sus- pension	6
Conclusions and recommendations	7
Agency comments and our evaluation	8
3 AUTOMATED SYSTEM OF ACCOUNTING AND BILLING NEEDS IMPROVEMENT	10
How the system works	10
Documents submitted by mortgagees are not controlled	12
Ineffective controls over computer processing of mortgage insurance data	13
HUD officials briefed on ineffective ADP controls	15
Conclusions	15
Recommendations	16
Agency comments and our evaluation	16

	<u>Page</u>
CHAPTER	
4	
POTENTIAL ANNUAL SAVINGS OF \$16.5 MILLION BY CHANGING MORTGAGEE PAYMENT METHODS	17
Conclusions and recommendation	17
Agency comments and our evaluation	17
APPENDIX	
I	
July 1, 1977, letter from the Assistant Secretary for Administration, HUD	19
II	
Principal HUD officials responsible for administering activities discussed in this report	23

ABBREVIATIONS

ADP	automatic data processing
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
HUDMAP	Mortgage Insurance Account- ing System Program

CHAPTER 1

INTRODUCTION

The National Housing Act of 1934 (12 U.S.C. 1709) established a mortgage insurance program. Under this program, lending institutions such as banks, insurance companies, building and loan associations, or mortgage companies finance mortgages, and the Department of Housing and Urban Development (HUD) insures them to protect the lender, or mortgagee, against defaults. HUD insured mortgages for 4.9 million single-family residences as of December 31, 1976, and collected over \$300 million in insurance premiums in calendar year 1976.

Homeowners (mortgagors) include one-twelfth of their annual mortgage insurance premium in the monthly payment made to the mortgagee. The mortgagee deposits the insurance premium in a separate non-interest-bearing account (escrow account) until HUD bills for the amount due in the annual anniversary month of the insurance contract.

Each month HUD sends about 400,000 bills to mortgagees for insurance premiums collected from mortgagors during the preceding 12 months. Mortgagees compare the bills with their mortgage records and pay the bills that are due. They also list the bills not owed and the reasons for not paying them on a reconciliation form provided by HUD. Differences between billings and payments that have to be reconciled occur when mortgagees' records are wrong or when HUD has sent them an incorrect bill.

The mortgagee is supposed to forward the premium payments due and the reconciliation form to HUD by the first day of the anniversary month in which the insurance contract was endorsed. HUD compares the billings with the insurance-in-force records for each mortgage listed on the reconciliation and for any billings HUD is unable to reconcile with their records, and asks mortgagees to document the reasons why they are not paying the bill.

HUD's procedures provide for delinquent notices to be sent to mortgagees every 20 days for premiums which have not been paid. If a mortgagee does not pay the

delinquent premiums or furnish adequate evidence which substantiates the reasons for not paying them, HUD can either collect the delinquent premiums through legal action or suspend the mortgagee's license to further finance insured properties.

When HUD's overall accounting system was approved by the General Accounting Office in 1970, the operational mortgage insurance accounting system was not documented or submitted for approval. It was, however, expected to be documented to conform to the principles and standards of the overall system.

In May 1976 and December 1976, we brought to the attention of the Secretary of HUD the need to collect millions of dollars in delinquent mortgage insurance premiums due from mortgagees, improve its collection procedures, and improve its accounting system and supporting automatic data processing (ADP) system.

On May 11, 1977, at the request of the Chairperson, Subcommittee on Manpower and Housing, House Committee on Government Operations, GAO and HUD representatives testified on HUD's accounting problems. The Chairperson in opening the hearings expressed concern over the continuous accounting problems being reported in our reports. Our representatives presented the findings and recommendations contained in this report. HUD representatives concurred in the need for improvements and promised to take aggressive corrective action. The Chairperson, however, was critical of HUD's delays, citing continued slippage on prior commitments to develop a new mortgage insurance accounting system. She requested that HUD supply the Subcommittee with a series of target dates for development and implementation of the new system.

SCOPE

We reviewed HUD's system of accounting for billing and collecting the mortgage insurance premiums at HUD headquarters, Washington, D.C., and interviewed officials at HUD's offices of finance and accounting, ADP operations, and ADP systems development. At HUD headquarters we also reviewed the reasons for erroneous billings given on HUD reconciliation forms submitted by mortgagees. To help us to evaluate HUD's accounting, billing, and collecting systems, we tested 1 month's billing to 10 large mortgagees--6 in California, 2 in Texas, and 1 each in North Carolina and Florida. Our test was made both at HUD headquarters and the offices of the mortgagees.

We also sent a questionnaire to 200 mortgagees that received about 60 percent of HUD's total annual premium billings to obtain data on HUD's billing and collecting activities.

CHAPTER 2

MILLIONS OF DOLLARS IN DELINQUENT

MORTGAGE INSURANCE PREMIUMS NOT COLLECTED

Each month from January 1976 to March 1977, reports from HUD's accounting system showed about \$18 million in delinquent premiums outstanding from mortgagees. HUD's system identifies premiums as delinquent when they are 50 days past due. The mortgage banking industry, however, uses a 15-day criterion. By this criterion, we estimate that the delinquent premiums each month amounted to about \$38 million.

HUD's procedures require it to bill mortgagees 30 days before the premiums are due. Some mortgage companies, however, do not promptly pay these bills even though they have collected the premiums from mortgagors over the preceding 12 months and placed them in escrow accounts. HUD allows mortgagees to continuously pay late because it does not (1) promptly identify and notify mortgagees of their delinquencies, (2) take effective collection action, (3) assess late payment charges, and (4) suspend mortgagees who abuse their privilege of financing HUD-insured properties. Because many mortgagees pay premiums late, HUD is denied use of these funds to pay mortgage defaults and is required to obtain needed funds through appropriations and borrowing. As a result, the Government incurs unnecessary interest costs. Based on an average of \$38 million in delinquent premiums during calendar year 1976, we estimate that the Government incurred about \$2.5 million in unnecessary interest costs over that period.

NEED TO PROMPTLY IDENTIFY DELINQUENT PREMIUMS AND TAKE EFFECTIVE COLLECTION ACTION

HUD does not identify delinquent accounts and notify mortgagees of the delinquencies within 20 days as required by its regulations. In fact, HUD does not identify delinquent accounts until at least 50 days after the due date because, HUD officials said, "We do not have time." Even after delinquent premiums are identified, HUD does not notify all mortgagees of the delinquencies. For example, we selected 127 mortgagees who paid premiums late in March, April, or July 1976, and found that HUD sent delinquent notices to only 41

of the 127 mortgagees. The delinquent notices were sent an average of 72 days after the premium due date. In 14 cases we could not tell if notices were sent. In the remaining 72 cases, HUD officials again said "they did not have time" to send delinquent notices. They attributed the lack of time to the administrative burden that would be put on the accounting staff by requiring more frequent analysis of the unpaid bills.

Although the 127 mortgagees eventually paid the premiums, they paid them up to 274 days late, as shown in the following table.

Delinquent Notices Sent to Mortgagees

	<u>Mortgagees</u>	<u>Days delinquent</u>
Notices sent	41	58 to 274
Notices not sent	72	34 to 241
No records	<u>14</u>	66 to 240
 Total	 <u>127</u>	

We believe HUD's collection practices have the effect of encouraging mortgagees to pay late because most mortgagees know they will not be identified as delinquent until at least 50 days after their premiums are due. Our analysis during one period showed that 540,000 premiums were delinquent after 15 days, but this number was reduced to 257,000 after 50 days. We believe HUD further encourages late payment practices among mortgagees by not sending delinquent notices to them as required by HUD regulations. As noted in the above table, notices were sent to only one-third of the delinquent mortgagees.

We believe that HUD should follow the 15-day criterion of the mortgage banking industry for identifying delinquent accounts. By doing this, we believe HUD would stop the late payment practices of many mortgagees. HUD should assess late payment charges, and use its suspension authority in flagrant cases. These enforcement tools are discussed in the following sections.

HUD regulations should be amended to provide for late payment charges

HUD does not assess mortgagees a late payment charge for delinquent premium payments even though (1) mortgagors

are normally required to pay premiums to mortgagees within 15 days after the due date or are assessed a penalty for late payments and (2) several Federal agencies, such as the Energy Research and Development Administration, the General Services Administration, the Veterans Administration, the Internal Revenue Service, and the Department of the Interior charge interest for late payments. The Energy Research and Development Administration, for example, charges 12 percent per annum from the due date to the date of payment on delinquent accounts and collected over \$832,000 in late payment charges in fiscal year 1976. If HUD assessed mortgagees a late payment charge, it would save the Government at least \$2.5 million in interest costs each year. We believe it would also provide an incentive for mortgagees to pay on time.

Authority to suspend mortgagees not used

According to its regulations, HUD can suspend mortgagees for criminal, fraudulent, or seriously improper conduct, or for some other cause of such a serious and compelling nature as may be determined in writing by the Secretary. Thus, under the regulations the Secretary could determine that a consistent failure to pay premiums when due would be a sufficient basis for suspension. A suspension precludes mortgagees from financing additional mortgages during the suspension period. We analyzed records in HUD's Office of the General Counsel to see if HUD had suspended mortgagees who were not paying premiums on time. There were no suspension notices on file in HUD's records and, according to its General Counsel, no mortgagee has ever been suspended for not paying premiums or paying premiums late. Although this authority is not used by HUD, we think it is an appropriate recourse against mortgagees that persistently abuse their privilege of obtaining HUD-insured mortgages.

A case that could have called for late payment charges or suspension

During our review we identified one mortgagee which had not paid mortgage insurance premiums for over 10 months and owed \$1.6 million for these premiums. We believe HUD should have considered late payment charges or suspension in this case.

At our request, a HUD employee telephoned the mortgagee and asked that the delinquent premiums be paid. Although the mortgagee promised prompt payment, 10 days elapsed and no payment was received. Additional telephone inquiries led to similar promises, but again, no payment was received.

After 30 days had elapsed we asked HUD to notify the mortgagee that our representatives would visit the firm for an audit. Two days later, a vice president of the firm came to HUD headquarters and paid \$1.2 million in delinquent premiums. An additional \$400,000 was mailed to HUD during our audit at the firm. When asked why the bills were not paid when due, the mortgagee said the monthly insurance premium checks had been prepared but not mailed because other administrative matters were given higher priority.

In an interim report to the Secretary of HUD dated May 4, 1976, we recommended that HUD review the circumstances of the mortgagee cited above to determine if the firm should be suspended from participating in HUD programs. Because we noted many other mortgagees that were persistently delinquent, we also recommended HUD collect the millions of dollars in delinquent premiums and consider amending the insurance contract to include an interest penalty for late payments. The Chairperson, Subcommittee on Manpower and Housing, House of Representatives, requested the Secretary of HUD to provide a response to the findings and recommendations in our interim report.

The Secretary's reply to the Subcommittee Chairperson stated that HUD had thoroughly reviewed the delinquent mortgagee's record and had taken no punitive action because the firm agreed to pay its future premiums on time. Further, the Secretary stated that HUD was sending delinquent premium notices to mortgagees on all past-due premium accounts. However, our sample of delinquent accounts as of July 1976 showed that HUD sent delinquent premium notices to only 8 of the 42 mortgagees who paid premiums up to 98 days late.

The Secretary also stated that HUD was considering an amendment to its regulation which would provide for an interest charge on premiums not paid within a reasonable time. HUD's General Counsel said that it would be improper to assess a late payment charge penalty on currently delinquent premiums, but that after notifying mortgagees, late payment charges could be assessed on later premiums that became delinquent. HUD plans to amend its regulations to permit such a charge.

CONCLUSIONS AND RECOMMENDATIONS

Each month millions of dollars in mortgage insurance premiums are delinquent, and HUD does not promptly identify the delinquent premiums, notify mortgagees, and collect the delinquent amounts. Also, HUD regulations do not provide

for late payment charges, although such charges are an accepted practice in the mortgage banking industry and in some Federal agencies. Although HUD can suspend mortgagees for abusing the privilege of obtaining HUD-insured mortgages, it has never done so. We reported these conditions to HUD in May 1976, but it still has not revised its procedures, amended its regulations to provide for late payment charges, or used its authority to suspend mortgagees which consistently abuse the insurance contract.

Accordingly, we recommend that the Secretary of HUD

- collect all delinquent mortgage insurance premiums,
- identify all mortgage insurance premiums that have not been received at HUD within 15 days after the due date and promptly notify all delinquent mortgagees,
- amend the HUD regulations to provide for late payment charges on premiums remitted more than 15 days past the due date, and
- suspend mortgagees from further participating in HUD programs when they flagrantly abuse the insurance contract.

AGENCY COMMENTS AND OUR EVALUATION

On April 21, 1977, we sent our proposed report to the Secretary of Housing and Urban Development for review and comment. The Assistant Secretary for Administration supplied us with the Department's comments on July 1, 1977. (See app I.) The Assistant Secretary basically concurred in our four recommendations designed to reduce delinquent premiums outstanding and is taking or plans to take needed corrective action as follows.

With regard to the collection of delinquent premiums, the Assistant Secretary stated that HUD has reduced the amount of premium receivables over 50 days delinquent from \$18 million to \$13.9 million and expects further reductions. HUD is making a concerted effort to collect premiums actually due HUD and to cancel those not due because the insurance contract was terminated. HUD has also established an ongoing task force to concentrate on the collection of delinquent premiums.

With regard to improving the timeliness in identifying and notifying delinquent mortgagees, HUD has implemented a change in the ADP system to achieve immediate improvements. A system is also being devised to enable sending past-due premium notices to mortgagees within 20 days after the premium due date. HUD's goal is to have this system in effect by November 1977. While we believe HUD's goal of 20 days is reasonable, HUD should make every effort to meet the mortgage banking industry's criterion of 15 days. We plan to review HUD's new system soon after implementation to evaluate its effectiveness and potential for further improvement.

HUD has drafted a regulatory amendment to provide for a late payment charge on premiums remitted past the due dates. HUD estimates that the regulations will be placed in effect by November 1977.

Finally, HUD is making system changes, to be implemented by September 1977, that will permit monitoring of mortgagees that are habitually late in the payment of premiums. This system will include the use of strong letters to delinquent mortgagees which will advise them that unless premiums are paid when due, the Mortgage Review Board will be requested to terminate their approval as a HUD-approved mortgagee.

We believe the aggressive actions taken and planned, if effectively administered, will substantially reduce the amount of delinquent premiums outstanding and result in more timely payment of future premiums. In view of the longstanding existence of the significant problems identified in our review, it would be useful for the Secretary of HUD to require appropriate progress reports on planned improvements and to have the Inspector General review the newly devised systems to help insure that adequate controls have been incorporated and the systems are operating effectively.

CHAPTER 3

AUTOMATED SYSTEM OF ACCOUNTING

AND BILLING NEEDS IMPROVEMENT

Each month HUD sends about 25,000 premium billings that contain errors. These mistakes occur because the offices of finance and accounting and ADP operations do not use established internal controls to assure that all mortgage transactions sent in by mortgagees are completely and accurately entered in the master billing file. Many of these billing errors prevent HUD from collecting the premiums when they are due. Both HUD and the mortgagees must spend a lot of time and money to correct the errors.

The errors are caused primarily by weaknesses in maintaining the master billing file and in operating HUD's accounting system.

HOW THE SYSTEM WORKS

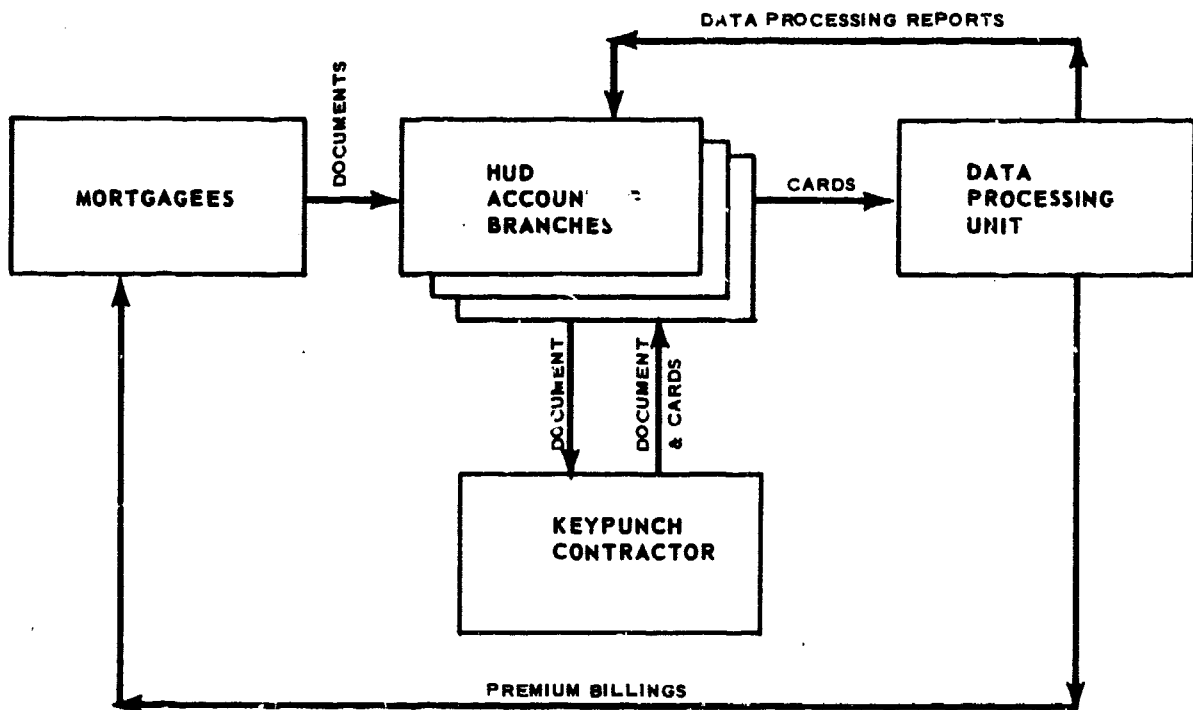
HUD has an automated system for preparing insurance premium bills each month. The master billing file for this system contains billing data on 4.9 million single-family residences, and is stored on 80 reels of magnetic tape. These tapes must be processed each month so bills can be sent to mortgagees for premiums due the following month.

There are frequent changes in HUD mortgage insurance data that affect the master billing file. These changes stem from sales or transfers of mortgages, final payments on mortgages, and foreclosures. Mortgagees send HUD about 50,000 to 100,000 documents each month to report data changes which need to be made in the insurance records and master billing file.

Depending on the type of change reported by the mortgagee, the required documents are forwarded to one of three accounting branches in HUD. These branches are supposed to control the documents, send them to a contractor for keypunching onto cards, reconcile the keypunched cards with the documents, and forward the cards for computer processing. The data processing unit is supposed to convert the cards to magnetic

tape and update the master billing file with the changes. The data processing unit is supposed to make sure all data received from various branches is processed. The unit is required to notify the branches that the data has been processed to assure that changes received from mortgagees have been properly recorded on the master file. Monthly, a computerized billing is prepared for all premiums due and sent to the mortgagees.

The following diagram illustrates the process.



DOCUMENTS SUBMITTED BY MORTGAGEES
ARE NOT CONTROLLED

Documents submitted by mortgagees are not being processed or are processed incorrectly because HUD has not used effective controls. Our Policy and Procedures Manual for Guidance of Federal Agencies requires controls over quantity, timeliness, reliability, and accuracy of inputs, processing, and outputs sufficient to reasonably assure that transactions are recorded accurately and reported in the accounting period in which they occur.

When mortgagees report mortgage insurance changes, accounting personnel are supposed to review the documents to make sure they are complete and accurate before they forward them to a keypunch contractor. The accounting personnel prepare control sheets to show the number of documents sent to the contractor. The contractor uses the data to prepare keypunched cards and returns them along with an invoice showing the number of cards processed. One card should be prepared and returned for each document submitted.

Accounting personnel who are supposed to control the documents did not reconcile the total sent to, and returned from, the contractor with the total keypunched cards prepared by the contractor. For example, we counted the documents sent to, and cards returned by, the contractor for three shipments and found the following.

<u>Date of Shipment</u>	<u>Documents sent to contractor</u>	<u>Cards returned per contractor invoice</u>	<u>Cards returned per GAO count</u>
9-24-76	2,421	3,700	2,337
9-30-76	1,453	3,890	1,405
10-7-76	1,105	2,117	1,075

Although the actual number of cards returned by the contractor was much less than the number reported and slightly less than the number of documents sent, accounting personnel did not reconcile or determine the reasons for the differences. We discussed the apparent discrepancies in the above schedule with HUD officials so they could take appropriate action. Without effective reconciliation procedures, HUD management cannot be sure (1) all documents are keypunched and returned, (2) all needed changes will be made to the master billing file, and

(3) the contractor billings are accurate.

INEFFECTIVE CONTROLS OVER COMPUTER
PROCESSING OF MORTGAGE INSURANCE DATA

HUD's office of ADP operations does not use effective controls over the data processed by the computer to assure accurate and complete updating of the mortgage insurance master billing file. To be effective, ADP systems require internal controls over the number of transactions processed to assure that the data is properly recorded.

When the contractor returns the keypunch cards, accounting personnel forward them to ADP operations, where the keypunched data is converted to magnetic tapes. These tapes are used to update the computerized master billing file. Controls are supposed to be used in each processing step to assure that all data is entered in the master billing file, but they are not.

Accounting personnel did not reconcile the number of cards sent to ADP operations with the cards used to prepare the magnetic tape of the changes. For example, we examined the data processing records for September 1976 to determine if all cards received were used to prepare magnetic tape change files. During the period there were 66 batches of cards submitted for conversion to magnetic tape. As the keypunch data was processed, exception listings were prepared showing each mortgage transaction which had not been converted to tape because the computer identified an error in the transaction.

In most instances, the exception listings were not forwarded to an accounting branch so that the rejected cards could be corrected and returned for reprocessing. HUD's records on rejected cards were so poor that we could not tell if all the cards had been corrected, reprocessed, and entered in the tape file.

A data control point in this step of the process is necessary because many of the cards have errors, are rejected, and are occasionally lost. In either case, the change data on cards was not transferred to the magnetic tapes. If HUD had the necessary internal control, it could have corrected or located the cards, reprocessed the data, and been assured that all input data was processed.

Keypunched cards with change data are converted to tape, and the tapes are merged as follows:

- Tapes prepared during the week are consolidated into a single tape each week.
- Weekly tapes are consolidated into a monthly tape.
- The monthly tape is used to update the master billing file.

ADP operations did not make sure the data on the tape used to update the master billing file was complete and accurate. Although the monthly tape is supposed to show the total transactions processed during the month, ADP operations was not reconciling daily tape totals with weekly tape totals, or the weekly totals with the monthly total. For example, when we attempted to reconcile the transactions on the change tapes in September 1976, we noted that the daily tapes for 1 week showed 26,955 transactions, but the weekly merged tape showed only 5,559 transactions. HUD management, therefore, could not be assured the monthly tape included all transactions. When we discussed this discrepancy with HUD officials, they said it appeared to them that over 20,000 transactions had not been processed in September and said they would establish controls to reconcile future transactions.

Because of the poor condition of the control records, we were unable to reconcile the differences and determine whether the transaction records were overstated, whether the tape records were understated, or whether there were errors in both. When we reviewed transactions processed in December 1976, ADP operations was still not comparing tape totals and we could not reconcile the December totals.

The effect of not controlling data during processing is demonstrated by the response to the questionnaire we sent to 200 mortgagees. Over 160 mortgagees reported that almost 7 percent of their monthly premium billings were in error. Further, 34 of these mortgagees disclosed they had not paid \$2.2 million in insurance premiums because HUD did not bill them for these premiums. Based on the questionnaire responses, the average cost to research and reconcile billing errors was \$2.87 per mortgage. HUD also incurs similar administrative costs to research and reconcile the billing errors.

HUD OFFICIALS BRIEFED ON INEFFECTIVE ADP CONTROLS

At the conclusion of our review we briefed HUD officials in detail on the ineffective controls observed in the data processing system. They agreed with our observations and suggestions and said that where possible they would promptly establish and use controls to manage the system. They added that they have long recognized that the Mortgage Insurance Accounting System needed redesign.

The redesign is being managed by the Mortgage Insurance Accounting System Program (HUDMAP) task force. The task force has the responsibility for the design of a new mortgage insurance accounting system and is to monitor the implementation of the system.

We were assured by HUD officials, including the director of the HUDMAP task force, that our recommendations would be included in the new system design. In March 1977, the director of the task force requested and we provided another briefing for the members of the task force. The task force agreed with our findings and again assured us that our recommendations would be included in the redesign of the new system.

CONCLUSIONS

HUD did not have effective controls over three accounting processes to assure complete and accurate processing of mortgage insurance data:

- Transactions processed between accounting branches and the keypunch contractor.
- Transactions processed between accounting branches and ADP operations.
- Transactions recorded on tapes in ADP operations processed to update the master billing file.

Without controls over these processes, there was no assurance that information produced by the system was reliable. Consequently, many mortgagees were incorrectly billed and millions of dollars in insurance premiums had not been collected, as discussed in previous chapters.

RECOMMENDATIONS

We recommend that the Secretary of HUD direct the offices of finance and accounting and ADP operations, with the assistance of the HUDMAP task force, to establish effective controls over data processing, including ADP controls, to facilitate accurate and complete updating of the mortgage insurance master billing file. This, in turn, will help insure that billings for premiums due from mortgagees are complete and accurate and all premiums due are collected.

AGENCY COMMENTS AND OUR EVALUATION

In comments on our proposed report, the HUD Assistant Secretary for Administration said that control procedures had been developed, tested, and implemented to assure that transactions recorded on computer tapes in ADP operations were properly processed to update the master billing file. We believe it would be useful for the Secretary of HUD to have the Inspector General review the revised procedures to make sure that the controls over data processing are operating effectively.

CHAPTER 4

POTENTIAL ANNUAL SAVINGS OF \$16.5 MILLION

BY CHANGING MORTGAGEE PAYMENT METHODS

HUD annually incurs about \$16.5 million in interest costs because mortgagees are permitted to collect insurance premiums from mortgagors for 12 months before HUD bills the mortgagees for the premiums. This denies HUD the use of these funds and requires it to borrow from the U.S. Treasury to meet mortgage defaults. For example, on May 31, 1976, HUD borrowed \$168 million from the U.S. Treasury for its General Insurance Fund from which default payments are made. Interest on borrowings at September 30, 1976, was 8 percent.

To collect insurance premiums sooner, HUD could require mortgagees to send a check for the amount of premiums collected each month from mortgagors. Once a year, HUD could bill a mortgagee as it now does and the bills could be reconciled to the payments that had already been made. While the savings in interest costs to HUD would be substantial, we do not believe the administrative expenses of HUD or the mortgagees would materially increase if funds were remitted to HUD each month.

CONCLUSIONS AND RECOMMENDATION

If HUD would require mortgagees to pay insurance premiums each month as the premiums are collected from mortgagors, HUD could improve its cash flow and reduce interest on its borrowings from the U.S. Treasury. To correct differences between the mortgagees' insurance records and HUD's billing data, HUD could reconcile once a year.

We recommend that the Secretary amend HUD regulations to require mortgagees to pay insurance premiums monthly as the premiums are collected from mortgagors.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on our proposed report, the HUD Assistant Secretary for Administration told us the Department did not concur in our recommendation to require

mortgagees to pay mortgage insurance premiums monthly. He said implementation of such a proposal would result in a most cumbersome, if not impossible, reconciliation effort with mortgagees each month because of sales of mortgages during the premium period and changes in mortgage servicers.

In our view, however, the proposal would simplify the sale or transfer of mortgages because funds would not have to be transferred between servicers as is currently done, since the funds would have been remitted to HUD. Adjustments would merely have to be made to mortgagee control records at HUD headquarters, with corresponding adjustments to the records of mortgagees.

In commenting, the Assistant Secretary said that major changes in accounting and ADP procedures to implement the proposal would be required and said he did not have the resources to undertake a systems change of this magnitude because HUD is in the process of designing a new accounting and ADP system.

We recognize the difficulty in implementing such a procedure in the ADP environment described in this report. We believe that HUD could implement such a procedure in its new system design with a minimum of additional effort. We believe that the potential savings of \$16.5 million in interest costs by implementing monthly collection procedures warrants additional consideration.

On July 21, 1977, we met with HUD officials and further discussed our recommendation and how, in our opinion, it could be implemented with a minimum of system redesign efforts. HUD officials agreed to consider our recommendation when the new HUDMAP system is implemented, particularly in light of the potential savings of \$16.5 million in interest cost.



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

JUL 1 1977

OFFICE OF THE ASSISTANT SECRETARY
FOR ADMINISTRATION

IN REPLY REFER TO:

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

Dear Mr. Scantlebury:

We have reviewed your findings and recommendations in the draft report on Actions Needed to Collect Millions of Dollars in Delinquent Mortgage Insurance Premiums. Our comments are set forth below in the same order as presented in the report.

As you know, the House Subcommittee on Manpower and Housing of the Committee on Government Operations held hearings on your findings in this and other reports relating to our accounting operations on May 11, 1977. As stated at the Committee hearings, we have taken positive steps to deal with most of your recommendations. Since many of the findings in this report were addressed in the opening statement of Mr. Medina's testimony, a copy is enclosed for your information.

1. Page 5 of the report states that about \$18 million in delinquent premiums have been outstanding each month since January 1976. We had succeeded in reducing premium receivables to \$15.6 million as of November 30, 1976. This amount rose to \$19 million in February because of parallel system testing, which is being evaluated now. At the end of April the figure is at \$13.9 million, and we are confident of further reductions in coming months.
2. Regarding statements in the report (pages 6 and 7) about laxity in sending delinquent premium notices, let me assure you that the policy of this Department is to aggressively pursue all debt owed us. We have emphasized this point with our supervisors, and these Notices will be sent to lenders in the future.

3. With respect to the recommendations that the Secretary collect all delinquent mortgage insurance premiums, the Office of Finance and Accounting is making a concerted effort to collect those premiums actually due HUD and to cancel those that are not due because the insurance contract was terminated. As discussed with your staff and as pointed out in the report, many premium notices are released by HUD on mortgages that have been terminated prior to the premium due date. We have instituted control procedures in the Office of Finance and Accounting and in the Office of ADP Operations to insure that mortgage change documents are rigidly controlled from the point of receipt through keypunching and entry into the computer.

We have implemented a change to our ADP system that will enable us to send delinquent premium notices to mortgagees within two weeks after each monthly inventory of premium receivables is processed by the Office of ADP Operations. This procedure will become effective for premiums with due dates on or after January 1, 1977; and the delinquent notices will be mailed about June 20, 1977. In a further effort to collect delinquent premiums, we have an ongoing task force of ten employees that are concentrating on the collection of delinquent premiums and reconciling our records with mortgage records.

4. We are presently devising a system which will enable us to send past-due premium notices to mortgagees within 20 days after the premium due date. Our goal is to have these procedures in effect within the next four months. A careful review of your recommendation to cut this to 15 days reveals that the volume is too great for our current ADP system. The same tabulating cards (premium receivable cards) must be used for two purposes; i.e., producing the past-due notice and processing the payment of premiums.
5. Concerning the recommendation to amend HUD regulations to provide for a late payment charge, you are aware that we are proceeding with the development of this regulatory amendment. At the present time, the draft regulations are being circulated for clearance within HUD.
6. We are making system changes that will permit the monitoring of mortgagees that are habitually late in the payment of premiums. Those mortgagees that have not paid premiums by the end of the month in which they are due will receive a strong letter demanding payment within ten days. The letter will advise that unless future premiums are paid when due, our Mortgagee Review Board will be requested to terminate their approval as a HUD-approved mortgagee. We believe that this aggressive action will result in timely payment of future premiums. These procedures will be implemented within the next two months.

7. The report states that HUD does not have effective controls over three accounting processes to assure complete and accurate processing of mortgage insurance data. In this connection, the Office of Finance and Accounting and the Office of ADP Operations (September and November 1976, respectively) acted in their areas of responsibility to ensure accuracy of transactions processed between accounting branches and the keypunch contractor, as well as between the keypunch contractor and our computer. Much of the problem was related to a billing procedure which made it impossible to reconcile transactions between the keypunch contractor and HUD. This manner of billing has been stopped, and an accurate record of transactions is produced now.

Control procedures have been developed, tested and implemented to assure that transactions recorded on tapes in ADP operations are processed to update the master billing file. These procedures were implemented in March 1977, and are available for your review, if desired.

8. We have reviewed your recommendation to require mortgagees to pay mortgage insurance premiums monthly to HUD and do not concur for the following reasons. This proposal would present a most cumbersome, if not impossible, reconciliation effort with mortgagees each month for those mortgages having annual premium due dates. As you know, insured mortgages are bought and sold in the open market among approved mortgagees. Conceivably, a mortgage could be held by several different mortgagees during the annual period preceding the premium due date. A further complication is that many mortgagees have one or more servicers that pay mortgage insurance premiums on mortgages they own, and these servicers change at the desire of the mortgage holder.


In addition to the foregoing, major changes would be required in our accounting and ADP procedures to implement the proposal. Since we are now at the midpoint of designing a new accounting and ADP system, we do not have resources to undertake a systems change of this magnitude.

When our new system is implemented in 1979, it will provide for a monthly reconciliation of insured mortgages with mortgagees.

I trust these comments are helpful and responsive. Also, I understand much of the details of this paper have been discussed between members of our staffs. I am confident that these changes

will substantially improve our performance in the areas covered by your report. I appreciate the opportunity to comment on the report, and I thank you for your constructive recommendations. Please call me if there are any questions or I can provide any additional information.

Sincerely,


William A. Medina
Assistant Secretary

Enclosure

GAO note: Page numbers in this appendix refer to the draft report and may not correspond to this final report.

PRINCIPAL HUD OFFICIALS 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:		
Patricia Harris	Jan. 1977	Present
Carla Hills	Mar. 1975	Jan. 1977
James T. Lynn	Feb. 1973	Feb. 1975
ASSISTANT SECRETARY FOR HOUSING--FEDERAL HOUSING COMMISSIONER:		
Joseph Burstein (acting)	Jan. 1977	Present
John P. Howley (acting)	Dec. 1976	Jan. 1977
James L. Young	June 1976	Dec. 1976
ASSISTANT SECRETARY FOR ADMINISTRATION:		
William A. Medina	May 1977	Present
William A. Medina (acting)	Apr. 1977	May 1977
Vacant	Jan. 1977	Apr. 1977
Thomas G. Cody	May 1974	Dec. 1976
W. Boyd Christenson	Oct. 1973	May 1974
Vincent J. Hearing	June 1973	Oct. 1973
DIRECTOR, OFFICE OF FINANCE AND ACCOUNTING:		
Thomas J. O'Conner	May 1974	Present
John R. Rurelick (acting)	Jan. 1973	May 1974
DIRECTOR, MORTGAGE INSURANCE ACCOUNTING:		
Benjamin C. Tyner	Jan. 1973	Present