

**DOCUMENT RESUME**

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[Review of the Financial Statements of the Federal Housing Administration]. May 16, 1978. 2 pp. + enclosure (6 pp.).

Report to William A. Medina, Department of Housing and Urban Development: Assistant Secretary for Administration; by Richard J. Woods, Associate Director, Community and Economic Development Div.

Contact: Community and Economic Development Div.  
Organization Concerned: Department of Housing and Urban Development: Federal Housing Administration.

A report issued on April 28, 1978, on the Federal Housing Administration's financial statements did not contain an opinion on the reasonableness of the balances. Subsequent to issuance of the report, a task force was established to study accounting problems and find solutions. GAO worked with the task force to help correct deficiencies and to review the adequacy of its corrections. GAO provided a list of accounting problems that should be addressed which contained findings brought out in the report and other deficiencies discussed with personnel of the Department of Housing and Urban Development. (HTS)



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

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COMMUNITY AND ECONOMIC  
DEVELOPMENT DIVISION

MAY 16 1978

Mr. William A. Medina  
Assistant Secretary for  
Administration  
Department of Housing and  
Urban Development

Dear Mr. Medina:

As you are aware, the report on our examination of the fiscal year 1976 financial statements of the Federal Housing Administration (CED-78-95, dated April 28, 1978) stated that we were unable to express an opinion on the reasonableness of the balances in the statements. After making our draft report available for comment by the Department we had a number of meetings with officials of the Office of Finance and Accounting to further discuss the findings and devise a plan to correct the deficiencies noted.

We were told that a task force was established involving about 14 people with the objective of studying the accounting problems and finding solutions in time for the year-end closing of the books at September 30, 1978. They told us it would be impractical to attempt to solve these problems for the fiscal year ended September 30, 1977, because the books had already been closed.

In an attempt to help correct the deficiencies disclosed in our report we agreed to assign people as needed from our staff to work with the task force to review and test the adequacy of corrections made by the task force. The Department's Office of Inspector General also agreed to assign someone to work with the task force. Further, as stated in our report, we do not plan to issue an opinion on the Federal Housing Administration's financial statements for fiscal year 1977, but we will make our regular audit for fiscal year 1978 and issue an opinion on those statements.

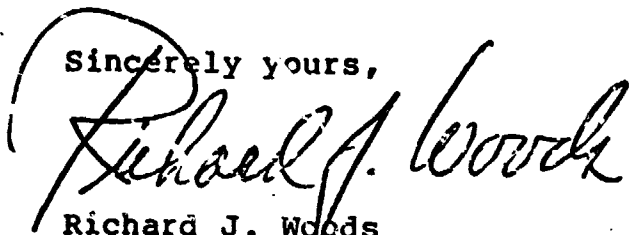
In connection with the efforts of the task force, Mr. Fred Brady, who is in charge, asked that we provide him with a list of accounting problems that should be addressed during their review. The attached list was developed by both

our Office and the Office of Inspector General. It contains not only findings brought out in our report on fiscal year 1976 operations, but also other deficiencies of a less significant but still important nature discussed with HUD accounting personnel during our fiscal year 1976 audit and prior audits. As our review continues we will bring any other findings we note to Mr. Brady's attention.

We believe the efforts of the task force should be extremely helpful in improving the accountability of the mortgage insurance funds of the Federal Housing Administration. A number of meetings involving our Office, the Office of Inspector General and the Office of Finance and Accounting are planned in the next several months to help assure progress toward accomplishing the task force's goals.

If you have any questions we will be happy to discuss them with you.

Sincerely yours,

A handwritten signature in cursive script that reads "Richard J. Woods". The signature is written in dark ink and is positioned above the typed name and title.

Richard J. Woods  
Associate Director

Attachment

PROBLEMS IN FHA ACCOUNTSAccount #111 U.S. Treasury Bonds And Notes (Escrow Funds)

--Reconciliation had not been performed. Some problems were:

1. Records showed accounts were reduced due to sale of bonds when in reality Treasury had not yet made the sale.
2. Unacceptable bonds received from mortgagors were erroneously recorded as assets by FHA.

130 Insurance Premiums Receivable (Includes Title I Premiums)

--Account can't be adequately reconciled. Detail pertaining to past due accounts is available, but detail pertaining to the receivables remaining from the current month billing was incomplete.

--Control ledger balance was \$102,000 higher than general ledger balance.

--Reconciliation differences between control records and detail records when done by section of the act shows cumulative differences of \$13 million.

\*--\$8.6 million of the receivable was 6 months or more past due. Many of these receivables may be invalid.

--Suspected reasons for differences between ledgers and inventory:

1. Some records destroyed.
- \*2. Termination notices (Form 2344) not processed by FHA.
- \*3. No control to ensure that all documents to be keypunched were keypunched and that all cards keypunched were processed.
- \*4. Inadequate follow-up by FHA to adjust accounts or rebill premiums not paid by mortgagees.

\*Indicates problems discussed or referred to in GAO's report on FHA's 9/30/76 financial statements.

PROBLEMS IN FHA ACCOUNTSAccount #

--FHA reports of errors on the insurance-in-force file should be analyzed for their effect on income and receivable accounts.

\*--Suspense file - fee and premium income and receivable accounts are understated because of unprocessed cases on the file. Could be as much as \$2.7 million.

132 Fees Receivable

\*--General ledger balance was \$64,300 higher than (a summary of) the inventory.

\*--Receivable and income accounts were understated to the extent of cases on the suspense file. See account 130.

--GAO computer analysis of detail on fee receivable file shows some cases over 6 months old - reasons for such old receivables should be determined.

137 Other Accounts Receivable (Receivables From Sale Of Secretary-Held Properties And Mortgages)

--Most of the balance in this account is incorrect because the amount has already been collected by HUD.

--Approximately 45 percent of sold case binders could not be located.

142 Accrued Interest On Notes Receivable (Other)148 Accrued Interest On Mortgage Notes And Sales Contracts Receivable191 Accrued Interest Receivable On Defaulted Mortgage Notes

--These accounts should be reclassified as current receivables, since the entire amount has been billed before September 30th.

PROBLEMS IN FHA ACCOUNTSAccount #

--Year-end computation of interest contains significant errors (last 2 years).

170 Real Properties--Acquisition Cost

175 Properties Reacquired After Default Of Purchase Money Mortgages

180 Capitalized Expenses--Net (Real Properties)

--Unreconciled differences were carried over from prior years but are not significant.

\*--Numerous razed properties were not recognized in the account.

\*--Numerous sold properties were still included in the account, due to delays in recording property sales and conversions.

171 Defaulted Mortgage Notes Assigned - Outstanding Balance

173 Defaulted Mortgage Notes Assigned - Property In Possession Of Mortgagee - Outstanding Balance

181 Capitalized Expense And Income - Net (Defaulted Mortgage Notes Assigned)

\*--The general ledger balance (homes only, Acct. 171) was \$148,000 over trial balance.

172 Defaulted Property Improvement Notes (Title I)--Acquisition Cost Less Recoveries (And 319.03, Other Undistributed Credits - Held In Suspense)

\*--General ledger balance was \$950,000 less than detail.

--Reconciliation of trial balance to field records is needed.

PROBLEMS IN FHA ACCOUNTSAccount #200 Reserve For Losses On Real Properties

\*--Current method of computing reserve percentages for on-hand property is based on prior loss experience. Computation should consider a potentially higher loss percentage because on-hand properties were held for longer periods than the holding period of sold properties.

--Errors in computation of loss ratios indicates computations are not verified.

269 Other Accounts Payable - Unpaid Vouchers

--Cash control branch - no detail listing of unpaid vouchers is retained to support journal entry or for audit testing.

--Diversified payments division - found many unfilled orders (no liability yet) included as unpaid vouchers; found some vouchers omitted from count.

--Insurance division - no detail listing of unpaid vouchers is retained to support journal entry for audit testing; vouchers filed in envelopes after being footed; late vouchers are subsequently included. Only sections with one or two vouchers were possible to verify.

269.03 Other Accounts Payable - Due Fee Appraisers269.04 Other Accounts Payable - Due Fee Inspectors269.10 Other Accounts Payable - Due Fee Mortgage Credit Examiners

--Liability recorded at assignment date rather than completion date.

--No detail - system cumbersome.

268 Mutual Mortgage Participations Payable

--Listing of cases more than 3 years old is growing every year - due to the statute of limitations, the existence of the liability is questionable.

PROBLEMS IN FHA ACCOUNTSAccount #

- Trial balance for cases more than 3 years old does not contain current totals and is not tied into general ledger.
- A difference existed between the general ledger balance and detail trial balance for cases less than 3 years old.
- No edit check in the computer to ensure that shares paid do not exceed aggregate premium collateral - small overpayments exist.

270 Accrued Interest Payable On Debentures

- FHA computes 5 months of accrued interest; in the 6th month, when payment is made by Treasury, FHA adjusts its figure to equal what Treasury pays. Either Treasury is sending the wrong amount, or FHA's accrual computation is off.

284 Deposits Held For The Account Of Mortgagors

- Liability shown is a net credit balance - individual case debit balances are substantial enough that they should be shown separately as receivables.

286 Earnest Money Deposits And Unapplied Sales Proceeds

- About 45 percent of closing packages related to the auditor's sample of earnest money could not be produced.
- Most of the account is overstated. Balance represents mostly sales proceeds that should be applied because sale had been completed.

290 Certificates Of Claim Payable291 Liability For Increment On Certificates Of Claims

- For MNA portion no trial balance is prepared as a standard practice. Multifamily branch was, however, able to produce all case files except one.



PROBLEMS IN FHA ACCOUNTSAccount #300 Debentures Issued And Outstanding

--Balance should be reconciled monthly with Treasury. Acquired Home Property Branch's reconciliation is nearly complete, and adjustments have been made to the general ledger; small differences remain. Treasury is apparently slow in sending documents to FHA; complete reconciliation would enable FHA to request documents on a timely basis.

311 Deferred Income--Application Fees

--Account was overstated by \$334,000.

339 Participating Reserve Account

--Computations of preliminary share factors are done manually - could be automated.

N/A Statement of Changes In Financial Position

--Rather than show debentures in process (#302) and debentures authorized but unissued (#301) as part of working capital, they should be treated the same as debentures issued (i.e., as a source of funds).

--Differences exist between certain figures used in this statement and comparable figures shown on other statements, e.g., debentures redeemed.

\*Indicates problems discussed or referred to in GAO's report on FHA's 9/30/76 financial statements.