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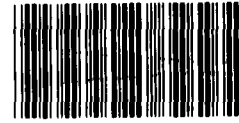
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

FEBRUARY 17, 1981

B-201307

The Honorable Samuel R. Pierce, Jr.
The Secretary of Housing
and Urban Development



114370

Dear Mr. Secretary:

Subject: Examination of the Financial Statements of
The Urban Renewal Fund for Fiscal Year 1979
(CED-81-62)

The Urban Renewal Program, which is administered by the Department of Housing and Urban Development (HUD), was authorized by title I of the Housing Act of 1949 to provide Federal financial assistance in the form of loans and grants to localities for rehabilitating and redeveloping slums and blighted areas. The local communities' urban renewal plans must be approved by HUD to qualify for Federal financial assistance. Grants may be made for capital improvements, relocation, demonstration, rehabilitation, code enforcement, and neighborhood development. In addition to grants, HUD guarantees loans to the communities from commercial banks. If commercial loans are impracticable, HUD may make direct loans from the Urban Renewal Fund to the local communities. HUD borrows these loan funds from the U.S. Treasury.

The program was terminated by title I of the Housing and Community Development Act of 1974. The law provided that no new projects could be approved after January 1, 1975, but that all projects already contracted with the local communities could be completed. Since many of the projects have not been completed, the Fund remains active, even though HUD is striving to close out the program. Although there have been no new appropriations to the Fund, any unused balances from completed projects may be recycled to assist the completion of other previously approved projects. As of September 30, 1979, the Fund managers reported assets totaling \$637 million.

SCOPE OF EXAMINATION

We have examined the combined balance sheet of the Urban Renewal Program as of September 30, 1979, and the related combined statements of income and expense and cumulative

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deficit, and source and application of funds for the year then ended. Except as set forth in the following paragraph, our examination was made pursuant to title 42 U.S.C. 1456 and in accordance with the Comptroller General's standards for financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Because of major inadequacies in the Fund's accounting records in the Chicago Regional Office, it was not practicable to extend our auditing procedures to enable us to express an opinion on the balance sheet, the statements of income and expense and cumulative deficit, the source and application of funds for the year ended September 30, 1979, or on the consistency of application of accounting principles with the preceding year.

DISCLAIMER OF OPINION
ON FINANCIAL STATEMENTS

We cannot express an opinion that the Fund's financial statements present fairly the financial position of the Fund at September 30, 1979, and the results of its operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. We did not examine the comparative financial statements of the Fund for the year ended September 30, 1978, and, accordingly, cannot express an opinion on them.

Serious accounting problems existed in the Chicago Regional Office and, because of the poor condition of records there, we were unable to satisfactorily complete our audit. HUD has recognized these problems and is taking actions to correct them. Because of the relative significance of the financial accounts in the Chicago Region (see p. 3) to the entire Fund, we are unable to express an opinion on the Fund's statements taken as a whole. Our review of the financial records in Washington, D.C., and in the Philadelphia and New York Regional Offices, however, showed no significant deficiencies.

CHICAGO REGIONAL OFFICE PROBLEMS

The Fund's accounting records are primarily maintained in HUD's regional offices. Consolidating regional office

accounts is performed at HUD headquarters in Washington, D.C. We reviewed the Fund's accounting records in Washington and tested the financial accounts in the Philadelphia and New York Regional Offices and made a limited review of the records from the Chicago Regional Office. We did not review the Fund's records in the other regional offices.

During fiscal year 1979, a breakdown occurred in the accounting functions of HUD's Chicago Regional Office. This affected nearly all the accounting activities of which the Urban Renewal Fund is a part. HUD officials stated that this occurred primarily as a result of the loss of several key personnel who were subsequently replaced with less experienced personnel. During May 1980, the Chicago Regional Office's accounting functions and accounting personnel were temporarily transferred to the New York Regional Office. The New York Regional Office has been handling the day-to-day program accounting functions for the Chicago Regional Office. Part of their work would include (1) reconciling the Chicago Regional Office's accounting records and (2) training their accounting personnel. HUD officials said that this task should be completed and the accounting functions and personnel returned to the Chicago Regional Office during fiscal year 1981.

The Chicago Regional Office's Fund balances are significant to the total Fund balances.

Urban Renewal Fund BalancesSeptember 30, 1979

<u>Account</u>	<u>Total Urban Renewal Fund</u>	<u>Chicago region</u>	<u>Chicago region as a percent- age of the total fund (percent)</u>
Cash-loans (note a)	\$299,464,090.91	\$29,128,124.00	9.7
Cash-grants (note a)	313,335,774.15	7,347,784.69	2.3
Temporary loans receivable	21,867,252.16	6,313,793.69	28.9
Accrued interest- temporary loans	1,036,898.91	282,532.72	27.2
Interest income	3,427,264.93	776,641.18	22.7
Grant expenses	307,291,898.53	36,449,318.47	11.9

a/Total reported cash and fund balances with U.S. Treasury at September 30, 1979, was \$612,799,865.06

Our limited review of the Chicago Regional Office's Fund records and the New York Regional Office Accounting Director's analysis of the Chicago Regional Office's accounting problems identified several problems that may have affected the Fund's accounts. The problems include:

- Differences in the cash balances between the Chicago Regional Office and the U.S. Treasury (a \$825,000 difference).
- Loans receivable totaling \$6.3 million not reconciled to subsidiary accounts.
- Accounts receivable subsidiary ledger balances totaling \$220,000 not in agreement with the general ledger balance nor the Chicago Regional Office

Accounting Director's certification statement (a \$62,600 difference).

--Missing reservation, disbursement, and contract documents.

--Lack of controls over disbursement records for Urban Renewal surplus funds.

--A difference of \$15.8 million in the yearend balance for unliquidated obligations between (1) the obligation and disbursement reports balance of \$20.8 million and (2) the Chicago Regional Office Accounting Director's certification statement balance of \$5 million.

The Director, Accounting Division, New York Regional Office, stated that, in his opinion, the Chicago Regional Office's accounting records for the Fund were unauditible because some records were missing and others were untraceable. He said that, in many cases, an audit trail from the trial balances back to the supporting documents did not exist.

An important part of the financial controls over HUD's operation of the Fund is the auditability of the Fund's accounting records. Title 42 U.S.C. 1456 requires that the Fund's accounting records be audited by the General Accounting Office. HUD officials told us that the records would be available for audit after the Chicago Regional Office's Fund accounts are reconciled. June 30, 1981, was suggested as the completion date for this effort.

We appreciate the courtesies extended to our representatives during this review. We are sending copies of this letter to the Director, Office of Management and Budget; the House Committee on Government Operations; the Senate Committee on Governmental Affairs; and the House and Senate Committees on Appropriations.

Sincerely yours,



Henry Eschwege
Director

Enclosure

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
COMMUNITY PLANNING AND DEVELOPMENT
URBAN RENEWAL PROGRAM

COMBINED COMPARATIVE BALANCE SHEETS
 ENDED SEPTEMBER 30, 1979 AND SEPTEMBER 30, 1978

	<u>ASSETS</u>	
	<u>1979</u>	<u>1978</u>
Cash and Fund Balances with U.S. Treasury	\$ 612,799,865	\$ 1,393,898,936
Accounts Receivable	193,843	92,846
ACCRUED ASSETS:		
Interest		
Temporary Loans	\$ 1,036,899	\$ 2,007,521
Definitive Loans	14,735	21,213
Total Accrued Assets	1,051,634	2,028,734
LOANS RECEIVABLE:		
Temporary Loans	\$21,867,252	\$38,622,446
Definitive Loans	1,082,422	1,202,483
Total Loans Receivable	22,949,674	39,824,929
TOTAL ASSETS	\$ 636,995,016	\$ 1,435,845,445
<u>LIABILITIES</u>		
Accounts Payable	\$ 12,101,692	\$ 4,157,903
Notes Payable to the U.S. Treasury	300,000,000	800,000,000
Accrued Interest	320,576	723,495
Trust and Deposit Liabilities	166,765	246,242
Total Liabilities <u>1/</u>	<u>312,589,033</u>	<u>805,127,640</u>
<u>INVESTMENT OF THE U.S. GOVERNMENT</u>		
Congressional Appropriations (Net of Amounts Returned to the U.S. Treasury)	\$ 13,311,269,889	\$ 13,311,269,889
Cumulative Deficit ()	<u>(12,986,863,906)</u>	<u>(12,680,552,084)</u>
Investment of the U.S. Government (Impairment)	<u>324,405,983</u>	<u>630,717,805</u>
Total Liabilities and Investment of the U.S. Government	\$ 636,995,016	\$ 1,435,845,445

1/There is a contingent liability of \$466,005,524.10 for guaranteed private market loans.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENTCOMMUNITY PLANNING AND DEVELOPMENTURBAN RENEWAL PROGRAM

COMBINED COMPARATIVE STATEMENT OF INCOME AND EXPENSE
 AND CUMULATIVE DEFICIT FOR THE PERIODS ENDED
 SEPTEMBER 30, 1978 AND SEPTEMBER 30, 1979

	<u>1979</u>	<u>1978</u>
INCOME:		
Interest	\$ 3,427,265	\$ 4,798,379
Total Income	<u>3,427,265</u>	<u>4,798,379</u>
EXPENSE:		
Interest Expense	2,447,189	3,753,605
Grants	<u>307,291,898</u>	<u>393,712,734</u>
Total Expense <u>1/</u>	<u>309,739,087</u>	<u>397,466,339</u>
Net Loss for the Fiscal Year	306,311,822	392,667,960
Prior Fiscal Years Deficit	<u>12,680,552,084</u>	<u>12,287,884,124</u>
Cumulative Deficit at September 30, 1978 and September 30, 1979	<u>\$ 12,986,863,906</u>	<u>\$ 12,680,552,084</u>

1/Salaries and administrative expenses for the Urban Renewal program are born by the Salaries and Expenses fund.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
COMMUNITY PLANNING AND DEVELOPMENT
URBAN RENEWAL PROGRAM

COMBINED COMPARATIVE STATEMENTS OF SOURCE AND APPLICATION
OF FUNDS ENDED SEPTEMBER 30, 1979 AND SEPTEMBER 30, 1978

	<u>1979</u>	<u>1978</u>
SOURCE OF FUNDS:		
Funds provided by Operations:		
Interest Income	\$ 3,427,265	\$ 4,798,379
Realization of Assets:		
Repayment of Loans	168,883,437	227,946,577
Recoveries from Grants	15,625,523	3,202,310
Fund provided by Financing:		
Congressional Appropriations	-	700,000,000
Decrease in Working Capital	<u>789,436,569</u>	<u> </u>
TOTAL SOURCE OF FUNDS	<u>\$ 977,372,794</u>	<u>\$ 935,947,266</u>
APPLICATION OF FUNDS:		
Funds Applied to Operations:		
Expenses:		
Interest	\$ 2,447,189	\$ 3,753,605
Grants	307,291,898	393,712,734
Acquisition of Assets:		
Loans Made	167,633,707	214,914,674
Increase in Working Capital	-	323,566,253
Funds Applied to Financing:		
Repayment of Borrowing to U.S. Treasury	<u>500,000,000</u>	<u> </u>
TOTAL APPLICATION OF FUNDS	<u>\$ 977,372,794</u>	<u>\$ 935,947,266</u>