BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Further Actions Needed To Improve Management Of HUD Programs

In recent years, GAO has made numerous recommendations in its reports on Federal housing and community development programs to reduce costs and increase effectiveness.

The Department of Housing and Urban Development has taken actions on many of these recommendations, resulting in cost savings and program improvements. However, some recommendations have not been implemented.

This report discusses the status of HUD actions to adopt previous GAO recommendations.

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

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

This report describes the status of corrective actions taken in response to our recommendations in selected reports on housing and community development programs over the last 2 years. Although some significant improvements have been made, additional reforms are possible if further action is taken to implement our remaining recommendations.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary, Department of Housing and Urban Development; and the Secretary, Department of Education.

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

FURTHER ACTIONS NEEDED TO IMPROVE MANAGEMENT OF HUD PROGRAMS

D I G E S T

The Department of Housing and Urban Development has achieved cost savings and improved program operations by implementing recommendations in nine GAO reports issued between July 1978 and June 1980. The reports contained 43 recommendations addressing a number of HUD programs, including the Section 8 Subsidized Housing Program, the Rehabilitation Loan Program, and the Community Development Block Grant Program.

GAO reviewed HUD actions to implement these recommendations and found that HUD had taken action to implement 31 recommendations. HUD is evaluating the remaining 12 recommendations to determine what actions, if any, it will take on these recommendations. This report was prepared to give the Congress and HUD information on the status of HUD actions to implement these recommendations.

SECTION 8 HOUSING ASSISTANCE PROGRAM NEEDS IMPROVEMENT

Two reports issued between March 1979 and June 1980 pointed out the need for improved controls in the Department of Housing and Urban Development's Section 8 Leased Housing Program. The reports documented the high costs, program weaknesses, and possible fraud in that program. GAO recommended improvements to help properly establish fair-market and contract rents, stimulate greater cost-consciousness among all HUD personnel, strengthen procedures to verify tenant income and allowances, and prevent possible duplicate payments of section 8 funds. (See pp. 3 and 9.)

Although HUD agreed with some of the recommendations and indicated that corrective actions would be taken, GAO found that

HUD has taken too long to implement some of the recommendations.

In view of the continued high Section 8 Program costs and program weaknesses, HUD should take immediate action to implement these recommendations. (See pp. 7 and 10.)

FINANCIAL CONTROLS STRENGTHENED IN SECTION 312 HOUSING REHABILITATION LOAN AND BLOCK GRANT PROGRAMS

Annually, as much as $240 million in Federal funds for housing rehabilitation assistance under HUD's Section 312 Rehabilitation Loan Program and Community Development Block Grant Program are not being used effectively. GAO estimated that in fiscal year 1980 more than $24 million could be made available for housing rehabilitation if HUD were to stop refinancing home mortgages with section 312 and community block grant housing rehabilitation funds. HUD could also save about $1 million annually by improving its cash management procedures in housing rehabilitation projects.

HUD has initiated action on some of GAO's recommendations. However, HUD disagreed with a recommendation that block grant funds for rehabilitation should be prohibited unless they are combined with other resources to increase the number of housing units that could be rehabilitated. Also, because of the significant amount of funds that could be used more effectively for additional housing rehabilitation, GAO recommended that the Congress enact legislation prohibiting refinancing and authorizing the use of deferred payment loans. Partly as a result of this recommendation, on October 8, 1980, the Congress enacted Public Law 96-399, which limits the authority to HUD for refinancing existing indebtedness. (See pp. 11 to 17.)

CONTINUED MONITORING OF THE COLLEGE HOUSING LOAN PROGRAM NEEDED

A March 1980 report concluded that HUD's process for selecting College Housing Loan Program projects was inadequate, student enrollment information had not been verified, and project cost increases and lost energy savings were the result of slow program processing.

GAO recommended that HUD and the Department of Education, which assumed control of the program beginning with fiscal year 1981, jointly and individually take corrective actions to ensure proper program documentation, monitoring, review of the program's project approval, selection processes, verification of reported information, and coordination activities with State agencies. HUD and the Department of Education have initiated corrective actions on most of the problems GAO identified. However, because of the continued decline in college enrollments, the Department of Education should, as previously recommended, require biennial assessments of the continued need for the College Housing Loan Program. (See pp. 18 to 21.)

INSUFFICIENT PRIORITY GIVEN TO ELIGIBLE FAMILIES WITH HIGHER INCOMES

In November 1979 GAO reported that the 1974 Housing and Community Development Act requirement that higher and lower income eligible families be assisted had not been widely implemented by HUD and public housing agencies. Only one of the six public housing agencies included in the review had begun to select tenants with a broader economic range. GAO estimated that about $33 million in additional rental revenue would have been earned by the other five authorities in 1 year if they had housed the required broad range of low-income families.

GAO recommended that HUD assign priority consideration to higher income eligible families and reemphasize the legal requirements for housing broad range-of-income families. (See pp. 22 to 24.)

HUD agreed with the report's recommendations but has not taken action to fully implement them. HUD should implement the recommendations to minimize future Federal housing subsidy expenditures. (See pp. 24 to 27.)

IMPROVEMENTS MADE IN MANAGING MULTIFAMILY ASSIGNED MORTGAGES

In December 1979 GAO reported that HUD was incurring annual losses of about $19 million in managing its inventory of acquired, formerly subsidized projects. Another report in January 1980 pointed out that more effective monitoring was needed to recapture millions of dollars on unearned income tax benefits available to owners of delinquent projects. (See pp. 31 and 35.)

GAO recommended that HUD develop a comprehensive management information system, improve the monitoring of project operations, reduce lengthy foreclosure proceedings, penalize project managers who do not fulfill their managerial responsibilities, and identify operating losses in its annual budget request to the Congress. (See pp. 31 and 32.)

HUD began developing and implementing several different information systems, handbooks, and other reporting instructions with the capacity to provide a full range of management data over the acquired multifamily inventory. However, several of the corrective actions initiated will not be fully implemented and operational for several months. (See pp. 32 and 38.)

AGENCY COMMENTS

HUD agreed with the follow-up actions discussed in this report that have been taken to implement previous GAO recommendations. HUD has already taken actions to correct many of the deficiencies noted during previous GAO reviews. HUD also plans to implement other recommended actions, as resource constraints will allow, to further improve the economy and effectiveness of the Nation's housing and community development programs. (See pp. 8, 10, 13, 17, 21, 27, 30, 34, and 39.)

Contents

ABBREVIATIONS

CDBG	community development block grant
CHA	Chicago Housing Authority
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
PHA	public housing agency

CHAPTER 1

INTRODUCTION

The Congress has been increasingly concerned about the high costs of Federal housing and community development programs. For example, in 1981 the Federal Government will have outstanding insured or guaranteed housing mortgages and home loans totaling more than $250 billion. In fiscal year 1981 the cash outlay for subsidy payments under various Federal housing assistance programs will amount to $7.5 billion and $9 billion for community and regional development activities. If the Nation is to make progress toward the 1949 enactment of the national goal of "a decent home and a suitable living environment for every American family," the Federal Government must make every effort to eliminate nonessential spending and increase the effectiveness of its housing and community development programs.

We have reviewed the status of actions taken on our recommendations included in nine selected reports issued from July 1978 through June 1980. Each of these reports was selected because they contained recommendations that, if implemented, could increase the efficiency and effectiveness of Federal housing and community development programs. The nine reports include a total of 43 recommendations that address the Section 8 Subsidized Housing Program, the Section 312 Housing Rehabilitation Loan Program, the College Housing Loan Program, the Low-Rent Public Housing Program, and various other housing and community development issues.

Improvements are apparent in these programs as a result of recommended actions already taken. However, additional improvements are still possible if further actions, some of which are long overdue, are taken to implement the remaining recommendations.

Our recommendations are presented in the following order:

--Section 8 Program.

--Section 312 Program.

--College Housing Loan Program.

--Low-rent Public Housing Program requirements.

--Chicago Housing Authority procurement practices.

--Managing multifamily assigned mortgages.

--HUD Financial Management System

OBJECTIVE, SCOPE, AND METHODOLOGY

The purpose of this review was to examine the status of actions recommended in previous GAO reports dealing with housing and community development programs administered by the Department of Housing and Urban Development (HUD). We selected for follow-up review nine reports, issued between July 1978 and June 1980, with a total of 43 recommendations. (See app. I.)

We identified those actions already taken by HUD and what additional actions HUD should take. We obtained information on actions taken or planned by HUD through oral interviews and reviews of HUD records (including an examination of laws and amendments, agency regulations, handbooks, and other agency guidance documents). The results were combined in what we judged to be an accurate description of actions taken by HUD to implement our recommendations.

We did not perform fieldwork to verify that corrective actions had been implemented effectively.

CHAPTER 2

RECOMMENDED CONTROLS TO REDUCE SECTION 8

PROGRAM COSTS MEET HUD RESISTANCE

In June 1980 we issued a report 1/ to the Congress about the high costs and inequities of HUD's Section 8 Program. Section 8, a lower income rental housing assistance program, was established by the Housing and Community Development Act of 1974, as amended (Public Law 93-383). Our report showed that section 8 projects we visited were having a positive impact on the neighborhoods in which they were located and were providing adequate housing. However, we noted actions HUD should take to hold down the high costs of section 8 and extend the program to more eligible families.

PROGRAM ELIGIBILITY

Eligibility for assistance under section 8 is generally limited to families with incomes that do not exceed 80 percent of the median income for the particular area of residence. An eligible family's contribution toward rent may vary between 15 and 25 percent of their income depending on such factors as income level, family size, and extraordinary expenses such as high medical costs.

FAIR MARKET AND GROSS RENTS INCREASING

Section 8 Program costs are tied very closely to so-called fair-market rents, which are (1) established by HUD for each major housing market in the Nation, (2) updated at least annually, and (3) computed separately for existing and newly constructed/substantially rehabilitated units. Fair-market rents are based on actual rents of comparable, modest-type housing. They are the principal basis for determining the maximum gross rents (including utilities) permitted to be paid for initial occupancy of housing units assisted under section 8.

In reviewing how program rents are established, we found instances, controllable by HUD, where rents and costs were greater than they should have been. We reported that

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1/"Section 8 Subsidized Housing--Some Observations On Its High Rents, Costs, and Inequities" (CED-80-59, June 6, 1980).

Section 8 Program costs have risen to significant levels. From program inception in 1974 through fiscal year 1980, about $128.2 billion in budget authority had been approved by the Congress to cover the costs of the assisted section 8 units throughout their contract terms.

OTHER HIGH COST FACTORS

We identified several factors creating high costs in section 8.

--Too few market rent comparables to use in establishing rents have forced those making the determinations to use less refined and reliable methods.

--HUD headquarters has placed too much emphasis on meeting production goals and not enough emphasis on costs.

--A generous HUD attitude regarding features and amenities not normally expected in subsidized housing. Such housing is costly to produce and involves high unit rents.

--Because owners and public housing agencies (PHAs) fail to properly verify tenant income and allowances, the proper calculation and payment of tenant's allotted rent is prohibited.

PREVIOUS RECOMMENDED ACTIONS AND AGENCY RESPONSES

To help establish fair-market and contract rents, we recommended that HUD strengthen its procedures by requiring field offices to:

(1) Search for market rent comparables to use in setting rental levels.

(2) Devise other appropriate methods to use when sufficient comparables do not exist.

(3) Document rental determinations more completely regardless of the process(es) used.

(4) Provide for a higher level of monitoring and review to ensure greater accuracy in the rent-setting processes.

In response to our June 1980 report's first three recommendations, the HUD Secretary stated that HUD already requires its field offices to take the actions recommended.

In response to our report's fourth recommendation, the Secretary stated that HUD's section 8 bench-mark cost system--which establishes average unit rental costs based on size, location, and construction type--is achieving the higher level of rent monitoring recommended.

To stimulate a higher degree of cost-consciousness on behalf of all HUD personnel working in the Section 8 Program, we recommended that HUD

(5) Issue a notice to all offices outlining the economic, social, and political reasons why section 8 costs must be curbed and why greater equity and uniformity in distributing benefits is needed throughout the program.

In response to this recommendation, the Secretary said that HUD agrees that its personnel must be highly cost-conscious. The Secretary stated that HUD will continue to work to hold down section 8 costs and to improve this priority on its field staff. The regulatory and administrative steps HUD has taken to cut costs and the emphasis placed upon costs in its dealing with the field are far more important, according to the HUD Assistant Secretary for Housing.

We recommended that HUD strengthen the procedures used in verifying tenant income and allowances by:

(6) Highlighting to all Section 8 Program administrators and beneficiaries the serious regard HUD places on this matter.

(7) Reaffirming and restating as necessary the duties and responsibilities of HUD field offices, housing owners, and PHAs in carrying out this important function.

(8) Monitoring more aggressively the verification efforts of housing owners and PHAs.

(9) Devising appropriate penalties for owners and PHAs who fail to adequately perform their verification duties and responsibilities and tenant families who willfully attempt to defraud the Federal Government by inaccurately reporting income and allowances.

In response to our report's sixth, seventh, and eighth recommendations, the Secretary stated that these are recommendations with which HUD agrees to take action to implement. HUD's actions will include developing several procedures, notices, and training courses and revising HUD's "Occupancy Handbook," according to HUD officials.

In response to our report's ninth recommendation, the Secretary stated that HUD also agrees to take action to implement this recommendation. However, before putting a system into effect that would provide sanctions against owners and PHAs that do not take adequate steps to verify tenant income, HUD wants to review the results of current research and administrative reforms. The Secretary believes these results will provide HUD with a clear indication of the types of sanctions that are desirable and the instances in which they are appropriate.

We also recommended that HUD:

(10) Increase tenant contributions toward rents as authorized by the Housing and Community Development Amendments of 1979.

(11) Establish a task force or designate a group within the agency to conduct socioeconomic research to find ways in which section 8 and other federally subsidized housing program costs can be held down and a greater degree of equity achieved among the many households determined to be in need.

In response to our report's tenth recommendation, HUD initially rejected an increase from 25 to 30 percent of a section 8 tenant's income towards rent contribution. However, we were told by HUD officials in January 1981 that HUD now has this recommendation under consideration.

In response to our report's eleventh recommendation, the HUD Secretary indicated that a task force or other group would not be established. Instead, HUD will rely on the recommendations of HUD's Housing Costs Task Force, which was established during 1977. The task force was asked to deliver a comprehensive and realistic program of actions for the Federal Government, HUD, and others to help reduce or stabilize housing costs. The task force delivered its final report on May 25, 1978. HUD officials stated that the task force's recommendations, together with the results of several other ongoing research projects conducted by HUD's Office of

Policy Development and Research and future GAO recommendations, would provide the basis on which additional cost saving actions are taken.

EVALUATION OF AGENCY ACTIONS

We did not have sufficient time to fully evaluate the proposed actions discussed regarding the implementation of our previous recommendations. However, the following observations are provided in response to some of the HUD Secretary's comments.

The bench-mark cost system, referred to by the Secretary in response to our fourth recommendation, was required by the Office of Management and Budget and became effective about January 1979. The system was intended to hold down costs of section 8-assisted housing by using per-unit-cost guidelines. While the bench-mark cost system provides a means of identifying section 8 units that would exceed certain cost limits, it does not provide the review procedures that we think are needed in establishing fair-market and contract rents. The bench-mark cost system will not provide a review of fair-market rent establishment procedures, which have a significant impact on Section 8 Program costs, and the system will provide only very limited assurances that specific contract rents are determined in an accurate, consistent, and adequately documented manner. Officials with HUD's Offices of Housing Operations and Field Monitoring and Multifamily Housing agreed during our follow-up review discussions that the bench-mark cost system cannot provide the monitoring over the section 8 rent-setting process that our June 1980 report recommended.

Regarding our report's fifth recommendation, although HUD agrees that its personnel must be highly cost-conscious, it rejected this recommendation in favor of other regulatory and administrative actions. We continue to believe, however, that a HUD notice to all offices will, at minimum cost, emphasize the need to reduce costs and increase the effectiveness of the Section 8 Program.

Regarding our report's sixth through ninth recommendations, with which HUD agrees, we encourage HUD to act quickly to implement these recommendations. We continue to believe that establishing appropriate penalties as we have recommended will strenthen HUD's income-verification procedures and help to ensure accurate income and allowances reporting.

HUD's recent consideration of our report's tenth recommendation is encouraging. We continue to believe that by increasing a section 8 tenant's rent contribution to 30 percent of income would result in significant Federal cost savings and the expansion of the program's benefits to additional families in need of adequate housing.

CONCLUSION

We found during the follow-up review of our June 1980 report that HUD has taken actions to implement recommendations 1 through 3, was evaluating recommendations 6 through 10, and had taken no actions to implement recommendations 4, 5, and 11.

We believe the recommendations made to HUD in our report will provide increased cost controls and establish desirable review mechanisms over rent-setting processes. We believe HUD should implement the remaining recommendations to increase the efficiency and effectiveness of section 8.

AGENCY COMMENTS

HUD officials disagreed with the accuracy and balance of the information presented in our June 1980 report. HUD believes that our review methodology did not provide an accurate description of section 8 administration outside of the sampled cities. HUD therefore believes that many of the conclusions and recommendations presented in our previous report were not justified. However, HUD officials stated that the information provided in this follow-up report regarding only those HUD actions taken in response to our June 1980 report's recommendations are accurate.

CHAPTER 3

DUPLICATE PAYMENTS IN THE

SECTION 8 PROGRAM

In March 1979 we reported 1/ that project owners could collect payments for the same tenant from both a PHA and HUD under the Section 8 Program. Duplicate payments were possible because some project owners could receive payments under two components of the existing Section 8 Housing Program--the regular PHA-administered program and the special allocations program for some projects with immediate or potentially serious financial difficulties. The two components are administered by different organizations within HUD and payments to owners are made from two different sources--PHAs and HUD.

Our report found that controls to prevent duplicate payments did not exist, and in fact, duplicate payments were made in three of nine special allocation projects we examined. Duplicate payments were also identified by HUD's Office of Inspector General. We concluded that controls should be established to prevent duplicate payments of section 8 existing housing funds. Various controls or cross-checks could be implemented.

PREVIOUS RECOMMENDED ACTIONS

To prevent possible duplicate payments of section 8 existing housing funds we recommended that HUD:

(1) Establish reasonable controls over section 8 payments by HUD and PHAs to owners of special allocations projects.

(2) Review prior payments where controls identify several duplicate payments at an individual special allocations project and take appropriate actions to collect the overpayments.

AGENCY RESPONSE

In commenting on our report in June 1979, the Secretary of HUD said that "Any incidence of such duplicate payments

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1/CED-79-51, March 1, 1979.

is a serious problem and warrants immediate action * * *." The Secretary proposed a "multifaceted" approach that included the necessary financial controls we recommended to eliminate duplicate payments.

In response to our report's first recommendation, the Director of HUD's Occupancy Division, Office of Multifamily Housing Management and Occupancy, told us that his office questions the extent of the duplicate payments problem. The Director believes, for example, that duplicate payments may have taken place only in New York City and perhaps Chicago and Detroit, but that they are not much of a problem elsewhere. The Director told us that action will be taken by HUD that should help to prevent duplicate payments. A temporary manual check for duplicate payments will be required at all HUD field offices under revised "Insured Projects Handbook" procedures currently being developed.

In response to our report's second recommendation, the Secretary stated that the workload for HUD staff to review all prior payments would be overwhelming. The Secretary believes the review tasks induced by this workload cannot be performed with current field office resources. The manual check will continue periodically until the automated vouchering system is operational, according to HUD officials.

CONCLUSION

We found during the follow-up review of our March 1979 report that HUD had taken actions to implement recommendation 1, but had taken no action to implement recommendation 2.

Although HUD has taken some actions to address the problem of duplicative payments in section 8, we believe that by establishing controls over the section 8 existing housing program, the needed financial integrity to prevent payments can be provided.

AGENCY COMMENTS

HUD officials stated that the follow-up actions taken by HUD in response to previous GAO recommendations as presented in this report chapter are correct.

CHAPTER 4

SECTION 312 CASH MANAGEMENT

IMPROVEMENT ACTIONS TAKEN

In March 1980 we reported 1/ that HUD's cash management procedures for administering the rehabilitation loan program authorized by section 312 of the Housing Act of 1964, as amended (Public Law 88-560), needed improvement. Our review was in response to congressional concern that the Federal Government was incurring unnecessary interest costs by releasing section 312 loan funds prematurely and that local housing agencies were benefiting financially by holding large section 312 escrow balances for extended periods before paying rehabilitation contractors.

We reported that a key feature of the Section 312 Program is that homeowners who get such loans are charged only 3 percent interest. HUD procedures require that Federal funds advanced for such loans usually be in the hands of local housing agencies on or before the date of loan settlement with homeowners. Shortly after settlement, the local agencies deposit the funds in escrow accounts and homeowners begin repaying the loans. However, in some cases, actual rehabilitation of housing units and disbursement of loan funds occur months later.

We reported that some local housing agencies had large section 312 loan escrow balances on deposit for extended periods of time before the funds were needed to pay rehabilitation contractors. Some of the agencies had benefited financially by investing the escrow balances. The Department of the Treasury had incurred unnecessary interest costs because money for section 312 loans was borrowed at rates higher than 3 percent much sooner than required to meet actual rehabilitation disbursements.

DIRECT-GRANT PROGRAM OBSERVATIONS

In addition, we reported our observations on HUD's Community Development Block Grant Program (CDBG), established by Title I of the Housing and Community Development Act of 1974, as amended (Public Law 93-383). We noted that HUD

1/"Better Cash Management Needed in HUD's Section 312 Housing Rehabilitation Loan Program" (CED-80-74, Mar. 28, 1980).

policy requires the same local housing agencies to make letter-of-credit withdrawals of direct-grant funds in advance of actual needs to finance rehabilitation. The direct-grant program operates much like the Section 312 Program in that grant funds are deposited in an escrow account and subsequently paid out to rehabilitation contractors.

PREVIOUS RECOMMENDED ACTIONS

We recommended that HUD, in cooperation with the Department of the Treasury:

(1) Evaluate alternative financing techniques, including letters-of-credit, to determine which technique would be the most advantageous and appropriate method for improving cash management of the Section 312 Program.

We also recommended that HUD:

(2) Require local public agencies to time letter-of-credit fund withdrawals for CDBG direct grants more closely to actual disbursements.

AGENCY RESPONSE

The report was discussed with officals representing HUD and the Department of Treasury who generally agreed with its contents. They indicated that they would work together in considering alternative financing techniques and select one that best improves cash management of the Section 312 Program. The HUD Secretary, on July 18, 1980, in response to our March 1980 report's first recommendation, stated that letters-of-credit are being evaluated as an alternative financing technique. The Secretary stated that HUD was also exploring alternative program operating procedures regarding the flow of section 312 funds as part of the program's operating handbook revision.

In response to our report's second recommendation, the Secretary stated that a program revision was implemented in September 1979 requiring that a modified loan settlement be used for loans over $60,000 or when construction is anticipated to take more than 4 months. When verifying the revision implementation, we found that the new procedure requires that loan funds be requested from the Treasury as they are required for immediate cash disbursement. The Secretary also stated that program revisions currently under development/review would (1) modify loan settlement procedures for loans under $60,000, (2) establish maximum amounts that can be maintained in the locality's rehabilitation escrow account at any one time, and (3) tighten procedures for using escrow accounts involving drawdown of CDBG funds for rehabilitation.

EVALUATION OF AGENCY ACTIONS

We believe that Federal savings resulting from these corrective actions, which are either implemented or planned by HUD, could be about $1 million annually. However, we were unable to fully evaluate their probable effectiveness because they have not been fully implemented.

CONCLUSION

We found during the follow-up review of our March 1980 report that HUD has taken action to implement recommendations 1 and 2.

AGENCY COMMENTS

HUD officials stated that the follow-up actions taken by HUD in response to previous GAO recommendations as presented in this report chapter are correct.

CHAPTER 5

CHANGES MADE IN SECTION 312 REHABILITATION LOAN AND BLOCK GRANT PROGRAMS: MORE NEEDS TO BE DONE

In December 1979 we reported 1/ that HUD's Section 312 Rehabilitation Loan Program and the CDBG program would finance more than $600 million in housing rehabilitation during fiscal year 1979. Our report showed that as much as $240 million in Federal funds made available annually under these two programs for housing rehabilitation assistance could be better spent.

Our report listed several reasons for the ineffective use of section 312 and CDBG funds, including the following:

--Borrowers were refinancing existing home mortgages with low-cost rehabilitation loans, diverting about $24 million from housing rehabilitation in fiscal year 1980.

--Some borrowers received low-payment loans even though they could afford higher payments. By adjusting loan payments to reflect borrowers' ability to repay, as much as $27.7 million of additional funds could be made available from fiscal year 1980 section 312 funds.

--Communities often awarded direct grants to cover all rehabilitation costs rather than (1) requiring homeowners to finance part of the cost from other sources or (2) using loans that, when repaid, will return money to community rehabilitation programs.

--Many communities were inconsistent or ineffective in giving funding priority to low- and moderate-income borrowers. They awarded loans to higher income borrowers who could obtain financial assistance from commercial sources instead of to more needy, lower income homeowners who require assistance.

1/"Millions Of Dollars For Rehabilitating Housing Can Be Used More Effectively" (CED-80-19, Dec. 7, 1979).

PREVIOUS RECOMMENDED ACTIONS

We recommended that HUD:

(1) Amend CDBG regulations to prohibit using grants unless they are combined with other resources.

(2) Provide technical assistance to communities in using deferred-payment loans instead of grants to help lower income property owners who cannot afford to make monthly rehabilitation loan payments.

(3) Develop section 312 single-family loan regulations implementing higher interest rates and shorter repayment periods to reflect the applicant's loan repayment ability.

(4) Provide technical assistance to communities using CDBG funds for single-family rehabilitation loans to develop methods of adjusting loan payments to reflect the borrower's repayment ability.

(5) Develop section 312 regulations to require that low- and moderate-income single-family loan applicants receive funding priority by restricting loans to higher income homeowners to exceptions defined by the Secretary.

We also recommended that the Congress (1) amend section 312 of the Housing Act of 1964 (42 U.S.C. 1452b) to provide for deferred payment loans and to prohibit refinancing existing indebtedness secured by a property being rehabilitated, and (2) amend section 105 of the Housing and Community Development Act of 1974, as amended (42 U.S.C. 5305), to eliminate refinancing existing indebtedness secured by a property being rehabilitated as an eligible activity under the CDBG program.

AGENCY RESPONSE

In response to our December 1979 report's first recommendation, HUD has not taken action to amend block grant regulations to prohibit using grants unless they are combined with other funds.

In response to our report's second recommendation, the HUD Secretary agreed with this recommendation and stated that HUD's Office of Urban Rehabilitation and Community Reinvestment will actively provide technical assistance to communities on the most efficient and effective rehabilitation financing techniques. The Secretary stated that using deferred payment loans and interest-free loans as alternatives to grants is being promoted by HUD through workshops and seminars. However, in a follow-up study currently underway, we observed that although many communities were using loans, loan and grant combinations, and other cost-effective techniques, many other communities were still using direct-grant programs exclusively or predominantly.

In response to our report's third recommendation, on September 10, 1980, HUD issued for the first time comprehensive regulations governing the administration of the Section 312 Housing Rehabilitation Loan Program. The new regulations include language requiring that loan terms and interest rates be consistent with the borrower's ability to pay. The new rule will become effective on February 15, 1981.

In response to our report's fourth recommendation, the HUD Secretary agreed with this recommendation and stated that HUD was already implementing it through technical assistance workshops, publications, and training courses. Through such assistance, HUD encourages both very low interest financing for lower income borrowers and higher interest rates for those who require smaller subsidies to accomplish rehabilitation, according to the HUD Secretary.

In response to our report's fifth recommendation, HUD's September 1980 section 312 regulations also require that "In processing and recommending or approving loans * * * localities shall give priority * * * to applications of low- and moderate-income persons." The 1978 amendments to the Housing and Community Development Act of 1974 define low- and moderate-income as incomes that do not exceed 95 percent of the area median income, adjusted for family size.

CONGRESSIONAL ACTION

Partly in response to our December 1979 recommendation, the Congress enacted Public Law 96-399 on October 8, 1980. This legislation amended section 312 of the Housing Act of 1964 and in part directs that the Secretary of HUD may not delegate to any agency or organization outside of HUD the authority to approve the refinancing of existing indebtedness.

EVALUATION OF AGENCY ACTIONS

We believe HUD's efforts to implement our fourth recommendation, if consistently and uniformly applied, can satisfy the intent of this recommendation.

Although HUD has also taken actions to implement recommendations 2, 3, and 5, our ongoing follow-up review is examining whether further actions are needed to ensure the maximum potential savings of section 312 and CDBG funds.

CONCLUSION

We found during the follow-up review of our December 1979 report that HUD has taken actions to implement recommendations 2 through 5, but has taken no action to implement recommendation 1.

HUD's nonconcurrence with our first recommendation appears to be based primarily on two factors: (1) that an additional burden will be placed on communities combining CDBG grants with other financial resources and (2) that combining grants with other resources would not serve the target population. We recognize that a legitimate need exists for some communities to use simple programs. Our report offered several alternatives, such as the use of a deferred-payment loan, which requires no program changes except to require homeowners to sign liens against their properties. We did not recommend that grants be eliminated entirely but that they be used in combination with other resources to stretch the amount of rehabilitation accomplished with CDBG funds.

AGENCY COMMENTS

HUD officials restated their position as contained on pages 16 and 17. We are reviewing these positions in our ongoing follow-up effort noted on page 16.

CHAPTER 6

THE COLLEGE HOUSING LOAN

PROGRAM: CORRECTIVE ACTION TAKEN

In March 1980 we reported 1/ that as a result of severe localized shortages of student housing and a need to renovate buildings for energy conservation, the Congress renewed the College Housing Loan Program, authorized in the Housing Act of 1950 (Public Law 81-475), in 1977 after 4 years of inactivity. Since the program's renewal, $255 million for new construction loans and $101 million for energy conservation have been awarded. In fiscal year 1980 an additional $85 million was available for college housing loans.

We found that HUD's process for selecting program projects did not ensure that only essential projects based on current severe housing shortages were funded. Student enrollment data and estimates, supplied by applicants for ranking construction projects, had not been verified by HUD even though many successful applicants had not followed enrollment reporting instructions. We also reported that HUD had taken 2 years or more to process loan agreements and release funds for both energy conservation and construction projects. Costs had increased and energy savings had been lost because projects did not proceed in a timely fashion.

TRANSFER OF THE COLLEGE HOUSING LOAN PROGRAM TO THE DEPARTMENT OF EDUCATION

The College Housing Loan Program was officially transferred to the Department of Education by determination order of the Office of Management and Budget on May 4, 1980. An interagency agreement was prepared to provide for an orderly transfer of the program. Under the agreement, HUD continued program operations through September 30, 1980, however, HUD field offices no longer had the authority to execute loan agreements. HUD field offices continued to process applications and close out college housing loans.

1/"The College Housing Loan Program: More Effective Management Needed" (CED-80-75, Mar. 26, 1980).

PREVIOUS RECOMMENDED ACTIONS

We recommended that the Departments of HUD and Education:

(1) Require applicants to submit documentation supporting the reasonableness of their estimates of housing deficiency.

(2) Verify that full-time enrollment data is reported consistently, which could be done by requiring applicants to submit copies of the prior year's Fall enrollment survey.

(3) Require State institutions to secure approval of State coordinating agencies before applying for a loan reservation.

(4) Review and revise the project selection criteria. Such criteria should meet the Appropriation Committees' test for identifying situations of current severe campus housing shortages.

(5) Direct that particular scrutiny be given to applications from schools that have not previously housed their students to assure that housing is not being requested to expand the schools' enrollment market.

We recommended that HUD:

(6) Instruct area offices to give higher priority to the final review of projects and execution of loan agreements to avoid further unnecessary cost increases and lost energy savings. HUD should try to clear the backlog of unsigned agreements before the program is transferred to the Department of Education.

We recommended also that the Department of Education:

(7) Biennially assess the need for new campus housing construction by monitoring such indicators as enrollment trends, occupancy of existing campus housing, and rental housing vacancy rates.

AGENCY RESPONSE

As a result of agreement with our first and second March 1980 report recommendations, HUD issued Guidance

Notice (80-72) dated July 3, 1980, to all of its field offices. The notice states that

> "* * * all applications under the category of new construction or acquisition of student housing to alleviate a severe housing shortage shall be required to submit full documentation supporting the figures submitted * * *."
>
> * * * * *
>
> "The latest annual enrollment report which a college or university is required to file with the Department of Education must be submitted along with application."

The notice further states that college housing loan applications will not be acceptable for processing without this documentation.

In response to our report's third recommendation, the Department of Education published regulations on applications for reservations of college housing program funds in the Federal Register dated August 1, 1980. The regulations state in section 279.42(c)(i)(vii), that applications for assistance must include certified copies of resolution of the applicant's governing body, authorizing the making of the college housing loan application.

In response to our report's fourth recommendation, HUD's July 1980 Guidance Notice (80-72) states that reasonable commuting distance criteria cannot be established on a national basis because of the differences in transportation systems in different parts of the country. However, the notice states that HUD field offices should develop a uniform policy regarding commuting distance criteria. The notice states that when a commuting distance of less that 20 miles is used, detailed documentation shall be submitted by the loan applicant specifying data such as availability of public or private transportation, economic status of the students who are commuting, and area travel conditions.

In response to our report's fifth recommendation, the increased emphasis placed on "evidence of need" and "evidence of a current severe housing shortage" required by HUD's July 1980 Guidance Notice (80-72) is intended, according to officials in HUD's Office of Multifamily Development, to assure that housing is being requested to meet a current housing shortage from all applicants, including those who have not previously housed their students. The Department of Education's August 1, 1980, Federal Register regulations also require that applications for assistance include evidence of need for the proposed project including supporting documentation.

In response to our report's sixth recommendation, each HUD area office was instructed by the July 1980 notice to identify a responsible individual in the field office to handle the processing of college housing applications. On March 7, 1980, a telegram was sent to all HUD regional administrators requesting information on the status of the college housing applications. The information was due to HUD headquarters by August 15, 1980. HUD instructed each field office to clear the backlog of unsigned agreements before the end of the 1980 fiscal year.

In response to our report's seventh recommendation, starting in fiscal year 1981, the Department of Education was scheduled to begin fully administering the College Housing Loan Program. The Director of the Higher Education Facilities Branch in the Department told us that several plans in the 1981 budget have been proposed to implement our seventh recommendation. A national survey to develop the type of data referred to in our recommendation is being developed, according to the Director.

EVALUATION OF AGENCY ACTIONS

HUD and the Department of Education have initiated corrective actions on most of the problems we discussed in our report with the exception of assessing the continued need for the loan program in view of the expected decline in college-age population and enrollment. We believe these actions, both planned and implemented, will increase the efficiency of the College Housing Loan Program. However, because of the transfer of the program from HUD's administration to the Department of Education, we believe a follow-up review of these agency actions will be necessary before we can fully evaluate their effectiveness.

CONCLUSION

We found during the follow-up review of our March 1980 report that HUD and the Department of Education have taken actions to implement recommendations 1 through 6. Recommendation 7 is being evaluated by the Department of Education for future implementation.

AGENCY COMMENTS

HUD officials stated that the follow-up actions taken by HUD in response to previous GAO recommendations as presented in this report chapter are correct.

CHAPTER 7

INSUFFICIENT PRIORITY GIVEN TO

ELIGIBLE FAMILIES WITH HIGHER INCOMES

In November 1979 we reported 1/ that the financial conditions of some agencies providing housing assistance to low-income families continue to deteriorate. Unless action is taken, increased dependence on Federal subsidies, which totaled $3 billion from 1974 to 1979, may result.

The Housing and Community Development Act of 1974, as amended (Public Law 93-383), requires housing families with a broad range of low incomes. This requirement had not been widely carried out at the time of our review. Housing poor families in preference to the poorest households involves difficult choices--providing housing to the poorest households at great cost to the Federal Government or providing housing to a broader range of low-income families to increase revenues and decrease Federal subsidies.

PROBLEMS IN ACHIEVING A BROADER RANGE OF LOW INCOMES IN PUBLIC HOUSING

Our November 1979 report listed a number of problems in achieving a broader range of low-income families in six PHAs we reviewed. The following problems were noted:

--Only one of the six agencies had begun to select tenants with higher incomes. About $33 million in additional rental revenues would have been earned by the other five authorities in 1 year had they housed the required broad range of low-income families.

--Officials in four HUD field offices told us that housing agencies rarely complied fully with this legislative requirement in their jurisdictions.

--Very low income families continue to predominate in public housing, while inflation plays a role in increasing operating costs.

1/"Serving A Broader Economic Range Of Families In Public Housing Could Reduce Operating Subsidies" (CED-80-2, Nov. 7, 1979).

Our review showed that much time will be needed to achieve the legislative requirement. We reported that efforts to implement the legislative requirement nationwide and improve the financial solvency of PHAs were also hindered by additional problems, including the following:

--Some agencies oppose housing eligible families with higher incomes in preference to very low-income families.

--HUD guidance and monitoring of housing agencies has been inadequate.

--Housing waiting lists do not contain enough eligible families with higher incomes.

--Some applicants refuse to move into projects because of their poor physical condition and/or location. Consequently, implementing a broad range-of-income approach for each agency housing project is difficult.

--Some families, such as those displaced by governmental action or fires, are placed in public housing in preference over others.

We concluded that unless HUD made a more vigorous commitment, the requirement to house families with a broader range of low incomes stands little chance of being met, and the opportunity for PHAs to earn large amounts of additional rental revenues may not be realized.

PREVIOUS RECOMMENDED ACTIONS

We recommended that HUD:

(1) Give public housing applicants who are not housed because of higher income eligible families priority consideration for housing in other HUD programs. While this recommendation may not reduce overall Federal expenditures for subsidized housing, it would help remove a major obstacle to implementing the legislative requirement nationwide and improve the financial solvency of PHAs.

(2) Reemphasize the legal requirements for housing a broad range of eligible families and provide detailed guidance on how to establish and implement a system of housing priorities in accordance with the legislative requirement.

(3) Conduct training sessions for housing agencies on how to establish and implement an income-mix tenant selection system using the New York City Housing Authority's method as one way of implementing the legislative requirement.

(4) Monitor housing agencies' compliance with the legislative requirement.

(5) Require that a plan for nationwide implementation be developed and an evaluation be prepared periodically on the status of such implementation. The evaluation should include information on (1) the number of housing agencies that have begun to carry out the legislative requirement and those that have not, (2) the number of housing agencies that have achieved a tenant composition representative of the eligible community they serve, and (3) estimates of the additional revenues that have not yet been realized and the time period needed for achieving these revenues.

AGENCY RESPONSE

HUD agreed with our recommendations, however, it pointed out that it would be unwise to adopt policies that would result in the concentration of the lowest income families in section 8 housing.

In response to our November 1979 report's first recommendation, HUD is preparing revisions to the "Public Housing Occupancy Handbook" (7465.1 REV). The HUD Secretary said that these revisions will strongly encourage (but not require) PHAs operating both section 8 existing housing and public housing to give a priority for section 8 certificates to those households whose admission to public housing is likely to be deferred 12 months or more because of preferences extended to higher income applications. In localities where the programs are operated by different PHAs, the PHAs will be encouraged to enter into cooperative arrangements directed to the same end. The new revisions will also encourage PHAs to keep apprised of all assisted housing opportunities in their areas and to refer families on their waiting lists whose admission to public housing must be deferred.

In response to our report's second recommendation, HUD's revisions and additions to the "Public Housing Occupancy Handbook" will also contain, according the HUD's Chief of the Rental and Occupancy Branch, Office of Public Housing, guidance for PHAs on attracting eligible families with higher incomes to the program and on assigning families to specific projects in multiproject operations. The revisions as proposed will also equip the HUD field office staff and PHAs with the techniques for analyzing a projects' ability to house a broad range of incomes and provide the criteria for determining a reasonable time to accomplish a specific goal.

In response to our report's third recommendation, HUD conducted tenant-selection training for all HUD area offices in February 1980. At least one representative from each area office attended the training, according to HUD officials. The February training was partially intended to prepare the area offices to, in turn, conduct similar tenant-selection training for PHAs under their jurisdictions. HUD records indicate that as of July 1980, about 1,855, or 65 percent, of the total 2,834 PHAs had received training from HUD area offices in recent months. The Chief of HUD's Rental and Occupancy Branch acknowledged, however, that the actual content of the training is not known to HUD headquarters officials because they are unable to monitor the course material presented to the PHAs.

In response to our report's fourth recommendation, HUD revised the instructions for public housing occupancy audits in April 1980. The guidelines specifically address how PHAs implement their adopted tenant selection policies, including those directed toward achieving occupancy by families with a broad range of incomes. Occupancy audits shall be conducted at each PHA at least once every 2 years, according to the revised instructions.

In response to our report's fifth recommendation, the Chief of the Rental and Occupancy Branch said that HUD's plan for nationwide implementation of the income-range requirements is incorporated in its fiscal year 1980 operating plan. That plan contains two priority objectives related to income ranges. The first objective calls for the field offices to assure that all PHAs operating low-income public housing will have adopted tenant-selection criteria directed toward achieving occupancy by families with a broad range of incomes. The second priority objective calls for achieving occupancy by families with a broad range of incomes in at least one PHA under the jurisdiction of each field office. This objective's primary purpose, according to HUD officials, is to attract the attention of all PHAs to the broad range of income legislative requirement and to encourage PHA's to develop both income-range tracking and reporting systems. The Chief also said that reports concerning additional revenue estimates achieved through broader income-range mix will not be prepared because of the complexity of tenant turnover in more than 10,000 public housing projects.

EVALUATION OF AGENCY ACTIONS

The proposed handbook revisions being developed in response to our first recommendation are not yet specific enough for us to evaluate their probable effectiveness. However, we believe the proposed handbook revisons, if fully implemented, may lessen the opposition of some PHAs to housing eligible families with higher incomes in preference to those with very low incomes. The planned revisions, when published, may be helpful in providing guidance to PHAs and HUD field office officials. However, we believe specific instructions to PHAs to establish goals, to begin and complete implementation, and to initiate outreach efforts are also needed to help PHAs and HUD field offices identify all sources of eligible families with higher incomes and implement more rapidly the legal requirements for housing eligible families with a broader range of incomes.

Regarding our third recommendation, HUD's lack of information regarding the PHAs training effort prevents us from determining the value or effectiveness of such training.

Although HUD has revised the instructions for public housing occupancy audits in response to our fourth recommendation, the revised audit instructions were not distributed until September 1980. Therefore, we did not have an opportunity to evaluate them. However, we believe the occupancy audit results can provide increased management oversight benefits and therefore should be used in developing future public housing occupancy policy.

Lastly, regarding HUD's response to our fifth recommendation, we continue to believe that by providing estimates of the additional revenues that have not yet been realized and the time period needed for achieving these revenues, references will be established on which HUD can better base future occupancy policies.

CONCLUSION

We found during the follow-up review of our November 1979 report that HUD has taken actions to implement recommendations 1, 2, 3, and 4. No action has been taken to implement recommendation 5.

We believe that HUD has not placed sufficient priority on implementing the broad range-of-income requirement. HUD acknowledges that tenant turnover in public housing projects is slow, perhaps only 10-percent turnover a year or less in the average project. Even after PHAs have implemented a plan to include eligible families with higher incomes in the tenant selection process, it will still take several years for a recognizable change to occur in a project's tenant-income characteristics. We continue to believe that more aggressive action by HUD and PHAs is necessary and that our recommendations, if fully implemented, will minimize future Federal housing subsidy expenditures.

AGENCY COMMENTS

HUD officials stated that the follow-up actions taken by HUD in response to previous GAO recommendations as presented in this report chapter are correct.

CHAPTER 8

IMPROVED FINANCIAL OVERSIGHT

BEING IMPLEMENTED FOR THE

CHICAGO HOUSING AUTHORITY

In April 1980 we reported 1/ that the Chicago Housing Authority (CHA) needed to improve how it manages and controls purchasing to ensure efficient and economical management and guard against possible fraud. Our review found that although CHA's purchasing policies appear adequate on the surface, the CHA staff readily circumvented these policies. Controls designed to ensure free and open competition for large purchases were avoided by using order splitting and open-purchase orders. We also found that purchasing methods allowing project management personnel to make small or urgent purchases quickly were being abused. In addition, basic procurement management information, such as total purchases by vendor or by category, were not readily available at CHA. The accounting system could only estimate total purchases. Requirement planning, important to purchasing management, was not systematically carried out because the needed information, although prepared, was inadequately disseminated.

To provide adequate review and monitoring, HUD, until recently, required a comprehensive review every 6 years to assure that housing authorities were being managed as effectively and economically as possible and to identify serious management problems at all local housing authorities. Current requirements provide for a review every 3 years. We reported that HUD had not completed a comprehensive management review of CHA since 1962, even though HUD provided about two-thirds of CHA's operating budget and CHA had been operating at a deficit since 1977 (and continues to stay solvent only because HUD has paid advance subsidies totaling $20 million through 1979). While our review was in process, HUD initiated a management review of CHA operations that is scheduled for completion in 1982.

PREVIOUS RECOMMENDED ACTIONS

To increase HUD's oversight, which is essential to assure that housing authorities such as CHA are being

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1/CED-80-93, April 28, 1980.

managed as effectively and economically as possible, we recommended that HUD:

(1) Verify, as part of the current management review of CHA, that actions have been taken to correct the deficiencies discussed in this report.

(2) Require audits and regular monitoring of financially troubled housing authorities as a prerequisite for those authorities to receive any payments in excess of those allowed under the Performance Funding System. 1/

AGENCY RESPONSE

In response to our April 1980 report's first recommendation, HUD forwarded a copy of our report to the Chicago HUD regional and area offices with advice that the present comprehensive management review shall examine procurement policies and practices of CHA in greater depth, and shall, at a minimum, cite all of the deficiencies discussed in our report. Although the CHA comprehensive management review is not scheduled for completion until 1982, reports will be issued in varying intervals. In the interim, according to HUD's Secretary, the area office shall also furnish CHA with a copy of our report and establish a 30-day response time in which CHA must state in writing those actions taken or planned to remedy deficiencies. The Secretary also directed that strategies to correct currently known deficiencies together with projected cost savings must must be incorporated as part of financial workout plan arrangements between CHA and HUD.

HUD officials, in response to our second recommendation, said that they already had, before the release of our April 1980 report, a requirement for comprehensive reviews for financially troubled PHAs (those with operating reserve levels of 20 percent or less of their maximum level) with 1,250 or more PHA-owned units. The HUD Secretary also advised us that reviews of the 10 PHAs, for which our report noted that there was a proposed additional supplemental appropriation to bolster their inadequate operating reserves to meet current operating expenses, have been and are being scheduled in HUD field office

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1/The Performance Funding System was designed to provide the operating subsidy required to effectively operate a well managed housing authority.

operating plans. In addition, on June 26 and October 31, 1979, HUD required that all financially troubled PHAs must submit formal workout plans covering management improvements designed to reduce costs and improve their financial status. The HUD Secretary, in response to this report recommendation, noted that the absence of an approved workout plan or insufficient progress pursuant to approved strategies or tasks, may adversely affect a PHA's eligibility to compete for major HUD-funded programs, as well as to receive special funds that HUD may have available for distribution to PHAs.

REDUCED APPROPRIATION

Based on our April 1980 report, the Congress reduced the amount of funds provided to CHA and 9 other public housing authorities for clearing their operating deficits. Only $13.8 million of the $52.6 million requested was approved--a reduction of about $39 million.

CONCLUSION

We found during the follow-up review of our April 1980 report that HUD has taken actions to implement recommendations 1 and 2.

AGENCY COMMENTS

HUD officials stated that the follow-up actions taken by HUD in response to previous GAO recommendations as presented in this report chapter are correct. HUD officials noted that the formal workout plan for CHA discussed in chapter 8 has been approved by HUD for implementation.

CHAPTER 9

IMPROVEMENTS MADE IN

MANAGING MULTIFAMILY

ASSIGNED MORTGAGES

Managing and servicing HUD-assigned multifamily mortgages is a difficult task, however, improvements can be made to minimize mortgage insurance losses and to protect the safety and welfare of the tenants living in these projects. We reached this conclusion in our January 1980 report. 1/ A review of HUD's multifamily mortgage inventory ending September 30, 1979, indicated that seriously delinquent mortgages were neither in foreclosure nor under current workout arrangements.

Foreclosures of HUD multifamily mortgagors, we reported, take an average of 2-1/2 years to accomplish and have been applied inconsistently, based on the financial status of the mortgages. HUD's slow actions in initiating foreclosure and obtaining control of projects affect the insurance funds, which results in increased losses to the Federal Government and may result in hardships on tenants because projects often deteriorate after mortgagors become aware of a potential foreclosure action.

In addition, we reported that during the period owners are delinquent in their mortgage payments and while foreclosure on mortgages is in process, owners can claim income tax deductions for accrual of unpaid interest and depreciation expenses. Thus, the already lengthy process of foreclosure, which results in project deterioration, mortgage insurance losses to HUD, and hardship for tenants, is exacerbated by monetary incentives to delay foreclosures based on income tax considerations.

PREVIOUS RECOMMENDED ACTIONS

To improve the management of its assigned multifamily inventory, we recommended that HUD:

(1) Achieve consistency in data used by various HUD offices by developing a single, comprehensive management information system capable of disclosing accurate and timely data on the status of assigned mortgages.

1/CED-80-43, January 16, 1980.

(2) Make expeditious determinations, after assignment, as to whether a mortgage can realistically be brought current and then either place the mortgage under a closely monitored workout arrangement or proceed promptly with foreclosure.

(3) Work with the Department of Justice and the Internal Revenue Service to identify causes of delays and alternatives, including legislative remedies if appropriate, for reducing the time periods and Federal losses (including those through the income tax process) resulting from lengthy foreclosure proceedings.

(4) Pursue more effective and timely efforts to obtain control of project operations once a decision to foreclose is made.

AGENCY RESPONSE

The HUD Secretary stated on April 16, 1980, that HUD agreed with our report findings and recommendations. The Secretary also pointed out that HUD must take many factors into account before moving to foreclose, such as Federal court rulings that have bound HUD to follow both the National Housing Act and the Administrative Procedures Act in reaching foreclosure decisions.

Implementing its Multi-family Insured and Direct Loan Information System in March 1980 was HUD's response to our January 1980 report's first recommendation. This system permits HUD to track major actions on each project through its entire life cycle and gives HUD headquarters an increased capacity to monitor the submission of financial reports and other field performance. HUD is also implementing the Office of Loan Management System, which will provide HUD with basic comparable project operating-cost data vital to monitor projects and analyze expenditures. The system is now scheduled to be fully operational by December 1980. However, the system's user guide will not be available until January 1981.

In response to our report's second recommendation, initial instructions ending "net cash" workouts and establishing new procedures were issued to field offices by telegram. The authority to decentralize workout agreements, which includes information for the field on analysis techniques and procedures, was scheduled for field implementation during October 1980. The workout handbook, "The Schematic Outline of the Workout Process," has been prepared and is under HUD review. HUD expected to issue the handbook by December 1980. HUD has also implemented management reviews. Troubled projects (subsidized or unsubsidized) receive annual comprehensive reviews; untroubled subsidized projects receive annual limited reviews; and untroubled unsubsidized projects are reviewed biannually. The reviews are monitored through the HUD operating plan to assure compliance with the review requirements. HUD had also scheduled to have an automated billing system reflecting workout agreements fully operational by September 1980. The system will permit more aggressive servicing in HUD-held projects and provide services with adequate collection information. Also, to bring projects under an approved workout plan quickly, HUD set a goal of 90 percent of HUD-held projects to be under an approved plan by September 1980. HUD reported that 92 percent of the projects were under an approved plan by the end of fiscal year 1980.

In response to our third recommendation, HUD's Office of General Counsel is seeking statutory authority for faster foreclosures. HUD plans to have this authority implemented by February 1981. HUD is also cooperating in efforts to improve the transfer of information needed to enforce tax compliance by the Internal Revenue Service.

HUD has also developed an improved system for tracking foreclosure actions in cooperation with the Department of Justice. The tracking system should lead to shorter internal processing and speedier foreclosures, according to HUD. The system was scheduled to be fully operational by October 1980.

In response to our report's fourth recommendation, HUD has developed a model legal complaint to secure earlier possession and speed foreclosure. The model complaint is available for use by Department of Justice attorneys. In addition, a draft brief has been prepared to accompany the model complaint that will be updated on a continuing basis to keep it current with recent case law.

EVALUATION OF AGENCY ACTIONS

HUD has made an impressive effort to implement our January 1980 report's recommendations. It appears that the HUD reforms will have significant impact on the managing and servicing of assigned multifamily mortgages. At recent congressional hearings it was estimated that project-owner deductions for unpaid interest on HUD-held mortgages could easily exceed $200 million. Some reforms have been more difficult for HUD to implement than others. For instance, until the Office of Loan Management System is fully automated, project data must be entered into the system manually, which requires much longer processing time. Although several reforms were not completely implemented at the time of our follow-up review, we anticipate their full implementation as scheduled.

CONCLUSION

We found during the follow-up review of our January 1980 report that HUD has taken actions to implement recommendations 1 through 4.

AGENCY COMMENTS

HUD officials stated that the follow-up actions taken by HUD in response to previous GAO recommendations as presented in this report chapter are correct.

CHAPTER 10

HUD'S FINANCIAL MANAGEMENT SYSTEM:

PROGRESS MADE--MORE NEEDED

HUD's financial management system does not provide agency and project employees with the information they need to control project costs effectively at formerly subsidized multi-family housing projects which HUD, through default, has acquired and manages. Our December 1979 report, 1/ requested by the Congress, found that without such information, HUD officials have difficulty controlling project expenses and if rent revenues are insufficient to meet expenses, the deficit is paid by HUD's General and Special Risk Insurance Fund.

Our report estimated that HUD was incurring annual losses of about $19 million on its inventory of about 221 projects with over 20,000 housing units for the year ended February 1978. Since HUD's total loss, including subsidy, is absorbed by the General and Special Risk Insurance Fund, we concluded that in effect, HUD was using the insurance funds to provide housing subsidies in addition to the amounts appropriated by the Congress. We also reported that losses incurred during operation of HUD's acquired, formerly subsidized projects are not accounted for separately. As a result, we concluded that the unidentified absorption of losses and subsidies by the insurance funds, coupled with the financial management system's failure to identify and report project operating expenses, revenues, and losses, limits congressional budgetary oversight of HUD's operation of its acquired multifamily housing inventory. HUD and project employees are also without a valuable management tool in operating HUD-owned projects.

Furthermore, we reported that project managers did not adequately comply with HUD requirements to verify tenant incomes upon which rents are based. We found indications that some tenants were underreporting their incomes and paying lower rents than they should. Such underreporting often goes undetected because HUD has generally provided inadequate monitoring of project operations.

1/"HUD Should Improve Its Management of Acquired, Formerly Subsidized Multifamily Projects" (CED-80-31, Dec. 19, 1979).

PREVIOUS RECOMMENDED ACTIONS

We recommend that HUD:

(1) Develop a financial information system to produce, for comparative analyses, timely data on the costs, subsidies, and losses at HUD-owned projects.

(2) Develop cost standards for projects to help project managers and HUD employees in evaluate project expenses.

(3) Improve how project operations are monitored through more frequent site visits, with emphasis on reviews of the costs being incurred and project income certifications and verifications.

(4) Penalize project managers who do not adequately fulfill their managerial responsibilities by reducing their management fees or replacing them.

(5) Identify in its annual budget request the losses and rental assistance subsidies being absorbed by the General and Special Risk Insurance Funds in operating HUD's acquired, formerly subsidized multifamily housing projects.

AGENCY RESPONSE

In response to our December 1979 report's first recommendation, HUD's Secretary stated that two specific actions have been taken to address this problem. First, the entire approach to managing HUD-owned projects would be reevaluated. HUD intends to combine project management techniques and financial requirements so that they are identical for all projects regardless of mortgage status. HUD believes that one result of this action will be to create uniform project financial records and books in HUD-owned projects, which are required to produce project-based budgets and financial statements. Secondly, to analyze HUD's bookkeeping and financial reporting systems.

Effective October 1, 1980, HUD established a budgeting and expenditure control system for all HUD-owned projects. The system, which will be fully operational by the end of fiscal year 1981, will produce (1) quarterly operating and capital improvements reports showing budgeted amounts against actual amounts for each project, (2) special reports when certain prescribed limits are exceeded, that is, a project is 10 percent over budget with respect to any class of expense items, except taxes and utilities, and (3) year-end summary reports for each project, including averages for other HUD-owned projects on a national, regional, and field basis.

According to HUD officials, this system should significantly improve HUD's ability to make comparative analysis among the various HUD-owned projects. Further, the new system was tailored to the extent feasible to the financial data being produced under the Office of Loan Management System, which is currently in use for HUD-insured and HUD-held projects. HUD officials stated that comparisons could be made manually between these two systems.

In response to our report's second recommendation, HUD officials stated that the budgeting and expenditure control system implemented on October 1, 1980, will provide HUD with a greatly improved basis for making meaningful cost comparisons and for judging whether project costs are reasonable and necessary, thereby providing an effective management tool to control operating costs. HUD officials said that the reports generated by the system will in effect provide standards by accumulating historical cost data that can be used to judge current costs. Corrective measures can then be taken as necessary. Also, the Department's Multifamily Insured and Direct Loan Information System, operational in March 1980, will help monitor individual projects. This system will track major actions taken on each multifamily project during each phase of its life cycle, including development, loan management, and disposition. The system will also provide field office profiles and historical profiles on individual projects.

In response to our report's third recommendation, HUD officials stated that as part of HUD's efforts to improve its oversight of all troubled projects, it has developed and implemented a number of improved project monitoring techniques. These include adopting and implementing virtually identical requirements for on-site management reviews and physical inspections at HUD-owned projects that were previously required at HUD-held and HUD-insured projects. HUD also created the Office of Field Monitoring and Operations, which was assigned responsibility for conducting on-site reviews of field offices, allocating administrative resources that affect the field offices' ability to perform, and coordinating and evaluating data supplied by the various remote monitoring systems.

In response to our report's fourth recommendation, HUD's Secretary stated that a two-step management selection process implemented in early 1979 for use in HUD-owned projects will ensure good management through the selection of only qualified management brokers. HUD will, using improved management oversight procedures, aggressively pursue quality performance and will terminate contracts when inadequate performance is detected, according to the HUD Secretary.

In response to our report's fifth and last recommendation, HUD's Secretary agreed that the present financial recordkeeping procedures cannot identify the losses and rental assistance subsidies being absorbed by the General and Special Risk Insurance Fund. However, the Secretary believes that the changes being made in the Office of Financial Accounting System and the implementation of the Mortgage Insurance Accounting System will enable HUD to comply with the reforms we recommended. The Mortgage Insurance Accounting System, which is presently in the detailed design phase of development, will upgrade both the software and hardware of the present Federal Housing Administration fund system and will replace 16 existing HUD-Federal Housing Administration information and data systems. The new system is presently scheduled for implementation in July 1982, according to the Director of HUD's Mortgage Accounting Project.

EVALUATION OF AGENCY ACTIONS

At the time of our follow-up review, HUD field offices were being introduced to the Multifamily Insured and Direct Loan Information Systems. HUD multifamily officials told us that a lag exists in the full use of this system by field office staffs. However, these officials believe that once familiar with the system, the staffs will quickly use the system to its full capacity.

We believe the actions planned by HUD, especially implementing the Mortgage Insurance Accounting System, should improve HUD's management of and control over acquired projects. We cannot judge how well these actions will resolve the problems identified in our December 1979 report until the actions planned by HUD are actually implemented. We believe that annual losses incurred as a result of inadequate information may continue until the corrective actions discussed above are implemented and the needed information is provided.

CONCLUSION

We found during the follow-up review of our December 1979 report that HUD has taken actions to implement recommendations 1 through 5.

AGENCY COMMENTS

HUD officials stated that the follow-up actions taken by HUD in response to previous GAO recommendations as presented in this report chapter are correct.

LISTING OF OUR PRIOR REPORTS

USED IN PREPARING THIS REPORT

Title	Reference number and date
Letter report to the Secretary, Department of Housing and Urban Development, on possible duplicate payments in the Section 8 Program	CED-79-51, March 1, 1979
Report to the Congress, "Serving A Broader Economic Range of Families in Public Housing Could Reduce Operating Subsidies"	CED-80-2, November 7, 1979
Report to the Congress, "Millions of Dollars for Rehabilitating Housing Can Be Used More Effectively"	CED-80-19, December 7, 1979
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Letter report to the Honorable Bennett M. Stewart, House of Representatives, on management and controls at the Chicago Housing Authority	CED-80-93, April 28, 1980
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