REPORT BY THE

Comptroller General

OF THE UNITED STATES

Problems Continue In Accounting For And Servicing HUD-Held Multifamily Mortgages

In May 1980, GAO reported that the Department of Housing and Urban Development had not aggressively collected amounts owed on defaulted multifamily mortgages. At that time, HUD agreed to implement GAO's recommendations to improve its accounting system and better manage its debt collection efforts.

HUD has taken some corrective actions, but these have not been sufficient to stem the growing number of delinquencies. From September 1979 through May 1981, total delinquencies on HUD's $4-billion portfolio of multifamily mortgages increased from $500 million to $589 million. GAO reiterates its earlier recommendations to improve HUD's debt collection activities.

UNITED STATES GENERAL ACCOUNTING OFFICE

GAO/AFMD-82-18
AUGUST 18, 1982

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

B-198676

The Honorable Charles H. Percy
Chairman, Subcommittee on Energy,
Nuclear Proliferation, and
Government Processes
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

Your letter of February 20, 1981, requested us to perform a review in Chicago to follow up on our May 1980 report 1/ on loan servicing and accounting problems in the Department of Housing and Urban Development's (HUD's) multifamily mortgage programs. Our earlier report concluded that HUD's failure to produce adequate delinquency data and aggressively collect amounts owed on defaulted multifamily mortgages contributed significantly to the over $500 million owed the Department in delinquent loan payments. HUD agreed with our recommendations and promised to improve its accounting system and better manage its debt collection efforts in these programs. We found, however, that most corrective actions promised by HUD had not been completed.

Our previous report dealt with several programs under which HUD insures the payment of mortgages made by private lenders for building housing projects approved by HUD. If the borrowers fail to pay, the defaulted mortgages can be sent to HUD for payment. HUD, as owner of these defaulted mortgages, can either foreclose or negotiate with the owners new payment plans aimed at bringing the loans current. To avoid foreclosure, HUD usually negotiates new payment plans. Owner compliance with these payment plans and other HUD requirements concerning the use of project receipts is vital to protect the Government's interest, ensure that income of housing projects is used only for authorized purposes, and bring the mortgages current. In this followup review, we selected 12 of the 88 defaulted multifamily mortgages serviced by HUD's Chicago area office to determine if project receipts were being used only for authorized purposes and if required financial information was being submitted to and reviewed by HUD.

As of October 31, 1981, HUD reported that its nationwide inventory of multifamily mortgages consisted of 2,026 mortgages with an unpaid principal balance of about $4 billion. Over 55 percent

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1/"HUD Should Make Immediate Changes in Accounting for Secretary-Held Multifamily Mortgages," FGMSD-80-43, May 16, 1980.

or 1,117 of these mortgages were delinquent. Of the 1,117 delinquencies, 445 were being serviced under a payment plan, 343 had been referred to the Department of Justice for foreclosure, and 329 had no payment plan in effect. The management of this inventory is a difficult task, since the projects securing the mortgages have a history of financial and/or management problems. However, the following deficiencies noted during our review of Chicago area projects, and presented in greater detail in appendix I, contributed significantly to the increasing volume of delinquent loan payments:

--Financial information received on multifamily housing projects is often not adequately reviewed by HUD. As a result, funds which should be used to reduce delinquencies are too often used for questionable purposes, such as loans to owners or affiliated businesses. Questionable uses of project receipts totaling over $2.6 million were noted for 10 out of the 12 Chicago projects we reviewed. (See app. I.)

--Financial information required by HUD, such as annual financial statements, are often not submitted, submitted late, or submitted with incomplete data. Eleven of the 12 Chicago projects we reviewed did not fully comply with HUD's financial reporting requirements. This information is vital to determine a project's ability to pay off delinquent balances and ensure that project receipts are used only for authorized purposes. (See app. I.)

--HUD does not produce adequate information to evaluate and manage the Department's debt collection on these mortgages. Periodic reports showing the payment status of amounts due under the new payment plans were first produced in December 1981. We found that these reports contained no information on unpaid interest. Also, since the new reporting system is not fully operational, the December reports were incomplete. (See app. I.)

HUD has taken some corrective actions, such as increased financial training, and has others in process. (See app. II.) The Department also recently made debt collection a top priority. However, GAO determined that in the 21-month period between September 1, 1979, and May 31, 1981, total delinquencies increased from $500 million to about $589 million. The recommendations of our prior report have not yet been fully implemented and are still needed. We are again recommending that the Secretary of HUD fully implement the recommendations of our 1980 report by:

--Requiring aggressive collection actions, including referrals to the Department of Justice, to obtain repayment of project funds used for unauthorized or questionable purposes.

--Requiring field offices to obtain complete financial reports from borrowers.

--Providing staff additional training in financial analysis.

--Expediting testing and correction of delinquency information generated by the new management information system.

HUD agreed with our recommendations and promised to improve the quality of field offices' financial reviews and provide better delinquency data to loan servicers. Recently, the Department published two new handbooks to provide loan servicers guidance on financial reviews. A new Office of Program Enforcement also was created to pursue foreclosures and initiate other legal actions to recover illegally diverted funds. These and other actions promised by the Department demonstrate the increased emphasis being placed on debt collection. When implemented, these actions should address our recommendations, reduce future questionable uses of project receipts, and better control increasing delinquencies. (See app. II.) As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its date. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

PROBLEMS CONTINUE IN ACCOUNTING FOR AND SERVICING HUD-HELD MULTIFAMILY MORTAGES

As requested, we followed up our May 16, 1980, report (FGMS-80-43) on accounting and loan servicing problems in the Department of Housing and Urban Development's multifamily mortgage programs. We made the review at the request of the Chairman, Subcommittee on Energy, Nuclear Proliferation, and Government Processes, Senate Committee on Governmental Affairs. We did it at HUD's headquarters and HUD's Chicago area office.

Subsequent to our 1980 report, HUD promised changes to its accounting and loan servicing functions to improve management of its multifamily debt collection efforts. While the Department took some actions, many accounting, financial reporting, and loan servicing problems still exist. Specificially:

--HUD has not corrected previously identified weaknesses in field office servicing of HUD-held multifamily mortgages. Questionable uses of project receipts totaling over $2.6 million were identified at 10 of the 12 Chicago housing projects in our sample.

--HUD has not completed changes promised over a year ago to provide loan servicers with delinquency data necessary to enable aggressive loan servicing.

HUD's failure to complete implementation of promised changes has contributed to an ever increasing volume of delinquent loan payments. GAO calculated that in the 21-month period from September 1, 1979, to May 31, 1981, total delinquencies grew from $500 million to over $589 million.

BACKGROUND

Under authority contained in the National Housing Act of 1934, as amended, HUD insures mortgages made by private lenders to finance the construction or rehabilitation of multifamily rental housing. When the borrowers fail to make their loan payments, the lending institutions can send the insured mortgages to HUD for payment of 99 percent of the unpaid principal balance plus other allowable costs. After paying the insurance claims, HUD can either initiate foreclosure on the defaulted mortgages or negotiate new payment plans to bring the mortgages current. To avoid foreclosures, HUD usually negotiates new payment plans with the project owners.

As of October 31, 1981, HUD reported that its inventory of multifamily mortgages consisted of 2,026 mortgages with an unpaid principal balance of about $4 billion. Over 55 percent or 1,117 of these mortgagors were delinquent in their payments. Of the delinquencies, 445 were being serviced under a payment plan, 343 mortgages had been referred to the Department of Justice for foreclosure, and 329 had no payment plan in effect.

Payment plans negotiated on defaulted mortgages are known as workout agreements. These agreements allow the projects to pay a reduced payment for a limited period while working out long term solutions to bring the mortgage current. The payment amount is based on the project's ability to pay. To enable HUD to determine that project receipts are used to the extent possible to reduce delinquencies, defaulted mortgagors are required to submit to HUD monthly statements of cash receipts and disbursements plus schedules of accounts payable. The defaulted mortgagors must also submit annual financial statements on the housing projects. The statements must be certified by an independent or certified public accountant.

Loan servicers in HUD's field offices, among other duties, negotiate workout agreements with owners, monitor compliance with the terms of the workout agreements, and by reviewing monthly and annual financial reports, ensure that project receipts are used only for the payment of reasonable and necessary operating expenses. Unauthorized uses of project receipts should be brought to the attention of the owners and/or managing agents and, if circumstances warrant, should be referred to the Department of Justice for possible criminal prosecution. Criminal penalties are provided under 12 U.S.C. 1715z-4 for using receipts from HUD-insured projects for other than the payment of reasonable and necessary operating expenses when the HUD-insured mortgages are in default.

Accounting for defaulted multifamily mortgages is performed by the Office of Finance and Accounting at headquarters in Washington, D.C. The centralized accounting function receives monthly mortgage payments, maintains escrow accounts from which property taxes are paid, and provides monthly bills to mortgagors and HUD loan servicers showing the total amounts due and delinquent.

OBJECTIVES, SCOPE, AND METHODOLOGY

We followed up our May 16, 1980, report (FGMS-80-43) on accounting and loan servicing problems in HUD's multifamily mortgage programs. We performed our review in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." Our objectives were to

--determine the status of actions promised by HUD to correct previously identified problems and

--determine if the HUD Chicago field office, in order to identify questionable uses of project receipts, was receiving and sufficiently reviewing financial information submitted by mortgagors.

To meet our objectives, we selected for review 12 of the 88 defaulted multifamily mortgages serviced by HUD's Chicago area office. These 12 mortgages represented $22.6 million of the $57.7 million in delinquent payments owed on the 88 Chicago projects. Our selection was made from mortgages held by HUD for over 3 years or those previously identified by outside parties, such as tenant groups, as being on problem projects. We reviewed field office records for each of the 12 projects, interviewed field office officials responsible for servicing the projects, developed payment histories from the accounting records maintained at HUD headquarters, and visited the management agents of two projects with large dollar amounts of questionable uses of project receipts. We also interviewed HUD officials in headquarters to determine the status of corrective actions to improve the centralized accounting function for the defaulted mortgages.

LOAN SERVICING PROBLEMS CONTINUE

The failure to enforce financial reporting requirements and perform an adequate analysis of financial information received created a situation in which funds that should be used to reduce delinquencies could be illegally diverted. GAO's review of 12 multifamily mortgages serviced by HUD's Chicago area office showed serious problems in HUD's loan servicing. For example:

--Questionable uses of project receipts totaling over $2.6 million were noted for 10 of the 12 Chicago projects we reviewed.

--Financial information required by HUD was not submitted or submitted late for 11 of the 12 projects reviewed.

None of the 12 projects reviewed showed a decrease in mortgage delinquency since the mortgages were sent to HUD. In fact, the 12 mortgages, which had been held by HUD for periods between 3 and 9 years, actually increased in delinquencies by over $15 million. Our May 1980 report noted that insufficient training of loan servicers in financial analysis, a lack of enforcement of HUD requirements, and low priority given to financial analysis contributed to loan servicing problems. Subsequent to our last review, a training program in financial analysis was developed by HUD. However, at the time of our current review, only two loan servicers in Chicago had received the training. Several other loan servicers were given 2 hours of training in financial analysis locally. Despite increased training, financial statements in Chicago were inadequately reviewed, and questions arising from the reviews were not resolved.

Millions of dollars in questionable expenditures and unauthorized loans

Our analysis of annual financial statements and monthly statements of cash receipts and disbursements revealed millions of dollars in questionable uses of project receipts. Specifically:

--Unauthorized loans or advances totaling over $2 million were made by four of the 12 projects to affiliated organizations.

--Questionable expenditures totaling over $600,000 were made by 7 of the 12 projects.

When project receipts are not credited to the properties or improper expenditures are made, funds that should be used to pay valid project expenses or reduce mortgage delinquencies can be diverted to owners, managing agents, and/or affiliated organizations.

One of the 12 Chicago projects reviewed had the following unauthorized advances or questionable expenditures:

--Unauthorized advances made to affiliated organizations over a 4-year period totaled as much as $574,102.

--Repair and security services provided by affiliated organizations involved $119,128 in 1979 without evidence of the reasonableness of such expenses.

--Security services provided by an affiliated organization over a 4-year period were in excess of the service agreement by annual amounts ranging from $2,913 to $35,884.

--Bookkeeping, clerical, and other management overhead expenses totaling $77,363 for 1979 and 1980 were charged to the property, but according to the management agreement and/or management plan, should have been paid by the management agent or were in excess of the management plan.

--Apparent overbilling of management fees amounted to $8,441.

--Onsite payroll costs were charged to the property in excess of the management plan or budget by $106,351 over a 2-year period.

The unauthorized advances to affiliated organizations and security service expenses were questioned by HUD in February 1981, but unresolved at the time of our audit. The remaining expenses had not been questioned by HUD.

In past years, three of the other projects reviewed had made unauthorized advances of $1,445,725 to affiliated companies. Of the $1,445,725 made, $914,173 had been repaid in cash, and notes for $429,492 had been given. At the time of our review, $102,060 still remained unpaid on the notes.

An earlier audit of these three properties by the HUD Inspector General showed the projects had withheld large amounts of cash which should have been remitted to HUD to reduce mortgage delinquencies. Requests by the field office for remittance of these cash balances were not honored. HUD Inspector General audits requested by the field office disclosed net cash available of $263,000 at one property on October 31, 1977, $592,000 at the second property on March 31, 1978, and $443,000 at the third property on June 30, 1978. After discussions between the borrower, Inspector General auditors, and HUD field office personnel, the money was paid to HUD in 1978 to apply against the mortgage delinquencies.

We contacted the managing agents of 10 of the 12 projects in our review to discuss the questionable items. (We could not reach two of them.) In most cases, the managing agents stated they felt the items were validly chargeable against project receipts. However, their explanations were too general to satisfy our concerns. We feel each of the charges should have been questioned by HUD and allowed or disallowed based upon full disclosure of the facts.

Strict enforcement of financial reporting requirements needed

Financial reporting requirements for defaulted mortgagors were not adhered to by 11 of the 12 Chicago projects reviewed. This breakdown in internal controls could result in project funds being misused or diverted for unauthorized purposes without HUD's knowledge.

HUD requires that financial reports for each property be prepared and submitted within 60 days after the end of each fiscal year and be certified by an independent or certified public accountant and an officer of the mortgagor. Upon receipt of financial statements, HUD procedures require a prompt review and evaluation of the statements to determine their completeness and accuracy.

HUD regulations also require delinquent mortgagors to submit monthly accountings showing income, disbursements, and payables. HUD considers the monthly reports essential for monitoring defaulted multifamily mortgages. Since these reports show all cash receipts and disbursements during the previous month and cash on hand at the end of the month, they should be carefully reviewed shortly after receipt.

Our examination of the most recent financial statements for 12 Chicago field office properties revealed that only one of the 12 fully complied with HUD's audit guide. This guide sets forth standards to be followed by independent public accountants in conducting audits and preparing statements of multifamily projects for fiscal years ending on or after December 31, 1978. Ten of the 12 reviewed were missing one or more of the statements or the supporting data required by HUD. The one remaining property has never submitted statements since it was returned to HUD in March 1976. Therefore, HUD has no assurance that receipts for this project were being properly used.

For 3 of the 12 properties, the mortgagor was recently requested to submit revised financial statements to conform to the new audit guide requirements, but these statements had not been received at the time of our audit. In addition, 10 of the 12 properties, even though some had an approved extension, did not submit their statements within the required 60 days.

Neglect of HUD's financial reporting requirements stems from the lack of priority given to these requirements by loan servicers and field office managers. Chicago field office officials attribute these conditions to the lack of adequate staffing of loan functions. Regardless of the causes, without prompt and complete financial information HUD cannot be assured that project receipts are used to the extent possible to reduce mortgage delinquencies.

SIMILAR PROBLEMS REPORTED BEFORE

Questionable uses of project receipts and other financial reporting problems have been reported many times in the past. The HUD Inspector General, for example, reported in August 1980, based on a nationwide review of 250 projects, that $2.7 million was identified in questionable expenditures or unauthorized advances. In March 1974, GAO reported extensive loan servicing problems to the House Committee on Government Operations. Many of the problems reported by GAO in 1974 were again reported in our 1980 report based on our review of HUD-insured projects in New York.

DELINQUENCY DATA IS STILL INADEQUATE

In our past report, we noted that delinquency data produced by HUD was inadequate to monitor debt collection efforts on multifamily mortgages. For example:

--The total dollar value of delinquent payments under the terms of the mortgages or the workout agreements could not be produced by HUD's accounting system.

--No information was provided to field office loan servicers on the payment status of delinquent mortgages under the terms of the workout agreements.

--Monthly bills provided to mortgagors and HUD field offices by the centralized accounting function were generally received in the field offices after the due date of the monthly payment shown on the bill, thus making aggressive loan servicing difficult.

HUD promised system changes to produce additional delinquency data. However, implementation dates for many of the corrective measures have been repeatedly delayed.

To date, HUD has completed limited revisions in its accounting system for defaulted multifamily mortgages. Monthly bills currently produced by the system show which defaulted mortgages are serviced under a workout agreement and the payment called for in the agreement. The bills do not show the payment status of the mortgages under the terms of the workout agreements, nor can the revised accounting system produce overall delinquency data on the status of all defaulted mortgages. We also noted that monthly bills were still being received in HUD's Chicago field office after the due date of the payment.

To supplement the information supplied by the accounting system, HUD is currently developing a new management information system known as the Multifamily Insured and Direct Loan System. As designed, this system will be capable of tracking the payment status of workout agreements and producing overall delinquency data. This system recently produced its first reports. However, the reports are incomplete, since all data has not been inputted and reconciled. We also noted the reports contained no information on unpaid interest. Further testing, data correction, and modification are necessary before the reports will be useful.

CONCLUSIONS

HUD holds over 2,000 multifamily mortgages with an unpaid principal value of over $4 billion dollars. Of this amount, almost $589 million is delinquent under the terms of the mortgages. This represents an 18-percent increase in the 21-month period from September 1, 1979, to May 31, 1981.

As we reported in 1980, we feel accounting and loan servicing problems contribute significantly to this volume of delinquent loan payments. HUD has taken some corrective actions and has others in progress. However, most actions promised by HUD have not been completed. Controlling the rapidly increasing delinquencies requires immediate action.

RECOMMENDATIONS

To improve HUD's multifamily mortgage accounting and servicing efforts, we recommend that the Secretary of HUD fully implement the recommendations of our 1980 report by:

--Requiring aggressive collection actions, including referrals to the Department of Justice, to obtain repayment of project funds used for unauthorized or questionable purposes.

--Requiring field offices to obtain required financial reports.

--Providing staff additional training in financial analysis.

--Expediting testing and correction of delinquency information generated by the new management information system.

AGENCY COMMENTS

In commenting on our report, HUD cited a number of planned actions to enable the Department to make better use of financial information and increase collections of delinquent amounts. (See app. II.)

Recently, the Department published two new handbooks to provide loan servicers guidance on financial reviews. One of these handbooks specifically addresses the types of diversions found in Chicago. Unfortunately, the HUD Chicago area office had not implemented the handbook at the time of our review. The other handbook provides basic accounting terminology and other background information needed by loan servicers with limited backgrounds in accounting. In addition to published handbooks, modules are being prepared for use in the fall of 1982 to train loan servicers to better detect illegal uses of project receipts.

Other actions which address our recommendations are in process. For example, delinquency data produced by the new accounting and management information systems are being tested and corrected to produce information necessary for effective loan servicing. In addition, the Office of Program Enforcement has been established in HUD's Office of General Counsel to pursue foreclosures and initiate other legal actions to recover illegally diverted funds.

Corrective actions promised by the Department demonstrate increased emphasis being placed on debt collection. When implemented, these actions should address our recommendations, reduce future questionable uses of project receipts, and better control increasing deliquencies.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D C 20410

May 10, 1982

OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING FEDERAL HOUSING COMMISSIONER

IN REPLY REFER TO

Mr. W. D. Campbell
Acting Director
Accounting and Financial Management Division
United States General Accounting Office
Washington D. C. 20548

Dear Mr. Campbell:

Your letter of April 9, 1982 to the Secretary transmitting a draft of the proposed report to Congress on the weaknesses in servicing and accounting for Multifamily Mortgages held by the Department has been referred to me for reply.

HUD fully supports the overall intent of the report, that there is a need to make better use of financial information to reduce or eliminate funds used for questionable purposes and to aggressively pursue the collection of delinquent amounts. HUD has already implemented several procedural changes and will, as your report suggests, take additional action to improve the quality of the field offices' financial reviews. Actions already taken are listed below. Actions planned or underway are described in our response to your individual recommendations.

- In January 1981, the Office of Multifamily Housing Management published Handbook 4370.4, Basic Accounting Desk Reference. This is a self-instructional manual which explains basic accounting terminology, walks the servicer through each of the main schedules included in the annual report and explains how the schedules interrelate. Since only a very few of our servicers have accounting backgrounds, we felt that development of this type of manual was an essential first step to improving the financial analysis skills in our field offices.

- In February 1981, our Office of Multifamily Housing Management published Handbook 4370.1, Review of Monthly and Annual Financial Reports. This handbook: gives servicers step-by-step guidance on determining whether the financial statement is complete and using the statements to monitor an owner's compliance with HUD's requirements; stresses the need to follow through on adverse findings; and identifies penalty actions (e.g., fines, referrals of IPAs to State licensing boards, denials of future participation in HUD's programs) that can be imposed upon IPAs and owners who do not comply with HUD's requirements regarding use of project funds and financial reporting. This Handbook specifically addresses the types of diversions detected in your staff's review of the Chicago projects. Unfortunately, the Chicago Area Office had not implemented this Handbook at the time of your review. All offices have now implemented the Handbook and many offices report that the Handbook procedures have enabled them to detect and recover diversions.

Recommendations on pages 9 and 10 of the report are addressed in the order in which they appear.

RECOMMENDATION: Require aggressive collection actions, including referrals to the Department of Justice, to obtain repayment of project funds used for unauthorized or questionable purposes.

RESPONSE: To more effectively deal with this problem the Office of General Counsel established a new office, the Office of Program Enforcement, to pursue foreclosures and the initiation of supplemental legal actions to recover illegally diverted funds. The establishment of this office should significantly expedite both foreclosure actions and related litigations. The Office of Housing will work closely with the Department of Justice and the Office of the Inspector General in support of this effort.

Recognizing the limitations of HUD staff constraints in the pursuit of aggressive servicing of HUD-held mortgages, the Department has initiated a pilot program for an outside contractor in Region III to service Secretary-held mortgages. A contractor has been hired who is charged with the collection of the debt owed the government and closely monitors the physical and financial aspects of a project's operations. The contractor's analysis and recommendations are to include all the financial aspects of the delinquent mortgage including, but not limited to, source and use of project funds. This procedure should enable recovery of funds diverted from project operations and used for personal reasons to be discovered much earlier. The contractor is scheduled to visit troubled projects as many as four times a year to monitor the condition of the project. This should bring about an earlier discovery of diverted funds and trigger earlier efforts to recover diverted funds through referral to the Department of Justice. It is anticipated that a nationwide contract for the servicing of HUD-held mortgages of the other nine regions will be executed prior to the end of this fiscal year.

A Notice, "Financial Control Requirements for Sustained Costs Resulting from Inspector General Audit Findings," designed to monitor the recommended collection action, has been prepared by the Office of Finance and Accounting and is currently in Departmental clearance.

RECOMMENDATION: Require field offices to obtain required financial reports.

RESPONSE: While Handbook 4370.1 directs field offices to track the receipt and review of financial reviews, we realize that directives alone do not always get the job done. We recognize that field office managers and Headquarters staff need to monitor loan servicers' adherence to outstanding procedures. To improve the timeliness of financial reviews, we have designed the Multifamily Insured and Direct Loan System (MIDLIS) output reports which will enable Headquarters and field office managers to determine if required financial statements have been received and reviewed. These reports are scheduled for implementation in the last quarter of Fiscal Year 1982. Headquarters will follow-up with those field offices that are not submitting reports and will pay particular attention to those HUD-held projects which are delinquent under their mortgages.

RECOMMENDATION: Make additional use of Inspector General audits to examine projects suspected of illegally using project receipts.

RESPONSE: Since many diversions of project assets can be detected through a comprehensive review of annual financial statements, involvement by the OIG is not always necessary. However, Inspector General audits will be pursued when the exact amount of diverted funds cannot be determined from the statement, the mortgagor's records or internal controls are inadequate, or the mortgagor or agent has a history of diverting funds or "padding" expenses. Handbook 4370.1 advises managers of the availability of Inspector General audits. In addition the work plan provides for on-going reviews or audits of insured multifamily projects and assuring that most of the projects selected for review were referred to OIG by Loan Management Branches in field offices.

RECOMMENDATION: Provide staff additional training in financial analysis.

RESPONSE: The Office of Multifamily Housing drafted and is now field testing self-instructional financial analysis modules. These modules train servicers on how to carry out the procedures set forth in Handbook 4370.1. The modules specifically address the types of diversions and irregularities disclosed in both your report and in other audit reports previously issued by our Inspector General. These modules will be distributed to all field offices in the Fall.

RECOMMENDATION: Expedite testing and correction of delinquency information generated by the new management information system.

RESPONSE: Several actions are underway not only to test and correct the delinquency and other information in the Multifamily Mortgage Servicing System (MMSS), but also to make the information more readily available to loan servicers.

In December 1981 a memorandum was sent to field offices announcing the interface between MMSS and MIDLIS. Staff were advised that errors existed in the data and that they should inform the Office of Multifamily Housing of any needed corrections. They also were informed that several reports are being produced which would reflect, on a monthly basis, financial and project information on HUD-held mortgages. These reports were designed to assist servicers in managing their HUD-held inventory as well as to provide them with a tool to monitor progress in some aspects of debt collection.

In February 1982 another memorandum was sent to field offices concerning mortgages which, according to MIDLIS, were not under a workout plan, in foreclosure or current with the mortgage. Servicers were asked to verify that fact and to correct any other inaccurate information, including loan balances and delinquency amounts. Field office staff have not only noted mortgages that are under plan, but also have pointed out errors in loan balances, delinquency amounts, and escrows. Responses also highlighted discrepancies in the methods used by various field offices, the Office of Finance and Accounting (OFA), and Headquarters loan servicers in carrying out existing procedures pertaining to the servicing of HUD-held mortgages.

The responses to the February 1982 memo have initiated further actions designed to correct the delinquency and other information in MMSS. First, the responses call to OFA's attention the importance of completing their reconciliation of the HUD-held mortgage accounts. We understand that they are underway in this effort and expect to complete the reconciliation by the end of the fiscal year. Second, OFA staff have been given copies of the responses so they can record workouts, modifications, and foreclosure actions that had not been put into the system. Third, OFA and the Office of Housing will issue a joint memorandum, by June 30, 1982, to the field offices reiterating and explaining procedures for assuring that accurate data are entered into the system in a timely manner and eliminating the discrepencies in methods used by various field offices. Fourth, Housing is revising the MIDLIS reports which are used to monitor the inventory of HUD-held mortgages. The revised reports will track delinquency under both the mortgage and workout terms, provide monthly listings of both workouts that will expire within 90 days and workouts which have already expired, and indicate whether annual financial reports have been received and reviewed on those two classes of projects.

The actions described above are being coordinated through the HUDMAP Multifamily Debt Service Team. One of the Team's tasks in preparation for turning over HUD-held servicing to a third-party contractor, is to insure that the information in MMSS is clean and that Headquarters, OFA, and field office staff understand and follow the same procedures for servicing loans.

Thank you for the opportunity to respond to your report.

Very truly yours,

Philip Abrams

(905045)

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