

DOCUMENT RESUME

02174 - [A1332331]

[Survey of Accountability for Property Tax Liability on HUD-Held Home Mortgage]. FGMSD-77-38; B-114860. May 5, 1977. 7 pp.

Report to Patricia Roberts Harris, Secretary, Department of Housing and Urban Development; by D. L. Scantlebury, Director, Financial and General Management Studies Div.

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

Contact: Financial and General Management Studies Div.

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

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

A followup review of the Department of Housing and Urban Development's (HUD's) tax payment system on acquired single family property was conducted to evaluate the new decentralized accounting system for paying the property taxes. A semiannual tax payment to Hamilton County, Ohio, which was due on August 6, 1976, was reviewed. Findings/Conclusions: Although HUD has decentralized responsibility for paying taxes on acquired single family properties to the local HUD insuring office, these properties represented only 8% of its \$242,000 tax liability in Hamilton County and 27% of its taxable properties in the county. HUD Headquarters continues to retain control over property taxes on multifamily and assigned single family properties. At Hamilton County, tax payment deficiencies on these properties, which were similar to earlier deficiencies on the acquired single family properties, were noted. Recommendations: The Secretary of HUD should improve the tax payment system by: providing adequate staffing for the tax payment functions, including provision for additional resources during tax payment periods; reconciling the local office inventory with ownership records and tax bill mailing lists maintained by the local tax authority; and requiring all property buyers to immediately transfer title into their own names. (SC)



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

02174
DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-114860

May 5, 1977

The Honorable
The Secretary of Housing
and Urban Development

Dear Mrs. Harris:

This is to inform you of the results of our followup review of HUD's tax payment system on acquired single family property. Our objective was to evaluate HUD's new decentralized accounting system for paying property taxes. Although the system has improved HUD's control over tax payments, some of them are still not paid or are paid late.

In a November 26, 1975, report to the Congress entitled "Action Being Taken to Correct Weaknesses in the System of Paying Taxes on Acquired Residential Properties" (FGMSD-76-24), we suggested that HUD improve its system of accounting for property tax liability on acquired single family property by

- promptly notifying local taxing authorities of acquisitions and sales and
- delegating responsibility for obtaining and verifying tax bills to the local HUD offices.

To implement our recommendations for improvement, HUD established a pilot program in the Cincinnati Insuring Office to pay taxes on acquired single family property. The test ran from November 1975 to March 1976. HUD considered the program a success and implemented it in all field offices.

FGMSD-77-38

To evaluate HUD's success in decentralizing tax payments, we reviewed a semiannual tax payment to Hamilton County, Ohio, which was due on August 6, 1976. We also reviewed HUD local insuring office records; Hamilton County courthouse ownership and tax records; and HUD Central Office records in Washington, D.C., to establish the total number of acquired single family properties in Hamilton County.

Although HUD has decentralized responsibility for paying taxes on acquired single family properties to the local HUD insuring office, these properties represent only 8 percent of its \$242,000 tax liability in Hamilton County and 27 percent of its taxable properties in the County. HUD Headquarters continues to retain control over property taxes on multifamily and assigned single family properties. At Hamilton County, we have observed tax payment deficiencies on these properties similar to those we reported to HUD in July 1975 on acquired single family properties. We noted instances in which HUD had

- paid taxes on property which had been sold and was no longer HUD's responsibility,
- not paid taxes on property it was responsible for,
- collected tax escrow payments from mortgagors and then failed to pay their taxes,
- made late payments and thereby incurred unnecessary penalty costs,
- charged penalties against mortgagors' tax escrow accounts even though late payments were HUD's fault,
- lost property sold at a local sheriff's sale because taxes were not paid, and
- sold property but was unable to obtain a clear title because speculators had purchased delinquent HUD property tax bills.

Because of these observations in Cincinnati, we plan to expand our review and determine the extent of the problems in HUD. We will report our findings and conclusions to you as appropriate.

The following paragraphs discuss our evaluation of the pilot program.

FURTHER IMPROVEMENTS NEEDED IN
DECENTRALIZED TAX PAYMENT SYSTEMS

Although we believe the decentralized tax payment system is an improvement over the centralized system, the Cincinnati Insuring Office is still (1) paying some taxes late, (2) not paying tax bills owed, and (3) being billed for taxes on property it no longer owns.

As a result of these problems, the Cincinnati Insuring Office paid penalties of \$339 on 21 of the 106 tax bills the office was responsible for. In addition, the local office failed to pay \$4,718 in taxes on 10 of the tax bills. Of the 31 errors, the decentralized system was responsible for 9 while the remaining 22 were beyond the system's control.

TAX RECORDS NOT CURRENT

The Cincinnati Insuring Office did not pay several valid tax bills and paid others late with penalties because accurate tax records were not established and maintained.

The control record for the payment of taxes is a tax data card. Without this card on file, tax bills sent by a local taxing authority will not be paid. The card is created when property is acquired, annotated when tax payments are made, placed in a suspense file when property is up for sale, and retired when the property is sold.

One clerk in the Cincinnati Office was responsible for establishing and updating tax records on about 300

acquired single family properties in 11 counties. The tax payment responsibility and related recordkeeping was assigned to the clerk as additional duty. We observed that

- tax cards are not promptly established on newly acquired property,
- current tax status is not always obtained from the tax authority on newly acquired property,
- tax cards are misfiled and tax payments are not promptly recorded,
- tax cards on sold properties are still in the active card file, and
- tax cards on property where the sale has been cancelled are still in the sales-pending card file.

Of the nine tax payment errors, four were due to inaccurate tax records. One valid tax bill sent by the tax authority was not approved for payment, another was not requested from the tax authority, and two others were requested too late to avoid a penalty. The remaining five errors were due to delays in processing tax payments in the Chicago regional office. In addition to the nine payment errors, we noted one instance where the local office sold property without realizing that delinquent taxes of \$1,137 were still owed.

NEED TO PERIODICALLY RECONCILE
HUD AND TAX AUTHORITY RECORDS

The Cincinnati Insuring Office has not always notified the local tax authority when a property was acquired or sold, nor has it required property buyers to transfer title from HUD's name. As a result, the tax authority has not billed HUD for all taxes that it owes and has continued to bill it for taxes on other properties that have been sold.

When property is sold, a deed is prepared and recorded at the Hamilton County courthouse to show legal ownership. The tax authority reviews these deed transactions to establish tax liability. The tax authority maintains individual mailing lists for major tax bill recipients such as mortgage companies, HUD, and Veterans Administration. When HUD requests a tax bill, all subsequent tax bills for that property will continue to be sent to HUD until the tax authority identifies a deed transaction conveying the property to someone else, or is notified to send the tax bill elsewhere.

Courthouse deed records indicate that 64 properties HUD sold between 1973 and 1976 were still in HUD's name and no deeds transferring title to buyers were ever recorded. Tax authority records as of July 6, 1976, indicate that 160 tax bills were listed in HUD's name. However, only 86 of these bills related to single family property still owned by HUD. Tax bills on 20 other single family properties HUD owned were not on the mailing list.

If the Cincinnati Insuring Office required all buyers to transfer title from HUD's name, and reconciled the local HUD inventory with the tax authority's mailing list prior to the billing date, many of the bills misdirected to the local insuring office could have been sent to the proper party on time.

One of the primary reasons for decentralization was to provide for a closer working relationship with local tax authorities to resolve differences and expedite tax payments. The errors discussed above indicate that the Cincinnati Insuring Office has not taken full advantage of this relationship.

CONCLUSIONS

Based on our review of the Cincinnati Insuring Office's tax payment function, we believe the decentralization of accountability for payment of taxes on acquired single family property is an improvement over the previous

centralized system. HUD should take appropriate steps, however, to help insure that tax payment errors noted in Hamilton County do not occur at other locations. In this connection, HUD officials told us that the Office of Inspector General is reviewing the decentralized system.

RECOMMENDATIONS

We recommend the Secretary of Housing and Urban Development improve the tax payment system by

- providing adequate staffing for the tax payment functions including provision for additional resources during tax payment periods,
- reconciling the local office inventory with ownership records and tax bill mailing lists maintained by the local tax authority, and
- requiring all property buyers to immediately transfer title into their own name.

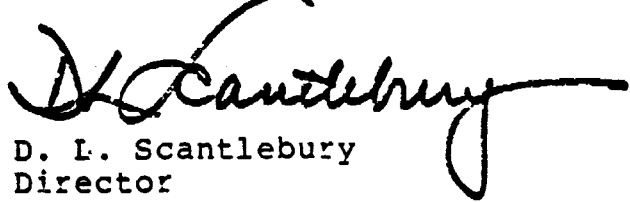
As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the House Committee on Government Operations, the Senate Committee on Governmental Affairs, the House and Senate Committees on Appropriations, the House Committee on Banking, Currency and Housing, and the Senate Committee on Banking, Housing, and Urban Affairs. Copies are also being sent to the Director, Office of Management and Budget.

B-114860

We would be pleased to discuss with you or your representatives the matters included in this report and would appreciate receiving your comments on action taken or planned on them. We would also appreciate receiving a copy of the Inspector General's report referred to on page 6. In this connection, I might add that we have furnished your staff references to cases containing errors so that appropriate corrective action can be taken.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "D. L. Scantlebury". The signature is written in black ink and is positioned above the typed name and title.

D. L. Scantlebury
Director