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PUBLIC HOUSING

HUD's Oversight of Housing Agencies Should Focus More on Inappropriate Use of Program Funds



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Highlights

Highlights of [GAO-09-33](#), a report to congressional addressees

Why GAO Did This Study

The Department of Housing and Urban Development (HUD) provided over \$6.7 billion in fiscal year 2008 to housing agencies to operate, modernize, and develop about 1.2 million public housing units. It is important that HUD exercise sufficient oversight of housing agencies to help ensure that public housing funds are being used as intended and properly managed. In this report, GAO examines HUD's oversight processes for detecting housing agencies at risk of inappropriate use and mismanagement of public housing funds. GAO analyzed HUD financial data on about 3,300 housing agencies, compared HUD's oversight policies with program and agency objectives, and interviewed agency officials.

What GAO Recommends

To better focus its oversight processes to identify housing agencies at risk of misuse and mismanagement of public housing funds, GAO recommends that HUD (1) regularly summarize and evaluate the results of audits of public housing agencies to identify common problems, monitor emerging issues, and evaluate overall monitoring and oversight processes; and (2) develop mechanisms—such as financial indicators—and use them as part of its ongoing monitoring and review of housing agencies' use of public housing funds.

In agency comments, HUD stated that the report contains useful information and plans to evaluate alternative ways to address our recommendations.

View [GAO-09-33](#) or [key components](#). For more information, contact Mathew J. Scire at (202) 512-5555 or sciremj@gao.gov.

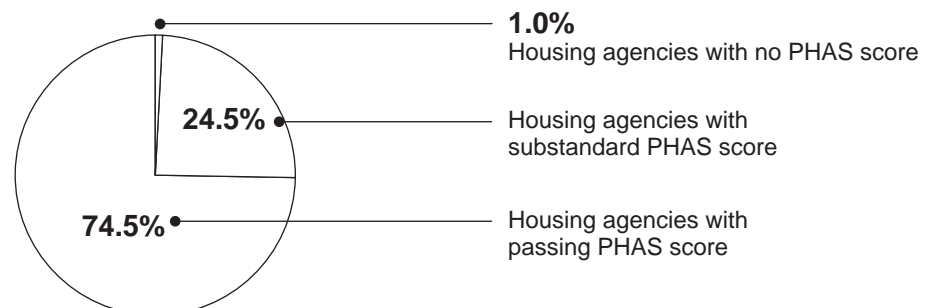
PUBLIC HOUSING

HUD's Oversight of Housing Agencies Should Focus More on Inappropriate Use of Program Funds

What GAO Found

Key HUD oversight processes could be more focused on identifying potential inappropriate use or mismanagement of public housing funds. HUD primarily relies on single audits to identify such problems, although HUD, its Office of Inspector General (OIG), and the President's Council on Integrity and Efficiency (now known as the Council of the Inspectors General on Integrity and Efficiency) have identified weaknesses with some audits. Further, even when these audits do identify issues, HUD does not systematically summarize audit findings to identify and understand emerging and persistent issues to better monitor housing agencies for inappropriate use and mismanagement of public housing funds. Understanding these problems could be useful for identifying housing agencies that are at greater risk of inappropriately using or mismanaging public housing funds. HUD uses the Public Housing Assessment System (PHAS) to monitor and rate the overall condition and financial health of public housing agencies. However, PHAS is not intended to identify inappropriate uses of public housing funds and is limited in its ability to detect potential mismanagement. HUD also analyzes the financial data of public housing agencies, but its review focuses on the accuracy and completeness of the information used to calculate PHAS scores. GAO analyzed financial data from the housing agencies and found many housing agencies showed indicators that they were at risk of potential inappropriate use and mismanagement of public housing funds—while most received passing PHAS scores. For example, GAO found that from 2002 to 2006, 200 housing agencies had written checks for more than the funds available in their bank accounts (bank overdrafts) on average of \$25,000 or more. However, 75 percent of these agencies received passing PHAS scores (see figure below). Such overdrafts raise questions about these agencies' cash management. But HUD does not use these and similar measures to identify housing agencies at greater risk of inappropriately using or mismanaging public housing funds. Without fully leveraging the audit and financial information it collects, the department limits its ability to identify housing agencies that are at greater risk of inappropriately using or mismanaging program funds.

PHAS Scores for the 200 Housing Agencies with Average Bank Overdrafts of \$25,000 or More



Source: GAO analysis of housing agency financial data schedules and HUD data.

Contents

Letter		1
	Results in Brief	2
	Background	4
	HUD's Primary Oversight Processes Could Be Better Focused to Detect Housing Agencies at Risk of Inappropriate Uses or Mismanagement of Public Housing Funds	8
	Conclusions	19
	Recommendations for Executive Action	20
	Agency Comments and Our Evaluation	20
Appendix I	Objective, Scope, and Methodology	23
Appendix II	Comments from the U.S. Department of Housing and Urban Development	27
Appendix III	GAO Contact and Staff Acknowledgments	29
Figures		
	Figure 1: Public Housing Assessment System Scoring Subsystem Components	6
	Figure 2: Percentage of Housing Agencies with Potentially Improper Advances of Operating Funds (Balances Due from Other Programs in Excess of \$100,000), Fiscal Years 2002-2006	15
	Figure 3: PHAS Scores for Housing Agencies with Potential Improper Operating Fund Advances (Balances Due from Other Programs in Excess of \$100,000), Fiscal Years 2002–2006	16
	Figure 4: PHAS Scores for Housing Agencies with Potential Funds Mismanagement (Average Bank Overdrafts in Excess of \$25,000), Fiscal Years 2002–2006	18

Abbreviations

ARCATS	Audit Resolution and Corrective Actions Tracking System
FASS	Financial Assessment Subsystem
FDS	Financial Data Schedules
HUD	Department of Housing and Urban Development
MAPS	Monitoring and Planning System
MASS	Management Assessment Subsystem
MDHA	Miami-Dade Housing Authority
OIG	Office of Inspector General
OMB	Office of Management and Budget
PASS	Physical Assessment Subsystem
PCIE	President's Council on Integrity and Efficiency
PHAS	Public Housing Assessment System
REAC	Real Estate Assessment Center

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United States Government Accountability Office
Washington, DC 20548

June 11, 2009

The Honorable Christopher J. Dodd
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate

The Honorable Robert Menendez
Chairman
Subcommittee on Housing, Transportation,
and Community Development
Committee on Banking, Housing
and Urban Affairs
United States Senate

In fiscal year 2008, the Department of Housing and Urban Development (HUD) provided approximately \$6.7 billion to about 3,300 public housing agencies to subsidize the costs of operating, modernizing, and developing about 1.2 million units through the public housing program. HUD oversees these agencies in cities and communities nationwide to ensure compliance with extensive program requirements. Over the years, we and HUD's Office of Inspector General (OIG) have identified weaknesses in HUD's monitoring of housing agencies' compliance with program requirements and in the agencies' accounting practices as well as instances of misspent public housing funds. A number of recommendations have been made addressing these shortcomings. It is important that HUD exercise adequate oversight of housing agencies' use of public housing funds, and as a result, we undertook a review of HUD's oversight processes under the Acting Comptroller General's authority to conduct evaluations on his own initiative. This report examines the oversight processes HUD employs to identify housing agencies that are at risk of inappropriately using and mismanaging public housing funds.

To evaluate HUD's oversight processes, we compared HUD's oversight policies with its programmatic and agencywide oversight goals. We analyzed housing agency audits and available HUD financial data on its portfolio of housing agencies. We also interviewed HUD headquarters and field office officials. Finally, we met with officials from four field offices and visited nine housing agencies in California, Florida, Maryland, and Washington, D.C. In selecting these sites, we considered various factors, including recent allegations of mismanagement of public housing funds,

the activity and size of public housing programs in these locations, and proximity to GAO locations.

We conducted this performance audit from January 2007 through March 2009 in Alameda, Monterey, Richmond, and San Francisco, California; Miami and Fort Lauderdale, Florida; Baltimore and Prince George's County, Maryland; and Washington, D.C. in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives. Appendix I provides further details of our objective, scope, and methodology.

Results in Brief

Key HUD oversight processes could be more focused to enable HUD to identify housing agencies that may be at greater risk of inappropriately using or mismanaging public housing funds. The primary process that HUD uses to identify inappropriate use and mismanagement of public housing funds is housing agencies' single audits.¹ Although many single audits have reported problems at individual housing agencies, HUD has found problems with the quality of individual housing agencies' single audits that can limit their reliability. In addition, the President's Council on Integrity and Efficiency (PCIE) issued a report on its National Single Audit Sampling Project in June 2007 that presented compelling evidence that a serious problem with single audit quality continues to exist.² Also, annual single audits may not assess compliance with some public housing program requirements administered by these housing agencies, resulting in coverage gaps that may limit the ability of these audits to consistently identify misuse and mismanagement of funds in a timely manner. Despite these limitations, the department continues to primarily rely on single

¹The Single Audit Act of 1984, as amended, Pub. L. No. 98-502, 98 Stat. 2327, *codified at* 31 U.S.C. § 7501- 7507, requires state and local governments and nonprofit organizations that expend \$500,000 or more in federal awards in a fiscal year to have either a single audit or a program-specific audit.

²PCIE had been established under an Executive Order, but the PCIE is being terminated and replaced with the Council of the Inspectors General on Integrity and Efficiency, as provided by the Inspector General Reform Act of 2008. Pub. L. No. 110-409, 122 Stat. 4302. Currently, PCIE is known as the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

audits to identify potential inappropriate use and mismanagement of public housing funds and is focusing on efforts to improve their quality. Further, even when single and OIG audits report problems, HUD does not maximize the audits' utility by systematically summarizing and analyzing audits that report commonly occurring problems of misuse and mismanagement. Understanding these problems could be useful for evaluating and monitoring HUD's overall monitoring and oversight processes and identifying housing agencies that are at greater risk of inappropriately using or mismanaging public housing funds. For example, the department could use this understanding to develop indicators of potential problems and use these to monitor housing agencies. The department currently uses a system for monitoring and rating the performance of housing agencies—known as the Public Housing Assessment System (PHAS). However, PHAS is limited in its ability to identify housing agencies that may be at greater risk of inappropriate use or mismanagement of funds because it was not designed to detect inappropriate use, and in some cases has not detected housing agencies showing signs of housing fund mismanagement. Further, HUD has stated that its analysis of housing agency financial data is primarily intended to ensure the accuracy of the information that is used to calculate the housing agencies' PHAS scores and not to identify at-risk housing agencies. Our analysis of housing agency financial data illustrates how such data could be leveraged to identify housing agencies at greater risk of inappropriate use or mismanagement of public housing funds that neither PHAS nor the department's current approach to analyzing financial data would detect. For example, our analysis of PHAS and financial data from 2002 through 2006 found that 200 housing agencies had written checks that exceeded the funds available in their bank accounts (bank overdrafts) by \$25,000 or more—indicating a potential that these housing agencies could have serious cash and financial management problems and could be prone to increased risk of fraudulent use of funds. However, 75 percent of these agencies received passing PHAS scores. Although HUD has focused its efforts on the challenges of improving the quality of single audits, the department has not taken steps to develop mechanisms to mitigate the limitations of its oversight processes. Without fully leveraging the audit and financial information it collects, the department limits its ability to identify housing agencies that are at greater risk of inappropriately using or mismanaging program funds.

In order to strengthen its oversight of housing agencies administering the public housing program and better leverage information that it already collects, we are recommending that the Secretary of the Department of Housing and Urban Development regularly summarize and systematically

evaluate the results of OIG and single audits of public housing agencies to allow program managers to identify and understand problems of potential inappropriate use and mismanagement of public housing funds, identify emerging issues, and evaluate overall monitoring and oversight processes. This report also recommends that the Secretary develop mechanisms—such as financial indicators—to identify housing agencies that are at greater risk of inappropriately using or mismanaging public housing funds.

In written comments on a draft of this report, HUD stated that the report contains useful information but that it did not believe our recommendations would achieve the objectives of strengthening oversight of housing agencies that administer the public housing program and of better leveraging information that it already collects. Although it provided no specific explanation for why it thought our recommendations would not achieve these objectives, HUD stated that more analysis of its existing oversight mechanisms and information collected from housing agencies should be performed in order to evaluate and develop possible alternatives. We welcome HUD's efforts to reconsider the mechanisms and data it uses to oversee housing agencies, but disagree with its statement that our recommendations do not help achieve these objectives. We believe the recommended actions present a reasonable first step in leveraging information it already collects and permit HUD to better focus its limited resources.

Background

Under the U.S. Housing Act of 1937, as amended, Congress created the public housing program to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities.³ HUD provides subsidies for operating and maintaining public housing units through the Operating Fund.⁴ HUD also provides funds to modernize and develop public housing units through the Capital Fund.⁵ Public housing agencies administer these formula grant programs on HUD's behalf. In using these funds, the agencies are responsible for ensuring that the housing is affordable to eligible low-income households. In 1992, Congress established the Urban Revitalization Demonstration Program,

³Ch. 896, 50 Stat. 888.

⁴42 U.S.C. § 1437g(e)(1).

⁵42 U.S.C. § 1437g(d)(1).

commonly known as HOPE VI, which provides grants to housing agencies to rehabilitate or rebuild severely distressed public housing.⁶

The Single Audit Act, as amended, requires state and local governments and nonprofit organizations that expend \$500,000 or more in federal awards in a fiscal year to have either a single audit or a program-specific audit.⁷ Under a single audit, the auditor must report its opinion on the presentation of the entity's financial statements and schedule of federal expenditures, and on compliance with applicable laws, regulations, and provisions of contracts or grant agreements that could have a direct and material effect on the financial statements and, when applicable, on any major program of the audited entity.⁸ The auditor must also report the results of its review and testing of internal control related to the financial statements and major programs as well as a schedule of any audit findings and questioned costs. Public housing agencies subject to the act must submit audit reports to HUD and to the Federal Audit Clearinghouse.⁹ Single audit is a key assurance process used by HUD in its oversight of public housing agencies. Single auditors are required by the act to identify and test programs for compliance with specific program requirements and report identified findings (or the lack thereof), which can include those of inappropriate use and mismanagement of funds. HUD's Real Estate Assessment Center (REAC), which is responsible for reviewing housing

⁶42 U.S.C. § 1437v.

⁷31 U.S.C. § 7502(a). See Office of Management and Budget (OMB) Circular A-133. The single audit threshold was raised from \$300,000 to \$500,000 for fiscal years ending after December 31, 2003. 68 Fed. Reg. 38401 (June 27, 2003). Election of program-specific audits can occur when an auditee expends federal awards under only one federal program (other than for research and development) and when federal laws, regulations, or grant agreements do not require a financial statement audit of the auditee. Under these circumstances, the auditee may elect to have a program-specific audit, which is limited to the auditee's finances, controls, and compliance under the program.

⁸OMB prescribes guidance for determining which programs are major for the audited entity and includes criteria such as the amount of federal awards expended by the entity and other risk factors. OMB also publishes a document called the *Compliance Supplement* that summarizes the laws, regulations, and other program requirements that generally apply to all federal programs and some that apply specifically to public housing and other federal programs. We did not review the adequacy or completeness of the compliance requirements for public housing programs identified by OMB in the *Compliance Supplement*.

⁹The Federal Audit Clearinghouse single audit database was established as a result of the Single Audit Act Amendments of 1996 (Pub. L. No. 104-156, 110 Stat. 1396) and contains summary information on the auditor, the recipient and its federal programs, and the results of audits.

agencies' financial data, began tracking the status of single audit findings in 2007 using the Monitoring and Planning System (MAPS) Audit Tracking Module. Through this tracking system, HUD monitors the resolution of audit findings. HUD maintains an additional system, the Audit Resolution and Corrective Action Tracking System (ARCATS), to monitor the status of management and financial findings issued by our or OIG's recommendations.

HUD's PHAS is another key oversight process. While single audits may identify specific instances of inappropriate use or mismanagement of public housing funds, PHAS was developed to evaluate the overall condition of housing agencies and measure performance in major operational areas of the public housing program. These include financial condition, management operations, and physical condition of the housing agencies' public housing programs as well as resident satisfaction with the programs (see fig. 1).¹⁰

Figure 1: Public Housing Assessment System Scoring Subsystem Components

	Financial Assessment Subsystem (FASS) 30 points	Management Assessment Subsystem (MASS) 30 points	Physical Assessment Subsystem (PASS) 30 points	Resident Assessment Subsystem (RASS) 10 points
PHAS components	Measures the financial condition of the housing agency to ensure that it has sufficient financial resources to provide public housing and is managing those resources effectively	Measures a housing agency's management operations capabilities by assessing certain key responsibilities, including site security, work orders, and other aspects of management operations	Measures the physical condition of each of the housing agency's properties to determine if they are decent, safe, sanitary, and in good repair	Measures the level of resident satisfaction with the living conditions of housing provided by the agency

Source: 24 C.F.R. pt 902, Public Housing Assessment System.

¹⁰There are special circumstances for which housing agencies may opt out of some PHAS reporting requirements. Standard/high-performing housing agencies that have fewer than 250 units may skip some components of PHAS, except the financial evaluation, every other year. Housing agencies affected by a disaster can obtain a waiver from HUD to exempt them from PHAS reporting. Also, some of the housing agencies designated by HUD as part of the Moving to Work program, a demonstration program authorized by Congress that provides certain housing agencies greater flexibility in financial and program management, may be exempted, depending on their particular arrangements with HUD.

The Financial Assessment Subsystem (FASS) component score is based on six financial data analyses that HUD has determined to be key in evaluating housing agencies' financial condition. These include the following:

- the current ratio, which measures the housing agency's ability to cover its short-term obligations;
- the months expendable funds balance ratio, which measures the housing agency's reserves for unexpected expenses;
- the tenant receivables outstanding, which measures how well the housing agency manages rent collections;
- the occupancy loss, which measures how well the housing agency maximizes its revenue by renting out vacant units;
- the expense management, which measures whether the housing agency has adequate cost controls to manage expenses; and
- the net income, which measures whether the housing agency is spending more than it makes.

Housing agencies with scores of less than 60 percent in either the overall PHAS score (less than 60 points out of a total 100 points) or in any one of the major subcomponents, including the FASS (less than 18 points out of 30 points), are designated as substandard performers, also known as troubled.¹¹ For example, points may be deducted from housing agencies' FASS scores if the six financial analyses indicate that housing agencies are experiencing overall financial difficulties that may threaten the stability of the housing agency. According to HUD officials, although housing agencies' financial data are usually audited, REAC analysts also review financial data to ensure the accuracy of information that is used to calculate the FASS scores. For example, REAC analysts examine specific line items in the financial data, investigate changes or discrepancies in amounts reported, and review auditors' notes.

¹¹For the purposes of this report, GAO considered a PHAS score to be passing for any housing agency with an overall PHAS composite score that was not less than 60 percent and/or with a FASS score that was not less than 60 percent.

HUD field offices establish mechanisms to identify and correct deficiencies if a housing agency is designated as a troubled performer in either the PHAS overall score or the FASS subcomponent. Such mechanisms may include the development of an improvement plan or a memorandum of agreement. If technical assistance and sanctions fail to result in significant improvement within a year, the housing agency is referred to the HUD Enforcement Center, which may institute proceedings to place the agency in receivership and remove failed agency management.¹² Receiverships generally result from long-standing, severe, and persistent management problems that have led to the deterioration of the public housing stock.

HUD's Primary Oversight Processes Could Be Better Focused to Detect Housing Agencies at Risk of Inappropriate Uses or Mismanagement of Public Housing Funds

Persistent Problems with Audit Quality and Gaps in What Audits Cover Can Limit HUD's Ability to Detect Misuse or Mismanagement of Public Housing Funds

Single audits, HUD's primary tool for overseeing the use of public housing funds, are intended to, among other things, promote sound financial management by serving as a key accountability mechanism in the oversight and monitoring of recipients' use of federal funds. Single audits provide federal agencies with information on the use of federal funds, internal control deficiencies, and compliance with federal program requirements. The Single Audit Act that mandated the audits does not require the auditors to perform procedures that focus specifically on all

¹²When troubled housing agencies with 1,250 or more units cannot improve their overall PHAS scores to 60 or their subcomponent scores to 18 within 2 years, the Quality Housing and Work Responsibility Act of 1998 (Pub. L. No. 105-276, title V, 112 Stat. 2518) directs HUD to take action against them, including appointing a receiver. 42 U.S.C. § 1437d(j)(3)(B)(III).

federal programs that housing agencies administer. Instead, auditors are to select and closely audit “major” programs administered by the recipient of the funds—typically large or risky programs—for compliance with specific program requirements, including the appropriate use of funds. In addition to single audits, OIG selects various housing agencies to audit as part of its oversight of HUD’s public housing program. HUD’s strategic goals for its public housing program call for the department to resolve issues identified by these audits and improve its management of internal controls to, among other things, eliminate fraud, waste, and abuse.

However, both HUD’s quality assurance office and a recent study conducted by PCIE have identified problems with single audits of housing agencies. OIG also identified problems with single audits after conducting detailed reviews of housing agency operations as part of its oversight process. Both OIG’s audits and quality assurance reviews by HUD have, in some cases, resulted in disciplinary action for single auditors. HUD quality control reviews cover housing agency audits as well as audits of other entities that receive HUD financial assistance. According to data from HUD’s Quality Assurance Subsystem, 52 of the 247 quality assurance reviews it conducted between 2000 and 2008 resulted in referrals for firms auditing entities receiving HUD funding. According to HUD, many of these included public housing agency audits. Examples of problem public housing agency audits include the following:

- Single audits for the Miami-Dade Housing Authority (MDHA) did not identify significant instances of inappropriate use and mismanagement of funds. In 2006, a media investigation provided extensive coverage of problems with public housing funds at the agency. HUD stated that MDHA’s single audits should have alerted the department to these problems, but they did not. Instead, HUD stated that it learned about the allegations of misuse and mismanagement of funds from the *Miami Herald* newspaper in 2006. In response to these allegations, HUD ordered a detailed review and new single audit of the housing agency that found serious and pervasive financial and management problems, including deficiencies in financial management, mismanagement of development funds, and several apparent conflicts of interest. MDHA went into receivership in 2007, with HUD taking possession and control of all of MDHA’s activities, including public housing.
- In 2007, OIG found that the Dallas Housing Authority had inaccurate, unreliable, and altered records. Further, OIG noted that the firm conducting the 2006 single audit had failed to meet professional auditing standards. State authorities took disciplinary action against the auditing

firm in 2007. According to HUD, the Dallas Housing Authority engaged this firm after it had removed an earlier auditing firm that had identified problems with the housing agencies' financial management.

- Also in June 2007, PCIE issued its Report on National Single Audit Sampling Project, which concluded that there were problems with audit quality that needed to be addressed and made recommendations.¹³ Specifically, PCIE reviewed a nationwide sample of 208 out of more than 38,000 single audits performed on various grant recipients that were submitted for the period between April 1, 2003, and March 31, 2004. According to the HUD OIG, the PCIE sample included single audits of 11 housing agencies, of which 6 were determined to be unacceptable, 1 was found to have limited reliability, and 4 were determined to be acceptable, but with deficiencies.

In a 2007 GAO testimony at a congressional hearing on the PCIE study, we noted that problems with the quality of single audits were unacceptable and that we were concerned that audits were not being conducted in accordance with professional standards and requirements.¹⁴ We also noted that such audits could mislead users of audit reports, causing them to incorrectly conclude that agencies were in compliance with program requirements or did not have weaknesses in internal controls when in fact such problems might exist but had gone undetected. However, we also noted continued support for single audits as a key oversight mechanism over federal awards.

Compounding the problems with the quality of audits is the fact that many housing agencies' public housing programs may not have to undergo the detailed major program compliance testing that could potentially uncover inappropriate use and mismanagement of public housing funds. Only entities expending \$500,000 or more in federal funding annually are required to receive single audits that assess compliance with specific program requirements and associated internal controls that have a direct and material effect on each major program. Furthermore, even when housing agencies receive single audits, not all public housing programs will be designated as major programs by independent public accountants conducting the single audit. For example, although about 76 percent of

¹³See PCIE, *Report on National Single Audit Sampling Project*, June 2007.

¹⁴GAO, *Single Audit Quality: Actions Needed to Address Persistent Audit Quality Problems*, [GAO-08-213T](#) (Washington, D.C.: Oct. 25, 2007).

operating fund dollars were designated by the housing agencies' independent auditors as major in 2006, less than a third of the housing agencies submitting approved financial data to HUD for that year underwent a single audit and had their operating funds audited as major programs. Without compensating monitoring tools, gaps in coverage at many housing agencies in any one year could allow emerging problems to go undetected and unreported by single audits in a timely manner.

HUD has attempted to improve the quality of these audits but has faced significant challenges. As noted above, HUD performs quality assurance reviews of the independent public auditors who perform the audits. In some cases, these quality assurance reviews have led to investigations and actions against substandard auditors. HUD officials said that the agency could pursue debarment or suspension of poorly performing auditors but noted that such remedies were costly and time-consuming. Further, efforts to improve audit quality will not address gaps in coverage that leave some housing agencies and programs unaudited for more than a year. In light of these limitations, fully leveraging other useful information becomes key to ensuring more consistent monitoring of public housing funds.

HUD Does Not Systematically Summarize the Results of Audits to Understand Problems and Address Vulnerabilities in Its Oversight Processes

Although the quality and coverage of single audits can be problematic, the single audit continues to be an important oversight mechanism. Yet, HUD has not fully leveraged how it uses the results of audits to fully understand emerging or persistent problems at housing agencies. Understanding commonly occurring audit findings could be useful for identifying housing agencies that are at greater risk of inappropriate use or mismanagement of public housing funds and assessing vulnerabilities in HUD's oversight processes. In 2002, we reported that summarizing information about the results of single audits and identifying commonly occurring issues could be valuable in helping management evaluate agency oversight, monitor activities, and identify problem areas.¹⁵ Further, the Domestic Working Group's *Guide to Opportunities for Improving Grant Accountability* states that agencies can summarize the results of internal and external audits for program managers to help identify problems with grantees'

¹⁵GAO, *Single Audit: Actions Needed to Ensure That Findings Are Corrected*, GAO-02-705 (Washington, D.C.: June 26, 2002).

financial management and program operations.¹⁶ For example, officials from one federal grant program within the Department of Transportation stated to us that they had taken such an approach to using audit data by summarizing the results of audits to identify recurring issues and direct their oversight policies. These officials stated that their analysis had identified procurement-related problems as a recurring finding area, which resulted in staff conducting grantee workshops and technical assistance on federal procurement requirements.

HUD does track the resolution of individual audit findings for each housing agency. Specifically, HUD uses its ARCATS to track the resolution of the HUD Inspector General's audit findings. In addition, HUD recently developed MAPS to track the resolution of single audit findings. However, on the basis of our discussions with HUD officials, HUD has not used either ARCATS or MAPS to summarize and systematically evaluate the results of audits to understand problems that may commonly occur at multiple housing agencies, identify programwide problems of inappropriate use and mismanagement of public housing funds, detect emerging issues, or address possible vulnerabilities in its oversight processes. HUD's systems contain data that categorize the findings of single audits in a manner that would allow the agency to identify commonly occurring problems across housing agencies. Yet, on the basis of our discussions with HUD, the department has not used these data for this purpose.

We conducted an analysis of a sample of 81 OIG and 56 single audit reports of housing agencies from 2002 through 2007 and categorized the 526 audit findings we identified into major categories of inappropriate use and mismanagement of public housing funds that we developed. Examples of these categories and the number of findings in our sample included: accounting issues, including internal control and documentation findings (150); inappropriate transfer of operating funds to other HUD programs and non-HUD entities, including affiliated organizations that were not used

¹⁶The guide provides information for government agencies, identifies areas for potential improvement in grant oversight, and highlights specific examples of promising practices that federal agencies have implemented, although it does not evaluate the effectiveness of the practices. For example, the guide discusses using internal and external audits to identify at-risk grantees and summarizing audit results to support future management decisions. Formed by GAO in 2001, the Domestic Working Group is an intergovernmental group made up of 19 federal, state, and local audit organizations that was tasked by the Comptroller General of the United States with suggesting ways of improving grant accountability.

for public housing purposes (98); and other management issues (41). We also noted that for 14 housing agencies where audits identified commonly occurring problems with internal control, documentation, and other management issues, 27 of the findings reported involved management of cash resources. These findings included inadequate separation of duties, fraudulent check writing, and theft of cash.

Such a systematic evaluation of audit results could be useful for program managers, helping them to understand commonly occurring problems, identify and monitor emerging issues, and address limitations in HUD's overall monitoring and oversight processes. Such information could also be useful for HUD field offices, housing agency auditors, and the housing agencies themselves by alerting them to persistent or emerging problems of potential inappropriate use and mismanagement of public housing funds. HUD public housing managers in headquarters and field offices stated that summarized results of audits would aid in helping them carry out their oversight activities. Not effectively using readily available information on the results of audits will continue to hamper these managers' efforts to monitor housing agencies for misuse and mismanagement of funds.

PHAS and HUD's Internal Analyses of Financial Data Could Be Better Focused to Identify Housing Agencies at Risk for Misuse and Mismanagement of Public Housing Funds

PHAS and HUD's internal analyses of data from housing agencies' financial data could be better focused to identify housing agencies that are at greater risk of potential inappropriate uses or mismanagement of public housing funds. As a result, these oversight processes may not alert HUD to potential problems and allow for timely monitoring and additional oversight activities that may be warranted. PHAS primarily assesses data on management operations and the financial health and physical condition of the housing agencies' public housing programs and alerts HUD to potentially troubled agencies. For example, as noted earlier, PHAS was developed to alert HUD to liquidity problems at housing agencies. However, PHAS was never intended to identify individual instances of inappropriate use of public housing funds, and some potential indicators of liquidity problems may not be detected by PHAS. As a result, housing agencies have continued to receive passing PHAS scores even when their financial data may indicate that the housing agency is at greater risk of inappropriately using funds or experiencing serious financial difficulties. HUD has stated that it would primarily rely on single audits to identify such problems.

HUD's policies state that the agency conducts analyses of financial data to help improve public housing agencies' financial health and provide guidance in identifying possible fraud, waste, and abuse. However, HUD

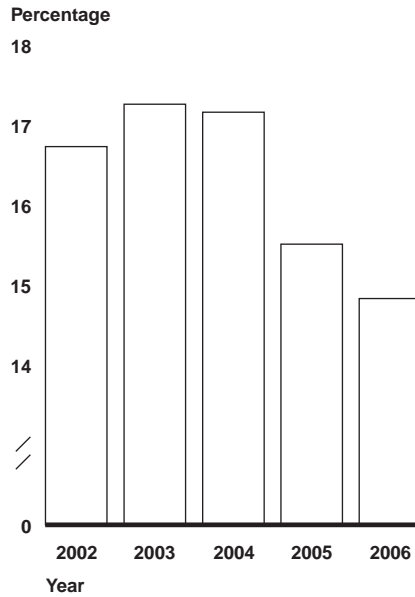
Potential Inappropriate
Use—Improper Advances of
Low-Income Public Housing
Operating Funds

told us that it primarily used its analysis of housing agencies' financial statements to ensure the mathematical reasonableness and completeness of the financial data used to calculate housing agencies' PHAS scores. However, we analyzed housing agencies' financial data and found that many of these agencies showed signs that they may be at greater risk of inappropriately using or mismanaging public housing funds, even though the agencies in question received passing PHAS scores.

Our analysis of data from housing agencies' financial statements indicates that many housing agencies receive passing PHAS scores even though an analysis of their financial data indicates that these agencies are at greater risk of inappropriately advancing their public housing program's operating funds to other programs or affiliated entities that may not use the funds for public housing purposes. Both we and OIG found that financial data could be used to identify housing agencies that were potentially at greater risk of inappropriately advancing funds in this manner. Specifically, using financial data, we identified 837 housing agencies that reported balances in their public housing program of over \$100,000 as due from other programs—that is, operating funds that were advanced or loaned to other programs or entities and were potentially not used for public housing purposes—between 2002 and 2006. The prior HUD OIG work noted that housing agencies showing balances in excess of \$100,000 as due from other programs in their public housing program often inappropriately advanced or loaned public housing program funds to other programs or affiliated entities—such as nonprofit organizations—without these funds being repaid to the public housing program. For example, OIG noted instances where public housing funds were advanced inappropriately and used for private housing development. In response to these OIG audits, HUD reported that it had taken steps to resolve audit recommendations and had made referrals for administrative action to be taken against those housing agencies. HUD further recognized that housing agencies showing large amounts in their due from other funds accounts may warrant greater scrutiny and analyses of transactions.

Our analysis of housing agencies' due from other program accounts shows that from fiscal years 2002 through 2006, about 15 to 17 percent of housing agencies exhibited this indicator of possible inappropriate advances (\$100,000 or more as due from other programs). (See fig. 2.)

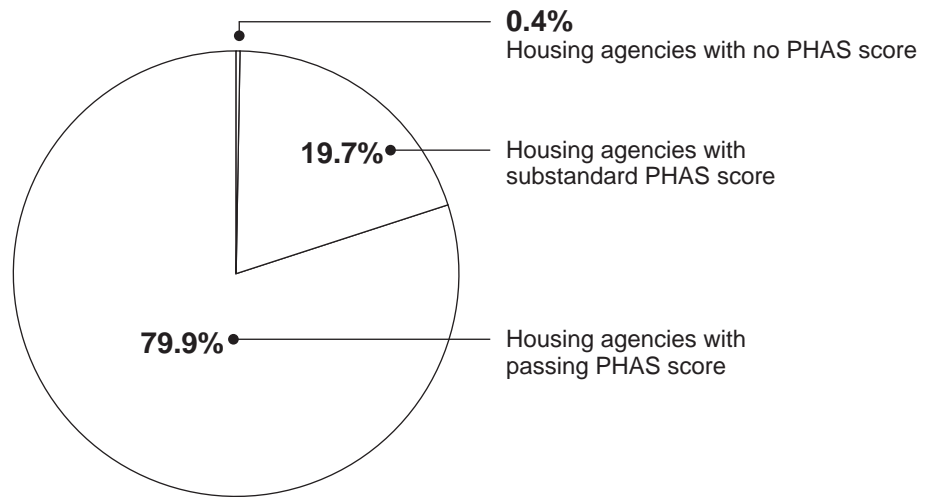
Figure 2: Percentage of Housing Agencies with Potentially Improper Advances of Operating Funds (Balances Due from Other Programs in Excess of \$100,000), Fiscal Years 2002-2006



Source: GAO analysis of housing agency financial data schedules.

While these housing agencies' financial data were showing that these agencies were at greater risk of inappropriately advancing operating funds, their PHAS scores may not have provided HUD with any indication of this potential risk. PHAS assesses the overall management operations and the financial and physical condition of the housing agencies' public housing programs, but it was not developed to identify potential inappropriate use of funds, such as inappropriate advances of operating funds. Our analysis found that about 80 percent of the housing agencies that reported balances in excess of \$100,000 in the operating fund's due from other program from fiscal years 2002 through 2006 received passing scores in PHAS (see fig. 3). Thus, the PHAS score by itself would not identify or trigger any further oversight of housing agencies that may be at risk of potential improper advancement of funds.

Figure 3: PHAS Scores for Housing Agencies with Potential Improper Operating Fund Advances (Balances Due from Other Programs in Excess of \$100,000), Fiscal Years 2002–2006



Source: GAO analysis of housing agency financial data schedules and HUD data.

Note: Some housing agencies are not required to submit PHAS scores for various reasons. For example, two housing agencies were not required to submit PHAS scores because they are in the Moving to Work program.

HUD officials stated that they would continue to rely on single audits to identify improper advances of this nature despite concerns about the quality of single audits and gaps in the number of housing agencies and programs covered and that they do not conduct specific financial analyses to identify housing agencies at risk of inappropriate advances of their operating funds. However, HUD does perform analyses of financial data to help it identify housing agencies that are at risk of improper advances for a HUD rental housing program—the Housing Choice Voucher program.¹⁷ Specifically, HUD conducts an assessment of housing agencies’ financial data to identify housing agencies reporting transfers of voucher program dollars that warrant additional oversight. Analyzing operating fund financial data as it has with the Housing Choice Voucher program illustrates how the department could leverage opportunities to identify

¹⁷Housing choice vouchers are administered locally by public housing agencies. Housing agencies receive funds from HUD to administer the voucher program. A family that is issued a housing voucher is responsible for finding a suitable housing unit of the family’s choice where the owner agrees to rent under the program. See 42 U.S.C. § 1437f(o).

Potential Mismanagement of
Funds—Poor Cash
Management

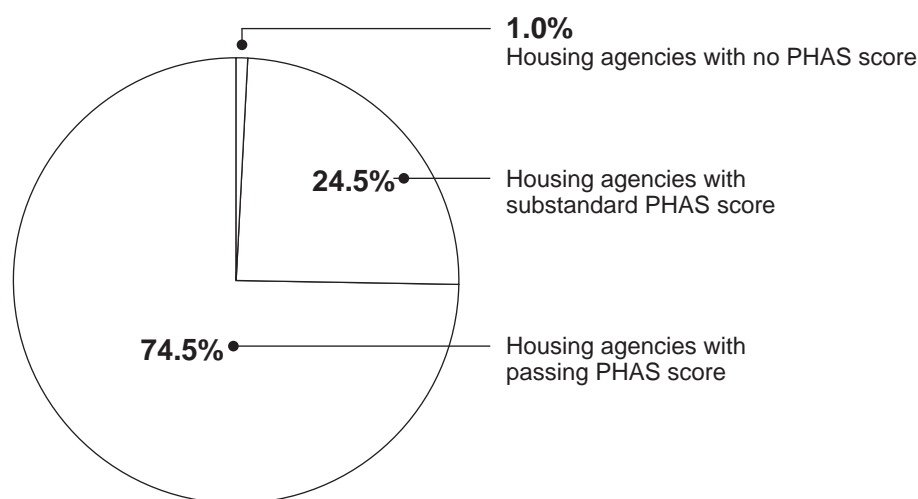
and monitor housing agencies at greater risk of inappropriate advances of public housing funds.

Our analysis also indicated that some housing agencies showed signs that they are at greater risk of mismanaging public housing funds. For example, we found that some housing agencies reported check overdrafts in their financial data. Our analysis of housing agencies' financial data for fiscal years 2002 through 2006 showed 200 housing agencies reporting average bank overdrafts of \$25,000 or more, and 10 housing agencies reporting average bank overdrafts of more than \$1 million. The vast majority of housing agencies do not show this indicator of potential funds mismanagement. In fact, over 92 percent of all housing agencies reported no check overdrafts during this period. According to HUD's OIG, writing checks in excess of funds available in a housing agency's bank account is of concern and could indicate serious cash and financial management problems or indicate that the housing agency is prone to potential fraud. MDHA provides an example of how check overdrafts could have been used as an indicator of serious liquidity problems. Specifically, HUD audits noted that MDHA was consistently holding checks in a safe after it had written them and reported the millions of dollars in these checks as bank overdrafts in the housing agency's financial data. HUD officials overseeing the receivership of MDHA stated that the housing agency was taking this action because it did not have the funds available to meet its financial obligations. MDHA's single audits for this period were later determined to be substandard, in part because they did not identify an accounting misclassification of cash that may have masked the agency's liquidity problems.

HUD officials stated that housing agencies' PHAS and FASS scores were used to alert the agency to potential issues with finances and liquidity. However, we found that housing agencies' PHAS and FASS scores did not reflect the large bank overdrafts that we identified. Of the 10 housing agencies reporting bank overdrafts in excess of \$1 million, 7 (including MDHA) received passing PHAS scores. Only 1 had a PHAS score indicating that the agency was troubled. Further, MDHA received a passing FASS score for 3 of 5 years included in our analysis. The remaining 2 agencies were exempted from reporting PHAS scores because of their participation

under the Moving to Work program.¹⁸ As shown in figure 4, when we looked at the 200 housing agencies reporting an average bank overdraft of \$25,000 or more from 2002 through 2006, we found that nearly 75 percent of these housing agencies received passing PHAS and FASS scores.

Figure 4: PHAS Scores for Housing Agencies with Potential Funds Mismanagement (Average Bank Overdrafts in Excess of \$25,000), Fiscal Years 2002–2006



Source: GAO analysis of housing agency financial data schedules and HUD data.

HUD officials stated that they were concerned about housing agencies with substantial bank overdrafts but added that overdrafts were not flagged for further monitoring because PHAS and single audits were expected to detect such poor financial management. However, as we have seen, single audits, PHAS, and the department’s current approach to analyzing financial data do not always detect or alert HUD to housing agencies at greater risk of potential inappropriate use or mismanagement of public housing funds. This shortcoming underscores the importance of leveraging the financial data HUD collects to focus on housing agencies at

¹⁸The Moving to Work program offers housing authorities the opportunity to design and test innovative, locally designed housing and self-sufficiency strategies for low-income families by allowing exemptions from existing public housing and tenant-based Housing Choice Voucher rules and permitting housing agencies to combine operating, capital, and tenant-based assistance funds into a single agencywide funding source, as approved by HUD. Pub. L. No.104-134, 110 Stat. 1321(1996).

risk of these potential problems. For example, HUD could use financial indicators to identify housing agencies that are at greater risk of such problems. HUD could then use the information to alert its field offices, auditors, and the housing agencies themselves to potential problems. Developing such indicators of potential inappropriate use and mismanagement could also be a particularly useful compensating mechanism for monitoring housing agencies that are not subject to single audits and a valuable monitoring tool to mitigate the limitations of PHAS. Not fully leveraging the information it already has limits HUD's ability to identify potential waste and abuse of its resources.

Conclusions

HUD relies on single audits to identify potential misuse and mismanagement of public housing funds, and many single audits as well as those of OIG have identified such problems. However, concerns about the quality of single audits and gaps in the coverage of these audits have limited HUD's confidence that single audits will consistently identify inappropriate use and mismanagement of public housing funds at every housing agency. Although HUD has faced difficulty in making improvements to the quality of audits and is aware that many housing agencies' public housing programs may not receive annual single audit coverage, it has not adapted the way it uses information it collects to develop mechanisms to mitigate these limitations. Specifically, HUD does not systematically summarize and analyze the types and causes of misuse and mismanagement that single and OIG audits do successfully identify. Understanding the attributes of these commonly occurring problems that single and OIG audits have found could be useful to public housing program managers in identifying emerging issues and evaluating HUD's overall monitoring and oversight processes. Promising practices identified by the *Domestic Working Group's Guide to Opportunities for Improving Grant Accountability* call for such efforts. In fact, our review of over 130 audits conducted between 2002 and 2007 showed almost 100 findings related to inappropriate advancement of public housing operating funds to non-HUD programs or entities. Summarized results could also be useful to HUD's field offices, auditors, and the housing agencies themselves, helping them understand emerging and persistent issues in HUD's national portfolio of housing agencies and carry out their responsibilities in monitoring public housing programs.

HUD currently uses PHAS to monitor housing agencies, but this system has not always identified housing agencies at risk of problems such as cash management issues and was not intended to identify inappropriate use of public housing funds. Although HUD has developed automated

checks of housing agencies' financial information to help ensure its completeness and accuracy for PHAS, the department has not used these checks as a mechanism to identify housing agencies at greater risk for potential misuse and mismanagement of public housing funds. HUD itself uses such checks to identify potential inappropriate use of its Housing Choice Voucher Program funds. Fully utilizing data HUD collects—for example, by developing financial indicators to help identify housing agencies at greater risk of inappropriately using or mismanaging public housing funds—would help in developing tools to compensate for the limitations of key oversight processes.

Recommendations for Executive Action

In order to strengthen its oversight of housing agencies administering the public housing program and better leverage information that it already collects, we recommend that the Secretary of the Department of Housing and Urban Development:

- Regularly summarize and systematically evaluate the results of OIG and single audits of public housing agencies to allow program managers to identify and understand problems of potential inappropriate use and mismanagement of public housing funds, identify emerging issues, and evaluate overall monitoring and oversight processes. Summarized results of audits should be disseminated to field offices, housing agencies, and their auditors to help make them aware of emerging or persistent problems and assist them in monitoring and administering HUD's public housing programs.
- Develop mechanisms—such as financial indicators—to identify housing agencies that are at greater risk of inappropriately using or mismanaging public housing funds. Such mechanisms may be developed based on the department's evaluation of commonly occurring and emerging issues identified in OIG and single audits of housing agencies and developed by leveraging financial information that the department currently collects. Once such indicators are developed, the department should use them as part of its ongoing monitoring and review of housing agencies' use of public housing funds.


Agency Comments and Our Evaluation

In written comments from the General Deputy Assistant Secretary for Public and Indian Housing (see app. II), HUD stated that the draft report contains useful information, but that the agency did not believe that our recommendations would achieve the objectives of strengthening oversight of housing agencies that administer the public housing program and of better leveraging information that it already collects. Although it provided

no specific explanation for why it thought our recommendations would not achieve its objectives, HUD stated that more analysis of its existing oversight mechanisms and information collected from housing agencies should be performed in order to evaluate and develop possible alternatives and indicated that it would involve Public and Indian Housing parties in developing a more creative and comprehensive approach to addressing the issues raised in our report. We welcome efforts by HUD to reconsider the mechanisms and data it uses to oversee housing agencies and to identify opportunities for improving its oversight. However, we disagree with HUD's statement that our recommendations do not help achieve the objectives of strengthening its oversight and better leveraging the audit and financial information it already has. We believe the recommended actions present a reasonable first step in leveraging its existing information and permit HUD to better focus its limited resources. In fact, as noted in the report, the mechanisms that we are recommending for identifying potential problems to identify housing agencies that are at risk of inappropriate use of funds are already being used by another key HUD rental assistance program and by the HUD OIG. Moreover, HUD has in place systems that capture the information needed for such analysis. As HUD reevaluates its oversight mechanisms and seeks the input of its new Assistant Secretary, we believe that thinking about ways of leveraging the information it receives from single audits and financial data will be helpful in identifying emerging issues related to inappropriate use and mismanagement of funds and in providing the oversight necessary to address these issues.

We will send copies of this report to the Secretary of the Department of Housing and Urban Development and other interested parties. In addition, the report will be available at no charge on our Web site at <http://www.gao.gov>. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

If you or your staff has any questions about this report, please contact me at (202) 512-8678 or sciremj@gao.gov. GAO contact information and staff acknowledgments are listed in appendix III.

A handwritten signature in black ink, appearing to read "Mathew J. Scirè". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Mathew J. Scirè
Director, Financial Markets
and Community Investment

Appendix I: Objective, Scope, and Methodology

This report evaluates the Department of Housing and Urban Development's (HUD) oversight of public housing agencies' use of federal funds to operate, modernize, and develop public housing units through the Operating Fund, Capital Fund, and HOPE VI programs—the three main sources of funding for the public housing program. In 2008, the Operating Fund, Capital Fund, and HOPE VI programs provided approximately \$6.7 billion to housing agencies for capital asset management. The objective of this report was to examine the oversight processes HUD uses to understand and detect instances of inappropriate use and mismanagement of public housing funds.

We reviewed applicable federal laws and regulations to describe permissible uses for the public housing funds within the scope of this report—specifically, funds available under the Operating Fund, Capital Fund, and HOPE VI programs. To describe HUD processes to ensure that housing agencies use public housing funds for statutorily allowable uses, we reviewed pertinent federal laws, agency notices, and program guides, and other job aids or documents. We interviewed program officials in the Office of Public and Indian Housing, including administrators from the Offices of the Deputy Secretary for Field Operations and of the Deputy Secretary for Public Housing Investments in Washington, D.C. We obtained information on the Public Housing Assessment System (PHAS) and financial management assessment procedures from officials responsible for this system at HUD's Real Estate Assessment Center (REAC). In addition, we reviewed key documents that describe the annual single audit process as applicable to housing agencies that receive federal funds, such as the Office of Management and Budget's (OMB) Circular A-133: *Audits of States, Local Governments, and Non-Profit Organizations* and HUD program documents.

We also interviewed officials from four HUD field offices and obtained additional documentary and testimonial information to summarize the oversight processes. We selected field offices for review. We selected the HUD field office in Miami-Dade because it oversaw the Miami-Dade Housing Authority, which had been the most recent housing agency to go into receivership pursuant to a settlement agreement resolving allegations of financial mismanagement. We also met with officials from three other HUD field offices: Baltimore, San Francisco, and Washington, D.C. Within their portfolios, these field offices all have housing agencies with active Operating Fund, Capital Fund, and HOPE VI programs, with a range of housing agencies of different sizes, and in proximity to cities near GAO offices. Although the results of our discussion with these field offices may not be generalized across all field offices, our discussions provided

important context on HUD's implementation of its oversight processes and corroboration of information we collected. We also obtained information on HUD's oversight procedures with staff from selected public housing agencies in each of the HUD field office locations: the Housing Authority of the City of Alameda, Housing Authority of the County of Monterey, Richmond Housing Authority, and San Francisco Housing Authority in California; the Miami-Dade Housing Authority and Housing Authority of the City of Fort Lauderdale in Florida; the District of Columbia Housing Authority; and the Housing Authority of Baltimore City and Prince George's County Housing Authority in Maryland.

To understand commonly occurring reported findings of inappropriate use or mismanagement of public housing funds by housing agencies, we conducted a content analysis of findings in HUD's Office of Inspector General (OIG) audit and single audit reports of housing agencies. Through this analysis we developed a number of categories and subcategories of common findings reported in these audits, including instances of noncompliance and internal control deficiencies. We took steps to ensure that the categories and subcategories we developed were consistently applied across both OIG and single audit reports, which included independent verification that the established categories and subcategories in the OIG reports were applicable to the findings we analyzed in the single audit reports. To select OIG audits for our analysis, we obtained a list of all audit reports with findings related to the three public housing funds (Operating Fund, Capital Fund, and HOPE VI) from 2002 through 2007. This list contained 144 audit reports. We also determine whether these audits met the following additional criteria for inclusion in our content analysis sample: (1) The audit findings were related to inappropriate use of funds and mismanagement issues, and (2) the audits were initiated by OIG or entities other than HUD program officials. We identified 81 OIG audits that met these criteria and constituted our final sample.

Single audit reports for our analysis were selected from audits conducted from audit years 2002 through 2005. This period differs from one for our analysis of OIG audit report because single audit reports are not due to HUD or to the Federal Audit Clearinghouse—the source from which we drew our sample—until 9 months after a housing agency's fiscal year end. As a result, some housing agencies had not yet submitted their 2006 or 2007 single audit reports by the time we performed our analysis. Using HUD financial data on housing agencies, we created a list of 129 single audit reports with findings related to the three public housing funds from audit years 2002 through 2005. We ensured that these single audit and OIG

reports related to financial management issues within the scope of our review. Our final sample of 56 reports included 8 reports in 2002, 10 in 2003, 18 in 2004, and 20 in 2005.

To identify potential cases of housing agencies at greater risk of inappropriately using or mismanaging funds across the HUD housing agency portfolio, we reviewed financial information from REAC's financial data schedule (FDS) database for approximately 3,300 housing agencies. We reviewed HUD's *Financial Data Schedule Line Definition and Crosswalk Guide* on the data fields available in this system and analyzed certain data line items. Specifically, we identified those FDS line items that could be used to assess potential areas of inappropriate use and financial mismanagement. In particular, we looked at FDS information on advances of public housing funds as a potential indicator of improper use and on cash management (bank overdrafts) as a potential indicator of financial mismanagement. At the time that we obtained these data from HUD, fiscal year 2006 was the last year for which a full year of financial data schedules was available.

We assessed the reliability of the data by (1) reviewing existing information about the systems and the data, (2) interviewing agency officials knowledgeable about the data, and (3) examining data elements used in our work by conducting electronic edit checks and comparing actual with anticipated values. For the FDS data, we analyzed the most current available data from the system for the years within the scope of our review. We obtained explanations on inconsistencies we found in the data from agency officials. We determined that the data were sufficiently reliable for the purposes of this report.

Analysis of potential inappropriate use of funds: As a potential indicator of inappropriate use, such as improper advances of funds, we analyzed balances of funds due from other program (FDS line item 144) for all housing agencies' operating funds from fiscal years 2002 through 2006. We selected this line item because HUD's OIG has identified housing agencies that have inappropriately advanced public housing operating funds by analyzing FDS for housing agencies that reported balances in excess of \$100,000 on line item 144 for the operating fund. OIG found that housing agencies often used the public housing general fund bank account as the payment account for various other activities of the housing agency. When these other activities did not repay the operating fund account, a balance was reported on line 144 of the FDS. When housing agencies did this for activities requiring substantial amounts of cash, the balance in line 144 tended to grow, indicating an inappropriate use of funds. Similarly, we

identified housing agencies showing amounts due from other program balances in excess of \$100,000 for its operating fund as an indicator of potential inappropriate advances of funds.

Analysis of potential mismanagement of funds: To identify housing agencies that may have fund mismanagement problems, such as poor cash management, we analyzed amounts reported as bank overdrafts in FDS (line item 311). This line item on FDS represents checks written in excess of funds available in bank accounts. In identifying this line item as an indicator of potential fund mismanagement, we interviewed HUD officials to determine if there were sound or legitimate operational reasons for a housing agency writing checks in excess of funds available in a housing agency's bank account. HUD officials could not provide such reasons. Further, OIG agreed that using bank overdrafts as an indicator of potential funds mismanagement was reasonable.

We conducted this performance audit from January 2007 through March 2009 in Alameda, Monterey, Richmond, and San Francisco, California; Miami and Fort Lauderdale, Florida; Baltimore and Prince George's County, Maryland; and Washington, D.C. in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Appendix II: Comments from the U.S. Department of Housing and Urban Development



OFFICE OF PUBLIC AND INDIAN HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

MAY 27 2009

Mr. Mathew J. Scire
Director
Financial Markets and Community Investment
U. S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Scire:

The Office of Public and Indian Housing has reviewed the draft report on HUD's Oversight of Housing Agencies Should Focus More on Inappropriate Use of Program Funds (GAO-09-33). Enclosed are my written comments concerning your report. As noted in the enclosed comments, I will be discussing your recommendations with the new Assistant Secretary for Public and Indian Housing when she arrives.

Please contact Michael Mangahas at (202) 402-6726, if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Paula O. Blunt". The signature is stylized and cursive.

Paula O. Blunt
General Deputy Assistant Secretary
for Public and Indian Housing

Enclosure

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**Public and Indian Housing Comments on
HUD's Oversight of Housing Agencies Should Focus More on Inappropriate Use
of Program Funds (GAO-09-33)**

Overall PIH Response to GAO Draft Review Report

Your Report contains useful information and provided PIH with recommendations on how to strengthen oversight of housing agencies (PHAs) administering the public housing program and to better leverage information that it already collects. However, PIH does not believe that the recommendations provided will accomplish these objectives.

It is anticipated that the new Assistant Secretary for PIH will be arriving soon. PIH would like the opportunity to brief the new Assistant Secretary on the GAO report and allow her the opportunity to decide how she wants to approach the issues that have been raised.

Recommendations for Executive Action

1. Regularly summarize and systematically evaluate the results of OIG and single audits of public housing agencies to allow program managers to identify and understand problems of potential inappropriate use and mismanagement of public housing funds, identify emerging issues, and evaluate overall monitoring and oversight processes. Summarized results of audits should be disseminated to field offices, housing agencies, and their auditors to help make them aware of emerging or persistent problems and assist them in monitoring and administering HUD's public housing programs.
2. Develop mechanism—such as financial indicators—to identify housing agencies that are at greater risk of inappropriately using or mismanaging public housing funds. Such mechanisms may be developed based on the department's evaluation of commonly occurring and emerging issues identified in OIG and single audits of housing agencies and developed by leveraging financial information that the department currently collects. Once such indicators are developed, the department should use them as part of its ongoing monitoring and review of housing agencies' use of public housing funds.

PIH response:

PIH believes that more analysis of the existing oversight mechanisms and information collected from PHAs should be done in order to evaluate and develop possible alternatives. We need additional time to involve other PIH parties in developing a more creative and comprehensive approach in resolving these issues.

As previously noted, the draft report will be discussed with the new Assisted Secretary once she reports to HUD.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Mathew J. Scirè, (202) 512-8678 or sciremj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Daniel Garcia-Diaz (Assistant Director), Emily Chalmers, May Lee, John Lord, Marc Molino, Jasmine Persaud, Carl Ramirez, Linda Rego, Suneeti Shah, and Julie Trinder made key contributions to this report.

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