



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-4500

OFFICE OF THE INSPECTOR GENERAL

Audit-Related Memorandum
00-DP-166-0804

June 30, 2000

MEMORANDUM FOR: Cardell Cooper, Assistant Secretary for
Community Planning and Development, C

FROM: Benjamin K. Hsiao, Director, Information Systems Audit
Division, GAA

SUBJECT: Audit Related Memorandum on Program Income

We performed a limited application controls review of HUD's Integrated Disbursement and Information System (IDIS) as part of our work in support of the audit of HUD's Fiscal Year 1999 financial statements. Attached is the results and recommendation from our review. During FY 1999, 649 grantees and six states reported approximately \$647.5 million in program income. We found CPD had removed an automated control in IDIS to ensure that non-revolving program income is first used by the grantees before drawing on other entitlement funds. This fund control is required by federal regulations. Without this control in place, HUD could end up overpaying millions of dollars to the grantees.

Subsequent to our review, we were informed by CPD that a decision has been made to modify IDIS to reinstate the automatic controls requiring grantees to draw non-revolving loan program income prior to the use of additional entitlement funds. This modification was scheduled to be released into the pre-production region during June 2000 for testing. However, there is no formal plan to assure that this control would in fact be implemented.

Please provide a status report on the recommendation by July 31, stating: 1) the corrective action taken; 2) the proposed corrective action and target completion dates; or 3) why action is considered unnecessary. Please provide us with copies of any correspondence or directives issued in response to our report.

Thank you for the assistance provided to us by your staff during our review. Should you have any questions or require additional information, please contact me at (202) 708-3444, extension 149.

Results of Review

The Integrated Disbursement and Information System (IDIS) is designed to support CPD's consolidated planning, disbursement and reporting requirements for the entitlement grant programs (HOME, CDBG, ESG, and HOPWA) and to simplify the grants management process for all participants. This system was first implemented in 1996 but full implementation of the system has not been completed due, in part, to problems with the processing of program income that have been reported by the OIG for several years.

From FY's 1990-1998, the OIG has reported problems with the accuracy and accountability of grantee program income in the annual financial statement audits. The audit for FY 1998 specifically cited the failure of CPD to program the IDIS system to account for revolving loan program income in accordance with federal regulations. In April of 1999, a GAO audit titled "Weak Management Controls Compromise the Integrity of Four HUD Grant Programs" also reported problems with the processing of revolving loan program income within IDIS. Although CPD monitoring of grantees improved during FY 1999, problems with the controls over the processing of program income still exist. During FY 1999, approximately \$645.7 million of program income was reported by 649 grantees and six states under IDIS.

This review was conducted during and after the audit of HUD's financial statements for FY 1999. We obtained documentation from and interviewed personnel and management responsible for the IDIS system. In addition, we examined Departmental procedures regarding the reporting and monitoring of program income.

Non-Revolving Loan Program Income Processing Leaves Department Vulnerable to Its Misuse

For the Fiscal Year 1998 Financial Statement Audit, we reported that IDIS was not accurately recording program income from revolving loan accounts. As a result of our finding and to comply with HUD regulations, the Department made system modifications to the processing of program income during fiscal year 1999. These modifications created categories of program income enabling grantees to distinguish revolving loan program income from other types of program income. Additionally, the modifications provided the grantees the ability to designate when the program income will be utilized and allow them to record and control revolving loan fund program income in compliance with the regulations. However, the modifications also eliminated the automatic controls that were previously in place to ensure that non-program income is utilized to meet Federal regulations.

24 CFR 570.504 requires that, with the exception of the program income from revolving loan funds, all program income received is to be utilized by the grantee before drawing down additional

entitlement funds. Prior to the system modifications made in FY 1999, a grantee or state would initiate a funds draw down through IDIS and the system would automatically deduct the revolving and non-revolving program income from the grantee or state's request. However, when the system modifications were made to separate the revolving and non-revolving program funds, it also removed this automatic deduction function for the non-revolving program income. CPD program officials stated that they were aware of this condition and are relying on the grantees and states to deduct their non-revolving fund program income from their fund draw down requests. Currently, CPD Field Offices resolve any funding discrepancies during the annual performance review process. However, during our review, CPD was considering providing Field Office program staff with a quarterly report of program income from IDIS to determine if program income is being properly reported by the grantees. Notwithstanding the proposed quarterly review, this process still requires a manual review of the data. We believe that the automatic deduction is a more efficient and necessary control to ensure that the grantees and states are complying with Federal regulations and to prevent possible misuse. Additionally, since funding reconciliation's are only currently required annually, millions of dollars in interest could be lost by the Treasury due to overpayments made to the grantees.

We were recently informed by CPD that they have reconsidered their position on this issue and will modify IDIS to restore the automated controls requiring grantees to draw non-revolving loan program income prior to the use of additional entitlement funds. This modification is scheduled to be released into the pre-production region during June, 2000 for testing.

Recommendation

We recommend that the Assistant Secretary for Community Planning and Development provide assurance that the automated fund control for program income will be placed into the IDIS production system. This assurance should include an implementation plan with milestones.

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