



**U.S. Department of Housing and Urban
Development**
New England Office of District Inspector General
for Audit, 1AGA
Thomas P. O'Neill, Jr. Federal Building
Room 370
10 Causeway Street
Boston, Massachusetts 02222-1092
Audit Memorandum
No: 2001-BO-0801

May 23, 2001

MEMORANDUM FOR: Bernice C. Unland, Director, Financial Management
Center, 8 FMC

FROM: William D. Hartnett, District Inspector General, Office of Audit, 1AGA

SUBJECT: Unprocessed Year-End Settlements for Contract
Administered Section 8 Projects in Massachusetts

During a review of HUD Section 8 payments, we determined that there was a significant backlog of unprocessed settlements for contract administrators on the 270 Massachusetts projects managed by the Financial Management Center.

Accordingly, we reviewed the unprocessed settlements as of December 31, 2000. Our objectives were to assess the significance of the backlog and the effectiveness of procedures to address it.

Our review disclosed that unprocessed settlements are not being reviewed in a timely manner consistent with HUD's policy. As of December 31, 2000, there is a backlog of 289 unprocessed settlements for 122 projects covering years 1998-2000 (for the most part, some are older). Consequently, HUD has not collected approximately \$3 million that was due HUD for net over-advances. The cost of money or interest incurred by HUD on the receivable is approximately \$239 thousand.

Within 60 days, please provide us with a status report on: (1) the corrective action taken, (2) the proposed action taken and the date to be completed, or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of this review.

Should you or your staff have any questions, please contact our office at 617-565-5259.

Background

During 1999, HUD Headquarters transferred financial responsibility for 270 contract administered Section 8 projects in Massachusetts to the Financial Management Center (FMC). The responsibility was transferred from HUD's Boston Multifamily Housing Program Center in Boston. FMC assigned the projects to their out-stationed financial analyst in Boston. According to the financial analyst, 183 projects were assigned to him in April 1999 and 87 in August or September 1999. The unprocessed settlements on each project were several years in arrears. At December 31, 2000, there were 289 unprocessed settlements.

HUD's year-end settlement policy is to complete reviews and approvals within 30 days after statements are submitted. There is an on demand summary report on unprocessed settlements by project and fiscal year in the HUDCAPS accounting system. FMC divisional directors use this report to monitor financial analysts' performance in processing settlements. The summary report does not include the amounts due HUD for over-advances or target review and completion dates when the 30-day goal cannot be met.

Scope and Methodology

To achieve our objectives, we focused on the unprocessed settlements for Massachusetts projects as of December 31, 2000. We did not review settlements processed prior to this date. Our review procedures consisted of:

- Interviewing the FMC financial analyst to gain an understanding of the circumstances and the management system for processing settlements;
- Interviewing contract administrator accountants at Boston Housing Authority (BHA) and Massachusetts Housing Finance Agency (MHFA) about the status of unprocessed settlements and the effective date for discontinuing submitting checks with year-end settlement statements;
- Interviewing FMC financial analysts for contract administered Section 8 projects in other New England states and FMC division directors about status of unprocessed settlements and resources for monitoring financial analysts' performance;
- Reviewing year-end settlement policies disclosed in HUD's Section 8 Financial Procedures Guide;
- Verifying Section 8 advances to BHA on four projects for the four years ended March 31, 2000 by comparing BHA's accounting information with HUD's;
- Obtaining a copy of the FMC's financial analyst's detail schedule of unprocessed settlements as of December 31, 2000 by contract administrator, project and fiscal year;

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- Reviewing on-hand project year-end settlements statements (Form HUD-52681s) submitted but unprocessed as of December 31, 2000, recording over-advance and under-advance amounts on the FMC financial analyst's aforementioned schedule and adding settlements where missing on the schedule; and
 - Preparing a summary of unprocessed settlements as of December 31, 2000 by contract administrator and time frame (1998-2000 and prior to 1998), including total unprocessed settlements and net over-advances, and computing (1) uncollected net over-advances (for years after 1997) and (2) interest incurred thereon from date settlement statements were due.

We performed the review during the six months ended March 31, 2001.

Audit Results

Our review disclosed that the HUD Financial Management Center (FMC) has not addressed collection of over-advances reported on year-end settlement statements (HUD-52681s) for Massachusetts contract administered Section 8 projects in a timely manner. As a result, HUD has a receivable of approximately \$3 million as of December 31, 2000. As of this date, HUD has also incurred interest expenses of approximately \$239 thousand to cover the uncollected over-advances from the date contract administrators submitted settlement statements to HUD.

ACC and Section 8 Financial Procedures Guide Require Prompt Collection of Over-Advances

Section 1.4 (e) of the Annual Contributions Contract stipulates that contract administrators will promptly pay HUD the amount of any over-advances at the end of each fiscal year.

The Submission Guidelines section of the Section 8 Financial Procedures Guide (Guide) on pages 7-4 and 7-5 stipulates that contract administrators must submit settlement statements and supporting documentation to FMC within 45 days after fiscal year-ends. The section further stipulates that FMC has 30 days to process and approve settlement statements in HUDCAPS.

The Imputed Interest section of the Guide on pages 7-6 and 7-7 indicates that contract administrators should be depositing Section 8 program advances into interest bearing accounts. The section further stipulates that contract administrators should report interest on over-advances on lines 28 and 39 of the settlement statements, so that HUD is equitably reimbursed for HUD's corresponding interest expenses. Should contract administrators fail to report interest, the section stipulates that the FMC financial analyst should impute an appropriate amount of interest and include it in the settlement statement.

The Overpayment-2. Checks section on page 7-8 of the Guide stipulates that, although HUD's preference is to use the offset method for payments, some circumstances necessitate a check. Examples include the situation when a contract administrator owes HUD a very large amount that cannot be recovered by offset in a timely manner.

Over-Advances Not Collected Promptly

As of December 31, 2000, there were 289 unprocessed settlements. Net over-advances totaling approximately \$3 million on 208 of the settlements have not been collected (see Appendix A for details by project). Most of these settlements have been outstanding for several years. As discussed above, it is FMC's policy to process settlement statements within 30 days of receipt and agreements with contract administrators require that over-advances be refunded immediately.

No Corrective Action Plan

FMC has not met its policy to process statements within 30 days of receipt because management has not been aware of the extent of the problem. We learned from FMC staff that there is no plan to promptly process settlements, so that current submittals can be reviewed and approved within 30 days. Unprocessed settlements are being addressed by one financial analyst in FMC's Boston field office who performs other duties, such as providing Section 8 funds and responding to FMC team issues. No additional staff assistance has been provided to deal with the problem. Even though there is on demand access in the HUDCAPS accounting system to a summary report on unprocessed settlements by project and fiscal year, the FMC divisional director (for the group, including contract administered Section 8 projects in Massachusetts) informed us that he relies on the financial analyst in Boston to keep him informally apprised on related progress. The FMC divisional director indicated that he had not been aware of the extent of the problem.

Interest Expense

The U.S. Department of the Treasury borrowed funds to cover the HUD uncollected over-advances, which created interest expenses totaling approximately \$239 thousand. The government has absorbed the interest to date, because FMC did not require interest reimbursements from the projects. The aforementioned interest expenses relate only to the unprocessed settlements as of December 31, 2000. HUD also incurred interest expenses on the backlog of unprocessed settlements for the 148 projects that were reviewed and approved by FMC during 1999 and 2000, which we did not review.

Auditee Comments

FMC agreed with our recommendation on the need to develop a plan to process all settlement statements within 30 days of receipt. FMC stated that it had established a series of deadlines to close all prior quarter's settlements within 75 days or document the problems preventing closure. FMC indicated it would regularly monitor progress to ensure that the 30 days goal was met.

FMC agreed that interest earned on over-advances should be reimbursed to HUD. FMC stated it would, ". . . remind the CAs of the requirement to calculate and report all interest on excess advances, and will provide them a model spreadsheet for their calculations."

OIG Evaluation of Auditee Comments

FMC's comments were general in nature and did not specifically state how processing of the settlements would be brought up to date in Massachusetts and interest on excess advances would be collected. FMC officials stated that they were in the process of developing the procedures and expected to have them completed in the near future. FMC needs to establish timeframes as to when it will collect interest on the over-advances in Massachusetts.

Recommendations

We recommend that FMC immediately implement corrective action, while completing in-depth reviews of unprocessed settlements, by:

- 1A. Directing contract administrators to submit summaries of unprocessed settlement amounts due to and from HUD by project and fiscal year with a check covering any total net amount due (over-advance) to HUD plus interest earned thereon from the date settlement statements were submitted to the present;
- 1B. Requiring contract administrators, with settlement statements reviewed and approved by FMC during 1999 and 2000, to reimburse HUD for interest earned on any over-advances from the date settlement statements were submitted to the date they were approved and executed by HUD;
- 1C. Establishing a plan to meet FMC's policy of reviewing and approving settlement statements within 30 days of receipt; and
- 1D. Monitoring performance on reducing unprocessed settlements and collecting over-advances plus interest.

Summary of Net Over-Advances On Unprocessed Financial Settlement Statements As of December 31, 2000 - Massachusetts

Contract Administrator	No. of Unprocessed Financial Settlement Statements	Advances Over (Under)	Fiscal Years
MA Housing Finance Authority	147	\$1,895,663	1998-1999
Boston Housing Authority	11	501,357	1998-2000
MA Dept. of Housing & Community Development	29	177,720	2000
Brockton Housing Authority	2	95,477	1998-1999
Dartmouth Housing Authority	1	90,114	2000
Springfield Housing Authority	3	89,162	2000
Lowell Housing Authority	1	72,555	2000
Somerville Housing Authority	2	72,152	1999-2000
Lynn Housing Authority	6	44,042	1998-2000
Lawrence Housing Authority	2	28,254	1998-1999
Framingham Housing Authority	2	7,414	1998-1999
New Bedford Housing Authority	2	(80,192)	1998-1999
Total	208	\$2,993,718	

Cost Efficiencies

	Cost Efficiencies <u>1/</u>
Finding 1	
<input type="checkbox"/> FMC has not promptly collected over-advances reported on contract administered Section 8 project year-end settlement statements.	\$2,993,718
<input type="checkbox"/> Interest incurred on uncollected over-advances.	239,376
Total	\$3,233,094

1/ Due to not collecting over-advances in a timely manner, FMC has not complied with HUD's prompt collection policy.

Auditee Comments



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Section 8 Financial Management Center
2345 Grand Boulevard, Suite 1150
Kansas City, Missouri 66108-2603

May 7, 2001

MEMORANDUM FOR: William D. Hartnett, District Inspector General, Office of
Audit, 1AGA

ATTENTION: Walter Hammer, Assistant District Inspector General, Office of
Audit, 1AGA

FROM: Bernice C. Unland, Director, Section 8 Financial Management Center,
PCF

SUBJECT: Draft Review Report
Unprocessed Year-End Settlements for Contract-Administered
Section 8 Projects in Massachusetts

This is in response to your memorandum of March 26, 2001, wherein you requested comments on your draft report on the Massachusetts contract-administered projects. Thank you for the opportunity to review the draft and provide these comments.

We concur that the rate of outstanding settlements in Massachusetts is unacceptably high. In discussion with your reviewer, he indicated that the other areas of the country had been surveyed and did not display the same problem. A portion of these open settlements are affected by system discrepancies. The Financial Management Center (FMC) has been working with the HUDCAPS contractor to resolve these discrepancies, which generally occurred during the conversion from LOCCS to HUDCAPS. We are holding the affected settlements open until the discrepancies are resolved. The contractor has made a priority to resolve the discrepancies as they are confirmed. The Massachusetts contracts do account for a disproportionate share of the discrepancies.

The FMC has set a goal of closing all settlements within 30 days of receipt. To date we have not been able to consistently meet that goal for the contract-administered projects, due to both the significant backlog of settlements at the point

of conversion and the higher priority of ensuring payments and renewals are processed timely. Division Directors receive regular reports on the status of all open settlements, to enable their monitoring. At present, we have also established a series of deadlines to close all prior quarters' settlements or document the problems preventing closure. The progress on these deadlines will be monitored regularly and should result in bringing settlements current within 75 days. This conforms with your recommendations 1C and 1D, with which we concur.

Housing agencies (HAs)/contract administrators (CAs) are required to report interest that is earned on excess advances, and that interest is credited back to the program during the closing process. In the tenant-based Section 8 programs, in those cases where interest is not reported, or where the reported interest computes to an unreasonably low rate of return, we impute interest according to return rates available. This has been the consistent practice of Public and Indian Housing. Multifamily Housing has not adopted such a practice. However, we are proposing to them that this be initiated, with appropriate advance notice to the agencies. That action, coupled with the timely processing of the settlements, should mitigate or eliminate those cases where HAs hold advances for extended periods.

Recommendation 1B proposes that CAs reimburse HUD for interest earned on over-advances from the date the settlements were submitted until the date they were approved by HUD, for settlements processed in 1999 and 2000. CAs should already be including the indicated sums in their calculations of amounts due HUD, as the excess advances should accrue interest until repaid. At the end of each year, the CA should report all interest earned on the advances during the fiscal year, regardless of when the advance occurred. Accordingly, we propose an alternative to your recommendation. We will remind the CAs of the requirement to calculate and report all interest on excess advances, and will provide them a model spreadsheet for their calculations.

Recommendation 1A proposes that CAs be directed to submit summaries of their unsubmitted and/or unprocessed settlements, along with checks for any amounts due, including interest. Rather than introduce this new step, we propose that the other steps outlined in this memorandum, to bring the submission and review of settlements current and to uniformly calculate and collect interest, will solve the underlying concern.

Appendix B cites excess advances and the anticipated interest on those advances as "Ineligible Costs." We think that description is not entirely accurate. The CAs presumably have not spent the excess amounts for ineligible purposes and, therefore, have not incurred ineligible costs.

I will be pleased to discuss any of these issues with you. Thank you, again, for the opportunity to provide these comments.

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