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**UNITED STATES
GENERAL ACCOUNTING OFFICE**

**Opportunities To Improve
Audit Operations**

Department of Housing and Urban Development

The Accounting and Auditing Act of 1950 requires the head of each executive agency to establish and maintain appropriate audit capability to provide effective control over funds, property, and other assets.

To fulfill this responsibility, the Department of Housing and Urban Development needs to insure that audits of grantees under the Community Development Block Grant Program are made periodically, that duplication or nonessential audit work does not occur, and that all facts needed for effective followup action on open audit findings are reported.



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

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-114860

The Honorable
Secretary of Housing and
Urban Development

Dear Mrs. Hills:

The Accounting and Auditing Act of 1950 (31 U.S.C. 66a) requires the head of each executive agency to establish and maintain appropriate audit capability to prove effective control over funds, property, and other assets. An agency's responsibilities under the act include insuring that audits for control over and accountability for financial operations are made when required, eliminating duplicate audit requirements and procedures, and disclosing information needed for effective resolution of audit findings.

We reviewed the audit coverage of Federal grant programs which were active in fiscal years 1974-76 in the States of Washington and Oregon. In looking at Department of Housing and Urban Development (HUD) programs, we determined what HUD audits had been made on about 95 percent of the categorical grant programs. We also determined what audits had been made by HUD and other organizations of selected grantees under the Urban Renewal/Neighborhood Development Program, the Public Facilities Program, and the new Community Development Block Grant Program.

During our review, we noted several areas in which HUD could improve its procedures and thereby provide for more efficient and effective audits of financial records and compliance with applicable laws and regulations. In brief, we believe HUD needs to ensure that

--audits of grantees under the \$8.6 billion Community Development Block Grant Program are made periodically,

--duplication or nonessential work does not occur in audits of the Federal Disaster Assistance Program, and

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--costs questioned by auditors and other facts needed for effective followup action are included in HUD's reporting system on open audit findings.

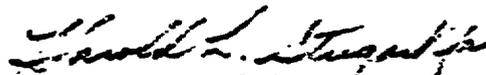
Generally, HUD officials agreed that these areas could be strengthened. Details of our review are included in appendix I.

Section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendation to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We would appreciate receiving copies of these statements.

We are sending copies of this report to the Director, Office of Management and Budget; the Chairmen of the House and Senate Committees on Government Operations; the Chairmen of the House Committee on Appropriations and the Senate Subcommittee on HUD-Independent Agencies, Senate Committee on Appropriations; and the Assistant Secretary for Community Planning and Development and the Inspector General of HUD.

We appreciate the courtesies and cooperation extended to our representatives during our survey. We are looking forward to receiving your comments concerning the matters discussed in this report.

Sincerely yours,


D. L. Scantlebury
Director

OPPORTUNITIES TO IMPROVEHUD AUDIT OPERATIONSBETTER PROCEDURES NEEDED TO INSURE THAT
PERIODIC AUDITS ARE MADE UNDER THE
COMMUNITY DEVELOPMENT BLOCK GRANT
PROGRAM

Insuring that the grantees' records and performance are audited to determine whether they have complied with the terms and objectives of their grants is a basic agency responsibility under the Accounting and Auditing Act. HUD policy and Federal Management Circular 74-7 (Attachment G), which sets forth standards for grantee financial management systems, require audits of grantees at least once every 2 years.

Since no controls have been established for the new Community Development Block Grant Program, HUD cannot be sure that grantees are audited within the required period. Grantees are expected to schedule audits and make sure that they are performed as required. Although HUD is to receive the audit reports, procedures have not been developed to monitor the scheduling and performance of the audits.

Funding under the new program in Washington and Oregon did not start until about May 1975; therefore, no audits had been made as of January 1976 when we did our fieldwork. The new program replaced the Urban Renewal/Neighborhood Development Program where we noted the same situation regarding the lack of control over audits. During fiscal years 1974-75, 9 of 11 grantees under the old program had not had audits conducted within the 2-year period, and 2 of these grantees had not had an audit in over 4 years.

In view of the \$8.6 billion authorized for the new program in ongoing funds, we believe procedures to insure periodic audits of grantees are important to determine if the grant moneys are spent properly.

Recommendation

We recommend that you establish procedures to assure HUD that grantees under the Community Development Block Grant Program have periodic audits performed as required.

Planned agency action

HUD headquarters officials agreed with our recommendation and told us that reporting procedures would be established to keep HUD informed of when grantee audits are due and whether the audits are performed as required. We believe this action, if effectively carried out, will improve HUD's control over its grant funds.

POSSIBLE AUDIT DUPLICATION
OF DISASTER ASSISTANCE
GRANTS

Section 111 of the Accounting and Auditing Act requires that emphasis be placed on eliminating duplicate audit requirements and procedures.

There may be duplication of audit effort on HUD's Federal Disaster Assistance Program. Under this program, States must agree to have audits made of all claims for disaster relief as a condition of receiving the grant. In addition to the State audits, the Administrator of HUD's Federal Disaster Assistance Program and the Director of the Office of Inspector General agreed to have HUD auditors perform audits on all claims over \$50,000 in unapproved 1/ States and either site or desk audits on all claims over \$100,000 in approved 2/ States.

1/Unapproved States are those which the Office of Inspector General has determined are doing unacceptable audits of disaster assistance claims or States where audit capability is unknown because they have not done any audits of these claims.

2/Approved States are those that the Office of Inspector General has determined are doing acceptable audits of disaster assistance claims.

HUD auditors are interpreting the agreement differently than intended and are not using discretion on whether a site audit is necessary. A responsible official in the Office of Inspector General said the word "audit" as it relates to the agreement for unapproved States means either a site or desk audit. However, four out of five HUD audit officials who carry out HUD audits of disaster claims in five Federal regions said they interpret "audits" in unapproved States to mean site audits.

In Federal region X, for example, a HUD site audit was made on a claim in an unapproved State even though the HUD auditor determined that an earlier audit by a certified public accountant was adequate.

We believe that, except under unusual circumstances, it is unnecessary to have two audit organizations perform site audits on the same claims.

Consideration of other methods
for audit coverage

From October 1 through December 31, 1975, HUD's Office of Inspector General performed 213 audits on disaster assistance claims totaling about \$65 million which also required auditing by others. HUD and other auditors generally use the same audit guidelines; however, they issue independent reports.

The Federal Disaster Assistance Program appears to be the only HUD grant program where two audit organizations routinely perform audits on the same claim. A HUD audit official said that in other grant programs where State and outside auditors are involved, HUD auditors review all reports for completeness, but do not review the supporting workpapers as is done for disaster assistance grants. The official added that questions relating to the adequacy of audit work are referred back to the State or outside audit organization for their disposition.

The HUD Regional Director for disaster assistance in Federal region X told us that HUD's audits usually cause a 2- or 3-month delay in final payments to grantees. He also stated that grantees often have to pay interest costs on funds borrowed for their projects during this period.

When asked about this situation, officials in the Office of Inspector General said that HUD audits

are necessary because the State audits are not reliable. They also said that audits for disaster assistance grants provide opportunities to train HUD auditors and improve the performance of State auditors. They added, however, that ways for obtaining reliable audits are being considered.

We support the audit officials' decision to consider alternatives for getting reliable audit work done on disaster assistance grants. We believe these should include

- arranging for a HUD auditor to work with State or other audit teams to develop their capability to a point where they can be relied on;
- relying on the other auditors after HUD auditors review their audit reports, sample their supporting workpapers, and occasionally perform some site verification;
- contracting with audit organizations with proven capabilities; and
- having HUD auditors, rather than other auditors, do the audit work.

The last two alternatives would necessitate a change in HUD's standard agreement with States where States must provide site audits for disaster assistance grants.

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Recommendation

We recommend that you direct officials of the Office of Inspector General to clarify HUD's policy for auditing disaster assistance claims so that HUD site audits are not routinely performed.

Planned agency action

After we brought this situation to their attention, officials of the Office of Inspector General issued a new audit guide including instructions to make all HUD site audits of disaster assistance claims discretionary. They also agreed to clarify audit policy with regional audit officials so that HUD site audits are not routinely

performed. We believe this action, if effectively carried out, will result in more efficient audit coverage of disaster assistance grants.

IMPROVING THE REPORTING SYSTEM
ON OPEN AUDIT FINDINGS

Under the Accounting and Auditing Act, the head of each executive agency is required to provide for full disclosure and adequate financial information needed in the management and control of operations.

A preferred procedure for control of open audit findings is to have regular status reports prepared for management and internal auditors. Federal Management Circular 73-2, which sets forth policies to be followed by executive departments and agencies, provides for periodic reports to agency management on open audit recommendations and actions taken. Accordingly, HUD Handbook (2000.5) requires field offices in the 10 Federal regions to prepare quarterly reports on the status and number of open findings, including detailed listings of the findings with the actions initiated, planned, or taken to resolve them. The findings are consolidated and reported by Federal regions.

Because information obtained during the course of our work indicated the need for Federal agencies to improve their followup on open audit findings, we recently began a Government-wide survey in this area. As a result, we did not extend our review to include complete coverage of HUD's methods for resolving auditors' findings; however, we did make the following observations about HUD's reporting system on open audit findings.

Reporting all amounts of open findings

We did not find all costs questioned by auditors readily available in HUD's reporting system on open audit findings. Because HUD offices are not required to report this information, not all are doing so. Instead of reporting dollar amounts of open findings, several regions are only reporting numbers.

We believe that information on dollar amounts provides managers with an indicator of the importance of audit findings, which HUD's reporting of numbers of findings cannot provide. When related to the time that the findings remain open,

the dollar amount points out those offices where more emphasis in resolving findings may be warranted and helps them determine which findings should get priority attention.

The amount of open audit findings may be quite high. In Federal region X, which does not report the amount of open findings, we were informed by a HUD audit control officer that as of March 31, 1976, Community Planning and Development had 12 open audit findings ranging from 1 to 2 years old and involving over \$1.3 million.

Reporting the amount of open audit findings should not require much additional effort. A HUD audit control officer in Federal region X told us that he has the dollar amount available on the same cards that he uses to prepare the report on open audit findings.

HUD officials generally agreed that reporting the amounts may be a good suggestion. They indicated that consideration would be given to having all amounts of open findings included in the reporting system.

You may wish to consider instructing HUD's offices to report the amounts of open findings in order to strengthen the reporting system.

Reports not always complete

Several quarterly reports were not complete enough for us to readily understand the findings or determine what corrective action was needed or taken. As of the quarter ended March 31, 1976, reports from 3 regions did not include information regarding actions by HUD or the audited organizations to resolve 27 open findings. For the same quarter, reports from another region did not include descriptions needed to understand the findings or recommendations. Other reports varied as to the type of information they contained on the status and description of findings.

We discussed this situation with Office of Inspector General officials, who informed us at the time of our meeting that they had implemented plans to improve the reporting system. They added that one reason for the incomplete information is that HUD's instructions do not prescribe a specific format for part of the report. They said their plans include revising the instructions to include a specific format.

APPENDIX I

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We support the Office of Inspector General's efforts to revise HUD's instructions. Also, we feel that you should make sure that needed improvements in this area are considered and carried out.