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

DIVISION OF FINANCIAL AND  
GENERAL MANAGEMENT STUDIES

B-115363

MAR 31 1975

The Honorable Thomas G. Cody  
Assistant Secretary for Administration 1121  
Department of Housing and Urban  
Development

Dear Mr. Cody:

This report presents the results of our review of the adequacy of the financial management system and internal controls, including internal audit, relative to the receipt and disbursement of funds. We tested financial transactions and records as we considered appropriate through March 1974. We were able to reduce our audit efforts in several areas because of audit work performed by HUD's Office of Inspector General.

We plan to issue a separate report on our review of the centralized automated payroll operations at the headquarters office, Washington, D.C.

Our review was made at the HUD headquarters office in Washington, D.C., and at regional offices in Philadelphia, Pennsylvania; Chicago, Illinois; and San Francisco, California. In addition, we considered internal audit work performed by HUD's Office of Inspector General at five other regional offices.

The administrative procedures and internal controls for the receipt and disbursement of funds were generally satisfactory. However, some weaknesses were noted during the review. These weaknesses are summarized below.

ASSESSMENTS FOR AUDITS AND  
INSPECTIONS TO BE REVIEWED

HUD assesses loan and grant recipients a percentage of each loan or grant to reimburse HUD for the cost of audits and inspections performed by HUD personnel. The assessments are made in advance of performance and deposited in the Department of the Treasury in a deposit account for un-earned fees and charges.

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During fiscal years 1972 and 1973, HUD transferred from the deposit account to its Administrative Operations Fund \$11.9 million more than it used for audits and inspections. This occurred because HUD based the transfers on budget estimates instead of recorded obligations. In addition, the balance of unused assessments deposited in the Treasury increased from \$34 million on June 30, 1970, to \$49 million on June 30, 1973. A HUD official informed us that the increase was due to a decrease in the number of audits and inspections.

To avoid or minimize future excess accumulations of funds from assessments, assessments should be periodically adjusted so that they will produce revenues more closely in line with the costs of audits and inspections. Further, transfers of funds from the deposit account should be limited to the obligations incurred by HUD in performing the audits and inspections.

We discussed these matters with officials of the Office of Finance and Accounting and were advised that assessments would be reviewed periodically and transfers from the assessment deposit account would be limited to the obligations incurred by HUD in performing audits and inspections.

PROCEDURES TO ASSURE COLLECTION OF  
TRAVEL ADVANCES FROM EMPLOYEES STRENGTHENED

Our review of travel advance accounts maintained at the headquarters office showed that control procedures established to assure collection of outstanding travel advances prior to an employee's separation were not being followed. The procedures provided that final salary payments should not be made to employees separating from HUD until properly executed clearance documents, showing whether the employees were accountable for any indebtedness due the U.S. Government, were received by the Office of Finance and Accounting.

On January 3, 1974, there were 195 headquarters office accounts, totaling over \$43,000, outstanding for employees who had separated as far back as December 1970. The individual unpaid advances ranged from about \$1 to over \$3,200.

In February 1974, the Chicago Regional Office was attempting to collect about \$7,000 of travel advances from 22 employees who had separated from HUD on various dates during 1970-1973.

We discussed the accounts maintained at the headquarters office with officials of the Office of Finance and Accounting and were informed that action was being taken to collect the advances, but they may have to be written-off as uncollectible. On June 4, 1974, HUD issued guidelines for use by accounting offices in reviewing the status of travel advances. These guidelines provided that, where necessary to clear advances before employees separated and received final pay checks, the accounting offices should institute procedures, in cooperation with the personnel office, to make the accounting offices aware of pending separations at the earliest possible time.

These procedures, if properly implemented, should provide better controls over the collection of travel advances from employees terminating their employment with HUD.

WEAKNESSES IN REGIONAL OFFICES'  
PROCEDURES TO BE CORRECTED

We noted the following weaknesses in procedures and controls at the Chicago, Philadelphia, and San Francisco Regional Offices.

- The Chicago, Philadelphia, and San Francisco Regional Offices were not using prenumbered purchase order forms and at the Chicago and Philadelphia Regional Offices purchase order forms were not adequately safeguarded to prevent unauthorized use. Since these forms are used for initiating disbursements, the controls should be strengthened to provide for the use of prenumbered forms and adequate safeguarding of the blank forms.
- At the Philadelphia and San Francisco Regional Offices imprest funds were not being audited quarterly as required by HUD and Department of the Treasury regulations.
- At the Philadelphia Regional Office invoices used as the basis for disbursements were not always stamped "paid" to prevent their being processed for payment a second time.
- At the Philadelphia Regional Office there were numerous instances where 2 to 3 weeks elapsed before receipts were deposited. Section 12.2 of Title 7 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies provides that collections should, insofar as possible, be deposited daily.

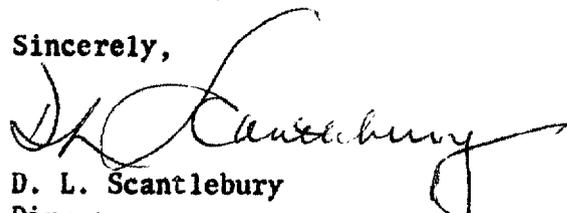
We discussed these matters with officials of the Office of Finance and Accounting and the regional offices and they informed us that corrective actions would be taken.

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In accordance with 8 GAO 13, records of financial transactions through March 31, 1974, may be transmitted to the Federal Records Center in accordance with HUD's records management program.

We wish to express our appreciation for the courtesies and cooperation extended our representatives during this review. We would appreciate your comments and advice as to any actions taken or planned on the matters discussed in this report.

Sincerely,



D. L. Scantlebury  
Director