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TO: James E. Hicks  
Director, Office of Housing, 6AH

FROM: D. Michael Beard  
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SUBJECT: Audit of Multifamily Asset Management Operations  
Dallas Area Office

We performed an audit of multifamily activities at the Dallas Asset Management Branch. The purpose of the audit was to identify the cause(s) for problems the Office of Inspector General (OIG) staff have encountered at the Asset Management Branch during recent audits of multifamily and management agent operations. Problems included inadequate records and monitoring and lack of follow through on corrective actions.

The audit identified ineffective supervision as the primary cause for serious problems found at the Asset Management Branch. Supervisors did not establish adequate controls or procedures; provide adequate guidance to staff; properly plan, prioritize, or oversee staff activities; or efficiently use staff and other resources.

Follow-up work OIG staff performed subsequent to the audit indicates HUD management has taken significant steps to improve Branch supervision and operations. In light of the improvements being made, the OIG has substantially reduced and toned down this report from the advance draft findings previously provided you. However, more time is needed to determine the effectiveness of corrective action HUD management is taking. This report summarizes the findings and recommendations that were included in the advance draft; however, this report does not include controlled recommendations. Instead, the OIG intends to perform a Corrective Action Verification within the next year to determine if there is adequate supervision, and actions taken by management are in place and operating effectively.

Should you have any questions, please contact me or Frank Baca, Assistant District Inspector General for Audit.

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# Executive Summary

**We have completed an audit of certain operations of the Dallas Asset Management Branch. The purpose of the audit was to identify the cause(s) for problems OIG staff have encountered at the Asset Management Branch during recent audits of multifamily and management agent operations. Problems included inadequate records and monitoring and lack of follow through on corrective actions. Specifically, the audit objectives were to determine the adequacy of the Dallas office's controls and policies relating to: (1) physical inspections and management reviews; (2) review and monitoring of annual financial statements and monthly accounting reports; and (3) approval and oversight of management agents.**

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## Problems Primarily Resulted from Inadequate Supervision

The audit identified ineffective supervision as the primary cause for serious problems found at the Asset Management Branch. Supervisors did not:

- Establish adequate controls or procedures, or provide adequate guidance to staff.
- Properly plan, prioritize, or oversee staff activities.
- Efficiently use staff and other resources.

## Inadequate Supervision Adversely Impacted Branch Operations

While we believe this underlying supervision problem permeates every aspect of the Asset Management Branch operations, the audit scope covered three broad areas:

- *Physical inspections and management reviews of troubled projects:* Supervisors did not: (1) plan and prioritize reviews and inspections; (2) ensure that staff performed necessary reviews and inspections and follow-up actions; and (3) maintain an adequate data tracking system for monitoring activities.
- *Review and monitoring of annual financial statements and monthly accounting reports:* Supervisors did not implement review procedures for audited financial statements or controls over the review of monthly accounting reports.
- *Approval and oversight of management agents:* Asset Management Branch supervisors did not maintain good

controls or provide adequate oversight over management agent approval and documentation. As a result, the Branch: (1) did not ensure management agents are approved or qualified; (2) maintain documentation to evidence an effective or timely screening of new management agents; and (3) maintain accurate or complete records of management agents.

These problems at the Asset Management Branch in turn result in substandard living conditions for tenants in assisted properties, inadequate assistance to distressed properties, and financial loss to HUD through diversions and inefficiencies at projects. Also, these conditions resulted in confusion and poor morale among HUD staff, as well as a cluttered working environment.

HUD Management  
Responded Positively to  
Reported Findings

We provided HUD management with an advance copy of the draft findings on March 27, 1996. An exit conference took place on April 4, 1996. At the exit conference HUD officials expressed general agreement with the findings and stated the Asset Management Branch was taking significant corrective actions to address our concerns. One of these actions included the hiring of a new Branch supervisor in October 1995. HUD officials said they would summarize in writing actions planned or taken. They requested we review these actions and, if appropriate, modify our report. We agreed to their request. In early May 1996 the new supervisor provided us with a detailed written response, describing actions taken or planned (see Appendix A<sup>1</sup>). OIG staff reviewed the response and visited the Dallas office to evaluate actions taken or planned. Based on our evaluation of the written response and the site visit (see Appendix B), it appears that HUD management is taking effective action to address OIG concerns. As a result, this report only summarizes the findings and recommendations included in the advance draft. More time is needed to determine the overall effectiveness of corrective action HUD management is taking. Therefore, the OIG will perform a Corrective Action Verification within a year to ensure that management actions have effectively resolved reported deficiencies

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<sup>1</sup> Excludes much of the attachments, which were too voluminous to include with this report.

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## Abbreviations

HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General

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# Introduction

**The Secretary is authorized to service projects having HUD-insured mortgages to prevent default and assignment of mortgages. HUD field offices are responsible for assuring the projects' owners keep the projects financially sound and in good physical condition with decent, safe, and sanitary units. The field offices are also responsible for detecting signs of problems and taking actions to prevent defaults where possible.**

**The Fort Worth Director of the Office of Housing has the responsibility for monitoring and evaluating the overall management performance and goals of housing programs in the field offices. The Director oversees 11 multifamily asset management branches in the Southwest District. Each asset management branch services all mortgages, direct housing loans, and grant contracts (including insured projects and HUD-held mortgages) in defined geographical areas.**

**Primary servicing activities consist of conducting occupancy, on-site management, or financial statement reviews. Servicing activities also include conducting physical inspections and monitoring the receipt of and evaluating mortgagee inspection reports. Each branch is also responsible for ensuring assisted units meet HUD's minimum Housing Quality Standards and provide HUD clients decent, safe, and sanitary housing.**

**The Dallas Asset Management Branch services a portfolio of 263 properties. The Branch identified 82 of the 263 properties in its portfolio as physically, financially, or "other" troubled<sup>2</sup>. At the time of the audit, the Dallas Asset Management Branch consisted of one supervisory asset manager, seven asset managers, one inspector, and three clerical/support staff. Since 1989, six different individuals have supervised the Asset Management Branch. The Director, Multifamily Division, of the Office of Housing in Fort Worth has overall responsibility for the Dallas Branch.**

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## AUDIT OBJECTIVES

The primary purpose of this audit was to determine the cause(s) for problems encountered at the Asset Management Branch during recent audits of multifamily project and management agent operations. Problems included inadequate records and monitoring and lack of follow through on corrective actions. Specifically, the audit objectives were to determine the adequacy of the Branch's controls and policies relating to: (1) physical inspections and management reviews; (2) review and monitoring of annual financial statements and monthly accounting reports; and (3) approval and oversight of management agents.

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<sup>2</sup> These figures represent best estimates. The Asset Management Branch did not have reliable records or data systems.

SCOPE AND  
METHODOLOGY

As part of the audit, we interviewed HUD Housing officials and staff in the Fort Worth office, and Asset Management Branch supervisors and staff in the Dallas office. We also reviewed file documents and data systems in the Dallas and Fort Worth offices including:

- personnel records;
- property/servicing files;
- control files and subsystem files;
- management agent files;
- electronic data and computer printouts; and
- the Field Office Multifamily National System.

Based on initial survey results and weaknesses identified in previous audits, we developed audit objectives and concentrated our efforts in selected areas. To achieve the objectives, we performed audit procedures including, but not limited to the following:

*Physical inspections and management reviews.* Review procedures focused on physical inspection and management review data for those properties Dallas identified as physically troubled (38 properties). Of the 38 properties, we judgmentally selected 20 for an in-depth analysis of the inspection and management review process. The analysis included reviewing inspection and review logs and reports, electronic data, and interviewing asset management staff. The review generally covered inspections performed and planned between 1987 and 1996.

*Annual financial statements and monthly accounting reports.* Review steps included identifying HUD requirements for financial reports, identification of Branch controls, and an analysis of review and follow-up procedures. Of the 257 Dallas properties that submit annual audited financial statements, 62 properties are required to submit monthly reports. We used statistical sampling with replacement to draw a 25 percent sample of annual financial statements, and judgmental sampling to select a 25 percent sample of monthly accounting reports.

*Management agent approval and oversight.* Audit steps identified HUD requirements, control procedures in place, and an examination of file documents to determine



effectiveness of asset management controls. We reviewed nine new agent files to evaluate the timeliness and adequacy of the review and approval process. Also, we reviewed files for 28 (of about 125) management agents for completeness.

We also looked at branch staffing and resources. Steps included evaluating local and national workloads, performance appraisals, available travel funds, and working conditions.

AUDIT SITE AND  
PERIOD

The audit generally covered calendar years 1993 and 1994 with additional review periods included as necessary. We performed audit work from February to August 1995 at the Dallas and Fort Worth HUD offices in accordance with generally accepted auditing standards.

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# Dallas Multifamily Office Did Not Have Adequate Supervision

**Due to inadequate supervision of the Dallas Asset Management Branch, tenants in multifamily projects live in substandard conditions, HUD suffers financial losses, and distressed properties go without needed HUD assistance. Supervisors did not provide effective oversight over: (1) the planning, performance, or follow-up of project reviews and physical inspections; (2) the submittal, review, and follow-up of financial reports due from project owners; or (3) the approval and monitoring of management agents. Also, poor supervision helped create a cluttered, unorganized working environment, with morale problems among staff who felt a lack of supervisory support. However, HUD management has recently taken action to substantially address these problems, including hiring a new branch supervisor.**

## Multifamily Housing's Responsibility and Mission

Multifamily Housing supervisors are responsible for providing decent, safe, and sanitary housing as well as protecting the Federal housing fund. HUD Handbook 4350.1 REV-1, Multifamily Asset Management and Project Servicing, states their mission is to:

- A. Maintain housing for those it is intended to serve;
- B. Protect the Federal Housing Administration's insurance fund;
- C. Assure the project management is satisfactory;
- D. Assure that the project is physically sound and financially solvent;
- E. Assure compliance with HUD's rules and regulations that pertain to projects with HUD-insured and HUD-held mortgages; and
- F. Administer various subsidy contracts.

## Draft Report Finding on Supervision

Finding 1 of the draft report cited inadequate supervision as the primary cause for reported problems. According to

national statistics obtained from HUD Headquarters, the Dallas office had the second highest troubled properties per multifamily employee in the country. This makes the need for strong supervision all the more crucial. However, the audit showed strong indications that the lack of adequate supervision has more likely exacerbated the problem. This has resulted in tenants living in poor conditions, HUD financial loss, and disharmony in the Dallas Asset Management Branch.

The finding included the following recommendation:

- 1A. We recommend you take whatever measures are necessary to ensure the Dallas Asset Management Branch has strong and effective supervision to address the concerns cited in this report.

In October 1995 HUD management hired a new branch supervisor. Based on audit follow-up work, it appears the new supervisor is effectively addressing problems found during the audit. The OIG will perform a Corrective Action Verification within a year to ensure the Branch continues to have effective supervision.

Need for Supervisory Oversight Over Reviews and Inspections

Finding 2 of the draft report stated Asset Management Branch supervisors did not provide effective oversight or implement adequate controls over the monitoring of troubled properties. Poorly managed properties result in substandard living conditions for tenants and financial loss to HUD. Dallas supervisors did not: (1) plan and prioritize reviews and inspections; (2) ensure that staff performed necessary reviews and inspections and follow-up actions; and (3) maintain an adequate data tracking system for monitoring activities. Supervisors provided little guidance to asset management staff, leaving them responsible for inspections and corrective actions with little or no supervisory oversight. A lack of centralized controls over inspections, reviews, and filing resulted in control weaknesses which allowed distressed properties to go without needed monitoring assistance. The lack of controls also resulted in an ineffective use of scarce HUD resources.

The draft finding recommended you require the Dallas Asset Management Branch supervisors to:

- 2A. Implement a system to plan and prioritize reviews and inspections in accordance with HUD Handbook

4350.1 REV-1, and monitor the system on an ongoing basis to ensure its effective operation.

- 2B. Ensure that high priority reviews and inspections are performed as scheduled, and that staff timely follow through to make sure problems identified are resolved and needed corrective actions are taken.
- 2C. Establish control systems that will provide complete and accurate information regarding the number and status of multifamily properties in the Dallas portfolio and complete information regarding reviews and inspections performed.
- 2D. Plan office workload to make maximum use of available travel funds.
- 2E. Create an organized office environment by eliminating clutter and establishing good filing systems.
- 2F. Develop strategies to make optimum use of scarce staff resources, including making sure highest priorities are addressed first.

Audit follow-up work found the new Branch supervisor had taken or was taking effective action to address these recommendations. However, more time is needed to determine the effectiveness of HUD management's corrective actions. The OIG will perform a Corrective Action Verification within a year to ensure the deficiencies have been substantially resolved.

Need for Improved Oversight Over Reviews of Financial Reports

Finding 3 of the draft report found Dallas multifamily asset management supervisors did not implement review procedures for audited financial statements as required, placing HUD funds at risk of loss and misuse. The Asset Management Branch did not have adequate controls over the submittal and timely review of financial statements, or in subsequent follow-up of needed corrective action. In addition, Branch supervisors did not implement controls over the review of monthly accounting reports, exposing HUD properties to potential fund diversions and loan default.

The draft finding recommended you require Dallas Asset Management Branch supervisors to implement and monitor controls to ensure field office staff:

- 3A. Timely review financial statements for Section 202 projects.
- 3B. Timely notify all project owners of needed corrective action disclosed by financial statement reviews and follow through to ensure owners respond and take the corrective action.
- 3C. Reconcile reserve for replacement and residual receipt amounts for Section 202 projects.

The draft finding also recommended you require Dallas Asset Management Branch supervisors to:

- 3D. Provide specific submission guidelines and review responsibilities to field office staff relating to monthly accounting reports.
- 3E. Monitor the monthly accounting report process on an ongoing basis to ensure it is functioning effectively, accurate control logs are being maintained, and files are well-organized and complete.

Audit follow-up work found the new Branch supervisor had taken or was taking effective action to address these recommendations. However, more time is needed to determine the effectiveness of HUD management's corrective actions. The OIG will perform a Corrective Action Verification within a year to ensure the deficiencies have been substantially resolved.

Need for More Effective Oversight of Management Agents

Finding 4 of the draft report found the Asset Management Branch does not ensure management agents are approved or qualified. Asset Management did not maintain documentation to evidence an effective or timely screening of new management agents. Disreputable management agents have resulted in substandard housing conditions for tenants and financial losses for projects. In addition, asset management records in many cases were missing

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management certifications and other key documents. Further, asset management staff could not provide a current listing of agents managing multifamily properties. Without these documents and information, HUD cannot effectively monitor management agent activities. Also, HUD may have difficulty holding management agents accountable for violations of regulatory agreement and other HUD requirements.

The draft finding recommended you require the Dallas Asset Management Branch to:

- 4A. Implement procedures and supervisory controls to ensure that management agent reviews and approvals are documented in accordance with HUD Handbook 4381.5 REV-2, paragraphs 2.12 and 2.13.
- 4B. Implement procedures and supervisory controls to ensure that the management agent review and approval process is performed in a timely manner.
- 4C. Develop a recordkeeping system that maintains complete and current management agent information (including Forms HUD-2530, HUD-9832, and HUD-9839) in an organized manner.
- 4D. Determine what management agent records are missing and make every effort to locate or recover these records.

Audit follow-up work found the new branch supervisor was taking effective action to address these recommendations. However, more time is needed to determine the effectiveness of HUD management's corrective actions. The OIG will perform a Corrective Action Verification within a year to ensure the deficiencies have been substantially resolved.

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# Internal Controls

**In planning and performing our audit, we considered the Dallas Asset Management Branch's internal controls in order to determine our auditing procedures and not to provide assurance on the internal controls. Internal controls consist of the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.**

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## Significant Controls

We determined that the following internal controls were relevant to our audit objectives:

## Administrative Controls

Supervision  
Management reviews and physical inspections  
Review of financial statements and accounting reports  
Approval and oversight of management agents  
Staffing and resources

We assessed all of the relevant controls identified above.

## Significant Weaknesses

It is a significant weakness if internal controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our review, we believe the following items are significant weaknesses (see Finding):

- HUD management did not provide effective supervision for multifamily asset management operations.
- Asset Management Branch supervisors did not implement adequate controls over the review and inspection of troubled properties and poorly managed staff and other resources.
- Supervisors did not have adequate controls to ensure financial statements and accounting reports were received, properly reviewed, and followed up on.

- Asset Management Branch supervisors did not provide adequate oversight over management agent approval and documentation.

# Auditee Comments

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# Results of OIG Follow-Up Audit Work

<u>Summary</u> <u>Recommendation</u>	<u>Evaluation</u>
1A	New Branch supervisor seems knowledgeable/cooperative.
2A,B,D	Branch supervisor is implementing systems and controls to address recommendations but control effectiveness cannot be determined at this time.
2C	Branch supervisor is implementing controls to address the recommendation but effectiveness cannot be determined.
2E	Branch supervisor is taking steps to address this recommendation. Further corrective action verification will be necessary to determine compliance.
2F	Branch supervisor has implemented controls and procedures to address this recommendation but control effectiveness cannot be determined at this time.
3A,C	It appears supervisor has implemented control logs and procedures to address recommendations 3A and 3C. However, overall effectiveness of these controls could not be determined. Additional information is needed.
3B,D,E	Branch supervisor has implemented controls and procedures to address this recommendation but control effectiveness cannot be determined at this time.
4A,B,C	Branch supervisor appears to be taking actions to address recommendations 4A, 4B, and 4C. Further review is needed to determine the adequacy of the response relating to management agent review, documentation, and filing guidelines. The overall effectiveness of controls cannot be determined.
4D	Branch supervisor is taking actions to comply with recommendation 4D. However, total compliance is still pending.

RECOMMENDATION 1A

Ensure the Dallas Asset Management Branch has strong and effective supervision to address the concerns cited in this report.

**Summary of Auditee Response:**

Fort Worth multifamily managers hired a new Dallas supervisor with "substantial experience" in working with troubled properties. The new supervisor insists on strict compliance with established procedures and is planning implementation of additional procedures as needed.

**Preliminary Evaluation Based on Auditee Response:**

Managers took action by replacing the Dallas supervisor with an individual they feel is qualified to successfully manage the troubled inventory and implement needed controls.

**Overall Evaluation Based on On-site Follow-up (May 16, 1996):**

The new supervisor seems knowledgeable, was very cooperative, and wants to resolve problems noted during the Dallas audit.

RECOMMENDATION 2A

Implement a system to plan and prioritize reviews and inspections in accordance with HUD Handbook 4350.1 REV-1, and monitor the system on an ongoing basis to ensure its effective operation.

RECOMMENDATION 2B

Ensure that high-priority reviews and inspections are performed as scheduled, and that staff timely follow through to make sure problems identified are resolved and needed corrective actions are taken.

RECOMMENDATION 2D

Plan office workload to make maximum use of available travel funds.

**Summary of Auditee Response to 2A, 2B, and 2D:**

Supervisors required asset managers develop work plans. The plans detail all reviews, corrective actions, and other measures to be taken by each asset manager in the upcoming year. Supervisors will evaluate the performance of each asset manager by accomplishment of items in the work plans.

Supervisors say they will consolidate all asset manager plans into a consolidated, office work plan.

**Preliminary Evaluation Based on Auditee Response:**

These actions may not address the root cause or problem (supervisors did not prioritize reviews, inspections, and other actions to efficiently and effectively use scarce staff resources). Additional information is needed to determine what the overall work plan is -- does it include a work prioritization and resource allocation strategy?

If Dallas supervisors rate asset managers' performance on the work accomplished without providing needed resources (i.e., staff and travel resources) this will only frustrate the asset managers and perhaps make matters worse. Previous supervisors required asset managers to prepare work plans similar to the examples provided here. However, the supervisors failed to use individual plans to develop an overall strategy to prioritize and allocate staff resources. As a result, Dallas was unable to complete needed reviews because the office lacked sufficient staff or travel reserves.

**On-site Follow-up (May 16, 1996):**

The Branch supervisor provided examples of how he consolidated all individual work plans into an overall office plan. He evaluates all reviews and inspections scheduled to ensure all are properly prioritized. The supervisor requires and reviews monthly travel projection reports and updates from each asset manager. He provided monthly travel cost projections through the end of the fiscal year (9/30/96).

The supervisor utilizes a newly-implemented correspondence tracking system to ensure all corrective actions are taken as needed and within HUD timeframes.

**Overall Evaluation:**

The Dallas supervisor is implementing systems and controls to adequately address recommendations 2A, 2B, and 2D. Overall control effectiveness cannot be determined at this time.

**RECOMMENDATION 2C**

Establish control systems that will provide complete and accurate information regarding the number and status of multifamily properties in the Dallas portfolio and complete information regarding reviews and inspections performed.

**Summary of Auditee Response:**

HUD supervisors/managers developed a database to maintain a listing of multifamily properties to show which servicers properties are assigned, and track inspection and review dates and results.

**Preliminary Evaluation Based on Auditee Response:**

Data elements in the database appear to be adequate to enable managers to: (1) determine the number and status of multifamily properties in the Dallas portfolio; (2) determine reviews performed by the Dallas office; and (3) determine which reviews or inspections need to be done. This control appears adequate to also track and report current management agent information.

**On-site Follow-up (May 16, 1996):**

The Branch supervisor and an asset manager detailed the new database controls implemented. The system has essential data elements as noted above to maintain important property and multifamily agent data. Asset manager said up-to-date property information was available as needed. Supervisor outlined system update and maintenance procedures.

**Overall Evaluation:**

Supervisor is implementing controls and procedures to address recommendation 2C. Controls appear adequate to maintain current property, inspection, and review information. The overall effectiveness of the new controls and procedures cannot be determined.

**RECOMMENDATION 2E**

Create an organized office environment by eliminating clutter and establishing good filing systems.

**Summary of Auditee Response:**

The new Dallas supervisor has long range plans to develop a new filing strategy. Presently the office is refiling and boxing excess files. Supervisors have been unable to remove excess furniture but say this is out of their control. Also, Dallas multifamily operations may be moved sometime in the future.

**Preliminary Evaluation Based on Auditee Response:**

Interim corrective actions appear adequate to begin addressing the serious space utilization and filing problems at the Dallas office. The office should continue its efforts to develop a logically organized filing system.

**On-site Follow-up (May 16, 1996):**

The office environment has been somewhat improved (i.e., files have been placed in cabinets or boxes). The office has a neater appearance and is relatively free of clutter. However, many property files are still in boxes. Supervisor says this is because of a pending assisted property sale and a general lack of filing space. According to the supervisor, the office is receiving three new filing cabinets in the near future and additional, legal-sized files are on order. Supervisor is unable to get excess furniture removed from the office. He says this is because administration says there is no other place for it to be stored. He is hoping to get the excess furniture moved and request additional items he feels are necessary for Dallas multifamily operations such as: (1) additional filing cabinets and work space; (2) new phone service; (3) a room designated for staff training and meetings with Dallas area industry groups; and (4) a fax machine.

**Overall Evaluation:**

Supervisor is presently taking steps to address recommendation 2E. Further corrective action verification will be necessary to determine complete compliance with this recommendation (i.e., pending receipt of filing cabinets, new file folders, and replacing property files in file cabinets).

**RECOMMENDATION 2F**

Develop strategies to make optimum use of scarce staff resources, including making sure highest priorities are addressed first.

**Summary of Auditee Response:**

Supervisors refer again to the annual work plans they require asset managers to develop. Supervisors require each asset manager to prioritize work within their annual work plan. Performance standards include customer service standards. Customer service standards include phone calls to be answered by the third ring.

**Preliminary Evaluation of Auditee Response:**

Corrective action does not address root problem or cause (inefficient use of scarce staff resources). This action still does not provide for supervisory review or development of an overall plan to determine and plan for staff resources needed to carry out servicer-planned activities.

**On-site Follow-up (May 16, 1996):**

Supervisor provided evidence of controls and procedures providing for his periodic, supervisory review of planned reviews, inspections, and other staff activities. He also: (1)



reviews schedules to assure priority ranking factors have been considered; (2) monthly, projects staff usage and travel resources needed by the Dallas office through the fiscal year end; and (3) sends travel expense projections to the Fort Worth managers to help ensure travel fund availability.

**Overall Evaluation:**

The Branch supervisor has implemented controls and procedures to address recommendation 2F. Control effectiveness cannot be determined at this time.

**RECOMMENDATION 3A**

Implement controls to ensure timely review of Section 202 financial statements.

**RECOMMENDATION 3C**

Implement controls to reconcile replacement reserve amounts reported on Section 202 financial statements with HUD records.

**Summary of Auditee Response to Recommendations 3A and 3C:**

Managers included timely reviews of Section 202 financial statements in the annual financial statement review (AFS) performance standards. Section 202 replacement reserve reconciliations are also included as part of AFS review performance standards. Managers also developed Financial statement tracking logs for financial statements reviewed by the contractor and HUD staff.

**Preliminary Evaluation of Auditee Response:**

Manager's corrective actions did establish controls over timely receipt and reconciliation of replacement reserve amounts. Logs appear to have necessary data elements to ensure timely review of AFS. However, managers did not detail controls or procedures to be used by asset managers when reconciling replacement reserve amounts or how to report exceptions. Also, the corrective action includes no provision for periodic supervisory review.

**On-site Follow-up (May 16, 1996):**

Supervisor provided an example of the AFS log which he kept at his desk. He periodically reviews the log to ensure AFS are reviewed within established timeframes (either 90 or 120 days). Supervisor was unable to provide a memo he sent to asset managers outlining their responsibilities for reconciling Section 202 replacement reserve amounts [Note: On July 10, 1996, the supervisor sent an E-mail memo to his staff regarding this].

**Overall Evaluation:**

It appears the Branch supervisor has implemented control logs and procedures to address recommendations 3A and 3C. However, overall effectiveness of these controls could not be determined.

**RECOMMENDATION 3B**

Implement controls to ensure all project owners are notified of weaknesses identified during financial statement reviews and ensure that corrective actions are taken.

**Summary of Auditee Response:**

Supervisors developed financial tracking databases/logs to track timely review and follow-up actions. Asset managers are to provide monthly reports to supervisors about the status of their financial reviews. Supervisors established separate logs for contract and non-contract AFS reviews.

**Preliminary Evaluation of Auditee Response:**

AFS review tracking logs appear adequate to record owner notification and follow-up information. The corrective action does not detail assigned staff or procedures implemented to properly maintain the AFS log.

**On-site Follow-up (May 16, 1996):**

Branch Supervisor utilizes the AFS tracking and correspondence logs to track owner notification and corrective action compliance. He designated certain staff and established procedures to maintain tracking logs. He reviews logs on a periodic basis.

**Overall Evaluation:**

Controls in place and procedures and reviews implemented by Supervisor appear adequate to address recommendation 3B. However, overall control effectiveness was not determined.

**RECOMMENDATION 3D**

The Dallas supervisor should establish specific submission guidelines and review responsibilities to field office staff relating to monthly accounting reports.

**RECOMMENDATION 3E**

The Dallas supervisor should establish procedures to monitor the monthly accounting report process on an on-going basis to ensure it is functioning effectively, accurate control logs are being maintained, and files are well-organized and complete.

**Summary of Auditee Response to Recommendations 3D and 3E:**

Managers communicated submission requirements for monthly accounting reports (ABC reports) to asset management staff (e.g., reports are required for troubled and potentially troubled properties). Supervisors require asset managers to complete summary worksheets detailing monthly report data and complete ABC submittal logs recording receipt of each report. Managers included the review of the monthly accounting reports in the asset manager performance standards.

**Preliminary Evaluation Based on Auditee Response:**

Corrective action does define submittal requirements but provides no details of minimum review procedures or review responsibilities. Also, the corrective action does not provide for periodic supervisory review.

**On-site Follow-up (May 16, 1996):**

Supervisor periodically reviews ABC logs to determine reports are being submitted as required. Asset managers are required to document their complete review of each report by completing elements in the ABC summary worksheet. Asset managers justify their addition or deletion of properties from their ABC report submittal list.

**Overall Evaluation:**

Managers and the supervisor have implemented controls to address recommendations 3D and 3E. However, control effectiveness will have to be determined at a later date.

**RECOMMENDATION 4A**

Implement controls and procedures to ensure that management agent reviews and approvals are documented in accordance with HUD Handbook 4381.5 REV-2, paragraphs 2.12 and 2.13

**RECOMMENDATION 4B**

Implement controls to ensure the management review and approval process is performed in a timely manner.

**RECOMMENDATION 4C**

Develop a record keeping system that maintains complete and current management agent information in an organized manner.

**Summary of Auditee Response to Recommendations 4A, 4B, and 4C:**

Management will prepare a memorandum detailing review and documentation procedures per HUD 4381.5. Management will require asset managers to review management agent documents to ensure all management agents have received official HUD approval.

Supervisors implemented an incoming mail log which they periodically review to determine if multifamily staff provides timely replies to all incoming mail -- including management certifications.

Managers established a database in corrective action 2C, which includes management agent information. Filing controls are yet to be established (see actions taken in recommendation 2E). Managers say additional actions may be needed.

**Preliminary Evaluation of Auditee Response:**

Interim actions appear to properly address recommendations 4A, 4B, and 4C. Additional actions will be required before full compliance can be determined (i.e., copy of memo and other controls and procedures implemented). Additional information is needed concerning the correspondence logs. For example, do supervisors require specific identification of correspondence received (management certification, management entity profiles, etc.)? The database established in corrective action 2C appears to have the minimum data fields needed to enable the office to maintain an accurate listing of multifamily agent information. The corrective action plan did not include specific requirements to ensure all agent documents were received and approved (recommendation 4C).

**On-site Follow-up (May 16, 1996):**

Managers have not prepared the memorandum outlining agent review guidelines. However, the Branch supervisor is developing training materials regarding proper review and documentation of multifamily management agents. Training will also include new filing procedures being developed by the supervisor to maintain accurate and up-to-date management agent data. He will compile the training materials and send them to the Fort Worth office for evaluation. Also, correspondence logs include specific identification of incoming mail. The mail clerk assigns a review completion date for all incoming mail as determined by the nature of correspondence.

**Overall Evaluation:**

The Branch supervisor appears to be taking actions to address recommendations 4A, 4B, and 4C. Further review is needed to determine the adequacy of HUD management's response relating to management agent review, documentation, and filing guidelines. The overall effectiveness of controls cannot be determined.

**RECOMMENDATION 4D**

Determine what management agent records are missing and make every effort to locate or recover these records.

**Summary of Auditee Response:**

See recommendation 4A.

**Preliminary Evaluation of Auditee Response:**

Determine when or if the review of agent documents is to take place.

**On-site Follow-up (May 16, 1996):**

The supervisor said the Branch will review and update management agent information as they proceed with their regular servicing activities. Also, he has considered hiring temporary help to speed up the process. Any assistance by temps will be delayed until the new file folders and filing cabinets arrive.

**Overall Evaluation:**

Branch supervisor is taking actions to comply with recommendation 4D. However, total compliance is still pending.

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