

Issue Date
September 16, 1996
Audit Case Number
96-SF-177-0003

TO: John A. Knubel, Chief Financial Officer, F

FROM: Gary E. Albright, District Inspector General for Audit, 9AGA

SUBJECT: Review of Resolution of OIG Audit Recommendations

We completed a multi-field office review of audit resolution procedures and practices used by HUD management since April 1, 1994 to close OIG audit recommendations.

This report includes two findings with recommendations for corrective action.

Within 60 days please give us, for each recommendation in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action 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 the audit.

Should you have any questions, please call me or Glenn Warner, Assistant District Inspector General for Audit, at (415) 436-8101.

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Executive Summary

We completed a multi-field office review of audit resolution procedures and practices used by HUD management since April 1, 1994 to close OIG audit recommendations. Our overall objective was to evaluate whether HUD's audit resolution procedures and practices were sufficient to ensure that agreed-upon audit recommendations were satisfactorily accomplished. Specifically we assessed whether (1) Primary Audit Liaison Officers' (PALOs) oversight of audit resolution activities was effective, and (2) action officials (AOs) had sufficient justification for certifying that final actions on recommendations had been accomplished.

We performed our audit at nine field offices in Pacific/Hawaii, Midwest, Northwest/Alaska, Southwest, Southeast/Caribbean, and Rocky Mountain. At Pacific/Hawaii, we also contacted an auditee to verify whether corrective action supporting certification of final actions had actually been completed.

New Audit Resolution Procedures Were Not Always Followed by PALOs and AOs

We determined that procedures contained in the draft HUD Handbook 2000.6 REV-3 and subsequent memorandums outlining the new procedures as well as the roles and responsibilities of both PALOs and AOs were sufficient but have not always been followed. Essentially, Field Comptrollers and PALOs need to improve their oversight of the audit resolution process and AOs must ensure that final actions have actually taken place before certifying that agreed-upon corrective actions have been completed.

Field Comptrollers and Audit Liaison Officers Need to Improve Their Oversight of the Audit Resolution Process

Contrary to draft HUD Handbook 2000.6 REV-3 and Departmental Audit Liaison Officer's (DALOs) memoranda, some Field Comptrollers and PALOs did not provide adequate oversight of HUD's audit resolution process. Specifically, (1) Field Comptrollers did not provide complete oversight over the day-to-day activities of their PALOs; (2) PALOs closed audit recommendations without following established procedures and placed undue reliance on the signed certification statements provided by action officials; and (3) PALOs made incorrect cost recovery entries of disallowed costs into DAAMS. These deficiencies occurred because HUD's Office of The Chief Financial Officer (OCFO) did not ensure that Field Comptrollers and PALOs had a complete understanding of their audit resolution responsibilities in accordance with established procedures. As a result, reported deficiencies remain

Action Officials
Incorrectly Certified
Completion Of Final
Actions

uncorrected, the integrity of the audit management system was not maintained, and incorrect audit resolution information has been reported in Semiannual Reports to the Congress.

Action officials in five offices certified that final action had taken place on OIG audit recommendations even though the agreed-upon corrective actions had not been completed. These actions included write-offs totaling \$1,015,276 in disallowed costs without the required OIG concurrence. This occurred because action officials misinterpreted established guidelines for closing audit recommendations. As a result, deficiencies identified in audit reports may still exist and disallowed costs may have been written off before all other remedies had been pursued.

CFO Comments and OIG
Evaluation

We provided a copy of the draft audit report to the OCFO in June 1996 for comments. We received the OCFO's preliminary written response on August 19, 1996 and have included it in Appendix A to this report. We also discussed each of the findings and recommendations in the report over the telephone with the CFO on September 12, 1996. He agreed that we could issue the report without further written comments from the OCFO.

The OCFO's written response expressed the belief that the draft findings needed to be rewritten to give a different view of the reported deficiencies; however, it did not dispute the facts that we presented. The CFO said that the reported deficiencies resulted, in part, from a drawn out transition process that transferred responsibility for closing findings from OIG to HUD's management team. According to the CFO, this resulted in conflicting policy and procedural memoranda from other sources. We believe that the draft findings accurately portrayed the conditions that we found at the field offices; therefore, the CFO's suggested way of writing the findings has not been adopted. If one wants to read the CFO's version, it is available in Appendix A. We believe that the length of the transition process and any conflicting procedural memoranda may have contributed to the problems discussed; however, these

should have been recognized and immediately addressed by the OCFO so that everyone concerned would have no doubt about the extent of their responsibilities.

The CFO also recommended a revision to draft Finding 1. The recommended revision included an additional discussion concerning inadequate oversight by Field Comptrollers over the day-to-day activities of their respective PALOs. We agree that Field Comptrollers should have direct oversight over their PALOs in the same context as the CFO has direct responsibility over the activities of all individuals involved in the audit resolution process. Based on the OCFO's comments, we revised Finding 1 to include references to the responsibilities of the Field Comptrollers for the audit resolution activities in their areas.

The CFO also recommended that the audit report should incorporate a numerical summary table in order to give more clarity to the report in terms of exceptions found. While we agree that clarity in audit reports is very important, we do not believe that it is necessary in this case. To include such a numerical table may give an inappropriate impression that a low number, or low percentage, of exceptions were acceptable. Although we found that a majority of the recommendations were properly closed, we believe that no finding recommendation should be closed until all the required corrective actions have taken place.

Recommendations

We recommended that the OCFO ensure that Field Comptrollers and PALOs have a complete understanding of their audit resolution responsibilities. This would help ensure that corrective actions required by management decisions have taken place before PALOs make final action entries to close audit recommendations in DAAMS. In addition, the PALO should maintain adequate audit follow-up files that contain enough documentation to allow OIG/CFO reviewers to determine the degree of corrective action completed without the need to contact action officials. We also recommended that an independent person be assigned to

review all PALO audit follow-up files for recommendations closed by the Midwest PALO since April 1, 1994 and take action as appropriate. We further recommended that the OCFO request the OIG's Pacific/Hawaii and Midwest Districts to reopen certain recommendations and require the action officials to obtain agreed-upon corrective action or a revision of the management decision with the OIG before they are closed again.

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Abbreviations

ALO	Audit Liaison Officer
AHFC	Alaska Housing Finance Corporation
AMS	Audits Management System
CFO	Chief Financial Officer
CFR	Code of Federal Regulations

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DAAMS	Departmental Automated Audits Management System
DALO	Departmental Audits Liaison Officer
DHCD	Department of Housing and Community Development
DIGA	District Inspector General for Audit
HACLA	Housing Authority of the City of Los Angeles
HUD	Department of Housing & Urban Development
LAAO	
	Los Angeles Field Office
OCFO	Office of The Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PALO	Primary Audit Liaison Officer
PHA	Public Housing Authority
PFS	Performance Funding System
REV	Revision

Introduction

BACKGROUND

In November 1993, OIG proposed, and the Deputy Secretary concurred, to change the departmental audit resolution process. Effective April 1, 1994, HUD management assumed responsibility for closing audit recommendations in OIG audit reports, except for certain recommendations that OIG decided to control. Effective January 1, 1996, OIG was no longer required to concur in any final action and HUD management became responsible for follow-up and timely implementation of final actions on all recommendations as agreed to in the management decision.

This change placed primary responsibility upon AOs and PALOs to assure that agreed-upon recommendations were actually completed and actions updated into DAAMS. This two step process requires AOs to ensure that final action occurs only when all corrective action, including recovery and/or write-off of disallowed costs, was in-fact completed. The AO must also provide certification to the PALO certifying that all actions have been taken in accordance with the management decision concurred in by the OIG and that all documentation evidencing final action has been obtained.

Upon receipt, the PALO should ensure that all documentation supporting final action has been provided with the AOs certification before recording final action in DAAMS.

Before the April 1994 transfer of responsibility occurred, HUD Handbook 2000.6, Audits Management System previously used by OIG, was to be revised, printed and distributed by the Office of the Chief Financial Officer (OCFO). The revised handbook was not issued and as of August 15, 1996 it remained in draft form. However, HUD State and Area office program managers were given training to carry out their new responsibilities (certify and document final action resolution); and DAAMS was modified to allow management to enter final action resolution data, cost recoveries, and extensions to target dates. Two years after the change in the audit resolution process, HUD's OCFO has not issued a new HUD Handbook 2000.6.

**AUDIT OBJECTIVES,
SCOPE AND
METHODOLOGY**

Our overall audit objective was to evaluate whether HUD's audit resolution procedures and practices were sufficient to ensure that agreed-upon audit recommendations were satisfactorily accomplished. Specifically we assessed whether (1) Primary Audit Liaison Officers' (PALO) oversight of audit resolution activities was effective, and (2) action officials (AO) had sufficient justification for certifying that final actions on recommendations had been accomplished.

To accomplish the audit objectives, we performed the following:

- ✓ Reviewed Draft HUD Handbook 2000.6, REV-3, Audits Management System (AMS), dated March 1994 and November 1995.
- ✓ Reviewed Departmental Audit Liaison Officer's (DALO's) March 17, 1994 memorandum, Technical Assistance Regarding New Procedures for Audit Resolution.
- ✓ Reviewed Deputy Secretary letter dated November 30, 1993, New Procedures for Audit Resolution.
- ✓ Reviewed OMB Circular No. A-50, dated September 29, 1982, Audit Follow-up.
- ✓ Reviewed DAAMS to identify OIG recommendations closed by HUD Management since April 1, 1994.
- ✓ Reviewed PALO Audit Follow-up files for OIG recommendations that were closed by HUD Management since April 1, 1994.
- ✓ Interviewed Field Comptrollers, PALOs, appropriate field office AOs, and Auditee representatives.
- ✓ Reviewed selected Official Audit Files being maintained by AOs.

Our audit included work at nine field offices in Pacific/Hawaii, Midwest, Northwest/Alaska, Southwest,

Southeast/Caribbean, and Rocky Mountain. At Pacific/Hawaii we also contacted an auditee to verify whether corrective actions supporting certification of final actions had actually been completed.

At the field offices, except for the Midwest, we reviewed all 253 OIG audit recommendations closed by PALOs. At the Midwest's Illinois State Office, we reviewed 20 of 382 audit recommendations because we only concentrated on closed recommendations showing dollar amounts and recovery of disallowed costs. At the PALO offices, we determined whether action officials' certificates of final action were on file and supporting documentation evidencing proper closure was adequate.

Our audit covered OIG audit recommendations closed by HUD management during the period April 1, 1994 through September 30, 1995. We performed the audit field work from May to September 1995 and December 1995 to March 1996. We conducted the audit in accordance with generally accepted government auditing standards.

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Field Comptrollers And Primary Audit Liaison Officers Need To Improve Their Oversight Of The Audit Resolution Process

Contrary to draft HUD Handbook 2000.6 REV-3 and Departmental Audit Liaison Officer (DALO) memorandums, some Field Comptrollers and Primary Audit Liaison Officers (PALOs) did not provide adequate oversight of HUD's audit resolution process. Specifically, (1) Field Comptrollers did not provide complete oversight over the day-to-day activities of their PALOs; (2) PALOs closed audit recommendations without following established procedures and placed undue reliance on the signed certification statements provided by action officials; and (3) PALOs made incorrect cost recovery entries of disallowed costs into DAAMS. These deficiencies occurred because HUD's Office of The Chief Financial Officer (OCFO) did not ensure that all Field Comptrollers and PALOs had a complete understanding of their audit resolution responsibilities in accordance with established procedures. As a result, reported deficiencies remain uncorrected, the integrity of the audit management system was not maintained, and incorrect audit resolution information has been reported in Semiannual Reports to the Congress.

HUD procedures outlined Field Comptrollers' and Primary Audit Liaison Officers' roles and responsibilities

The DALO's March 17, 1994 memorandum to Headquarters and Regional ALOs provided a new AMS technical assistance package outlining the roles and responsibilities of Field Comptrollers and PALOs. In part, the package stated that:

".... Comptroller - At a minimum, will be responsible for... overseeing the day-to-day activities of audit resolution within his/her programmatic and/or geographic area including the activities carried out by the primary ALOs...."

"Primary ALO - At a minimum, will be responsible for... reviewing final action certifications submitted by action officials and updating DAAMS to reflect the closure of audit recommendations..."

HUD's draft Handbook 2000.6 REV-3, Audits Management System (AMS) which was included as attachment to the DALO's March 17, 1994

memorandum, provides that Field Comptrollers shall appoint a PALO who has overall responsibility for the AMS in his/her area. Action officials are responsible for certifying that final action has been completed and maintaining the official audit file. Paragraph 5-5 states that:

"...Before recording the final action in DAAMS, the primary ALO should take care to assure that all documentation of final action has been provided with the certification for his/her follow-up files..."

OIG's concurrence is required for management decisions, reversal of disallowed costs, and write-off of forgiven costs.

Field Comptrollers did not adequately oversee PALOs' day-to-day activities

Some Field Comptrollers Did Not Provide Complete Oversight Over The Day-to-Day Activities Of Their PALOs.

Despite the DALO's requirement to exercise oversight, some Field Comptrollers did not adequately oversee their PALOs' day-to-day audit resolution activities. Our review of audit files and discussions with PALOs at six field offices disclosed that those PALOs did not consistently comply with established procedures for closing audit recommendations. The deficiencies included: (1) recording final entries into DAAMS to close recommendations even though corrective actions had not been completed; (2) accepting insufficient documentation to support closure of recommendations; (3) failing to review supporting documentation submitted by action officials; and (4) reporting incorrect cost recoveries into DAAMS.

These problems occurred mostly at Pacific/Hawaii and Midwest offices; however, improvements were needed at Northwest/Alaska and Southeast/Caribbean offices. We did not find any deficiencies at the Southwest and Rocky Mountains offices.

Recommendations were closed without corrective actions being completed

PALOs closed audit recommendations without following established procedures and placed undue

reliance on the signed certification statements provided by action officials.

The DALO's March 17, 1994 instructions required action officials to certify that all actions had been taken to close a recommendation. In addition to placing reliance on the certification statement, the PALOs were required to take care to assure that all documentation of final action had been provided with the certification supporting completion of final action before recording final action in DAAMS. In some cases, PALOs made final entries in DAAMS based on memorandums from action officials instead of the required certification form. In addition, PALO's did not always review the adequacy of supporting documentation submitted by action officials to assure that the documentation showed that final action had in-fact taken place.

While action officials are principally responsible for determining the completion of corrective action, secondary responsibility lies with each PALO to serve as a quality control checkpoint. The failure of some PALOs to follow established procedures (i.e. ensuring substantiating documentation was attached to the certification statement, and whether it was the appropriate documentation as described in the management decision) contributed to the improper closure of 15 audit recommendations before corrective actions had actually been completed.

Two PALOs closed recommendations before final actions had been completed

Pacific/Hawaii and Midwest PALOs Recorded Final Entries for 15 Recommendations Even Though Corrective Actions Had Not Been Completed.

During the period April 1, 1994 through September 30, 1995, the Pacific/Hawaii PALO closed 8 recommendations and the Midwest PALO closed 7 recommendations although the required corrective actions had not been completed.

Pacific/Hawaii:

The Pacific/Hawaii PALO closed 8 of 91 recommendations based on certifications by action officials in HUD's Los Angeles, Arizona, and Nevada

State or Area Offices that corrective actions had been completed when they were not.

Los Angeles Area Office (LAAO): The Housing Authority of the City of Los Angeles (HACLA) did not develop workload performance standards for all of its departments and employees to measure and justify current and future staffing as required by recommendation 3B of Audit Report No. 92-SF-201-1012. HACLA responded to LAAO that HACLA was taking measures to develop the standards and reduce overstaffing, but we found that HACLA increased its staffing. The Director, LAAO's Public Housing Division certified that corrective action had been completed because she believed that HACLA had "substantially complied" with the actions required by the recommendation. The PALO should not have closed this recommendation because the action official's documentation sent to the PALO clearly indicated that final corrective action had not been completed.

Arizona State Office: Although corrective actions were still pending, the Arizona State Office Director, Public Housing Division, certified that final actions had been completed for the following five recommendations from Audit Report No. 93-SF-202-1016, Maricopa County Department of Housing and Community Development.

- Recommendation 1A was for the PHA to obtain knowledgeable permanent staff or provide sufficient training for existing staff. The PHA hired a new Executive Director and HUD entered into a Memorandum of Agreement with the PHA to provide a Technical Assistance Contractor to provide training and guidance to the PHA. The contract, however, still had not been awarded as late as February 29, 1996.
- Recommendation 2A was for the PHA to adopt and implement an effective procurement planning process, and 2B was for the PHA to review and revise its procurement code where it conflicted with 24 CFR 85.36. The procurement planning process

and procurement procedures required for recommendations 2A and 2B were scheduled to be adopted by the Board of Supervisors, but they were not.

- Recommendation 5B was for the PHA to review all current rents and require reductions where the owner was charging more for assisted units than for unassisted. The PHA stated that it was reviewing rents as part of its annual recertification process and had only found one owner charging two different rent rates. The OIG audit reported that a sampling of apartments found two owners charging different rates. The auditee response did not explain whether rent reductions were obtained for the two apartments cited by OIG and did not state whether review of all current rents had been completed.
- Recommendation 6B was for the PHA to adjust rents for updated utility allowances as soon as they were determined. The auditee adjusted its rent schedule based on HUD's **conditional** approval of utility allowances. The auditee later submitted additional samples to HUD but at the time of our review, the action official was not certain whether the samples were adequate.

The PALO should not have recorded final entries for the above five recommendations because documentation supporting the action official's certifications sent to the PALO clearly indicated there were actions still pending prior to final action being taken.

Nevada State Office: The PALO recorded final entries for two recommendations on Regatta Apartments without completed actions. The Chief, Multifamily Housing Branch of the Nevada State Office certified that Regatta Apartments had completed corrective actions required by Recommendations 1H and 1I of Audit Report No. 94-SF-212-1002. However, computerized accounting documents submitted to the PALO did not show any reconciliation of accounts or that Regatta's monthly reports were being prepared by using the balances contained in the project's general ledger. We

found that the monthly accounting reports Regatta submitted to the HUD Nevada State Office still contained inaccurate and misleading vacancy loss amounts that were calculated by the report preparer rather than using the balances in Regatta's general ledger. The monthly reports did not reconcile with audited financial statements.

Midwest:

We reviewed 20 Midwest recommendations closed by the PALO and found that the audit follow-up files did not indicate that corrective actions had been completed for seven (35 percent) of those recommendations.

Costs totaling \$1,015,276 had been disallowed for five recommendations. However, contrary to draft HUD Handbook 2000.6 REV-3 requiring prior OIG concurrence, HUD action officials decided to write-off the cost recoveries and the PALO recorded final action entries in DAAMS by showing that the disallowed amounts had actually been recovered when they had not.

Neither the PALO nor the action officials were able to provide us with documentation that showed corrective actions had been completed for the following two recommendations:

- Recommendation 3A, Report 94-CH-202-1018
- Recommendation 4A, Report 94-CH-202-1018

Recommendations were closed without sufficient documentation

Three PALOs Closed Forty-Seven Recommendations Without Having Sufficient Documentation To Support Final Entries.

Contrary to AMS requirements, PALOs in three offices closed forty-seven recommendations (Northwest/Alaska - 20, Pacific/Hawaii - 17, Midwest - 10) without

obtaining enough documentation to properly determine that the required corrective actions were in fact completed.

Draft HUD Handbook 2000.6 REV-3, Paragraph 5-5, states that:

"...Before recording the final action in DAAMS, the primary ALO should take care to assure that all documentation of final action has been provided with the certification for his/her audit follow-up files..."

Northwest/Alaska: The PALO closed 20 recommendations without obtaining enough documentation to determine whether required actions had been completed. Two of the recommendations were closed without any supporting documents being attached to the action officials' certifications. Eighteen closed recommendations did not have supporting documents in the PALO's audit follow-up files other than the certification forms and summaries of corrective actions taken. The documents that we obtained from action officials, however, showed that the corrective actions taken were adequate to support closure of the recommendations.

Pacific/Hawaii: The PALO closed 17 recommendations after receiving only a portion of the documentation from action officials supporting their certification of corrective action completed. None of the supporting documentation that was submitted was enough for the PALO to make a judgement whether corrective action had actually been completed. Official audit files maintained by action officials showed that in 8 of the 17 cases, the required corrective action had not been completed.

Midwest: The PALO closed eight recommendations either without any supporting documentation being attached to the action officials' requests for closing, or there were inadequate supporting documents attached. We contacted the action officials and they were able to provide us with adequate documentation to support closing of only six of the eight recommendations.

Most PALOs closed recommendations without reviewing supporting documentation

Corrective actions for the other two recommendations have not been completed; therefore, those should not have been closed.

Four of six PALOs Did Not Always Review Documentation Before Entering Final Actions In DAAMS

Chapter 5, draft HUD Handbook 2000.6 REV-3, Audits Management System, requires the PALO to receive adequate supporting documentation and to ensure that corrective actions required by the Management Decisions are in fact completed before making final entries into DAAMS. The Pacific/Hawaii, Midwest, Southeast/Caribbean, and Northwest/Alaska PALOs did not always review documentation before entering final actions. In some cases, they did not even receive the documentation before recording final action.

Pacific/Hawaii: The PALO appeared to have closed recommendations before receiving the action officials' certification of final action. Our review of five recommendations for the audits of San Francisco Transitional Housing Program (93-SF-251-1018: 1A, 1B, 2B, and 2C) and Montara Meadows, (95-SF-111-0002: 1B) showed that the PALO closed the recommendations before the date that the action officials' certifications were received.

Draft HUD Handbook 2000.6 REV-3, paragraph 5-5, states that:

"...The date of the primary ALO's acceptance of the certification is the date of the final action...."

Although our review showed that corrective action had been completed for all five of these recommendations, the PALO was supposed to receive and review the action officials' certification and supporting documentation prior to making the entry into DAAMS. Making final entries without a factual basis could allow recommendations to be closed even though corrective actions were not completed.

Midwest: The PALO's audit follow-up files for ten of the twenty recommendations we reviewed either had no documentation or contained inadequate supporting documentation attached to action officials' certifications.

Southeast/Caribbean: The Comptroller told us that his former PALO ensured that he received certifications with documentation attached but did not review whether the supporting documents actually showed that actions required by the management decisions had been completed by the auditees.

Northwest/Alaska: The PALO generally did not review any supporting documents. Out of 33 recommendations closed by the PALO, two had no supporting documents attached to the certifications and eighteen had only the certification and a summary of actions taken. However, we obtained documents from the action officials showing that adequate corrective action had been taken for all recommendations.

Two PALOs incorrectly reported cost recoveries

Two of Six PALOs Did Not Accurately Report Cost Recoveries

The Midwest PALO incorrectly reported cost recoveries of \$1,015,276 more than actually received for five recommendations. That PALO also did not report an additional recovery of \$267,456 for another recommendation. The Northwest/Alaska PALO did not report an additional actual cost recovery of \$2,385 for one recommendation.

Midwest: The PALO incorrectly reported recoveries of \$1,015,276 for five recommendations as "Property in Lieu of Cash" even though these were write-offs that were requested by action officials. When we asked about these entries, the PALO told us that he had allowed another employee to use his DAAMS password and the other employee made the erroneous entries because of a lack of knowledge of how the system worked and a perceived need to close the recommendations based on the action officials' requests. As required by current procedures, the PALO should have submitted the documentation to the OIG report

issuer for concurrence and made appropriate entries into DAAMS. One of the write-offs was submitted to OIG for concurrence after the fact. The PALO falsely reported the total \$1,015,276 as recoveries. Since those recoveries spanned two semi annual periods, two IG Semiannual Reports to the Congress contained overstated recoveries.

The PALO also failed to report in DAAMS that \$267,456 was recovered in addition to the amount identified by OIG Audit Report No. 94-CH-202-1012, Recommendation 1A. The PALO should have reported this additional \$267,456 so that it could be included as a recovery in the Semiannual Report to the Congress.

Northwest/Alaska: Recommendation 1E, Report No. 94-SE-101-0002 required the action official to determine if the PHA had properly classified "other utility" costs and recover any overpayment. The action official determined the overpayment to be \$2,385. The PALO did not report the recovery in DAAMS because the amount disallowed was not determined until after the report was issued. According to paragraph 5-4b(3)(d), draft HUD Handbook 2000.6 REV-3, Management must advise the audit report issuer of the increase and the basis for the increase related to OIG-issued recommendations.

Report No. 94-SE-101-0002 also reported that erroneous year-end adjustments by the HUD field office for the Alaska Housing Finance Corporation's (AHFC) operating subsidy amounted to a net underpayment of \$125,909 for fiscal year ended March 31, 1991. In implementing the corrective actions required to resolve the OIG audit recommendations, HUD's Alaska State Office reviewed AHFC's operating subsidy calculations for fiscal years 1989 through 1991. In a January 31, 1994 letter, the Alaska State Office told AHFC that it was entitled to an additional non-PFS subsidy of \$880,183. However, before making the year-end adjustments for 1991 as required by the OIG audit recommendations the responsibility for monitoring the Public Housing Program in Alaska was transferred to HUD's Washington State Office.

HUD requirements were not followed in forgiving \$401,398 in overpaid non-PFS subsidy

In order to better understand AHFC's financial condition, the Washington State Office, Public Housing Division also performed a detailed review of AHFC's non-PFS calculation for fiscal years 1989 through 1991. Instead of confirming the additional subsidy owed, the Washington State Office found that HUD had overpaid AHFC \$832,362. That determination prompted the Washington State Office to extend its analysis through the period ending June 30, 1993. The result of the entire period was that AHFC owed a cumulative net amount of \$401,398 for a subsidy overpayment. Since the events that culminated in the discovery of the additional debt were in response to OIG recommendations the amount owed should have been reported in the DAAMS. Contrary to the provisions of draft HUD Handbook 2000.6, REV-3, Paragraph 5-4b(3)(d), the action official did not advise the report issuer of the increase as it related to the OIG-issued recommendations. Instead, the Director, Washington State Public Housing Division requested and obtained the concurrence of the HUD Headquarters Director, Financial Management Division to forgive the \$401,398 debt. This was not in accordance with existing requirements that a debt of this magnitude can only be forgiven by the Program Assistant Secretary. In addition, Paragraph 5-7(b)(2)(c) of draft HUD Handbook 2000.6 REV-3 requires action officials to obtain the concurrence of OIG's Assistant Inspector General for Audit for the amount forgiven.

The Chief Financial Officer needs to ensure that Field Comptrollers and PALOs have complete understanding of their responsibilities

The Chief Financial Officer Needs To Ensure That Field Comptrollers And PALOs Have A Complete Understanding Of Their Responsibilities

Based on our review of audit resolution practices by six Field Comptrollers' offices that we selected for audit, we believe that the deficiencies occurred because the Chief Financial Officer did not ensure that Field Comptrollers and PALOs had a complete understanding of their responsibilities. Draft HUD Handbook 2000.6 REV-3 and the DALO's March 17, 1994 Technical Assistance Package, required PALOs' to "take care to assure that all documentation of final action has been provided" prior to recording final action entries in DAAMS. However, some Field Comptrollers and PALOs mistakenly believed that the PALOs could rely solely on the action officials' certifications, rather than reviewing the supporting documentation attached to the certifications.

In our opinion, the Chief Financial Officer should have ensured that the PALOs all understood that they were responsible for obtaining, reviewing, and evaluating action officials' documentation supporting their certifications of final actions. When supporting documentation becomes voluminous, only that documentation necessary for the PALO to make a determination as to whether corrective action had been completed should be submitted. To allow the PALO merely to rely on the action officials' certification as a basis for closing recommendations reduces the PALO's responsibilities to a clerical function. This would have the same effect as allowing action officials to make the final entries themselves without independent assurance that the recommendations had in fact been closed.

* * * * *

The PALOs' closing of OIG recommendations without determining that the corrective action was in fact completed has caused the deficiencies for at least 15 recommendations to remain uncorrected and the integrity of the audit management system to be undermined. Neither PALOs nor action officials ensured that corrective actions had actually been completed; and

audit resolution information included in Semiannual Reports to the Congress was not accurate.

Auditee Comments

The CFO's written response recommended that draft Finding 1 should be rewritten to state that some Field Comptrollers and Primary Audit Liaison Officers did not provide adequate oversight of the audit resolution process. Primarily, the CFO suggested that the finding should show that: (1) some Field Comptrollers did not provide complete oversight over the day-to-day activities of their PALOs; (2) PALOs sometimes closed audit recommendations without following established procedures and placed undue reliance on the signed certification statements provided by action officials; and (3) some PALOs made incorrect cost recovery entries of disallowed costs. The CFO stated that these deficiencies occurred because the Inspector General, Chief Financial Officer, Deputy Chief Financial Officer for Finance, and the Assistant Inspector General for Audit, issued policy/procedural guidance to program managers which sometimes appeared to conflict with detailed procedural guidance issued by the DALO to the PALOs, thereby resulting in some audit recommendations that were prematurely reported corrected.

OIG Evaluation of Auditee Comments

We revised Finding 1 to reflect the CFO's comments that some Field Comptrollers were responsible to oversee the PALOs day-to-day audit resolution activities. We believe, however, that Field Comptrollers and PALOs would have adequately carried out their responsibilities had the CFO ensured that Field Comptrollers and PALOs had a clear understanding of their roles and responsibilities. We agree with the CFO that Field Comptrollers need to provide day-to-day oversight over their PALOs to ensure that they have received all documentation supporting final action before recording the closure of OIG Audit recommendations in DAAMS.

We, however, disagree with the CFO's assessment concerning the cause leading to the deficiencies found

by the audit. While action officials may have submitted certifications of final action and prematurely requested closure of audit recommendations, we believe that it is incumbent upon the CFO to instruct the PALOs of their audit resolution responsibilities concerning the proper procedures for closing audit recommendations. We also believe that established procedures, either from the draft HUD Handbook 2000.6 REV-3 or the DALO's March 17, 1994 memorandum, describing their responsibilities were clear but may not have been sufficiently communicated or emphasized so that all PALOs had a complete understanding of what was required of them.

Recommendations

We recommend that you:

- 1A. Ensure that Field Comptrollers, PALOs, and action officials have a complete understanding of their audit resolution responsibilities in order that corrective actions required by management decisions have been actually completed before the PALO makes final action entries to close audit recommendations into DAAMS;
- 1B. Require the PALOs to maintain adequate audit follow-up files that contain enough documentation to allow OIG/CFO reviewers to determine the degree of corrective action completed without the need to contact action officials;
- 1C. Assign an independent person to review all PALO audit follow-up files for recommendations closed by the Midwest PALO since April 1, 1994 and take action as appropriate;
- 1D. Evaluate the actions taken by the Midwest PALO to close recommendations and determine whether those actions were consistent with that persons grade and responsibilities. Emphasis should be placed on the improper use of the PALO's password by other persons and the false reporting of write-offs as recoveries;

- 1E. Take appropriate personnel action based on the results of the review made because of recommendation 1D above;
- 1F. Request the OIG's Northwest/Alaska District to reopen Recommendation 2B for Report No. 94-SE-101-0002 and report the \$401,398 that was due from AHFC as a result of the additional review; and
- 1G. Either collect \$401,398 discussed above or follow required procedures to forgive amounts due HUD.

Action Officials Incorrectly Certified Completion Of Final Actions

Action officials in five offices certified that final action had taken place on OIG audit recommendations even though the agreed-upon corrective actions had not been completed. These actions included write-offs totaling \$1,015,276 in disallowed costs without the required OIG concurrence. This occurred because action officials misinterpreted established guidelines for closing audit recommendations. As a result, deficiencies identified in audit reports may still exist and disallowed costs may have been written off before all other remedies had been pursued.

Final action occurs only when all agreed-upon corrective action has been completed

Draft HUD Handbook 2000.6 REV-3, paragraph 5-5, Audits Management System, states that:

"....Final action occurs when all corrective action, including recovery and/or write-off of disallowed costs, is in fact completed...."....The action official shall certify that all actions have been taken in accordance with the management decision concurred in by the OIG and that all documentation evidencing final action has been obtained. The action official must send his/her primary ALO the certification package relating to final action taken on OIG-issued recommendations for purposes of updating DAAMS...."

Reversal and forgiveness of disallowed costs must be submitted to OIG for concurrence and DAAMS update

Paragraph 5-7 of the same handbook also provides that HUD action officials have the continuing responsibility to take all actions needed to recover disallowed costs. To reverse overstated costs or forgive disallowed costs, HUD management must submit documentation to OIG for concurrence and DAAMS update.

Pacific/Hawaii and Midwest action officials improperly certified that 15 final actions had been completed

Action Officials Incorrectly Certified That Final Actions Had Been Completed

Action officials in five Pacific/Hawaii and Midwest offices improperly certified that completion of final action on 15 OIG audit recommendations had taken place even though corrective actions had not actually occurred.

Pacific/Hawaii

Action officials in HUD's Area/State offices in Los Angeles, Arizona, and Nevada incorrectly certified that corrective actions had been completed for eight recommendations.

Certification of final action was based only on substantial progress

The Housing Authority of the City of Los Angeles (HACLA) did not develop workload performance standards for all of its departments and employees to measure and justify current and future staffing as recommended in Recommendation 3B of Audit Report No. 92-SF-201-1012. The HUD action official certified final action was complete based on her belief that HACLA had made substantial progress in completing the required actions. Actual completion of the agreed-upon actions had not occurred.

Certification of final action was based on corrective action still pending

An Arizona State Office action official incorrectly certified final actions even though corrective action had not been completed on five recommendations included in the September 24, 1993 OIG Audit Report No. 93-SF-202-1016, Maricopa County Department of Housing and Community Development (DHCD).

Recommendation 1A - The technical assistance contract that would provide the training and guidance to DHCD still had not been awarded by February 29, 1996.

Recommendations 2A and 2B - The required procurement planning process and procurement procedures were not yet adopted by the Board of Supervisors.

Recommendation 5B - The auditee provided the action official with review results that were less than the OIG sample listed in the report.

Recommendation 6B - The auditee adjusted rents based on HUD's **conditional** approval of utility allowances.

Action official certified actions as complete before corrective actions were accomplished

A Nevada State Office action official certified final actions as completed for two recommendations; however, the corrective actions had not been completed. Recommendations 1H and 1I of Audit Report No. 94-SF-212-1002 on Regatta Apartments recommended that the auditee maintain monthly control accounts, reconcile monthly, and use general ledger balances when preparing monthly reports to the Nevada State Office. None of those agreed-upon actions had occurred.

Midwest

Midwest action officials incorrectly certified final actions completed for seven recommendations before completion of the required corrective actions. Disallowed costs for five of the seven recommendations were written off but were incorrectly recorded as recoveries in DAAMS. The Midwest DIGA already has reopened the recommendations that we determined should not have been closed, including all five that were incorrectly written-off.

Final actions certified based on unapproved write-offs

Disallowed Costs of \$1,015,276 Were Written Off Without OIG Concurrence.

Three HUD action officials in the Midwest improperly submitted final action memorandums or certifications involving write-offs for four audit recommendations to the PALO instead of to the OIG report issuer. Contrary to the corrective action agreed upon in the management decisions, the officials requested that the disallowed costs be written-off instead of seeking recovery. The Midwest PALO wrote-off one other recommendation based upon a letter from a HUD Headquarter's official to the auditee, instead of a request for closure from an action official. The PALO subsequently made final

action entries into DAAMS by incorrectly recording \$1,015,276 as recoveries from disallowed costs.

OIG concurrence for revised management decisions is required

Draft HUD Handbook 2000.6 REV-3, paragraph 5-4d, Audits Management System, states that management must notify OIG why the actions in a previously agreed upon management decision cannot be implemented, and provide the alternative actions deemed necessary to satisfy the recommendation(s). OIG is responsible for entering revised management decisions in DAAMS.

Paragraph 5-7a of the same handbook also states that:

"...When the audit report issuer concurs in the reversal of any disallowed costs he/she should update DAAMS...."

DAAMS entry and cost write-off controls were circumvented

As a result of the write-offs not being submitted to OIG and incorrect cost recoveries being recorded into DAAMS by the PALO, the OIG audit report issuer was not able to review the documentation supporting the write-offs of \$1,015,276 to ensure that all possible remedies pertaining to the debt had been pursued by the Department or that the write-offs were justified.

Action Officials Misinterpreted Guidelines

Action officials did not have sufficient understanding of their responsibility that certification of final action can only be made after corrective actions have in fact been completed.

Fifteen Recommendations Closed Before Corrective Action Was Complete Are No Longer Monitored In DAAMS.

The 15 recommendations discussed above have been closed in DAAMS when in fact the final actions were not completed. At the time of our review, those deficiencies identified in OIG reports still existed and may not be corrected since they are no longer monitored in DAAMS after being improperly closed.

Auditee Comments

The Chief Financial Officer stated that Finding 2 is more important, therefore, this should be reported as Finding 1. Further, the finding should also note that the certifying action official has the primary responsibility for ensuring that corrective action has actually been completed. The CFO also reiterated a statement from the Deputy Secretary's November 30, 1993 memorandum relating to new procedures for audit resolution which stated that:

"...Consequently, managers will now be held fully accountable for audit resolution and performance measures for audit resolution will be incorporated into annual performance standards for managers...."

The CFO stated that the role of the PALO is to serve only as a final quality control checkpoint. The CFO further stated that in order to exercise internal control over the system, only the PALOs (or their designees) would be able to access the system to close recommendations. This was included in the DALO's March 17, 1994 memorandum. The CFO also stated that the audit report should clearly indicate what efforts were made by PALOs to notify program management of management's role and responsibilities in the audit closure process.

The CFO concurred with the intent of recommendation 2A but suggested a joint memorandum should be sent out by the Inspector General and the Chief Financial Officer.

**OIG Evaluation of
Auditee Comments**

Based upon our audit objectives, we believe that this finding should still be reported as Finding 2. While we agree that action officials must be held accountable for their certifications, PALOs review of substantiating documentation supporting final action is essential to provide continuing and effective control to ensure proper closure of audit recommendations.

We agree that only PALOs should be allowed to make closure entries. Concerning the PALOs' efforts to notify program management of their role and responsibilities in

the audit closure process, we believe that this is an issue that should be resolved between the OCFO and program management.

Once the OCFO issues HUD Handbook 2000.6 REV-3 with clear guidance on the roles and responsibilities of PALOs and action officials, we do not believe that a joint memorandum by the OIG and CFO will be necessary.

Recommendations

We recommend that you:

- 2A. Require the DALO to inform action officials that they are obligated to ensure corrective action is completed before certification is made to PALOs;
- 2B. Request the OIG's Pacific/Hawaii District to reopen Recommendation 3B of Audit Report No. 93-SF-201-1012 and require the action official to obtain the agreed-upon corrective action or a revision of the management decision with the OIG;
- 2C. Request the OIG's Pacific/Hawaii District to reopen Recommendations 1A,2A,2B,5B,6B of Audit Report No. 93-SF-202-1016 and require the action official to obtain agreed-upon corrective action or a revision of the management decision with the OIG; and
- 2D. Request the OIG's Pacific/Hawaii District to reopen Recommendations 1H and 1I of Audit Report No. 94-SF-212-1002 and require the action official to obtain agreed-upon corrective action or a revision of the management decision with the OIG.

Internal Controls

In planning and performing our audit, we considered internal controls used for handling OIG audit recommendations after April 1, 1994 to determine our auditing procedures and not to provide assurance on internal control. Internal control is the process effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

In each of these three categories of objectives, organizations will establish their own specific control objectives and control procedures aimed at achieving these broad objectives. If organizations are to meet these control objectives, five components of internal control--control environment, risk assessment, control activities, information and communication, and monitoring--must be present. That is, the control objectives in each category are inextricably linked with the five supporting components.

We evaluated pertinent internal control categories

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

- Determination of completed final action by the PALO
- Certification and documentation of final action by Action Officials
- Maintenance of adequate audit follow-up files

We assessed all the categories identified above. For the assessment, we obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation, and we evaluated control risk.

A significant weakness exists if internal control does not give reasonable assurance that all three control objectives are met. Based on our review, we believe the following were significant weaknesses:

- The Office of the Chief Financial Officer did not establish a control to ensure that the PALO made final action entries into DAAMS only after assuring that adequate documentation and certification of completed final action had been received. (Finding 1)
- Action officials did not establish controls to ensure that certification of final actions were completed only after auditees had in fact completed the actions required by Management Agreements between HUD Management and OIG. (Finding 2)
- The Office of the Chief Financial Officer did not establish controls to ensure that adequate audit follow-up files were being maintained by the PALO. (Finding 1)

Auditee Comments

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