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Audit Report Number	2005- DP-0006
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TO: Beverly J. Miller, Director, Office of Multifamily Asset Management, HTG

FROM: /s/
Hanh Do, Director, Information System Audit Division, GAA

SUBJECT: Fully Implement the Active Partners Performance System

HIGHLIGHTS

What We Audited and Why

We audited the Active Partners Performance System to determine whether it has been fully implemented and is being used as intended. The audit was initiated because our auditors and investigators were unable to obtain needed information on multifamily program participants from the system.

What We Found

Although the Active Partners Performance System has been operational since 1999, its use by principal participants has not been required. Consequently, the previous participation certification (Form HUD-2530, *Previous Participation Certification*) process has not been fully automated, and the U.S. Department of Housing and Urban Development (HUD) does not have a complete computer database of required participant information.

In April 2004, HUD published in the *Federal Register* a proposed change to 24 CFR [Code of Federal Regulations] Part 200 that would make use of the Active Partners Performance System mandatory for all multifamily participants. After undergoing required legal evaluation of the requested changes and public comments, the revised rules received final approval in March 2005 and were published on April 13, 2005.

What We Recommend

We recommend that the Office of Multifamily Asset Management fully implement the Active Partners Performance System and ensure its use by all HUD multifamily housing program participants.

Auditee's Response

The Director of the Office of Multifamily Asset Management concurs with our recommendation and has indicated that the Active Partners Performance System is to be fully implemented through mandatory use of the system by participants by October 2005. Based on the response, and in accordance with HUD Handbook 2000.06, REV-3, upon issuance of this report, we are recording a management decision for this recommendation in the Department's Audits Management System with a target completion date of October 31, 2005. The complete text of the auditee's response can be found in Appendix B.

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BACKGROUND AND OBJECTIVES

The purpose of the U.S. Department of Housing and Urban Development (HUD) 2530 previous participation certification process, as stated in CFR [*Code of Federal Regulations*] 24 Part 200, is “to ensure that prospective participants in HUD’s multifamily programs have a history of carrying out their past financial, legal, and administrative obligations in a satisfactory and timely manner.” Before prospective business partners, such as owners and management agents of multifamily properties, are approved for participation in a new project, they must submit a Form 2530, Previous Participation Certification, to HUD for approval.

The current procedure requires prospective participants to submit a paper Form 2530 along with a description of all of their previous participation in multifamily programs. The certification form must (i) be signed by all principal participants and their affiliates as defined in CFR [*Code of Federal Regulations*] 24 Part 200 and (ii) include identification information such as Social Security and/or tax identification numbers. Participants are also required to provide updates for any additions or changes to the ownership or management of the properties.

The certifications are sent to the local HUD multifamily housing office, which then conducts a preliminary review and approval. If there are questions concerning approval, the certifications are sent to HUD headquarters for review and final resolution. This is a time-consuming paper process. Personnel in the field offices must attempt to verify the accuracy of the certification information without the benefit of a reliable database showing the extent and quality of an applicant’s previous participation in multifamily projects.

In an attempt to alleviate this problem, HUD began developing the Active Partners Performance System in 1997. This automated system allows prospective participants to submit their 2530 certification directly to HUD through a secure Internet Web site. When fully implemented, the system would provide a complete participant database and have a query capability that would provide a quick and accurate method of identifying all key individuals involved with specific multifamily properties. This type of searchable database would be a valuable tool, not just for the HUD multifamily housing offices, but also for other potential users such as the Departmental Enforcement Center and the Office of the Inspector General.

The development and maintenance of the Active Partners Performance System has been contracted to two different firms. Advanced Technology Systems was the first contractor, providing services from 1997 to 2000. The second contractor, Pyramid Systems, Incorporated, was selected in 2000 to continue the project. The change in contractors was for the purpose of meeting requirements of a new HUD initiative to contract with small and minority-owned firms.

Our objective was to determine whether the Active Partners Performance System has been fully implemented and is being used as intended.

RESULTS OF AUDIT

Finding 1: The Active Partners Performance System Has Not Been Fully Implemented

Although HUD spent more than \$5 million over a five-year period to develop and support the Active Partners Performance System, the system has not been completely implemented. The system is operational and is used by field office and headquarters personnel. Participant use has been on a limited, voluntary basis because HUD has not required all multifamily program participants to use the system to process their 2530 certifications. As a result, the system has not achieved its intended purpose of improving the efficiency of the 2530 certification process and creating a reliable participant database. HUD cited inconsistent funding as a significant factor in the extended delays in completion and implementation of the system.

Potential Efficiencies of the Automated System Have Not Been Achieved

The HUD 2530 certification processing workload has not been significantly reduced, and the certification submission process has not been standardized. According to personnel in one of HUD's largest multifamily housing offices, most of the 2530 previous participating certifications are still submitted through a paper form because HUD has not made use of the automated submission process mandatory for program participants. When originally planned, the Active Partners Performance System was to be used by all multifamily housing program participants (e.g., general partners, owners, agents) for submitting their 2530 previous participating certification through the system's secure Web site. This paperless, electronic reporting was designed to be more convenient for the participants, remove the paper processing workload from the multifamily field offices, and standardize the process nationwide.

Participant Database Is Not Complete

Currently, the Active Partners Performance System contains only a small portion of the total participant data. A few of the larger property management companies have voluntarily entered their 2530 data through the system. About 10 percent of the participant data is currently entered into the system. HUD field office personnel

currently enter data regarding participants known to have had problems with their properties.

The Active Partners Performance System was designed to create a complete database of all principal multifamily program participants, including personal information such as addresses and Social Security numbers. The database was also designed to contain a record of each participant's performance related to the financial, physical condition, and management of the associated properties, and to record non-compliance with business agreements. Unsatisfactory performance is indicated by "flags" entered by HUD personnel to indicate problems and elements of risk. The source of these "flags" may be HUD Real Estate Assessment Center reports, field office reviews, or court rulings among others. This information is used by HUD to assess the risk to HUD from applicants participation.

Until all participant data are entered into the system, it will have limited value to HUD as a tool for tracking multifamily program participants and the extent and quality of their participation. For the database to be complete, 2530 certification information from all participants must be entered into the system.

Inconsistent Funding of the Active Partners Performance System

Development and maintenance of the Active Partners Performance System have cost HUD more than \$5 million from fiscal years 2000 through 2004. However, the funding for the system has been inconsistent. During fiscal years 2001 and 2002, most of the funds intended for the Active Partners Performance System were reprogrammed by the HUD Technology Investment Board to support other HUD computer systems. The funding was later restored, but progress on the system's development was significantly hindered.

It appears that HUD is now programming adequate funds to complete full implementation of the Active Partners Performance System. An additional \$779,860 for the system's maintenance has been approved by the HUD Technology Investment Board and is being included in the chief information officer's operations plan. At present, the Office of Asset Management estimates that this funding level will allow for the completion of the system's development in fiscal year 2005 and provide for the system's maintenance through fiscal year 2006. Asset Management will request additional funds if needed.

**Summary of Active Partners Performance System
Development and Maintenance Costs**

Fiscal year	Cost
2000	\$ 594,067
2001	106,995
2002	473,318
2003	1,769,730
2004	2,056,750
2005	218,360*
2006	<u>561,500*</u>
Total	<u>\$ 5,780,720</u>

Cost for fiscal years 2000-2004 are actual costs recorded in the HUD Central Accounting and Program System (HUDCAPS).

* Budgeted funding for fiscal years 2005 and 2006 provided by Housing Office of Systems Technology.

**System on Track for
Completion in 2005**

The Active Partners Performance System appears to be on track to be fully implemented by the middle of 2005. The current HUD contractor, Pyramid Systems, Incorporated, has updated the system's development documentation, including detailed task orders with specific target dates for completion of the project. Continued funding for fiscal years 2005 and 2006 has been approved by the HUD Technology Investment Board.

There appear to be no legal impediments to full implementation of the Active Partners Performance System. In April 2004, HUD submitted a proposed rule change to 24 CFR [*Code of Federal Regulations*] Part 200 that would make use of the Active Partners Performance System mandatory for all multifamily participants. After undergoing required legal evaluation of the requested changes and public comments, the revised rules received final approval in March 2005 and were published on April 13, 2005. The revised rules will become effective 30 days after publication, and participants will be given 180 days to transition to the automated system. After the transition period, all participants will be required to use the Active Partners Performance System for 2530 certification.

Conclusion

The Active Partners Performance System has the potential to be a valuable tool for management and oversight of the HUD multifamily housing programs. However, the system has not been completely implemented as planned and all goals for the system have not been fully achieved. Consequently, the expected benefits have not been fully derived from the expenditure of funds for development and maintenance of the system. However, it appears that the Active Partners Performance System now has the proper management emphasis and planning to become fully implemented as planned.

Recommendations

- 1A We recommend that the Office of Multifamily Asset Management fully implement the Active Partners Performance System and ensure its use by all HUD multifamily housing program participants.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

SCOPE AND METHODOLOGY

We performed the audit

- November 2004 through February 2005.
- In accordance with generally accepted government auditing standards.
- At HUD Headquarters in Washington, DC, and the HUD Multifamily Housing Office in the Fort Worth, Texas, HUD field office.

The audit covered the period from January 1, 1997, through October 10, 2004. To determine whether the Active Partners Performance System has been fully implemented and is being used as intended, we

- Interviewed HUD personnel at headquarters and the Fort Worth Multifamily Housing Office to determine current procedures for processing 2530 certifications and to obtain user assessments of the usefulness of the Active Partners Performance System in its current form.
- Reviewed HUD regulations, handbooks, and user guides related to the 2530 prior participation certification process.
- Interviewed personnel involved in development and implementation of the Active Partners Performance System, including the project manager.
- Reviewed the request for change to the 2530 previous participation certification regulation, public responses, and the HUD general counsel evaluation of the proposal.
- Reviewed Active Partners Performance System development and funding documentation provided by the Office of Multifamily Housing Asset Management Division to determine funds expended for development and maintenance and budgeted costs for the Active Partners Performance System.

We did not attempt to assess the manner in which the Active Partners Performance System was developed or its compliance with the HUD system development methodology.

We did not evaluate general or application controls over the system.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to the development of the Active Partners Performance System:

- Controls over computer system development.
- Controls ensuring the legality of changes to HUD program requirements.

An assessment of relevant internal controls was not within the scope of our audit.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

No significant weaknesses were noted.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>	Unreasonable or unnecessary <u>3/</u>	Funds to be put to better use <u>4/</u>
1A				<u>\$5,780,720</u>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local polices or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.
- 4/ “Funds to be put to better use” include quantifying amounts that could be used more efficiently if management takes action to implement and complete our recommendations. In this instance, this does not represent savings of future costs, but recognizes that the amounts already spent to develop the Active Partners Performance System will not be wasted on a system that is not fully functional.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

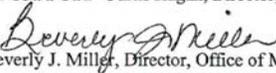
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON DC 20410-8000



OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

May 26, 2005

MEMORADUM FOR: Curtis Hagan, Director, Information Systems Audit Division, GAA

FROM: 
Beverly J. Miller, Director, Office of Multifamily Asset Management, HTG

SUBJECT: Draft Audit Report on the Active Partners Performance System (APPS)

Comment 1

We concur with the intent of your recommendation and, as your report states, we have already been working on implementation of the APPS system. However, our concurrence is within the context of what we can do. Consequently, we emphasize that implementation is subject to funding restrictions, and ensuring use is an ongoing process. While our management plans would indicate targets, and intent, they are subject to these two conditions. The plans are to implement APPS requiring mandatory use of the system by participants by October 2005. This deadline is alterable only by Federal Register Notice. Funding for ongoing maintenance and operations of the system has been requested through FY 2009.

Comment 2

With regard to the categorization of the costs associated with this recommendation, we strongly suggest that Appendix A be removed. Appendix A lists costs that are already expended and budgeted totaling \$5,780,720 and suggests that if we follow your recommendation, these funds could be put to better use. The definition of this category in footnote 4 to the schedule is for savings developed **if we implement your recommendation**. We cannot put funds already spent to a better use in the future. Appendix A should be removed.

Finally, Multifamily Housing will request additional funds if needed. As noted above, funding through FY 2009 has been requested, but this amount is subject to change. The intent of the full implementation of the APPS system is to provide an additional tool to manage risk associated with the Multifamily Programs. The benefit to HUD has monetary value in reduced losses, but a figure to estimate such a value is not determinable.

Thank you for considering our response to the draft. If you have questions, please contact Clint Bradley at (202) 708-1320 ext. 8118.

OIG Evaluation of Auditee Comments

Comment 1 HUD agrees with our finding and agrees to implement our recommendations.

Comment 2 OIG disagrees with HUD's comment that the \$5,780,720 in system development and maintenance funds should not be categorized as funds put to better use. The Inspector General Act created the term "recommendations that funds be put to better use." Pursuant to this Act, we are required to report the dollar value associated with our recommendations that funds could be used more efficiently if management takes action to complete such recommendations. In agreeing with our recommendation to fully implement the Active Partners Performance System and require all participants to use the system for 2530 certification, the amounts spent to develop the system will have been used more efficiently. We have clarified Appendix A to indicate that these amounts do not represent savings of future costs. Rather, this is merely recognition that the funds will not be wasted on a system that is not fully functional.