



**U.S. Department of Housing and Urban
Development, Office of Multifamily Housing
Programs, Washington, DC**

Servicing of Multifamily HUD-Held Mortgages



Issue Date: May 3, 2013

Audit Report Number: 2013-LA-0001

TO: Mark B. Van Kirk
Director, Office of Asset Management, HTG

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FROM: Tanya E. Schulze
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SUBJECT: HUD Did Not Always Follow Monthly Accounting Report Requirements and Did Not Collect Net Cash for Multifamily Projects With HUD-Held Mortgages

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of monthly accounting report and net cash requirements of multifamily HUD-held mortgages.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.



May 3, 2013

HUD Did Not Always Follow Monthly Accounting Report Requirements and Did Not Collect Net Cash for Multifamily Projects With HUD-Held Mortgages

Highlights

Audit Report 2013-LA-0001

What We Audited and Why

We audited the U.S. Department of Housing and Urban Development's (HUD) servicing of multifamily projects with HUD-held mortgages because it was part of the Office of Inspector General's (OIG) annual audit plan. We reviewed 33 multifamily projects with HUD-held mortgages that totaled \$307.9 million. Our objective was to determine whether HUD (1) obtained, documented, and reviewed the monthly accounting reports and (2) collected monthly net cash payments from multifamily projects that required these submissions.

What We Recommend

We recommend that the Director of the Office of Asset Management (1) ensure his office has controls in place to follow the requirements regarding obtaining and documenting the receipt and review of monthly accounting reports, (2) provide HUD asset management staff with training on the monthly accounting report review process and analysis, (3) ensure that projects remit monthly net cash, and (4) follow the handbook requirements regarding net cash remittance.

What We Found

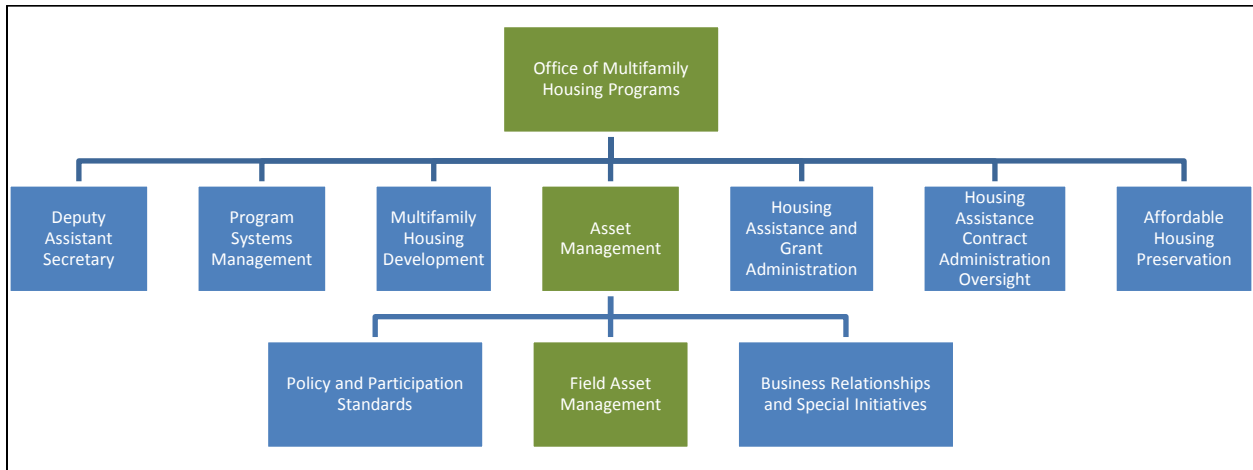
HUD did not always obtain, document, and review monthly accounting reports for projects with defaulted Federal Housing Administration (FHA)-insured mortgages that were assigned to HUD and projects with defaulted Section 202 direct loans made by HUD. This condition occurred because HUD prioritized other asset management functions above the monitoring of multifamily projects that were experiencing financial difficulties. For monthly accounting reports that were obtained, HUD staff lacked the knowledge and expertise needed to adequately review the reports. Without proper monitoring of projects with defaulted mortgages, there is an increased risk of loss to the FHA insurance fund on the universe of outstanding HUD-held mortgage balances where monthly accounting reports are required totaling more than \$3.2 billion.

HUD also did not ensure that projects remitted net cash after the mortgage default and after HUD accepted a full or partial assignment of the FHA-insured mortgage. This condition occurred because HUD staff was not aware of the net cash remittance requirements or chose not to enforce them. For projects with partial payment of claims mortgage assignments, which resulted in HUD-held second mortgages, the terms of the second deed of trust notes omitted the requirement to remit monthly net cash. As a result, HUD did not collect net cash to reduce the borrower's outstanding obligation, increasing the risk of loss to the FHA insurance fund on the universe of outstanding HUD-held mortgage balances where remittance of net cash is required totaling more than \$3.1 billion.

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BACKGROUND AND OBJECTIVE



The U.S. Department of Housing and Urban Development’s (HUD) Office of Multifamily Housing Programs is responsible for the overall management, development, direction, and administration of HUD’s multifamily housing programs. Within the Office of Multifamily Housing Programs, the Office of Asset Management is responsible for oversight of multifamily project assets after their development. The Office of Asset Management is responsible for oversight of property ownership and management, routine mortgage servicing, default servicing, acquisition and disposition of loans (mortgage notes) and properties, and management of properties of which the HUD Secretary is owner or “mortgagee-in-possession.”

Under the Office of Asset Management, the Field Asset Management Division is responsible for matters affecting the condition and management of the properties, dealing with property ownership and sales issues, and processing requests for prepayment of Federal Housing Administration (FHA)-insured, HUD-held mortgages, and Section 202 direct loans.

HUD-held mortgages are mortgages that were originated and insured under any multifamily section of the National Housing Act or formerly coinsured loans endorsed for full insurance, which had defaulted and been assigned to HUD. When an FHA-insured mortgage goes into default, the lender sends a notice of default to notify HUD that the project owner has defaulted on its mortgage payments and the project is experiencing financial difficulties. The lender may then file an election to fully assign the mortgage or request extensions on an election to assign while the project owner works through the partial payment of claims process. Upon assignment, HUD becomes the lender for the mortgage for a full assignment. Or HUD may, with the concurrence of the lender, make a partial payment of an insurance claim on a defaulted mortgage. The lender would agree to accept partial payment in lieu of full assignment and recast the remaining mortgage balance. In exchange, a HUD-held second mortgage would be created and be equal to the amount of the partial payment.

Section 202 direct loans are also HUD-held mortgages. They are long-term, low-interest-rate loans made by HUD to nonprofit borrower corporations formed to provide rental assistance for elderly and handicapped persons. As such, these HUD loans do not have mortgage insurance,

and HUD serves as the lender. Since HUD is the lender, Section 202 direct loans do not go through the assignment process upon default. The requirement to remit net cash is not applicable for Section 202 projects with defaulted mortgages.

Our objective was to determine whether HUD obtained, documented, and reviewed monthly accounting reports and collected monthly net cash payments for projects with mortgages that required these submissions.

RESULTS OF AUDIT

Finding 1: HUD Did Not Always Obtain, Document, and Review Monthly Accounting Reports

HUD did not always obtain, document, and review the monthly accounting reports for projects with assigned mortgages or defaulted Section 202 direct loans. This condition occurred because HUD prioritized other asset management functions above the monitoring of these projects that were experiencing financial difficulties. For monthly accounting reports that were obtained and reviewed, HUD staff lacked the knowledge and expertise needed to adequately review the reports and missed obvious errors and problems. Without adequate reviews of monthly accounting reports, the financial health of the projects can deteriorate quickly and go undetected. This weakness could lead to additional insurance claims and losses to the FHA insurance fund for 9,305 HUD-held mortgages, which included 9,192 FHA-insured mortgages assigned to HUD and 113 defaulted Section 202 direct loans, with outstanding mortgage balances totaling more than \$3.2 billion.¹

HUD Did Not Always Obtain and Document the Receipt and Review of Monthly Accounting Reports

HUD is required to obtain, document, and review accounting reports upon a notice of default. It did not always obtain and document the receipt and review of monthly accounting reports. HUD handbook requirements state that project owners are required to submit monthly accounting reports to HUD when a notice of election to assign is received from the lender and continue to submit monthly accounting reports to HUD after assignment until the project is no longer experiencing financial difficulties (see appendix B). HUD also requires that monthly accounting reports be submitted when financial difficulties are evident and before any request for a partial payment of claim. For Section 202 projects, monthly accounting reports are required upon default and until the project is no longer experiencing financial difficulties. Of the 33 projects with HUD-held mortgages reviewed with outstanding mortgage balances of more than \$307.9 million, HUD did not obtain all required monthly accounting reports for 15 projects. For eight of the projects, HUD did not obtain any monthly accounting reports (see appendix C).

HUD Handbook 4370.1, REV-2, chapter 3, requires establishment of a system for monitoring the receipt and documenting the review of monthly accounting

¹ This amount represents the FHA-insured loans that were assigned to HUD and Section 202 direct loans that defaulted. See the Scope and Methodology section.

reports. HUD did not use the monthly accounting reports control log (form HUD-93483) or any tracking or record-keeping system to document the receipt of monthly accounting reports for 31 of 33 projects reviewed. For 19 of the projects, HUD did not use the monthly accounting summary worksheet (form HUD-93482) or any record-keeping and review system to document the review of the monthly accounting reports. The summary worksheet is a useful tool for analyzing activity trends in occupancy, collections, other income, operating disbursements, debt service, end-of-month status of accounts, tenant accounts receivable, security deposit deficiency, and reconciliation of annual reports.

HUD project managers gave a variety of explanations for their failure to maintain the control logs. Some stated that they received monthly accounting reports electronically but did not document or track receipt of the reports. Others explained that tracking logs and reports were lost due to employees' retirements or computer malfunctions or were missing because of field office policies of purging monthly accounting reports after the annual financial statements were received. Other project managers indicated that they documented the receipt, review, and approval of monthly accounting reports in the Integrated Real Estate Management System. However, they did not always consistently enter monthly accounting report information into the system. More than one project manager explained that they were overwhelmed with their workload and that they had other asset management priorities besides obtaining and documenting the receipt and review of the monthly accounting reports.

HUD Did Not Adequately Review Monthly Accounting Reports

For the 27 projects for which monthly accounting reports were obtained, project managers did not review the reports adequately. They did not detect errors and discrepancies or reconcile information with previous monthly accounting reports. We noted the following issues:

- A beginning cash balance for the month that was different from the ending cash balance on the previous month's accounting report;
- Check registers with missing check numbers;
- Reports provided that were incomplete or did not include supporting documentation such as check registers, accounts payable aging schedules, and bank reconciliations;
- Supporting documentation, such as general ledgers, that could not be easily reconciled to the standard HUD monthly accounting report forms but no additional documentation or clarification was requested; and

- Questionable disbursements that were not followed up on, thereby increasing the risk of unauthorized distributions of project funds.

Conclusion

HUD did not follow requirements for obtaining, documenting, and reviewing monthly accounting reports because HUD project managers were overwhelmed by their workload and generally lacked sufficient knowledge and expertise to conduct a complete analysis of the monthly reports. As a result, HUD's monitoring of these projects was insufficient, increasing the risk of loss to the FHA insurance fund. The adequate review of the monthly accounting reports would allow HUD to detect areas within project operations that could further damage the financial health of the projects and prevent additional claims to the FHA insurance fund on 9,305 HUD-held mortgages, which included 9,192 FHA-insured mortgages and 113 defaulted Section 202 direct loans, with outstanding mortgage balances totaling \$3.2 billion.

Recommendations

We recommend that the Director of the Office of Asset Management

- 1A. Ensures that HUD's Office of Asset Management has controls in place to follow requirements regarding obtaining and documenting the receipt and review of the monthly accounting reports.
- 1B. Provides asset management staff with training on analyzing monthly accounting reports and the monthly accounting report review process.

Finding 2: HUD Did Not Ensure That Net Cash Was Remitted

HUD did not ensure that projects with defaulted FHA-insured mortgages remitted net cash before and after it accepted assignment of the mortgage. This condition occurred because HUD staff was not aware of the net cash requirements or did not require project owners to remit monthly net cash. For projects reviewed with partial payment of claims mortgage assignments, the terms of the second deed of trust notes omitted the requirement to remit monthly net cash. As a result, HUD did not collect net cash to reduce the borrower's outstanding obligation, increasing the risk of loss to the FHA insurance fund for HUD-held mortgages with outstanding mortgage balances totaling more than \$3.1 billion.²

HUD Did Not Ensure That Projects Remitted Net Cash to the Lender Before Mortgage Assignment

When a project defaults on its FHA-insured mortgage, the project owner is required to remit net cash to the lender while the mortgage is in default until assignment of the mortgage. Net cash is the monthly ending cash balance after project operating expenses are paid and it is applied to the FHA-insured mortgage. For all 29 projects³ reviewed, net cash was not remitted to the lender upon mortgage default. When monthly net cash is not remitted after default, additional interest accumulates, resulting in a larger mortgage balance and a larger claim to the FHA insurance fund. In addition, while in default and net cash is not remitted, there is an increased risk with project owners making unauthorized distributions to recover their investments.

HUD Did Not Ensure That Projects Remitted Net Cash to HUD After Mortgage Assignment

After full or partial mortgage assignment, HUD becomes the lender on the original insured mortgage note (for full assignment) or on a second mortgage note (for partial payment of claims). HUD, as the lender for all assigned mortgages, has the responsibility to collect the debt. One of the field office's direct responsibilities for servicing HUD-held mortgages after full assignment or assignment through the partial payment of claims process is to collect monthly net cash from the project owner. Net cash is collected monthly to lower the outstanding mortgage balance and decrease the potential loss to the FHA

² This amount represents the 9,192 FHA-insured mortgages that were assigned to HUD. See the Scope and Methodology section.

³ The four projects with Section 202 direct loans were not included because the assignment process does not apply to direct loans from HUD.

insurance fund. It also acts as a tool to help ensure that project owners do not make unauthorized distributions. Contrary to requirements, HUD did not collect net cash after mortgage assignment for all 29 projects with mortgage assignments in our sample.

Of the 29 projects reviewed, 18 went through the partial payment of claims process that created a HUD-held second mortgage note. The handbook specifies that under the terms of the second mortgage note, the owner is required to pay a monthly service charge and submit all net cash to HUD. In all 18 instances, net cash was not remitted monthly to HUD. Contrary to the handbook requirements, the terms of the second mortgage notes did not require remittance of net cash monthly. Instead, the practice was to adhere to the terms of the second mortgage notes which required submission of a monthly service charge and remittance of restricted surplus cash at the end of each fiscal year.

HUD Was Not Aware of Net Cash Remittance Requirements

Discussions with HUD supervisors and project managers indicated that some were not aware of the monthly net cash remittance requirements, while others chose not to enforce them. When these requirements were brought to their attention, some project managers explained that such requirements, if implemented, would be unreasonable due to the lack of cash flow for the projects. One project manager explained that a project with a zero cash balance at the beginning of the month would not be able to operate business normally or pay its obligations in a timely manner. Some project managers stated that they were unaware of any projects that had submitted net cash payments.

HUD Handbook 4350.1, REV-1, chapter 10, dated September 1992, and HUD Handbook 4350.1, REV-2, chapter 14, dated November 2010, both specify requirements for remittance of net cash and we generally disagreed with the project managers' explanations regarding projects not remitting net cash. Since net cash is remaining cash after all reasonable and necessary operating expenses are paid, the project would not need additional cash. Project obligations, such as accounts payable, generally have a thirty-day grace period for payment. Therefore, monthly net cash payments should be made towards the mortgage to reduce the outstanding obligation, decrease the risk of unauthorized distributions, and decrease the potential claim to the FHA insurance fund.

Conclusion

Although submission of net cash before and after mortgage assignment is required for projects with defaulted and assigned FHA-insured mortgages, we did not identify any instances in which net cash was remitted to HUD. This condition occurred because HUD did not ensure that handbook requirements were followed

regarding net cash and the HUD-held second mortgage note terms were not consistent with handbook requirements for partial payment of claim assignments. As a result, HUD did not collect net cash to reduce the borrower's outstanding obligation, increasing the risk of loss to the FHA insurance fund for these mortgages with outstanding mortgage balances totaling more than \$3.1 billion.⁴

Recommendations

We recommend that the Director of the Office of Asset Management

- 2A. Require that asset management staff implement controls to ensure projects with a notice of mortgage default remit all net cash monthly to the lender before the mortgage assignment and to HUD after the assignment.
- 2B. Ensures that HUD Handbook 4350.1, REV-1, Chapter 10, HUD-Held Servicing, September 1992, and HUD Handbook 4350.1, REV-2, Chapter 14, Partial Payment of Claims Loan Modifications, November 2010, are followed.

⁴ This amount represents the 9,192 FHA-insured mortgages that were assigned to HUD. See the Scope and Methodology section.

SCOPE AND METHODOLOGY

Our audit period covered January 1, 2009, to June 30, 2012. We conducted our fieldwork at our San Francisco, CA, field office between July 2012 and February 2013.

To accomplish our objective, we

- Reviewed applicable laws and regulations, policies and procedures, HUD handbooks, guidance, and internal controls relating to the servicing of multifamily projects with HUD-held mortgages.
- Obtained, reviewed, and analyzed HUD multifamily data on projects with insured mortgages that had defaulted on their mortgage payments.
- Interviewed HUD field office staff responsible for servicing multifamily projects with HUD-held mortgages.
- Obtained hardcopy and electronic project documentation from HUD multifamily hubs nationwide.

To determine whether multifamily properties with HUD-held mortgages were submitting monthly accounting reports and remitting net cash as required, we selected 33 HUD-held mortgages from a universe of 9,305 (9,192 previously FHA-insured mortgages⁵ and 113 defaulted Section 202 mortgages⁶). Of the 33 loans reviewed, 26 were reviewed during the audit and 7 were reviewed during the survey. During the survey, we selected samples of projects with HUD-held mortgages that were troubled or experiencing financial and management difficulties. There was no threshold on the unpaid principal balance amounts.

The audit sample for the remaining 26 loans was selected based on the following factors:

- HUD-held mortgages in which the previously FHA-insured mortgage defaulted during our audit period or Section 202 loans that were in default as of June 1, 2012, and
- HUD-held mortgages with unpaid principal balances greater than \$5 million.

The HUD-held mortgages were pulled from HUD's Housing Enterprise Real Estate Management System and Multifamily Delinquency and Default Reporting System. These systems were used only in the sample selection process. We did not rely on information from these systems to determine our audit results. Audit results were determined through examination of documentation. We did not project our findings to the population using the sample.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit

⁵ These 9,192 HUD-held mortgages that were previously FHA-insured had a total unpaid principal balance of more than \$3.1 billion.

⁶ These 113 defaulted Section 202 mortgages had a total unpaid principal balance of more than \$87.6 million.

objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We held an exit conference with the Office of Multifamily Housing Programs on April 2, 2013. The Office of Multifamily Housing Programs agreed with our audit recommendations. It did not wish to include a formal response in the audit report and will provide a detailed response with its management decision following the issuance of the final audit report.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Policies and procedures implemented to reasonably ensure that required monthly accounting reports were received and adequately reviewed.
- Policies and procedures implemented to reasonably ensure that net cash was collected from projects with mortgage defaults and projects with mortgages assigned to HUD.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- HUD did not always follow procedures to obtain and to document the receipt and review of monthly accounting reports for projects with defaulted and assigned mortgages (finding 1).

- When monthly accounting reports were received, HUD did not ensure that they were adequately reviewed (finding 1).
- HUD did not implement procedures for collecting net cash from projects with defaulted or assigned FHA-insured mortgages (finding 2).

APPENDIXES

Appendix A

CRITERIA

HUD Handbook 4350.1, REV-1, Chapter 10 - HUD-Held Servicing, Section 3 - Reinstating Defaulted Mortgages, Paragraph 10-8 - Owner Responsibilities After Assignment, subparagraph A: “The owner must pay all reasonable and necessary project operating expenses and each month remit all remaining net cash to the lock box operated by the Multifamily Notes Branch until a written reinstatement plan is executed.”

HUD Handbook 4350.1, REV-1, Chapter 10 - HUD-Held Servicing, Section 3 - Reinstating Defaulted Mortgages, Paragraph 10-8 - Owner Responsibilities After Assignment, subparagraph B: “The owner will submit monthly accounting reports...”

HUD Handbook 4350.1, REV-1, Chapter 10 - HUD-Held Servicing, Section 4 - General Servicing Requirements, Paragraph 10-11 - Monthly Accounting Reports: “Upon receipt of a notice of election to assign a mortgage, Monthly Accounting Reports, Forms HUD-93479, 93480, and 93481, including project net cash, must be submitted by the project owner.”

HUD Handbook 4350.1, REV-1, Chapter 10 - HUD-Held Servicing, Section 5 - Servicing Partial Payment of Claims Mortgages, Paragraph 10-19 - General: “HUD may, with the concurrence of the mortgagee, make a partial payment of an insurance claim on a defaulted mortgage covering certain multifamily housing projects. The mortgagee would agree to accept partial payment in lieu of full assignment and to recast the remaining mortgage balance. The mortgagor must give HUD a second mortgage on the property for the amount of the partial payment.”

HUD Handbook 4350.1, REV-1, Chapter 10 - HUD-Held Servicing, Section 5 - Servicing Partial Payment of Claims Mortgages, Paragraph 10-20 - Owner Requirements: “Under the terms of the second mortgage, the owner is required to do the following:

- A. At a minimum, the owner is required to pay a service charge of .5 percent of the second mortgage per month. Each second mortgage document must be reviewed to determine the date the mortgagor must begin making debt service payments.
- B. The owner must submit all net cash derived from project operations. There will be no distributions to any type owner until the second mortgage is brought current.
- C. Submit Monthly Accounting Reports, Forms HUD 93479, 93480, and 93481 until debt payment service payments begin, or as determined by the Loan Management Branch Chief.”

HUD Handbook 4350.1, REV-1, Chapter 10 - HUD-Held Servicing, Section 7 - Default Servicing of Section 202 Projects, Paragraph 10-29 - Defaults and Adverse Trends: “When there is a default or adverse trend, the Loan Management/Asset Management staff should contact the

Borrower to ascertain the cause and require the Borrower to begin submitting Monthly Accounting Reports.”

HUD Handbook 4350.1, REV-1, Chapter 11 - Workouts for HUD-Held Projects, Paragraph 11-12 - Preparing the Provisional Workout Arrangement, Subparagraph E(9) - Provisional Workout Arrangement--Mandatory Terms: “All Workouts will require the owner to submit monthly accounting reports to HUD for each month of the Workout term.”

HUD Handbook 4350.1, REV-2, Chapter 14 - Partial Payment of Claims Loan Modifications, Section 1 - General Information, Paragraph 14-1 - Introduction: “The owner must provide Monthly Accounting Reports to the Hub/Program Center, once the difficulties are evident and prior to any request for a partial payment of claim (PPC).”

HUD Handbook 4350.1, REV-2, Chapter 14 - Partial Payment of Claims Loan Modifications, Section 3 - Owner and Mortgagee Requirements, Paragraph 14-5E - Threshold Requirements for a PPC or Mortgage Modifications: “The owner must have submitted and continued to submit all net cash monthly to the mortgagee once the loan is in default.”

HUD Handbook 4350.1, REV-2, Chapter 14 - Partial Payment of Claims Loan Modifications, Section 4 - Field and Headquarters Reviews, Paragraph 14-9 - PPC Processing Office Director’s Decision and Headquarters Processing: “If the mortgagee and owner accept the PPC proposal...the mortgagee should continue to collect all net cash but maintain these funds in a suspense account.”

HUD Handbook 4370.1, REV-2, Chapter 3 - Monthly Accounting Reports, Section 1 - Managing Monthly Accounting Review Process, Paragraph 3-1 - Introduction: “Monthly statements are generally required whenever annual financial statement reviews, onsite reviews, or other information indicates the project is experiencing financial or management difficulties or the owner/agent is suspected of noncompliance.”

HUD Handbook 4370.1, REV-2, Chapter 3 - Monthly Accounting Reports, Section 1 - Managing Monthly Accounting Review Process, Paragraph 3-2 - Monitor Receipt of Reports: “The Branch Chief must establish a system for monitoring the receipt of the monthly accounting reports. The Monthly Accounting Reports Control Log, Form HUD-93483 shown in Appendix 14, may be used for this purpose. The Branch Chief should review the system periodically to ensure that required reports are being received on a current basis.”

HUD Handbook 4370.1, REV-2, Chapter 3 - Monthly Accounting Reports, Section 1 - Managing Monthly Accounting Review Process, Paragraph 3-3 - Supervisory Review: “Supervisory staff should periodically check to see that the Monthly Accounting Reports Control Log is being maintained and that the staff is completing the reviews in a timely and quality fashion. The receipt of monthly accounting reports should not be entered into the control log unless the reports are fully completed. If incomplete forms are received, the owner/management agent should be requested to send completed copies.”

HUD Handbook 4370.1, REV-2, Chapter 3 - Monthly Accounting Reports, Section 2 - Analyzing Monthly Reports, Paragraph 3-4 - Introduction: “...the monthly review has three

purposes: evaluate compliance, identify potential diversions, and assess project performance. The review procedures require the Asset/Loan management staff to review individual transactions and to analyze month-to-month trends in cash flow, occupancy, rent collections, and liquidity.”

HUD Handbook 4370.1, REV-2, Chapter 3 - Monthly Accounting Reports, Section 2 - Analyzing Monthly Reports, Paragraph 3-6 - Check for Completion:

Upon receipt of the monthly reports, the Asset/Loan Management staff should check to see if:

- A. Each of the following schedules has been submitted:
 1. Schedule A - HUD-93479, Monthly Report for Establishing, Net Income
 2. Schedule B - HUD-93480, Schedule of Disbursements
 3. Schedule C - HUD-93481, Schedule of Accounts Payable
- B. All lines have been completed for each schedule. If a schedule is missing or is incomplete, the Asset/Loan Management staff should immediately request any missing or corrected schedules from the owner/management agent...

If the reports are not easily understood, the project owner should be required to use the standard HUD forms; there is no obligation to accept alternate reporting systems.

HUD Handbook 4370.1, REV-2, Chapter 3 - Monthly Accounting Reports, Section 2 - Analyzing Monthly Reports, Paragraph 3-8 - Monthly Accounting Summary Worksheet: “After reviewing the monthly accounting reports for completeness and accuracy, the Asset/Loan management staff should complete Form HUD-93482, Monthly Accounting Summary Worksheet shown in Appendix 16. The worksheet summarizes key items from a series of monthly accounting reports onto one page and enables the staff to determine trends as well as conditions at a particular time.”

HUD Handbook 4370.1, REV-2, Chapter 3 - Monthly Accounting Reports, Section 2 - Analyzing Monthly Reports, Paragraph 3-10 - Review HUD-93479, Monthly Report for Establishing Net Income (Schedule A):

Schedule A, Form HUD-93479 summarizes cash flows during the month and the project’s working capital position as of the end of the month... The following questions should be asked when reviewing Schedule A...

- C. Is the beginning cash balance (i.e., opening cash) the same amount as Line 4 (cash on hand in bank at end of month) on the previous month's report?
- G. Is the cash-on-hand (Line 4) a positive or negative figure?

HUD Handbook 4370.1, REV-2, Chapter 3 - Monthly Accounting Reports, Section 2 - Analyzing Monthly Reports, Paragraph 3-11 - Review HUD-93480, Schedule of Disbursements (Schedule B):

This schedule lists all disbursements from the project's operating account for the month covered by the report. Schedule B identifies:

- the date the check was disbursed,
- the check number,
- the payee,
- the specific purpose of the disbursement, and
- the amount of the check.

The following questions should be asked when reviewing Schedule B.

- A. Is the total disbursed the same amount as Line 3, on Schedule A?
- B. Are the checks listed consecutively? Any variation in the sequence of check numbers may indicate two or more bank accounts, two or more checkbooks for the same account, “kiting”, voided checks that have not been identified, or commingling of funds with other projects.
- D. Is repayment of advances being made?
- E. Are distributions being made to the owner in accordance with the Regulatory Agreement and any applicable modified agreements?

HUD Handbook 4370.1, REV-2, Chapter 3 - Monthly Accounting Reports, Section 2 - Analyzing Monthly Reports, Paragraph 3-14 - Corrective or Follow-up Action: “If noncompliance, questionable disbursements or performance problems are noted, the Asset Management staff should follow-up to ensure that necessary classifications or corrective actions have been taken.”

Appendix B

SCHEDULE OF SAMPLED PROJECTS REVIEWED

Sample item #	FHA #	Hub	Control log HUD-93483 not used	Summary worksheet HUD-93482 not used	Did not obtain all Monthly Accounting Reports	Monthly Accounting Reports not adequately reviewed	Monthly net cash not remitted
1	11335334	Fort Worth	x	x	x ⁷		x
2	11435503A	Fort Worth	x		x ⁷		x
3	11411246	Fort Worth	x	x	x ⁷		x
4	06735368	Jacksonville	x	x	x	x	x
5	12335361A	San Francisco	x		x ⁷		x
6	05335917	Greensboro	x	x	x	x	x
7	04411151	Detroit				x	x
8	12335423A	San Francisco	x		x	x	x
9	11335188A	Fort Worth	x		x	x	x
10	12335372A	San Francisco	x		x	x	x
11	12135922A	San Francisco	x	x	x	x	x
12	12535170A	San Francisco	x	x	x	x	x
13	08532017A	Kansas City	x		x	x	x
14	11435451	Fort Worth	x	x	x	x	x
15	08111026	Atlanta			x	x	x
16	00035406	Baltimore	x	x	x	x	x
17	00045002	Baltimore	x	x		x	x
18	06135658A	Atlanta	x			x	x
19	06735378A	Jacksonville	x			x	x
20	08135264A	Atlanta	x	x	x ⁷		x
21	09235606A	Minneapolis	x		x	x	x
22	04435569A	Detroit	x	x	x	x	x
23	06735382A	Jacksonville	x	x		x	x
24	06735359A	Jacksonville	x			x	x
25	06735360A	Jacksonville	x			x	x
26	02432002A	Boston	x	x		x	x
27	06135542A	Atlanta	x			x	x
28	09235634	Minneapolis	x	x		x	x
29	012EH629	New York	x	x	x ⁷		Sec. 202 - n/a
30	012EH024	New York	x	x	x ⁷		Sec. 202 - n/a
31	12911051	Los Angeles	x	x	x	x	x

⁷ HUD did not obtain any of the required monthly accounting reports for these eight projects.

Sample item #	FHA #	Hub	Control log HUD-93483 not used	Summary worksheet HUD-93482 not used	Monthly Accounting Reports not obtained	Monthly Accounting Reports not adequately reviewed	Monthly net cash not remitted
32	122EH501	Los Angeles	x	x	x ⁷		Sec. 202 - n/a
33	121EH061	San Francisco	x	x	x	x	Sec. 202 - n/a
Total			31	19	23	25	29