

096913 260265
C.B.

REPORT TO THE CONGRESS

UNITED STATES
GENERAL ACCOUNTING OFFICE

NOV 28 1975 096913



BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

LIBRARY SYSTEM



Action Being Taken To Correct
Weaknesses In The System Of
Paying Taxes On
Acquired Residential Properties

Department of Housing and Urban Development

Weaknesses in the Department's procedures and practices followed in administering its property tax payment system have resulted in erroneous, duplicate, and delinquent tax payments as well as in the failure to pay taxes owed. The tax payment system was the subject of congressional hearings on September 25, 1975.

GAO suggested various measures to improve the system, including considering the use of automatic data processing, establishing an accurate accounting of tax liabilities, and local office verification of acquired property status and related tax data. HUD agreed to take corrective measures in line with GAO's suggestions.

NOV. 26, 1975

~~702488~~ 096913



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

E-171630

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the inadequacies in the property tax payment system for single family residential properties acquired by the Department of Housing and Urban Development. The Department's system lacked adequate controls to insure accurate and prompt payment of taxes and the tax data records contained numerous errors. As a result the Department:

- Paid taxes on properties it did not own.
- Failed to pay taxes it owed.
- Made late tax payments and thereby incurred unnecessary penalty and interest costs.
- Made duplicate payments on some properties.
- Did not receive credit from local tax authorities for delinquent taxes paid to property buyers at the time of sale.

Department officials were receptive to our findings and suggestions for improvement and have taken action to develop a reliable and efficient tax payment system.

Details on the results of our review of the Department's property tax system were presented to the Subcommittee on Manpower and Housing, Committee on Government Operations, House of Representatives, on September 25, 1975, at the subcommittee's request. The testimony presented (see app. I), together with a summary of the corrective action being taken by the Department (see app. II), is presented in this report.

In a presentation to HUD officials on July 25, 1975, and in our testimony, we suggested that HUD, to improve its system of accounting for property tax liability on acquired single family residential property:



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

E-171630

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the inadequacies in the property tax payment system for single family residential properties acquired by the Department of Housing and Urban Development. The Department's system lacked adequate controls to insure accurate and prompt payment of taxes and the tax data records contained numerous errors. As a result the Department:

- Paid taxes on properties it did not own.
- Failed to pay taxes it owed.
- Made late tax payments and thereby incurred unnecessary penalty and interest costs.
- Made duplicate payments on some properties.
- Did not receive credit from local tax authorities for delinquent taxes paid to property buyers at the time of sale.

Department officials were receptive to our findings and suggestions for improvement and have taken action to develop a reliable and efficient tax payment system.

Details on the results of our review of the Department's property tax system were presented to the Subcommittee on Manpower and Housing, Committee on Government Operations, House of Representatives, on September 25, 1975, at the subcommittee's request. The testimony presented (see app. I), together with a summary of the corrective action being taken by the Department (see app. II), is presented in this report.

In a presentation to HUD officials on July 25, 1975, and in our testimony, we suggested that HUD, to improve its system of accounting for property tax liability on acquired single family residential property:

- Consider automatic data processing similar to existing mass tax payment systems used by the mortgage and banking industries.
- Establish an accurate property tax master file at the central office.
- Strengthen its procedures for promptly notifying local taxing authorities of acquisitions and sales.
- Delegate responsibility to the local level for obtaining correct tax bills and verifying property status and tax data.

On September 23, 1975, just before the hearings, the Assistant Secretary for Administration, Department of Housing and Urban Development, furnished the subcommittee an "Evaluation of GAO Findings in Survey of Tax Payments on Secretary-Held Home Properties." This document, which is included in this report, generally concurs with GAO findings and describes the corrective actions being taken to improve property tax operations in line with our suggestions.

During the hearings the question was discussed of whether HUD could decentralize the tax payment function to its field offices. We recognized this as a possible alternative. In this regard, HUD is doing a pilot study in its Cincinnati Insuring Office to ascertain the feasibility of the decentralization alternative. Depending on the cost effectiveness and feasibility results from this pilot program, HUD will decide whether to decentralize the entire function.

GAO initiated the review of HUD's property tax payment system. The subcommittee's interest in the results of our review culminated in the September hearings, which focused on the Department's need to take prompt corrective action.

A list of the principal officials of the Department of Housing and Urban Development responsible for administering activities discussed in this report is included in appendix III.

Because HUD's tax payment system affects 6,000 local taxing authorities throughout the United States, this report has potential use and interest to other committees

B-171630

responsible for HUD's activities, as well as to other Members of Congress.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 66 and 67).

We are sending copies of the report to the Director, Office of Management and Budget; the Secretary, Department of Housing and Urban Development; and the Administrator of General Services.



Comptroller General
of the United States

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

For Release on Delivery
Expected at 9:30 A.M. EDI
Thursday, September 25, 197

STATEMENT OF
D. L. SCANTLEBURY
DIRECTOR, FINANCIAL AND GENERAL
MANAGEMENT STUDIES DIVISION
BEFORE THE
SUBCOMMITTEE ON MANPOWER AND HOUSING
COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES

ON

HUD'S SYSTEM OF ACCOUNTING FOR
PROPERTY TAX LIABILITY ON ACQUIRED
RESIDENTIAL PROPERTY

Mr. Chairman and Members of the Subcommittee:

We are here today at your request to discuss the results of our review of the Department of Housing and Urban Development's Development's (HUD's) system of accounting for property tax liability on acquired single family residential property. With me today are Mr. John Cronin, Assistant Director, of our Financial and General Management Studies Division, and representatives of our Cincinnati Regional Office who participated in the review.

The National Housing Act provides that any real property acquired and held by the Secretary of HUD is subject to taxation by any State or political subdivision thereof, on the same basis as other real property is taxed. Responsibility for the verification and payment of these taxes on single family residential property has been delegated within HUD to the Office

of Finance and Accounting, which is under the Assistant Secretary for Administration.

The single family residence property tax system is a manual operation handled centrally in Washington by a staff of about 40 employees in the Tax Section of the HUD-Held Home Properties and Mortgages Division. The Tax Section is responsible for obtaining tax bills on all acquired properties, verifying HUD's obligation to pay these taxes, preparing the tax payment vouchers, and dealing directly with the taxing authorities on any matters requiring resolution. For fiscal year 1974, property tax payments to some 6,000 taxing authorities amounted to about \$25.5 million. As of May 31, 1975, HUD reported that it owned about 79,700 single family residential properties.

SCOPE OF REVIEW

For our review, we selected from HUD's central files a sample of 1,017 HUD-held properties located in six taxing authorities. The sampled properties were under the control of five HUD insuring offices located in Cincinnati, Ohio; Louisville, Kentucky; Indianapolis, Indiana; San Francisco, California; and Detroit, Michigan. We visited these offices to determine whether the properties were in fact owned by HUD. We also visited the six taxing authorities to obtain the tax payment status of each property. We then compared the information obtained with the tax data in HUD's central files in Washington.

ADVERSE EFFECTS OF HUD'S
INADEQUATE TAX PAYMENT SYSTEM

Our review showed weaknesses in the procedures and practices followed by HUD in administering its property tax payment system, which led us to the conclusion that HUD has an inadequate system for controlling property tax payments on acquired single family residences.

Our review showed that:

--HUD's tax data records contained substantial errors.

--HUD has paid taxes on property they had sold and no longer owned.

--HUD has not paid taxes that they do owe.

--HUD has made late payments and thereby incurred unnecessary penalty and interest costs.

--HUD has made duplicate tax payments on some properties.

--HUD has not received credit from local tax authorities for delinquent taxes paid to property buyers at the time of sale.

I will comment briefly on each of these findings.

With regard to the records maintained by HUD's tax section, we found that only 751 of the 1,017 properties in our sample were in fact owned by HUD and were, therefore, proper for inclusion in HUD's inventory. The remaining 266 properties had been sold prior to the latest tax billing period. The inaccuracies in the records exist because HUD does not always purge the property tax records when acquired property is sold.

Because of its inaccurate property records HUD erroneously paid taxes on 8 percent of the sold properties in our sample. We noted instances in which HUD was paying taxes for two or more years after HUD sold the property. We called these instances to their attention so that HUD could stop the payment of these taxes in the future.

HUD failed to pay taxes on 37 percent of the properties in our sample which were properly in the inventory during the latest tax billing period. For instance, in May 1975, HUD requested the 1975 City of Detroit property tax bills for approximately 12,000 properties. As part of this request, HUD asked to be billed for all delinquent taxes on these properties. On June 23, 1975, the City sent 5,616 delinquent tax bills to HUD totaling slightly less than \$1.5 million, including interest and penalty charges of about \$200,000. These bills are currently being processed individually by the Tax Section.

HUD was late in paying the taxes on 33 percent of the properties in our sample which were in inventory during the latest tax billing period. As a result, unnecessary penalty and interest costs were incurred. In this connection, we noted that HUD's internal audit staff in August 1974 reported to the Assistant Secretary for Administration that the Tax Section was incurring penalties and interest costs because of late payments. The staff reported that over \$83,000 in interest and penalties was paid in a 10-week period and estimated that annual interest and penalty costs could amount to hundreds of thousands of dollars.

Although HUD paid taxes in a timely manner on 30 percent of the sample properties which were in inventory during the latest tax billing period, they made 7 percent of these payments twice. This occurred primarily because HUD requested tax bills after the taxing authority had already mailed tax bills to the owners of record. In the instances in which HUD was the owner of record, two tax bills were received and paid, each at a different time.

HUD failed to receive credit for payment of delinquent taxes on 15 percent of the sold properties in our sample. This occurred when HUD paid the delinquent taxes at sales closing to the property buyer who did not forward the tax money to the taxing authority. This resulted from HUD's failure to pay property taxes as they become due. We found instances in which the final tax liability substantially exceeded the sales price of the property (usually a vacant lot) and was paid directly to the buyer who kept the money rather than forwarding it to the taxing authority. In some of these cases, the buyer left the title to the property in HUD's name and, as a result, subsequent tax bills continued to be sent to HUD. In one example, we found that an individual bought twelve properties in Indianapolis, Indiana, at \$1.00 each and received about \$1,200 in delinquent taxes from HUD at the time he made his \$12.00 investment. In addition, he received \$1,400 for taxes due in November 1975. We found, however, that the purchaser neglected to pay the delinquent taxes to the local taxing authority and did not transfer the title to the property which was still recorded in HUD's name in the taxing authority's records. This occurred, in part, because HUD had no follow-up procedures to insure that

credit for delinquent taxes was received in cases of this nature. We, of course, do not know whether the purchaser will pay the \$1,400 in taxes due in November.

FACTORS CONTRIBUTING TO INEFFECTIVE
ADMINISTRATION OF TAX PAYMENT SYSTEM

Although most of the problems I've described are caused by HUD's inadequate manual system of requesting, controlling, verifying, and approving payment of property taxes, we believe that the following related deficiencies have also contributed to HUD's problems.

- Property description and tax status data furnished by the prior mortgagee are not verified when the property is acquired by HUD.
- Local HUD offices are not used to verify property status and tax data.
- Established procedures are not followed to insure that (1) local taxing authorities are notified of HUD acquisitions and sales in a timely manner, (2) property titles are transferred to the new owner upon sale, and (3) property records are purged at time of sale.

ACTION NEEDED TO IMPROVE PROPERTY
TAX ACCOUNTING AND ADMINISTRATION

To improve its system of accounting for property tax liability on acquired single family residential property, we believe HUD should:

- Consider automatic data processing techniques similar to existing mass tax payment systems used by the mortgage and banking industries.
- Establish an accurate property tax master file at the central office.
- Strengthen its procedures for notifying local taxing authorities of acquisitions and sales on a timely basis, and
- Delegate responsibility to the local level for obtaining correct tax bills and verifying property status and tax data.

We have recently furnished HUD officials with a listing of duplicate and erroneous tax payments amounting to over \$28,000 found during our review and have suggested that they take action to recoup these payments, and establish procedures to preclude their recurrence. Since these payments were identified during our review of only six of the 6,000 taxing authorities with which HUD deals, we also suggested that HUD consider reviewing payments made to other taxing authorities in order to identify and recoup other duplicate or erroneous payments. In addition, we furnished responsible HUD officials with details on all our review findings, which we are discussing here today, so they can take appropriate corrective actions. HUD officials promised that corrective action will be taken.

With regard to action needed to improve its tax payment system, I would like to comment on mass tax payment systems currently in use in some parts of the country. According to a

manual published jointly by the Mortgage Bankers Association of America and the National Association of Counties:

"Mass tax payment is the use of a computerized system for aggregate billing, paying, and receipting of large numbers of real estate tax accounts. This approach - which eliminates individual tax bills and receipts - necessitates the use of data processing equipment and numerical property identifiers. It becomes feasible when the number of accounts a mortgage banker handles in a single tax jurisdiction reaches the hundreds***. ***the techniques discussed in this manual are money savers for the mortgage lender who must pay taxes for a large portfolio of real estate loans. They are equally advantageous to the taxing authority faced with periodic floods of paperwork at tax time.***"

"The underlying rationale of all mass tax payment systems is the same - elimination of individual bills and receipts by means of direct data processing communication between the mortgage servicer and the tax collector. Mass tax payment systems vary widely from county to county, but always follow one of two basic approaches. Either the county tells the mortgage company which accounts to pay, or the mortgage company tells the county the accounts it wishes to pay.***"

One automated property tax payment system which might be adaptable to HUD operations has been used in California by a group of mortgagees and tax services who organized the Committee on Reciprocal Tax Accounting in California referred to as CORTAC. CORTAC's original goal was to standardize property tax bill requests and payments to facilitate the use of automatic data processing. Benefits of automated tax payment and collection systems accruing to mortgagees and local taxing authorities include:

- quicker processing of tax bills and payments,
- fewer errors, and
- reduced personnel and processing costs.

In addition, CORTAC members make property tax payments shortly before taxes are due, thereby retaining the use of these funds for as long as possible but avoiding late-payment penalties.

Other States are likely to have similar organizations with objectives of standardizing property tax data and increasing the use of automatic data processing. HUD officials have informed us that they will seek out these organizations and request their advice and assistance prior to establishing any centralized automatic data processing system for control and payment of property taxes.

Mr. Chairman, this completes my prepared statement. Attached to my statement are a group of schedules and examples setting forth the extent and results of our review, which we suggest be made part of the record. The schedules and examples are also included in the visual aids which will be used in a presentation to be given by John Cronin of my staff and Daniel McCafferty of our Cincinnati Office. If agreeable with you, Mr. Chairman, I would now like to have these gentlemen make their presentations. I believe it will be helpful to members of the Subcommittee to proceed this way. After the presentation we will be glad to answer any questions you or other members may have.

HUD PROPERTY TAX PAYMENT SYSTEM

CENTRAL MANUAL SYSTEM

REQUEST FOR TAX BILLS

CENTRAL PROCESSING AND PAYMENT

DIRECT DEALING WITH TAX AUTHORITIES

HAMILTON COUNTY, OHIO
ANALYSIS OF DECEMBER 1974
HUD PROPERTY TAX LIABILITIES

Tax bills sent to HUD as owner of record (12/20/74)	312
Request for tax bills by HUD (1/2/75)	274
Not adequately identified	<u>170</u>
Requests honored by tax authority (1/23/75)	<u>104</u>
Total bills from tax authority	<u>416</u>
Valid tax bills identified by GAO	128
Invalid tax bills identified by GAO	213
Duplicate bills included	<u>75</u>
	<u>416</u>
Additional tax bills owed by HUD but not received	<u>89</u>
Total properties for which HUD was liable	<u>217</u>

HAMILTON COUNTY OHIO
ANALYSIS OF DECEMBER 1974 TAX BILLS

	<u>Properties</u>
HUD tax liability-current plus prior year unpaid taxes (\$42,000)	<u>217</u>
Current tax bills paid on time	77
Current bills unpaid	96
Current bills paid late	40
Partial payment of current tax bill	<u>4</u>
Total	<u>217</u>
Penalty incurred	<u>\$3,000</u>

	<u>Properties</u>	<u>Amount</u>
Taxes paid erroneously on sold property	14	\$ 2,800
Duplicate payments by HUD	15	1,900
Tax credit not received on sold property	54	<u>7,300</u>
Total improper payments		<u>\$12,000</u>

ATTACHMENT 4

HAMILTON COUNTY OHIO
ANALYSIS OF HUD'S TAX SECTION
PROPERTY INVENTORY
MARCH 1975

	<u>Properties</u>
Tax section inventory	341
Local office inventory	<u>176</u>
Properties sold but not purged from inventory	<u>165</u>
Period elapsed since sale of property	
3 months or less	45
4 to 11 months	44
1 to 2 years	65
Over 2 years	8
Sales date unknown	<u>3</u>
	<u>165</u>

RESULTS OF GAO SAMPLE
IN SIX TAXING AUTHORITIES

	<u>Properties</u>	<u>Amount</u>
Inventory sample	1,017	-
HUD tax liability	751	\$172,800
Tax owed but not paid	276	60,300
Tax paid late	250	56,600
Tax erroneously paid on sold property	22	8,500
Duplicate tax payments	17	3,100
Tax credits not received	55	7,400

EXAMPLES OF TAX PAYMENT DEFICIENCIESTax owed but not paid

Location - Hamilton County Ohio

Acquired - April 1971

Liability - \$489.34

Tax paid late

Location - Marion County Indiana

Late Payments - 1972 \$558.26

1973 396.48

Penalties - 113.55

Unpaid Taxes - 1974 196.29

Tax erroneously paid on sold property

Location - Alameda County California

Date property sold - December 1972

Taxes paid - 1972-1973 \$619.78

1973-1974 541.02

1974-1975 656.36\$1,817.16Penalties \$34.82Duplicate tax payment

Location - Hamilton County Ohio

Property Acquired - January 1974

Tax bill December 1974 - \$177.46

Tax bill paid twice - January 27, 1975

March 27, 1975

ATTACHMENT 7

Compound errors

Location - Hamilton County Ohio

Status - Acquired May 1973

Sold November 1973

Tax payments

--On June 11, 1974, HUD paid the delinquent June 1973 and December 1973 tax bills (with penalty) and the current June 1974 tax bill	\$284.64
--On January 6, 1975, HUD paid the current December 1974 tax bill	91.50
--On March 11, 1975, HUD paid the duplicate December 1974 tax bill	<u>91.50</u>
Total erroneous payments	<u><u>\$467.64</u></u>



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

SEP 23 1975

OFFICE OF THE ASSISTANT SECRETARY
FOR ADMINISTRATION

IN REPLY REFER TO:
AFM

Mr. Joseph C. Luman
Staff Director
Subcommittee on Manpower and
Housing
Committee on Government
Operations
U. S. House of Representatives
Washington, D. C. 20515

Dear Mr. Luman:

This will respond to your inquiry concerning the results of our review of the Survey of Accountability for Property Tax Liabilities on HUD-Held Home Properties made by the General Accounting Office.

We have completed our review of the above report and our evaluation, actions, and comments are included in an interim report, dated September 22, 1975. A copy of this report is enclosed.

In general, we are in agreement with the GAO findings. We have already taken considerable action on the specific findings and recommendations made by GAO. We will continue to pursue the remaining findings and take proper corrective action.

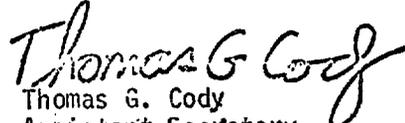
We concur with GAO that the present HUD manual system for control and payment of taxes on single family properties is not adequate to handle the volume of properties on hand, acquired, and sold by the Department. Recognizing that the existing system was inadequate to cope with the workload of tax payments, we commenced designing a computer tax directory system to serve as a master tax control and identification record in 1973. This system will facilitate the requesting and identification of tax bills on properties owned by the Department and permit timely payment without penalty.

We have commenced a long-range program extending over a three-year period - June 15, 1975 through June 15, 1978 - during which we will complete a review, design, and implement a modern up-to-date accounting and computer system for all the mortgage insurance accounting functions. With regard to the tax payment function, we

intend to undertake a pilot study in one field office within the next six months to ascertain the feasibility of decentralizing the function to the local HUD field office level. Depending upon the cost effectiveness and feasibility results from this pilot program, we will decide whether to decentralize the entire function.

If you should have any questions after reviewing our interim report about the GAO findings, please let me know.

Sincerely,


Thomas G. Cody
Assistant Secretary

Enclosure

BEST DOCUMENT AVAILABLE

EVALUATION OF GAO FINDINGS IN SURVEY OF TAX PAYMENTS
ON SECRETARY-HELD HOME PROPERTIES

Prepared by:

Office of Finance and Accounting
Mortgage Insurance Accounting
Department of Housing and Urban Development

September 22, 1975

GAO note: The "GAO Report" referred to throughout this document comprised a series of charts and schedules used in GAO's informal presentation of its findings, conclusions, and suggested corrective actions on July 24, 1975. (See p. 21 of this appendix.)

CONTENTS

	<u>Page</u>
BACKGROUND	21
PURPOSE OF THIS REPORT	21
COMMENTS ON GAO FINDINGS	21
Discrepancies in the Tax and On-Hand Inventory Records	21
Duplicate Tax Payments	22
Payment of Taxes on Properties Not Owned and Failure to Pay Taxes on Properties Owned	24
Receipt of Invalid Tax Bills	27
Tax Credit Not Received	29
Paying Taxes Late	29
OFA FINDINGS ON SPECIFIC CASES CITED BY GAO	31
Failure to Pay Tax	31
Late Payment of Tax to Buyer	32
Tax Paid on Sold Property	33
Duplicate Tax Payment	33
Tax Credit Not Received	34
Compound Errors	34
COMMENTS ON GAO'S RECOMMENDATIONS	35
CORRECTIVE ACTIONS TAKEN TO IMPROVE TAX OPERATIONS	36

BACKGROUND

The General Accounting Office made a survey of the tax payment operations for mortgage insurance accounting. The GAO review was initiated by the GAO Regional Office in Cincinnati, Ohio, and was conducted in the Tax Section, Acquired Home Property Branch, Central Office, six HUD field offices, and six local tax authorities. An Inspector General's memorandum, dated August 19, 1975, indicates that the GAO audit was made at the request of the House Subcommittee on Manpower and Housing, Committee on Government Operations. However, OFA was not advised that the audit was in progress. GAO presented its findings informally to HUD on July 24, 1975, and to the Subcommittee Staff on July 25, 1975. A copy of GAO's survey report is included as Attachment I.

PURPOSE OF THIS REPORT

The purpose of this interim report is to:

1. Evaluate GAO's findings.
2. Indicate the action being taken by OFA to correct specific exceptions noted by GAO.
3. Outline OFA plans to improve effectiveness of tax system and operations.

COMMENTS ON GAO'S FINDINGS

There follows a discussion of the findings noted by GAO, our evaluation, and the corrective action taken or in progress.

Discrepancias in the Tax and On-Hand Inventory Records (P. 7 of GAO Report). GAO found significant discrepancies in the Tax Section's three property tax inventory control records. It also found discrepancies between the Tax Section's on-hand property tax inventory and the field office's on-hand property inventory. The following information was presented by GAO for properties owned by HUD in Hamilton County, Ohio:

	<u>Number</u>
Property records maintained by the Tax Section	261 ^{1/}
Actual properties on hand per Tax Section's records	341
Actual properties shown by local HUD office property inventory	176

^{1/} The Tax Section maintains three tax records, i.e., (1) Control Card; (2) Data Card; and (3) Addressograph Plate. This is an average of the three records: 297 Addressograph Plates, 239 Tax Data Cards, and 246 Control Cards.

In comparing the actual properties shown by the Tax Section's records (341) with those maintained by the local HUD field office (176), GAO stated that the difference, 165 properties, represented sold properties. Some properties had been sold for periods up to four years.

Evaluation of Findings. It is difficult to prove the accuracy or inaccuracy of the GAO findings since properties are being acquired and sold each week, and the data relates to inventory figures for March, 1975. We have determined that employees of the Tax Section had neglected to maintain tax records in a current status. This was attributable to a heavy increase in property sales and a shortage of staff to prevent the development of work backlogs.

Action on Findings. (1) Employees are required to remove all tax records from file when a property is sold. We are monitoring this procedure by requiring employees to give their Supervisors all tax records when we receive sales closing statements from area and insuring offices as properties are sold; and, (2) We are in process of comparing the property tax inventory records with the on-hand property inventory records maintained in the computer. This will permit us to establish accurate and current tax inventory records by eliminating records on properties sold and by establishing records on properties on hand for which no tax record has been established.

Duplicate Tax Payments (P. 10 of GAO Report). GAO stated that duplicate tax payments of \$3,123 on 17 properties included in their sample of 750 properties had been made. Fifteen properties are part of a sample of 216 properties in Hamilton County, Ohio. In addition, GAO reported the following duplicate tax payments on properties not included in their samples.

	<u>Wayne Co. Michigan</u>	<u>City Of Detroit</u>	<u>Total</u>
Number of Duplicate Payments	63	198	261
Amount	\$3,240	\$40,870	\$44,110

GAO also stated that the taxing authority for the City of Detroit initiated action to refund tax overpayments of \$25,100 on 135 properties for which Tax Section personnel had made no effort to seek recovery. The amount was recovered by HUD after City of Detroit employees personally delivered a check to the Detroit Area Office and had HUD personnel sign a statement that duplicate payments had been made.

On August 26, 1975, the General Accounting Office sent OFA a list of 134 duplicate or erroneous tax payments amounting to over \$28,000. GAO recommended that we recover these monies and establish procedures to preclude future duplicate payments.

Evaluation of Findings. We are in process of researching each case identified in the report and will recover improper amounts paid. Such errors are attributable to the enormous increase in property acquisitions (55 to 60 thousand per year with an average on-hand inventory of over 80,000 properties), a corresponding increase in property sales (about 50 to 60 thousand per year), and a manual system of controlling and paying taxes coupled with a shortage of personnel in the Tax Section. The following illustrates the circumstances leading to the Tax Section's making duplicate tax payments:

1. For each pending property sale, the HUD Handbook requires field offices to request the most recent tax information on the property from the Tax Section. This alerts the Tax Section that a property sale is pending. In such cases, the Tax Section will annotate the tax inventory record and will not pay tax bills when they are received because a sale is pending. In many cases, the Tax Section is not notified that a sale is pending; therefore, if a tax bill is received it will pay the tax bill. We have reviewed, as a test, 200 sold properties, selected at random, over a 5-day period. We found that the Tax Section was not notified that 65, or 32.5%, of the properties were in process of being sold. We examined another 50 statements where the sale was made without notification to the Tax Section, and found seven cases of duplicate tax payments amounting to over \$2,700. (We are in process of recovering these overpayments.)
2. Established procedures require Tax Section employees to remove the tax inventory card record on all sold properties. In the past, this was not always done; and, as a consequence, we request and pay tax bills on sold properties.

Action on Findings. (1) We are in the process of advising Regional Administrators that the field offices are closing (according to our test) 32.5% of all sales without notifying the Tax Section that a sale is pending, as required by HUD Handbooks. We will also request cooperation in assuring that the field offices comply with instructions set forth in these Handbooks; (2) We have instituted a procedure to require that Tax Section employees remove all tax inventory records and submit them to their Supervisors when property sales closing statements are received. Supervisors are required to verify that all the tax inventory cards have been removed from file for the pertinent sold property; (3) We are in process of researching the reasons for making duplicate tax payments and to establish additional procedures that will

eliminate or minimize duplicate payments. We are also taking the required action to recover the duplicate or erroneous payments identified by GAO in its letter of August 26, 1975; and, (4) We plan to issue reprimands to the responsible Supervisors that did not take action to recover overpayments to the City of Detroit. We also will issue reprimands to Supervisors that fail to follow established procedures.

Payment of Taxes on Properties Not Owned, and Failure to Pay Taxes on Properties Owned (P. 10 of GAO Report). GAO stated that OFA paid taxes not owed on 22, or 2%, of 1,017 properties sampled in 5 counties. Local HUD office records showed we did not own the properties. The GAO findings are summarized in Schedule 1, Page 6, of this report. GAO also stated that OFA had not paid taxes on properties owned in 274, or 37%, of 750 cases. This is shown in Schedule 2, Page 6, of this report. The GAO auditors stated that some of the reasons for not paying taxes on properties owned and for paying taxes on properties not owned are:

1. HUD's failure to insure that properties are established in its name at time of acquisition and removed from its name at the time of sale. This is the responsibility of the field office at acquisition, and the closing agent and

Evaluation of Findings. In order to evaluate this finding, we randomly selected 494 tax bills scheduled for payment to the Treasury Department during the period August 6, 1975 to August 20, 1975. Our objective was to determine whether we were paying tax bills on properties not owned by HUD. All bills were checked against the HUD-owned property inventory, maintained by our computer and/or property sales statements. We found that all bills except one of the test group were for valid tax payments. Therefore, our test results are markedly different from GAO's in the sample for the five counties reviewed. We are aware that private mortgage lenders and servicers also pay tax bills on properties not owned and mortgages not serviced by them. The following is a typical example of many cases brought to our attention.

On February 23, 1973, HUD acquired a property located in Portage, Michigan. On January 22, 1974, HUD authorized payment of the 1973 taxes on this property. On January 29, 1974, the former mortgagee also paid the 1973 taxes. The tax authority refunded HUD the tax payment because it believed HUD paid the taxes in error. The check was deposited by HUD on March 5, 1974. On August 5, 1975, the former mortgagee discovered that HUD was the owner of the property during the 1973 tax year, and asked HUD for reimbursement of the taxes it paid in error.

This example is offered to illustrate that when consideration is given to the volume of transactions being handled by the Tax Section, it can be expected that erroneous tax payments will occur. However, a properly designed and monitored system should keep such payment to a minimal number.

The following case illustrates a situation where HUD could not pay property taxes.

The Tax Section recorded a property with FPA Case No. 131-143087-203 in its tax inventory records on November 20, 1973. As of August 29, 1975, no taxes were paid on this property. Our investigation showed that the deed to the Secretary was not recorded in HUD's name until July 3, 1974. However, the tax authority was not notified of the ownership change by the Deed Recorder's Office, the former mortgagee, or the HUD local office. Consequently, the tax authorities maintained the property record in the former owner's name.

SCHEDULE 1

SCHEDULE SHOWING TAX PAID ON PROPERTY NOT OWNED

	COUNTIES						Total	Amount
	Hamilton	Jefferson	Marion	Alameda	Wayne	City Of Detroit		
Properties Sampled	341 <u>1/</u>	272	107	75	111	111	1,017	
Taxes Paid on Property Not Owned	14	1	5	2	0	0	22	\$ 8,285
Percent	4	0	5	2	--	--	2	

SCHEDULE 2

SCHEDULE SHOWING TAXES DUE BUT UNPAID

	COUNTIES						Total	Amount
	Hamilton	Jefferson	Marion	Alameda	Wayne	City Of Detroit		
Properties on Which Liabilities Were Due	216 <u>2/</u>	174	89	69	104	98	750	\$165,350
Properties on Which Taxes Were Due But Not Paid	96	45	72	8	19	34	274	59,400
Percent	44	25	81	12	18	35	37	36

1/ The taxes paid on properties not owned are relatable to the total properties sampled, rather than the properties on which taxes were due. This accounts for the difference in the number of properties shown in the above schedule.

2/ The data are as of March 1975, except for Hamilton County. The data on Hamilton County property were determined as of December 1974.

Action on Findings. OFA prepared a Notice (HM-75-56), dated September 15, 1975, which has been issued to all Regional and Area and Insuring Offices reminding them of their responsibilities to notify tax authorities for properties acquired and sold within five days after the action occurs. The Notice also reminds field offices of their responsibility to notify and seek reductions in the appraised value of properties that have been razed; and prohibits the payment of delinquent taxes to purchasers of HUD-owned properties. A copy of this Notice is attached as Attachment II.

As of September 5, 1975, all except 175 of the 5,700 delinquent property tax bills sent to HUD by the City of Detroit had been validated and paid. The 175 unpaid bills cannot readily be related to HUD-held properties because they have no property addresses, incorrect ward numbers, etc. We are continuing our effort to identify and pay these bills.

Under the date of September 17, 1975, the Director, OFA, forwarded a letter to GAO acknowledging receipt of the listing of duplicate and erroneous tax payments amounting to over \$28,000. A request was also made for information disclosed in their survey that HUD did not pay other taxes owed and did not receive credit from property buyers in order that corrective action could be taken.

Receipt of Invalid Tax Bills (P. 14 of GAO Report). GAO stated that 191, or 56%, of 342 tax bills received from the tax authority for Hamilton County, Ohio, were invalid. This would not have occurred if the Tax Section had requested the tax bills prior to their due date, as required by procedures. The following schedule illustrates this:

	<u>No. Of Bills</u>	<u>Percent</u>
Tax bills sent by Hamilton County tax authority to HUD as owner of record on 12/20/74	310	
Tax bills requested by Tax Section on 1/2/75	274	
Less: Requests County could not identify to properties	<u>170</u>	<u>104</u>
Total tax bills received by Tax Section	414	
Duplicate bills included in above	<u>72</u>	
Adjusted Total	342	
Valid tax bills received	<u>151</u>	44
Invalid bills received	<u>191</u>	56

In addition, Hamilton County, Ohio tax authority sent us almost twice as many tax bills as actual properties owned by HUD.

Total tax bills received	414
Less: Properties shown by HUD local office inventory	<u>216</u>
Tax bills received in excess of properties listed	<u>198</u>

The large excess of tax bills over properties owned is also due to variations among records of HUD-owned properties by Hamilton County, Ohio tax authority, the Tax Section, and the HUD local office. This is illustrated as follows:

		<u>Properties In Excess Of Local Office Inventory</u>
Properties in Hamilton County tax authority records for which HUD is listed as owner	310 (310-216)	94
Properties shown by HUD local office inventory records	216	
Properties for which the Tax Section requested bills	274 (274-216)	58

Evaluation of Findings. We are unable to refute these findings. However, it is significant to note that Hamilton County, Ohio tax authority does not have an accurate record of HUD-owned properties -- assuming that the HUD local office inventory is correct. This could also indicate that the local office is not notifying Hamilton County tax authorities of property ownership changes, or if the local office is notifying them, Hamilton County is not changing its tax records.

Action on Findings. (1) We have established procedures to insure that Tax Section employees remove from the inventory all tax records when a property is sold. This will preclude requesting bills on sold properties; (2) The Tax Section employees have been reminded of the requirement to send requests for tax bills in advance of the tax due date. A log is being established to control this function. This will allow HUD to take discounts, reduce penalties, and monitor the performance of this function; and, (3) The Notice issued to field offices on September 15, 1975, on the need to insure that tax authorities change the property owner's name when properties are acquired or sold will eliminate receipt of invalid tax bills. See Attachment II.

Tax Credit Not Received (P. 10 of GAO Report). GAO stated that property buyers did not pay delinquent taxes even though the HUD field offices gave them credit in the sales closing statement for such taxes. In addition, GAO found 11 other instances where HUD did not receive credit for taxes paid to the buyer. GAO did not indicate the amount of tax credit not received.

Evaluation of Findings. We cannot rebut the findings because GAO did not give HUD the applicable FHA case numbers. However, we are receiving closing statements with delinquent taxes credited against the sales price.

Action on Findings. HUD field offices allowed property buyers credit against the sales price to pay delinquent taxes despite the fact that no authorization to do so had been issued by Central Office. The Notice issued on September 15, 1975, reminds local HUD offices that the practice of giving purchasers credit for delinquent taxes on closing statements is not authorized and will not be approved in OFA's review of these sales. OFA is requiring local HUD offices to adjust these sales. We have requested information from the General Accounting Office on the cases where HUD did not receive tax credit from property buyers.

Paying Taxes Late (P. 10 of GAO Report). GAO stated that HUD paid taxes late on 251, or 33%, of 750 properties on which HUD owed taxes. GAO only detailed their findings on properties located in Hamilton County, Ohio, (P. 13 of GAO Report). It found that HUD incurred \$2,998, or 7.1%, in penalties on 216 properties with tax liabilities of \$42,034. The \$2,998 in penalties was arrived at by adding the penalty amounts for current and prior periods.

Evaluation of Findings. We cannot refute the above GAO findings. It should be noted, however, that the \$2,998 includes penalties on current and prior years' taxes on properties for which HUD did not receive a tax bill. If we do not get bills, we cannot determine or report the tax liability of HUD on any given date. As a result, we could not compute penalties comparable to those computed by GAO. The \$2,998 in penalties can be adjusted to show the penalty rate HUD would compute for Hamilton County based on the information available to us. This is illustrated below. The penalties computed by GAO include \$1,947 applicable to properties for which we did not receive tax bills. If these

were excluded from the total penalties of \$2,998 computed by GAO, it would leave \$1,023 computed as follows:

Total penalties reported by GAO		\$ 2,998
Less: Penalties owed on properties for which we did not receive tax bills:		
Current year	\$ 1,190	
Prior years	<u>757</u>	<u>1,947</u>
Penalties applicable to taxes paid late		<u>\$ 1,023</u>

The \$1,023 in penalties is applicable to paid taxes of \$20,621 computed as follows:

Total tax liabilities reported by GAO (\$27,928 plus \$14,106)		\$42,034
Deduct tax liabilities on properties for which we did not receive tax bills:		
Current year	\$13,088	
Prior years	<u>8,325</u>	<u>\$21,413</u>
Total amount applicable to taxes paid late		<u>\$20,621</u>

The penalty rate computed above ($\$20,621 \div \$1,023$) equals 4.9% and is based on information available to HUD. The penalty rate for Hamilton County is 10% on delinquent taxes. This is one of the highest initial penalty rates in the entire United States. Therefore, the 4.9% for one county with a high penalty rate does not appear to be excessive in terms of HUD's national experience of 1.75%. The latter percentage was reported to the House Subcommittee on Manpower and Housing, Committee on Government Operations. Our review has disclosed that about 78% of our tax bills were paid late during the period February through August, 1975. The national penalty rate during this period for single family properties was 3.3%. When the total taxes paid by HUD for all owned properties for this period is considered, the penalties paid will be considerably less. Many times HUD paid taxes late because:

1. We do not have a record of acquiring the property. For example, during the week of September 1, 1975, we received a tax bill on FHA Case No. 441-203536-221 for delinquent 1974 taxes of \$340.31 and 1975 taxes of \$304.93. We will pay this tax late because we have no record of acquiring this property. Our field office informed us that title to this property was recorded in HUD's name on January 7, 1974, and that a claim for insurance benefits was submitted by the mortgagee on February 21, 1975. As of September 10, 1975, this claim has not been validated. Therefore, this property acquisition has never been recorded in our books of account as owned by HUD, and our Tax Section cannot pay the bill. The field office reports this property in its inventory.
2. The tax bill received does not contain sufficient information to readily identify the property. For example, we received a tax bill dated February 13, 1975, from the Mesquite Tax Fund, Mesquite, Texas, for 1974 taxes in the amount of \$161.18. The bill has no FHA case number, property address, or other description which permits us to relate it to a HUD-owned property. Sometimes, we can identify bills after doing considerable manual, time-consuming research. In other cases, we are unable to identify bills.

Action on Findings. We are taking the following actions to assure that taxes are paid when due and curtail the payment of penalties. (1) Establish current and accurate property inventory tax records. This will insure that we request tax bills on property owned; (2) Request tax bills in advance of the due date; (3) Emphasize importance of paying taxes within any discount period; and (4) Devote a portion of the Tax Section's personnel resources to monitoring property identification data submitted by mortgagees and field offices.

OFA FINDINGS ON SPECIFIC CASES CITED BY GAO

Failure to Pay Tax (P. 15 of GAO Report). GAO reported that HUD acquired this property (FHA Case No. 411-000018-221) in April, 1971, and that it was still in the inventory. HUD never paid taxes on this property. However, in May, 1975, GAO found a bill for \$489.34 among the Tax Section's unidentified bills.

HUD Findings and Corrective Action Taken. The GAO finding is correct. The information HUD received at the time this property was acquired did not contain a correct property address or property parcel number. Since Marion County tax authority can only identify properties by a parcel number, we could not obtain bills. Although the Tax Section received bills, they could not identify them with the property owned because the address on the tax records and the tax bills were different. We reviewed the settlement file in the Insurance Benefits Division. This file contained a tax receipt for the first half of 1972 taxes with the parcel number. We called the Cincinnati Insuring Office to determine the correct property address. With the correct information, we were able to locate the tax bill, and we processed a voucher on August 7, 1975, for payment of \$614.27. This amount covers all outstanding taxes. We also changed the property address and included the parcel number in the Tax Section's tax inventory records.

Late Payment of Tax to Buyer (P. 15 of GA Report). GAO reported that this property (FHA Case No. 411-087684-203) was acquired in January, 1974, and sold by HUD in February, 1975. HUD did not pay any taxes during its ownership of the property. At the time of the sale, the Cincinnati Insuring Office allowed the buyer \$361.85 ^{2/} to pay all delinquent taxes and penalties. The Hamilton County courthouse records show that the buyer did not pay the delinquent taxes.

HUD Findings and Corrective Action Taken. Except for the amount of taxes paid to the buyer, the GAO finding is correct. This property was deeded to HUD on August 2, 1973. However, we were not informed of the acquisition until January 24, 1974. The parcel number, which is required by the Hamilton County tax authority to supply us with tax bills, was not furnished by the former mortgagee. The property was sold on February 18, 1975.

At the sales closing, the Cincinnati Insuring Office gave the purchaser \$461.33 to cover all delinquent taxes and penalties and HUD's share of the 1975 tax. On March 12, 1975, a month after the sale, the purchaser recorded the deed. However, as of August 12, 1975, the Hamilton County Recorder's Office did not notify the tax collector's office of the ownership change. To our knowledge, the Cincinnati Insuring Office did not notify the tax authority of the transfer of ownership.

^{2/} The GAO payment is in error. Our records show that the buyer was paid \$461.33 on Voucher No. 260811, dated April 3, 1975.

The Cincinnati Insuring Office contacted the purchaser on August 12, 1975, and was told that the property was resold on May 12, 1975. The new purchaser is aware that delinquent taxes have not been paid. This was included in the new sales agreement. The Cincinnati Insuring Office is currently seeking a refund of the HUD payment from the original purchaser. As of September 5, 1975, no collection had been made.

Tax Paid on Sold Property (P. 15 of GAO Report). GAO reported this property (FHA Case No. 042-302064-203) was sold in December, 1972. Nevertheless, HUD paid the taxes totaling \$1,851.98 for tax years 1974 and 1975. A payment card and addressograph plate were found in the Tax Section's control records.

HUD Findings and Corrective Action Taken. The GAO finding is correct. This property (FHA Case No. 042-302064-203) was acquired on August 1, 1972. The property was sold on December 12, 1972, and the sales documents were received in the Sales Section on January 5, 1973. Apparently, through error the Tax Section did not annotate its records to show that the property was sold. Therefore, established tax records were not removed from file after the sale. This error resulted in the continued request and payment of taxes.

We asked the San Francisco Area Office to check the tax authority's records. The tax office already had knowledge of this sale because the new mortgagee, Bank of America, advised us that we were paying taxes on a property we did not own. On August 14, 1975, we called the Alameda County Tax Collector's Office and asked for a refund. That Tax Collector sent us a Certification of Duplicate Payment which we have returned for a refund of \$1,851.98. We removed the tax records from the Tax Section's control files to insure that future taxes are not paid on this property.

Duplicate Tax Payment (P. 16 of GAO Report). GAO reported that the Hamilton County Tax authority mailed HUD a tax bill on this property (FHA Case No. 411-084458-203) in mid-December, 1974, for the first half of 1975 taxes. The Tax Section requested a tax bill in early January, 1975. The Tax Section paid the original bill on January 6, 1975, and the second bill on March 27, 1975. GAO determined this second bill to be a duplicate payment.

HUD Findings and Corrective Action Taken. The GAO findings appear to be correct. The Tax Section's records show these two tax payments as first and second half payments for tax year 1975. The county tax records also show them as first and second half payments for tax year 1975. The tax authority did not send a bill for the second half taxes until April; whereas, we erroneously paid taxes for the second half on March 27, 1975. Since we paid the first half bill twice, we received credit for a full year, and, therefore, the bill for the second half was not in order for payment. We are not requesting a refund of these taxes, because we received proper tax credit by the Hamilton County tax authority.

Tax Credit Not Received (P. 16 of GAO Report). GAO reported that this property (FHA Case No. 151-106219) was part of a bulk sale of 12 properties that were sold for \$1.00 each on May 13, 1975. ^{3/} There were delinquent taxes at the time of sale. The purchaser received \$2,591.51 to pay the delinquent taxes. These taxes were not paid at the time of the GAO survey.

HUD Findings and Corrective Action Taken. The GAO findings are correct. We contacted the Indianapolis Area Office and asked them to obtain a refund or a tax receipt for 1974 taxes from the buyer. On August 27, 1975, the buyer brought a copy of the paid tax receipt to the Indianapolis Area Office. The receipt was forwarded to Central Office.

Compound Errors (P. 17 of GAO Report). GAO reported that this property (FHA Case No. 411-043251-203) was acquired by HUD in May, 1973, ^{4/} and sold in November 1973. HUD made erroneous tax payments of \$467.64 since the sale.

HUD Findings and Corrective Action Taken. The property was acquired by HUD June 15, 1973. A tax record was established on the property under an erroneous FHA case number -- 411-043251-203. The correct case number is 411-032451-203. No tax record was established under the correct number. The property was sold on November 9, 1973. The sale closing papers cited the correct case number. Since a tax payment card

^{3/} GAO used a date of May 13, 1975, which is the FHA approved date. April 14, 1975, is the closing date on the sales statement.

^{4/} The GAO date is incorrect. The Application for Insurance Benefits (Form 1025) shows that HUD acquired title on June 15, 1973.

could not be located under the correct number, the card with the erroneous case number remained in the tax control file. Since the tax record with the incorrect case number remained in the active tax file, tax bills were requested and payments were made as follows:

Delinquent second half 1972 taxes and penalties	\$ 97.23
1973 Taxes	187.41
1974 Taxes	<u>183.00</u>
TOTAL	<u>\$467.64</u>

This resulted in duplicate payments by HUD to the tax authority and the purchaser for the second half 1972 and part of 1973 taxes. The Cincinnati Insuring Office is seeking a refund of \$247.47 from the purchaser. We have requested a refund of \$220.17 from the tax authority.

COMMENTS ON GAO'S RECOMMENDATIONS (P. 19 & 20 OF GAO REPORT)

Establish an Accurate Property Tax Master File at the Central Office. We have developed an automated program to compare the Tax Section's inventory record cards with the HUD computer maintained inventory of properties on hand. This will result in purging from the tax inventory records properties not owned by HUD and establishing tax records on properties owned by HUD. During this process, we will insure that we have tax records for all on-hand properties. This project also will result in the payment of all taxes due on properties in the inventory and the recovery of taxes paid on properties no longer owned by HUD. The initial purge of records will be completed by October 15, 1975, and action to pay all delinquent taxes and recover amounts improperly paid will commence immediately.

Develop Procedures for Notifying Local Taxing Authorities of Property Acquisitions and Sales on a Timely Basis. OFA, under the auspices of the Office of Property Disposition, HM, has issued a Notice to Regional and Area and Insuring Offices reminding them of the field office's responsibilities concerning notification of tax authorities of properties acquired and sold. This Notice also advised that payments and credits for delinquent taxes may not be given to purchasers of properties. (See Attachment II for copy of Notice.)

Delegate Responsibility to the Local Level for Obtaining Appropriate Tax Bills. Pending further study, we are maintaining a centralized tax inventory record system from which we will request and pay tax bills. However, the Deputy Under Secretary for Field Operations proposed that we decentralize all tax operations. We are establishing a pilot program to determine the cost effectiveness and feasibility of accomplishing this objective.

Develop an ADP System Considering Existing Systems Used by the Mortgage and Banking Industries. HUD is taking the following actions to develop automated systems:

1. Efforts were commenced in 1973 to develop an interim system to assist in identification of tax bills for HUD-held properties on which taxes are due. This system will be operational in January 1976.
2. The HUD Mortgage Insurance Accounting Program (HUDMAP) was established in June, 1975, to design a modern up-to-date accounting and ADP system for mortgage insurance accounting. The system design will cover the complete automation of the property tax function. The conceptual design is scheduled for completion December 15, 1975, and the complete system operational by June, 1978.

CORRECTIVE ACTIONS TAKEN TO IMPROVE TAX OPERATIONS

The large increase in the property inventory to over 80,000 properties and the increase in property sales by HUD to over 50,000 per year has created an enormous burden for the manual system and limited staff of the Tax Section.

In 1973, HUD started programs to improve its tax operations. These included programs to get tax authorities to help us identify and pay bills and provide assistance to tax authorities in identifying HUD-held properties on which taxes are due. Some of these programs are described as follows:

Program to Have Tax Authorities Put FHA Case Number on Bills. Our reporting and accounting system requires an identification number for each mortgage insured. This number (FHA Case Number) will serve to identify the transaction until final disposition. Accordingly, property tax records must be assigned the same FHA case numbers so tax bills paid can be charged to the proper property account for accounting purposes.

BEST DOCUMENT AVAILABLE

We asked many tax authorities to put case numbers on their tax bills. For example, we contacted tax authorities in New Jersey, Maryland, Pennsylvania, Texas, etc., to seek their cooperation in helping us identify tax bills. Some tax authorities could not insert the FHA case numbers on their bills because their computerized system could not accommodate the number. This effort has proven most helpful, and we plan to continue this program.

Program to Get Taxing Authorities to Accept One Check for Many Bills. Certain tax authorities would accept tax payments only if individual checks were submitted for each bill. We contacted many authorities, and some agreed to accept one check for all tax bills due. This is very beneficial to HUD and to the U. S. Treasury.

Program to Help Tax Authorities Identify HUD-Held Properties. We asked tax authorities to suggest ways we could help them identify properties or request tax bills, and we implemented suggestions for requesting bills prior to their due date. We have found this to be beneficial to HUD and tax authorities and will continue this practice.

In addition to the above, we are establishing an automated property directory to assist in identifying tax bills that will be operational in January, 1976. This effort and the HUDMAP Project are briefly described above. We will continue to seek new ways to cope with this function from all sources and welcome suggestions from GAO, HUD auditors and others.

ATTACHMENT II

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING MANAGEMENT**NOTICE**

HM 75-56 (HUD)

9/15/75

TO: REGION: Regional Administrator, Assistant Regional Administrator
for Housing Management, Regional Real Property Officer
AREA: Director; Director, Housing Management Division; CPO
INSURING: Director; Director, Housing Management Division; CPO

SUBJECT: Real Estate Taxes on Acquired Home Properties

1. PURPOSE. It is the obligation of HUD to pay all real estate taxes on acquired home properties which become due after the date the deed to the Secretary is filed for record. This obligation continues until the Secretary's interest in the property is terminated, either by sale of the property for cash, or by the payment in full of a mortgage given to the Secretary by the purchaser of the property. This Notice sets forth the procedures which shall be followed by all Area and Insuring Offices to assure that this obligation is met.
2. NOTICE TO THE TAXING AUTHORITY OF THE ACQUISITION OF A HOME PROPERTY. Under the insurance claim procedures for the home mortgage insurance programs, the mortgagee or its servicer is required to notify the Area or Insuring Office which has jurisdiction over the area in which the property is located, of the filing for record of the deed to the Secretary on Part 5 of Form 1025, Notice of Property Transfer and Application for Insurance Benefits. This notice of the conveyance must be submitted on the date the deed to the Secretary is filed for record and no extension of time for its submission may be approved. Within a period not to exceed five days after receipt of Form 1025, the applicable taxing authority shall be notified by the Area Manager that the property is owned by the Secretary and that all future real estate tax bills on the property are to be mailed to: Department of Housing and Urban Development, Mortgage Insurance Accounting, OFA, Attention: Acquired Home Property Branch, Washington, D. C. 20410. Provisions for notifying the taxing authority of the acquisition of a home property are contained in paragraph 114, Handbook 4310.5, Property Disposition Handbook, One-To-Four-Family Properties. Of particular importance are the instructions for requesting the taxing authority to note the FHA case number on all future tax bills submitted to HUD for payment. The FHA case number on a tax bill permits immediate identification of the bill to the related acquired property, thereby enabling HUD to take advantage of any discount for early payment or to avoid payment of penalty interest for late payment.

HM:DISTRIBUTION: W-1, W-2, W-3, W-3-1, W-4, R-1, R-2, R-3
R-3-1(HM), R-3-2, R-4, R-4-1, R-4-2, R-5
R-5-1, R-5-2

NOTICE HM 75-56(HUD)

3. NOTICE TO THE TAXING AUTHORITY OF THE SALE OF AN ACQUIRED PROPERTY. Within a period not to exceed five days after the closing documents are received from the Closing Agent, the taxing authority shall be notified by the Chief Property Officer that the property has been sold and advised as to the disposition of future tax bills on the property. If the property was sold for cash, the taxing authority shall be advised to forward all future tax bills to the purchaser of the property for payment. A copy of the letter to the taxing authority shall be furnished the purchaser by transmittal letter, advising that it is his responsibility to pay all future real estate taxes on the property and that he should make the necessary arrangements with the holder of his mortgage regarding any further redirection of tax bills, if the taxes are to be paid from funds on deposit in an escrow account maintained by the holder of the mortgage. For a credit sale, involving a Secretary-Held Purchase Money Mortgage, the taxing authority shall be notified that the property has been sold and that all future tax bills submitted to HUD for payment should show the names of the purchasers of the property and the FHA case number.
4. NOTICE TO THE TAXING AUTHORITY THAT AN ACQUIRED HOME PROPERTY HAS BEEN RAZED. The Directors of all Area and Insuring Offices are reminded of the requirements of HM Notice 74-17 (HUD), dated 3-1-74, for notifying the taxing authority by letter that an acquired home property has been razed. A copy of the letter shall be mailed to the Director, Mortgage Insurance Accounting, OFA, Department of Housing and Urban Development, Attention: Acquired Home Property Branch, Washington, D. C. 20410, so that appropriate action may be taken to obtain a reduction in the assessed value of the property if the next real estate tax bill on the property covers the assessed value of both the land and the improvements.
5. PRORATIONS OF TAXES BETWEEN HUD AND THE PURCHASER AT CLOSING. A review of closing statements for cash sales of acquired properties indicates that some Closing Agents are including delinquent taxes and penalty interest in the amounts due the purchaser at closing. Subsequent tax bills received from the taxing authority indicate that the purchaser of the property is not paying the delinquent taxes, making it necessary for HUD to pay the taxes and then seek recovery from the purchaser in a time-consuming and costly collection effort. Closing Agents are not authorized to include delinquent taxes and penalties in the amounts due the purchaser at closing and the practice shall be discontinued immediately. All

NOTICE HM 75-56 (HUD)

ATTACHMENT II

prorations of taxes at closing are restricted to current taxes due on the property, which shall be estimated on the basis of the last taxes paid if the amount of the taxes for the current tax year are not available at closing. The CPO shall obtain current tax information on properties sold on the basis of all cash to HUD on Form HUD-9585, Pending Sale, (formerly Form 755) which shall be submitted to the Director, Mortgage Insurance Accounting, OFA, Department of Housing and Urban Development, Attention: Acquired Home Property Branch, Washington, D. C. 20410, in accordance with the instructions contained in paragraph 294(b) of Handbook 4310.5. If the sale of the property is financed by means of a purchase money mortgage held by the Secretary, the CPO shall follow the instructions in paragraph 316 of Handbook 4310.5 to obtain the status and amounts of all real estate taxes and special assessments from the local taxing authority in sufficient detail to permit the tax prorations as of the sales closing date. If it is determined that there are delinquent taxes or special assessments payable on the property, the CPO shall obtain copies of the delinquent bills and forward them to the Acquired Home Property Branch for payment. Under no circumstances shall delinquent taxes or special assessments be paid to the taxing authority by the Closing Agent from the sales proceeds.

6. DISTRIBUTION OF THIS NOTICE. The Director of each Area and Insuring Office shall assure that copies of this Notice are transmitted to all Closing Agents and to all employees whose work assignments relate to the acquisition and sale of acquired home properties.


Assistant Secretary
for Housing Management

DOCUMENT

PRINCIPAL OFFICIALS OF THE
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
RESPONSIBLE FOR THE ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
Carla Hills	March 1975	Present
James T. Lynn	Feb. 1973	Feb. 1975
ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT AND FEDERAL HOUSING COMMISSIONER:		
David S. Cook	Aug. 1975	Present
David DeWilde (acting)	Nov. 1975	Aug. 1975
Sheldon B. Lubar	July 1973	Nov. 1974
ASSISTANT SECRETARY FOR ADMINISTRATION:		
Thomas G. Cody	May 1974	Present
W. Boyd Christensen	Oct. 1973	May 1974
Vincent J. Hearing (acting)	June 1973	Oct. 1973
DIRECTOR, OFFICE OF FINANCE AND ACCOUNTING:		
Thomas J. O'Conner	May 1974	Present
John R. Kurelich (acting)	Jan. 1973	May 1974
DIRECTOR, MORTGAGE INSURANCE ACCOUNTING:		
Benjamin C. Tyner	Jan. 1973	Present

Copies of GAO reports are available to the general public at a cost of \$1.00 a copy. There is no charge for reports furnished to Members of Congress and congressional committee staff members; officials of Federal, State, local, and foreign governments; members of the press; college libraries, faculty members, and students; and non-profit organizations.

Requesters entitled to reports without charge should address their requests to:

U.S. General Accounting Office
Distribution Section, Room 4522
441 G Street, NW.
Washington, D.C. 20548

Requesters who are required to pay for reports should send their requests with checks or money orders to:

U.S. General Accounting Office
Distribution Section
P.O. Box 1020
Washington, D.C. 20013

Checks or money orders should be made payable to the U.S. General Accounting Office. Stamps or Superintendent of Documents coupons will not be accepted. Please do not send cash.

To expedite filling your order, use the report number in the lower left corner and the date in the lower right corner of the front cover.

AN EQUAL OPPORTUNITY EMPLOYER

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

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE



THIRD CLASS