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Why Is **\$59 Billion** Missing From HUD?

By Kelly Patricia O'Meara

The Department of Housing and Urban Development (HUD) has earned a failing grade from the House Government Reform subcommittee on Government Management for the way the agency manages taxpayers' money. Subcommittee chairman Stephen Horn, R-Calif., is said to be furious that HUD's most recent financial report shows the agency is unable to balance its checkbook and cannot account for **\$59 billion**.

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For most Americans, it is incomprehensible that **\$59 billion** could be missing from the ledger of a single agency. But despite years of earning failing grades - as well as years of being unable to account for tens of billions of dollars - the Clinton/Gore management team at HUD has continued to shell out hundreds of millions of dollars to the same contractors hired to ensure financial systems are in place and working. It doesn't take a certified public accountant to see that HUD Secretary Andrew Cuomo's financial house is not in order, and Susan Gaffney, the inspector general (IG) of HUD, tells Insight, "It's more serious than you know."

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This dire yet brutally honest evaluation by the IG came in response to questions about her testimony concerning HUD's 1999 audit, delivered before Horn's subcommittee in May. And HUD's 1999 audit still has not been completed even as the agency is nearing the starting date for the 2000 audit. Instead, Gaffney submitted a 14-page "summary" for 1999, providing a laundry list of systemic reasons for HUD's financial woes. Indeed, it took Insight a day and a half just to make sense of the IG's simplified testimony concerning these financial shenanigans.

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Beyond the fact that **\$59 billion** is unaccounted for and that auditors have had to make manual adjustments to the checkbook system retroactively, it is glaringly apparent in the IG's report that taxpayers should consider themselves lucky that the amount isn't much higher. What also is more than evident is that the IG devoted most of her testimony to explaining failed processes at HUD rather than focusing on any specific examples of theft, conversion, embezzlement and other larceny.

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For instance, according to Gaffney's testimony, she could not sign off on the 1999 audit because of "the undetermined effects of the conversion problems of the general ledger from the Program Accounting System [PAS] to HUD's Central Account and Program System [HUDCAPS] during the fiscal year, the integrated state of HUD's reconciliation efforts and their documentation for the general ledger accounts for the fund balance with Treasury, and the late manual posting of numerous and significant adjustments (some as late as Feb. 25, 2000) directly to the financial statements, for which we lacked sufficient time to test their legitimacy."

What the IG is saying is that HUD's finances are in a shambles because, during 1999, the agency was converting to a new computer system, the field offices didn't balance their checkbooks on a monthly basis and manual postings were made to the financial statements so late that the IG had no time to review whether the postings were correct. Gaffney does report in one section of her testimony that "242 adjustments, totaling about \$59.6 billion, were made to adjust fiscal year 1999 activity."

The IG, however, does not explain where the "adjustments" were made, for what services or from which region or field office. But she tells Insight that HUD's financial problems stem from glitches within the agency's computer systems.

"The material weakness," explains the IG, "is that HUD does not have a single financial ledger system in place and this year they tried to implement that. The effort was flawed to say the least. The financial systems flowing in were incompatible and the system rejected transactions, and the rejected transactions weren't corrected in the new ledger system. HUD does not have a reliable and accurate statement of its financial condition."

Apparently, the HUDCAPS system that has been going online since 1997 and is supposed to correct the agency's overwhelming financial-management problems now is being scrapped. According to Gaffney, just last week she was made aware that Chief Financial Officer Victoria Bateman has decided that HUDCAPS does not do the job and that a new add-on system is being implemented. It's anyone's guess when the new system will be fully integrated with the old "new" system which, to date, has done nothing to enhance HUD's ability to account for the billions of dollars in missing tax money.

According to one source familiar with HUD's finances who spoke on condition that he not be identified, blaming computer glitches is what is done when they want to hide fraud. "The history of effort and expenditures that has been poured into correcting deficiencies at HUD does not support a theory of incompetence. If you don't have decent accounting systems it's because someone wants to make sure you don't. It's standard operating procedure that if one system is being replaced you keep the old one up and running while you work out the kinks in the new one - they're run parallel. In this case, they took down a system that was running, replaced it with a system that wasn't and then cried, 'Oh, we can't balance the books!' They can't say the resources don't exist to correct the problem. If Cuomo can find hundreds of community builders to run around neighborhoods, he can find enough people to balance the checkbooks." And the source adds, "Furthermore, if I wanted to rip off HUD, this is exactly how I would do it. Don't run parallel systems, don't bother to balance the books and then radically reengineer the system all at the same time that you double the volume of work. It's a system ripe for financial fraud. The point is that you have to know what checks were authorized in a specific place and how

they sort out, and if you balance the books monthly it becomes very easy to zero in on where the fraud is taking place. What the IG has missed is that it's not about knowing a problem exists, it's about fixing the problem - you want to know where and why you're missing **\$59 billion**. A huge computer system isn't needed for HUD to balance the books; monthly statement reconciliation is all that is necessary."

The source continues: "Everything that has transpired at HUD is not an accident, and it sure isn't a computer glitch. When you take the different material violations of the most basic financial-management rules and compare them to the time and effort put in to have first-rate systems, it is impossible to explain it as anything other than significant financial fraud. The losses could be far greater than **\$59 billion**, but they don't know for sure because the audit isn't completed. Secretary Cuomo is a very smart control freak, so it's ludicrous to think that he doesn't know what is going on. There are several ways to correct these problems. Most are basic, but if you want to use the big sledgehammer, the Office of Management and Budget [OMB] and Congress have the ability to make HUD balance the books or [they] shut down the money supply. They are the guardians at the gate. But that is the most telling thing about this problem - OMB and the appropriators have been silent. This is exactly what happened right before the savings-and-loan scandal."

So is it possible that a problem within the agency's computer systems is the cause of tens of billions of dollars being unaccounted for or missing? Not if you ask whistle-blower Jack Ballinger.

In 1994 Ballinger began working for the New York City Housing Authority (NYCHA) as a contract inspector. He worked his way up through the system and was made manager of a new section, the Computer Operations and Reports Section. He was there only a few weeks when he became aware of major problems in payments to contractors. What he found was the main financial-management computer system, known as Financial Management Services (FMS), contained files verifying payments of more than \$50 million on nearly 150 contracts that did not show up on the computer system used by the bookkeepers and investigators to track the services provided. Called CAD, this system should have been keeping track of the inspections, the inspector, dates of inspection and inspection results.

Realizing the gravity of the problem, Ballinger reported the missing files. Shortly thereafter the new section was disbanded, his staff was sent back to their previous positions and he was transferred to Coney Island as a boiler inspector. Nonetheless, he was joined in calling for an investigation by a dozen other "clean" inspectors. Ballinger first requested an investigation by the New York City Department of Investigations. When nothing happened, he contacted Bill DiBlasio, then the IG for HUD in New York (and now Hillary Rodham Clinton's campaign manager); HUD IG Gaffney in Washington; Rep. Rick Lazio, R-N.Y.; and HUD Secretary Cuomo, whose agency provides more than 90 percent of the funding that NYCHA receives.

Despite overwhelming evidence of corruption - including audio- and videotapes of bribes being offered and accepted, as well as one inspector telling his story of an organized group of inspectors receiving bribes - there was no serious investigation of the misappropriation of funds within the NYCHA. "The IG," says Ballinger, "said it was a paperwork mistake and cleared up. But not one person who looked at this could see it as a paperwork problem, and this has been going on for almost two years. There were hundreds of contracts being reported and monitored through that computer system and it would have taken someone a lot of work to pick out 143 that weren't there every month. I can't say that the inspections

haven't been done, but there is no record of the work being done on these 143 files. Still they were getting paid. It's almost funny how sloppy they are about it. They leave a trail because they know that no one will be held accountable."

The financial problems Ballinger uncovered in the NYCHA are similar to those at HUD. For instance, the IG's testimony to Congress also raises the issue of a wide variety of people having access to the accounting system with no controls or audit trail to tell what transactions are taking place and under whose guidance. The IG states, "HUD uses a powerful utility system to resolve data discrepancies by directly altering the data in the HUDCAPS financial tables. There were an excessive number of users with access to the utility, including users from four different contractor firms as well as HUD program offices. We questioned the need for the high number of users and the database administrator agreed not all the users on the list require access to perform their jobs. Allowing uncontrolled use of such a utility exposes HUD's financial data to damage and fraudulent activities."

Gaffney is saying that just about anyone can get into HUD's financial system, including many who don't have any business or authorization to be in it. Once in, intruders can change numbers, take money and engage in financial fraud without anyone catching or stopping them.

While Gaffney cannot force changes within HUD, as IG she can bring the problems to light. Unfortunately, the testimony she provided to Congress did little more than alert members to the already-known fact that there are serious financial-management problems under Cuomo at HUD. The IG's report provides no specific data to help lawmakers, who have oversight of this agency, recommend appropriate and necessary changes. In fact, it is possible members of Congress had the same difficulty deciphering the IG's testimony as everyone else with whom Insight has spoken. Despite the fact that the entire report by the IG to Congress deals with financial mismanagement at HUD, not once in all of her 14 pages of testimony did Gaffney so much as use the word "money."

How much HUD's missing **\$59 billion** is of concern to lawmakers is anyone's guess. Chairman Horn, as well as Senate Governmental Affairs Committee Chairman Fred Thompson of Tennessee and Senate Appropriations subcommittee on VA-HUD Chairman Kit Bond of Missouri, did not return Insight's calls about these matters.



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