



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

**Fiscal Years 2015 and 2014 (Restated) Consolidated
Financial Statements Audit**



To: Joseph Hungate, Deputy Chief Financial Officer, F

//signed//

From: Thomas R. McEnanly, Director, Financial Audits Division, Washington DC, GAF

Subject: Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Consolidated Financial Statements Audit

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) independent auditor's report on HUD's consolidated financial statements and reports on internal controls over financial reporting and compliance with laws and regulations.

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 8M, 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 202-402-8216.



Audit Report Number: 2016-FO-0004

Date: November 23, 2015

Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Consolidated Financial Statements Audit

Highlights

What We Audited and Why

In accordance with the Chief Financial Officers Act of 1990, as amended, we are required to annually audit the consolidated financial statements of the U.S. Department of Housing and Urban Development (HUD) and the stand alone financial statements of the Federal Housing Administration and the Government National Mortgage Administration (Ginnie Mae).

Our objective was to express an opinion on the fairness of the financial statements in accordance with U.S. generally accepted accounting principles applicable to the Federal Government. This report presents the results of our audit of fiscal years 2015 and 2014 (restated) HUD consolidated financial statements, including our report on HUD's internal control and test of compliance with applicable laws and regulations.

What We Found

We expressed a disclaimer of opinion on HUD's fiscal years 2015 and 2014 (restated) consolidated financial statements because of the significant effects of certain unresolved audit matters, which restricted our ability to obtain sufficient, appropriate evidence to express an opinion. These unresolved audit matters relate to (1) HUD's improper use of cumulative and first-in, first-out budgetary accounting methods of disbursing community planning and development program funds, (2) \$5.4 billion in nonpooled loan assets from Ginnie Mae's stand-alone financial statements that we could not audit because Ginnie Mae could not provide adequate support for us to test these asset balances, (3) \$19.8 billion in Ginnie Mae's budgetary resources that we could not audit because of the inaccurate reporting from its budgetary system, and (4) improper accounting for HUD's assets resulting from advances made to public housing agencies and Indian Housing Block Grant grantees and loans receivable from the Emergency Homeowners' Loan Program. This audit report contains nine material weaknesses, eight significant deficiencies in internal controls, and six instances of noncompliance with applicable laws and regulations. These weaknesses were due to an inability to establish a compliant control environment, implement adequate financial accounting systems, retain key financial management staff, and identify appropriate accounting principles and policies.

What We Recommend

Our recommendations regarding each of the components' findings were made in audit report 2016-FO-0001, 2016-FO-0002, and 2016-FO-0003.

Table of Contents

Independent Auditor’s Report.....	3
Appendixes.....	22
A. Schedule of Questioned Costs and Funds To Be Put to Better Use.....	22
B. HUD’s Fiscal Years 2015 and 2014 Consolidated Financial Statements and Notes 	23



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

Independent Auditor's Report¹

To the Secretary,
U.S. Department of Housing and Urban Development:

Report on the Financial Statements

The Chief Financial Officers Act of 1990 (CFO Act) requires the U.S. Department of Housing and Urban Development (HUD) to prepare the accompanying consolidated balance sheets as of September 30, 2015 and 2014 (restated); the related consolidated statements of net cost, changes in net position, and combined statement of budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We were engaged to audit those financial statements in accordance with generally accepted government auditing standards accepted in the United States of America and Office of Management and Budget (OMB) Bulletin 15-02.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

¹ This report is supplemented by three separate reports issued by the HUD Office of Inspector General (OIG) to provide a more detailed discussion of the internal control and compliance issues and to provide specific recommendations to HUD management. The findings have been updated as needed for inclusion in the internal control and compliance with laws and regulations sections of the independent auditor's report. The supplemental reports are available on the HUD OIG Internet site at <https://www.hudoig.gov> and are entitled (1) Additional Details to Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit (audit report 2016-FO-0003, issued November 18, 2015), (2) Audit of Federal Housing Administration Financial Statements for Fiscal Years 2015 and 2014 (audit report 2016-FO-0002, issued November 16, 2015), and (3) Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2015 and 2014 (Restated) (audit report 2016-FO-0001, issued November 13, 2015).

Auditor's Responsibility

We are required by the CFO Act, as amended by the Government Management Reform Act of 1994 and implemented by OMB Bulletin 15-02, Audit Requirements for Federal Financial Statements, to audit HUD's principal financial statements or select an independent auditor to do so.

Our responsibility is to express an opinion on the fair presentation of these principal financial statements in all material respects, in conformity with accounting principles generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion section, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America, which require the auditor to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Basis for Disclaimer of Opinion

Our audit identified four areas in which we were unable to obtain adequate audit evidence to provide a basis of opinion on the fiscal years 2015 and 2014 (restated) financial statements. When evaluating these areas and their impacts on the financial statements as a whole, we determined, in the aggregate, all four areas impacted multiple material financial statement line items and were material and pervasive to the fiscal years 2015 and 2014 consolidated financial statements. There were no other satisfactory audit procedures that we could adopt to obtain sufficient appropriate evidence with respect to these unresolved matters. Readers are cautioned that amounts reported in the financial statements and related notes may not be reliable.

Improper and unauditably budgetary accounting. HUD continued to use budgetary accounting for the Office of Community Planning and Development (CPD) programs that was not performed in accordance with Federal generally accepted accounting principles (GAAP), which resulted in misstatements in HUD's combined statement of budgetary resources. In addition, the Government National Mortgage Association's (Ginnie Mae) budgetary accounting was not auditable during the fiscal year. Therefore, we could not assess whether the balances reported were reasonable.

HUD used a cumulative and first-in first-out (FIFO) method² to disburse and commit CPD program funds that was not in accordance with GAAP for Federal grants. These methods

² The FASAB Handbook defines FIFO as a cost flow assumption; The first goods purchased or produced are assumed to be the first goods sold (FASAB Handbook Version 13, appendix E, page 30, dated June 2014). In addition, the Financial Audit Manual (FAM) states that the use of "first-in, first-out" or other arbitrary means to liquidate obligations based on outlays is not generally acceptable (GAO-PCIE (U.S. Government Accountability Office-President's Council on Integrity and Efficiency) FAM, Internal Control Phase, Budget Control Objectives, page 395 F-3). In the context of HUD's use of this method, the first funds appropriated and allocated to the grantee

were used to determine the amount of uncommitted HOME Investment Partnerships Program grant funds that would be subject to reallocation and recapture under section 218(g) of the HOME Investment Partnership Act and to process disbursements for CPD formula programs, respectively. The effects of these methodologies were pervasive because the dollar risk exposure and volume of CPD grant activities from several thousand grantees (approximately \$4.5 billion in annual appropriations to support CPD-related programs, including the HOME Investment Partnerships Program, Community Development Block Grant, Housing for Persons with AIDS, and Emergency Shelter Grant) and the system limitations of HUD's grant management and mixed accounting system to properly account for these grant transactions in accordance with the statutory requirements and GAAP were considered. Due to these issues, we determined that financial transactions related to CPD's formula based programs that entered HUD's accounting system had been processed incorrectly. Although FIFO has been removed for disbursements and commitments made from fiscal year 2015 and forward grants, this method will not be removed retroactively from prior year grants. Thus, based on the pervasiveness of their effects, in our opinion, the obligated and unobligated balance brought forward and obligated and unobligated balances reported in HUD's combined statement of budgetary resources for fiscal year 2015 and in prior-years were materially misstated. The related amount of material misstatements for these CPD programs in the accompanying combined statement of budgetary resources could not be readily determined to reliably support the budgetary balances reported by HUD at yearend due to the inadequacy of evidence available from HUD's mixed accounting and grants management system.

Ginnie Mae's budgetary module within its Ginnie Mae Financial Accounting System did not accurately account for some of Ginnie Mae's budgetary resources. As a result, Ginnie Mae recorded several material top level adjustments to bring the balances into agreement with Ginnie Mae's control totals, most of which could not be supported. In addition, Ginnie Mae was unable to provide adequate documentation for transactional activity occurring in these accounts. As a result, we were unable to obtain sufficient, appropriate audit evidence regarding the accuracy of these adjustments because of when they were performed and the lack of adequate supporting documentation available for us to complete our review. Therefore we cannot form an opinion on the reliability of the status of Ginnie Mae's budgetary resources reported on HUD's combined statement of budgetary resources as of September 30, 2015, which totaled \$19.8 billion.

Disclaimer of opinion on Ginnie Mae financial statements. For the second consecutive year, in fiscal year 2015, (1) we were unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of the \$5.4 billion (net of allowance) in nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio and (2) Ginnie Mae continued to

are the first funds committed and disbursed, regardless of the source year in which grant funds were committed for the activity.

improperly account for FHA reimbursable costs as an expense instead of capitalizing the costs as an asset. Additionally, Ginnie Mae performed restatements to correct prior-year misstatements; however, we were unable to gather sufficient, appropriate evidence to validate the accuracy and propriety of these accounting adjustments.

A number of Ginnie Mae balance sheet line items made up the \$5.4 billion in nonpooled loan assets³ which were consolidated into other-non-credit reform loans reported on HUD's consolidated balance sheet. The previous contractors maintained Ginnie Mae's accounting records and the supporting data. However, those records did not completely transfer to Ginnie Mae when it changed servicing contractors in September 2014. As a result, Ginnie Mae was unable to provide appropriate supporting documentation and data to enable us to audit the completeness and accuracy of these asset balances. Because of this limitation in our audit scope, we were unable to determine whether adjustments might be necessary with respect to these nonpooled loan assets.

Ginnie Mae continued to improperly account for Federal Housing Administration (FHA) reimbursable costs as an expense instead of capitalizing the costs as an asset in fiscal year 2015. This practice caused Ginnie Mae's asset and net income line items to be misstated, resulting in misstatements in HUD's assets, expenses, and net position. Due to multiple years of incorrect accounting, we believe the cumulative effect of the errors that we identified were material. However, we were unable to determine with sufficient accuracy a proposed adjustment to correct the errors due to insufficient available data.

In addition, as discussed in note 31, Ginnie Mae performed a restatement to correct prior period misstatements, many of which were consolidated into HUD's financial statements. These adjustments affected multiple asset, liabilities, and net position line items on HUD's consolidated balance sheet by \$150 million, expenses and revenues on HUD's consolidated statement of net cost by \$5.7 million, and net cost of operations on the consolidated statement of changes in net position by \$150 million. Ginnie Mae also performed a second restatement of its reserve for loss balance, which impacted HUD's loss reserves and other non-credit-reform-loans reported on its consolidated balance sheet by \$739 million. On October 23 and November 3, 2015, Ginnie Mae notified us about these adjustments. Due to the late notification of the adjustments, this condition limited our ability to adequately review them and gather sufficient, appropriate evidence to validate the accuracy and propriety of these accounting adjustments.

Improper accounting for HUD's assets. HUD did not properly account for several types of assets reported on its balance sheet related to (1) payments advanced to public housing agencies (PHA) for the Housing Choice Voucher program, (2) payments advanced to

³ These are (1) mortgage loans held for investment, net (\$4,353 million), (2) advances against defaulted mortgage backed security pools, net (\$119 million), (3) claims receivable, net (\$814 million), accrued interest receivable, net (\$48 million) and acquired properties, net (\$30 million).

Indian Housing Block Grant (IHBG) grantees for investment purposes, and (3) loans receivable related to the Emergency Homeowners' Loan Program (EHLP).

HUD adjusted its Office of Public and Indian Housing (PIH) prepayments reported on its consolidated balance sheet as of September 30, 2015, by \$466.5 million for advanced funds held by Moving To Work (MTW) PHAs. HUD was not able to recognize a comparable amount as of September 30, 2014, for inclusion in its comparative statements because of the unavailability of information. Due to the (1) timing of the adjustment and (2) lack of appropriate supporting data, we were unable to perform sufficient audit procedures necessary to obtain reasonable assurance regarding the material adjustment performed. Further, not recognizing the balance of advanced funds held at MTW PHAs in both years presented did not comply with GAAP and prevented consistency between years presented.

HUD authorized recipients of Federal funds to retain funding advanced to it before incurring eligible expenses; however, HUD did not recognize these as advances on its financial statements in accordance with Statements on Federal Financial Accounting Standards 1. As of June 30, 2015, as much as \$273 million was being held in investment accounts with PHAs and IHBG grantees, which represented an advance in accordance with the standards. Instead, HUD elected to present these as expenses on its statement of net cost once they were disbursed. Therefore, we believe the PIH prepayment reported on HUD's consolidated balance sheet and expenses reported on HUD's consolidated statement of net cost were likely misstated as of September 30, 2015, by approximately \$273 million.

Lastly, HUD was unable to provide the loans receivable portfolio for EHLP for audit during the fiscal year due to a data review being performed as a result of serious deficiencies in the accuracy of the loan balances identified in our prior year audit report⁴. Therefore, we were unable to obtain sufficient appropriate evidence to express an opinion on the fairness of the balances reported in the direct loan and loan guarantees line item reported on HUD's consolidated balance sheet as of September 30, 2015 related to EHLP. The total loan principal issued under this program was \$246 million; however HUD was unable to determine whether the current balance recognized of \$133.6 million was an accurate net realizable value of the portfolio.

Unvalidated grant accrual estimates. In reporting on HUD's liabilities, HUD's principal financial statements were not prepared in accordance with the requirements of the Federal Government and Federal Accounting Standards Advisory Board (FASAB) Technical Release (TR) 12. FASAB TR 12 provides guidance to agencies on developing reasonable estimates of accrued grant liabilities to report on their financial statements. While we obtained sufficient, appropriate audit evidence that fiscal year 2014's estimate was reasonable, we were unable to do so for the fiscal year 2015 estimate. This lack of

⁴ Audit Report 2015-DP-0004, Loan Accounting System, issued December 9, 2014

evidence was due to (1) CPD's not adequately validating its accrued grant liability estimates and (2) insufficient time to perform all of the audit procedures we deemed necessary to obtain sufficient appropriate audit evidence to form an opinion on the estimate in lieu of adequate validation procedures by CPD. There were no other compensating audit procedures that could be performed to obtain reasonable assurance regarding the \$2 billion estimate. Therefore, we could not form an opinion on HUD's grant accrual estimate for fiscal year 2015. CPD's fiscal year 2015 estimated accrued grant liabilities were \$2 billion, accounting for 84 percent of \$2.4 billion total accrued grant liabilities reported on HUD's consolidated balance sheet.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion section above, we were not able to obtain sufficient, appropriate audit evidence to provide an audit opinion on HUD's principal financial statements and accompanying notes as of September 30, 2015 and 2014 (restated), and its net costs, changes in net position, and budgetary resources for the fiscal year then ended. Accordingly, we do not express an opinion on the financial statements.

Emphasis of Matter

Restatement

At the time of issuance of this auditor's report and as discussed in note 31 to the financial statements, the 2014 financial statements have been restated for the correction of errors related to Ginnie Mae's accounting for cash and other monetary assets, general property, plant, and equipment and multiclass fee accounting. There were other material misstatements in the fiscal year 2015 financial statements related to the use of the FIFO method to liquidate obligations under CPD's formula grant programs. No adjustments had been made related to the use of FIFO because the specific amount of misstatements and their related effects were unknown.

Additional details on these items can be found in note 31 to the financial statements. However, as stated in our basis for disclaimer, HUD did not include in its restatement the effects of correction of errors related to (1) PIH's excess funds held at MTW PHAs as of September 30, 2014 which was estimated to be \$573 million, preventing consistency between periods presented, and (2) the correction of errors related to loans issued under the EHLP which have a loan principal of \$246 million of which only \$133.6 million is recognized on the financial statements. Additionally, as discussed in our basis for disclaimer, advanced funds held by grantees for IHBG grantees, which totaled as much as \$218 million as of September 30, 2014 were not included in the financial statements due to HUD's disagreement regarding the presentation of these advances.

FHA's Loan Guarantee Liability

The loan guarantee liability (LGL) is an actuarially determined estimate of the net present value of future claims, net of future premiums and future recoveries, from loans insured as of the end of the fiscal year. This estimate is developed using econometric models that integrate historical loan-level program and economic data with regional house price appreciation forecasts to develop assumptions

about future portfolio performance. This year's estimate is the mean value from a series of projections using many economic scenarios and FHA's single family liability for loan guarantee estimates reported as of September 30, 2015, and could change depending on which economic outcome prevails. This forecast method helps project how the estimate will be affected by different economic scenarios but does not address the risk that the models may not accurately reflect current borrower behavior or may contain technical errors. The LGL is discussed further in note 1 to the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. GAAP requires that certain information be presented to supplement the basic general-purpose financial statements. Such information, although not a part of the basic general-purpose financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the basic general-purpose financial statements into an appropriate operational, economic, or historical context. We did not audit and do not express an opinion or provide any assurance on this information; however, we applied certain limited procedures, in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to the auditor's inquiries, the basic financial statements, and other knowledge the auditor obtained during the audit of the basic financial statements. These limited procedures do not provide sufficient evidence to express an opinion or provide any assurance on the information.

In its fiscal year 2015 agency financial report, HUD presents "required supplemental stewardship information" and "required supplementary information." The required supplemental stewardship information presents information on investments in non-Federal physical property and human capital and investments in research and development. In the required supplementary information, HUD presents a "management discussion and analysis of operations" and combining statements of budgetary resources. HUD also elected to present consolidating balance sheets and related consolidating statements of changes in net position as required supplementary information. The consolidating information is presented for additional analysis of the financial statements rather than to present the financial position and changes in net position of HUD's major activities. This information is not a required part of the basic financial statements but is supplementary information required by FASAB and OMB Circular A-136.

Other Information

In September 2015, OIG and Ginnie Mae published restatement memorandums to notify report users about the material misstatements identified during our fiscal year 2014 audit of Ginnie Mae's financial statements. In October 2015, Ginnie Mae performed a restatement to correct the fiscal year 2014 financial statements, and HUD performed a restatement of the consolidated financial statements as well. However, Ginnie Mae made this restatement to correct the additional accounting errors identified in fiscal year 2015. Those issues included in the September 2015 restatement memorandums had not been addressed. Accordingly, an additional

restatement of Ginnie Mae's and HUD's consolidated financial statements may occur at a later time.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. HUD's agency financial report contains other information that is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the principal financial statements, and, accordingly, we do not express an opinion or provide assurance on it.

Additional details on our findings regarding HUD's, FHA's, and Ginnie Mae's internal controls are summarized below and were provided in separate reports to HUD management.⁵ These additional details also augment the discussions of instances in which HUD had not complied with applicable laws and regulations; the information regarding our audit objectives, scope, and methodology; and recommendations to HUD management resulting from our audit.

Report on Internal Control

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, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we noted in our reports the following nine material weaknesses and eight significant deficiencies.

Material Weaknesses

CPD's Formula Grant Accounting Did Not Comply With GAAP, Resulting in Misstatements on the Financial Statements

CPD's formula grant program accounting continued to depart from GAAP because of its use of the FIFO method for committing and disbursing obligations. Since 2013, we have reported that the information system used, Integrated Disbursement Information System (IDIS) Online, a

⁵ Audit Report 2016-FO-0003, Additional Details To Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statements, issued November 18, 2015; Audit Report 2016-FO-0002, Federal Housing Administration Financial Statements Audit, issued November 16, 2015; Audit Report 2016-FO-0001, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2015 and 2014 (Restated), issued November 13, 2015

grants management system, was not designed to comply with Federal financial management system requirements. Further, HUD's plan to eliminate FIFO from IDIS Online was applied to fiscal year 2015 and future grants and not to fiscal years 2014 and earlier. As a result, budget year grant obligation balances continued to be misstated, and disbursements made using an incorrect U.S. Standard General Ledger (USSGL) attribute resulted in additional misstatements. Although FIFO has been removed from fiscal year 2015 and forward grants, modifications to IDIS were necessary for the system to comply with the Federal Financial Management Improvement Act (FFMIA) and USSGL transaction records. The inability of IDIS Online to provide an audit trail of all financial events affected by the FIFO method made it impossible to quantify the financial effects of FIFO on HUD's consolidated financial statements. Further, because of the amount and pervasiveness of the funds susceptible to the FIFO method and the noncompliant internal control structure in IDIS Online, the combined statement of budgetary resources and the consolidated balance sheet were materially misstated. The effects of not removing the FIFO method retroactively will continue to have implications on future years' financial statement audit opinions until the impact is assessed to be immaterial.

HUD Did Not Account for Assets and Liabilities in Its Public and Indian Housing Programs in Accordance With GAAP and FFMIA

HUD did not properly account for advances (PIH prepayment),⁶ receivables, and payables in its PIH programs in accordance with U.S. GAAP and FFMIA. First, HUD accounted for prepayments to MTW PHAs for fiscal year 2015 through manual fiscal-year-end adjustments that were based on self-reported data, not transactional data. It also did not recognize a comparative amount for fiscal year 2014. Second, HUD's accounting for its cash management process was untimely and incomplete because it did not include the recognition of receivables and payables when incurred. Third, HUD did not recognize a prepayment for funds advanced to its IHBG grantees used for investment. These problems occurred because of its continued weak internal controls over the cash management process, including the lack of an automated process. Additionally, the Office of the Chief Financial Officer (OCFO) did not have a mechanism to routinely communicate with program offices to evaluate GAAP compliance of program transactions. As a result, several significant financial statement line items were misstated or could not be audited as of September 30, 2015. Specifically, (1) \$466.5 million recorded for MTW PHAs' housing assistance prepayment could not be audited; (2) HUD's PIH prepayments and accounts receivable on its balance sheet were understated by \$232 million⁷ and \$41 million, respectively; (3) HUD's expenses on its statement of net costs were overstated by \$273 million; and (4) HUD's accounts payable were understated by an unknown amount.

CPD's Grant Accrual Estimates Were Not Validated

CPD did not validate its estimated accrued grant liabilities. This deficiency was due to a lack of procedures and relevant grantee reporting. As a result, CPD could not ensure that its

⁶ HUD accounts for advances in the PIH program as PIH prepayments.

⁷ \$232 million = \$273 million in prepayments not recorded for IHBG minus a \$41 million receivable not recorded in the Housing Choice Voucher program. This should have reduced the prepayment.

assumptions, and therefore its estimates were accurate. Additionally, we were unable to obtain sufficient, appropriate audit evidence on CPD's fiscal year 2015 estimated accrued grant liabilities. Therefore, we could not form an opinion on CPD's grant accrual estimate for fiscal year 2015.

Ginnie Mae's System's Data To Account for Its Budgetary Resources Were Not Auditable

In response to our fiscal year 2013 recommendation⁸ regarding a material internal control weakness in financial reporting, Ginnie Mae implemented a system to account for its budgetary resources; however, the implementation was problematic, and the system's data was not reliable. Therefore, Ginnie Mae reverted to manual processes for reporting its budgetary resources to the consolidated financial statements. During fiscal year 2015, we were not able to audit the budgetary resource activity because Ginnie Mae (1) manually adjusted most of its budgetary accounts, (2) lacked proper controls or an adequate audit trail to support its material adjustments, and (3) did not provide its budgetary resources trial balances and detailed supporting documentation within the timeframe needed to conduct adequate audit procedures. This condition occurred because Ginnie Mae management did not devote sufficient resources to system implementation. As a result, we could not provide reasonable assurance regarding the status of \$19.8 billion in budgetary resources that HUD reported for Ginnie Mae as of September 30, 2015.

HUD's Financial Management System Weaknesses Continued in 2015

Financial system limitations and deficiencies remained a material weakness in fiscal year 2015, although there were efforts to modernize HUD's financial management system by moving key financial management functions to a Federal shared service provider. These system limitations and deficiencies existed because of HUD's inability to modernize its legacy financial systems and the lack of an integrated financial management system, which we have reported on annually since 1991. Program offices compensated for system limitations by using less reliable manual processes to meet financial management needs. Existing system issues and limitations inhibited HUD's ability to produce reliable, useful, and timely financial information.

Material Asset Balances Related to Nonpooled Loans Were Not Auditable

In fiscal year 2015, Ginnie Mae again failed to bring its material asset balances related to nonpooled loans, including the related accounts, into an auditable state. For this reason, we deemed last year's audit matters to be unresolved, and we were unable to audit the \$5.4 billion (net of allowance) in nonpooled loan assets reported in Ginnie Mae's and HUD's consolidated financial statements as of September 30, 2015. This condition occurred because Ginnie Mae's executive management³ did not ensure that Ginnie Mae's or its master servicers' financial management systems were capable of meeting Ginnie Mae's loanlevel transaction accounting

⁸ 2014-FO-0003, recommendation 3B, Develop and implement plans to ensure that Ginnie Mae's core financial system is updated to include functionality in the system to perform budgetary accounting at a transaction level using the USSGL to comply with FFMIA.

requirements to comply with GAAP. These deficiencies resulted in Ginnie Mae producing unauditable financial statements with materially misstated asset balances.

Given the current state of Ginnie Mae's accounting systems and records, we were again unable to perform all of the audit procedures that we determined to be necessary for obtaining sufficient, appropriate evidence. As a result, our audit scope was insufficient to express an opinion on Ginnie Mae's \$5.4 billion in nonpooled loan assets as of September 30, 2015.

Ginnie Mae's Internal Controls Over Financial Reporting Continued To Have Weaknesses

In fiscal year 2014, we reported that Ginnie Mae's internal control over financial reporting was not effective. This condition continued in fiscal year 2015. These material weaknesses in internal controls were issues related to the (1) improper accounting for FHA reimbursable costs and accrued interest earned on nonpooled loans, (2) nonreporting of escrow deposits held in trust by Ginnie Mae for the borrowers in its financial statements, (3) improper classification and presentation of financial information in Ginnie Mae's statement of cash flows, (4) improper revenue recognition of guarantee fees, (5) improper accounting for the month-end's custodial account balances, (6) omission of the required footnote disclosure and (7) the use of an unreasonable assumption in estimating the valuation of its mortgage servicing rights portfolio. The first three issues were repeat findings from the fiscal year 2014, and the remaining four issues were new in fiscal year 2015. This occurred because of executive management's failure to ensure (1) adequate monitoring and oversight of its accounting and reporting functions were in place and operating effectively, (2) serious staffing problems within Ginnie Mae's OCFO were addressed, and (3) accounting policies, procedures, and systems were in place to track accounting transactions and events at a loan level. As a result of these deficiencies, Ginnie Mae failed to prevent or detect material misstatements in its financial statements.

Ginnie Mae's Mortgage-Backed Security Liabilities for Loss Account Balance Remained Unreliable

In fiscal year 2015, Ginnie Mae's executive management confirmed our concerns about the reliability of the yearend balance in its mortgage-backed securities loss liability account in a written representation letter provided to OIG this year. Specific issues posed in the fiscal year 2014 audit report were related to (1) improper accounting treatment of selected accounting transactions on nonpooled loans in the mortgage-backed securities loss liability account and (2) a lack of evidence to support the reasonableness of key management assumptions used in the loss reserve model. Factors that contributed to the issue included the adoption of an inappropriate loan accounting policy and a lack of indepth analysis to validate the reasonableness of the management assumptions. Considering the impact of these issues and their significance, for the second year, we deemed the mortgage-backed securities loss liability account to be unreliable.

HUD's and Ginnie Mae's Financial Management Governance Was Ineffective⁹

Overall, we determined that HUD's financial management governance remained ineffective. Weaknesses in program and component internal control that impacted financial reporting were able to develop in part due to a lack of financial management governance processes that could detect or prevent significant program and component-level internal control weaknesses.

Ginnie Mae's executive management failed to make significant improvements in addressing the financial management governance problems cited in our fiscal year 2014 audit report and regressed in some areas. Specifically, these problems included a failure to (1) backfill key positions in the Ginnie Mae OCFO, (2) ensure that emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner, and (3) establish adequate and appropriate accounting policies and procedures and accounting systems. In addition, for the first time in fiscal year 2015, we found Ginnie Mae's entitywide governance of the models used to generate accounting estimates for financial reporting was ineffective. This condition occurred because (1) Ginnie Mae's President and Executive Vice President failed to set the appropriate tone at the top by delaying needed changes in its accounting operations and (2) Ginnie Mae was overwhelmed by the difficult and complex financial management challenges encountered during the year, coupled with the lack of adequate senior accounting and financial staff to manage these problems. These failures in governance by Ginnie Mae's executive management contributed to its failure to prevent or detect material misstatements and impaired Ginnie Mae's ability to produce auditable financial statements.

While HUD and its components took steps in fiscal year 2015 to address some of the weaknesses in its financial management governance structure and internal controls over financial reporting, deficiencies continued to exist. Specifically, OCFO needed to provide stronger direction to program office accounting and improve financial management and governance issues at Ginnie Mae. Additionally, HUD needs to be more consistent in its control and monitoring activities, including front-end risk assessments, management control reviews, and reconciliation activities. These conditions stemmed from HUD's inadequate implementation of the CFO Act and the lack of a senior management council. These shortcomings limited the ability of OCFO to stress the importance of financial management and facilitate internal control over financial reporting throughout HUD. Additionally, as we have reported in prior-year audits, HUD did not have reliable financial information for reporting and was in the process of replacing its outdated legacy financial systems. Weaknesses in program and component internal control that impacted financial reporting were able to develop in part due to a lack of financial management governance processes. Entity-level controls could improve HUD's governance and enable the prevention, detection, and mitigation of significant program and component-level internal control

⁹ This was classified as a material weakness, based on the findings on financial management governance reported in Audit Report 2016-FO-0003, Additional Details to Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, and Audit Report 2016-FO-0001, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2015 and 2014 (Restated).

weaknesses. As a result of control weaknesses, multiple deficiencies existed in HUD's internal controls over financial reporting, resulting in misstatements on the financial statements and noncompliance with laws and regulations.

Significant Deficiencies

Weaknesses in HUD's Administrative Control of Funds System Continued

We have reported on HUD's administrative control of funds in our audit reports and management letters since fiscal year 2005. HUD continued to not have a fully implemented and complete administrative control of funds system that provided oversight of both obligations and disbursements. Our review noted instances in which (1) the Office of Multifamily Housing Programs did not follow HUD's administrative control of funds; (2) program codes were not included in funds control plans; (3) funds control plans were out of date or did not reflect the controls and procedures in place; and (4) OCFO staff processed accounting changes without proper review, approval, and sufficient supporting documentation. These conditions existed because of (1) decisions made by HUD OCFO, (2) failures by HUD's allotment holders to update their funds control plans and notify OCFO of changes in their obligation process before implementation, (3) a lack of compliance reviews in prior years, and (4) a lack of policies and procedures requiring documentation of system accounting changes. As a result, HUD could not ensure that its obligations and disbursements were within authorized budget limits and complied with the Antideficiency Act (ADA).

HUD Continued To Report Significant Amounts of Invalid Obligations

Deficiencies in HUD's process for monitoring its unliquidated obligations and deobligating balances tied to invalid obligations continued to exist. Specifically, some program offices did not complete their obligation reviews in a timely manner, and we discovered \$200.4 million in invalid obligations not previously identified by HUD. We discovered another \$331.1 million in obligations that had been inactive for at least 2 years, indicating potentially additional invalid obligations. We also discovered \$30.7 million in obligations that HUD determined needed to be closed out and deobligated during the fiscal year that remained on the books as of September 30, 2015. These deficiencies were attributed to ineffective monitoring efforts and the inability to promptly process contract closeouts. We also noted that, as of September 30, 2015, HUD had not implemented prior-year recommendations to deobligate \$106.3 million in funds. As a result, HUD's unpaid obligation balances on the statement of budgetary resources were potentially overstated by \$668.5 million.

The Emergency Homeowners' Loan Program Data Was Not Auditable

Loan balances related to EHLP were incomplete, unreliable, and not available for audit during the fiscal year 2015 audit. This condition occurred because the loan data in HUD's systems were not reliable and HUD did not complete a review of the data in time for inclusion in the fiscal year 2015 financial statements. As a result, we were unable to perform all of the audit procedures we deemed necessary to obtain sufficient, appropriate audit evidence regarding the accuracy of loan receivable balances related to the EHLP. However, loans with a total principal of at least \$116 million had not been recorded in the subsidiary ledger as of the end of fiscal year 2015, increasing the risk of misstatement.

HUD's Computing Environment Controls Had Weaknesses

HUD's computing environment, data centers, networks, and servers provide critical support to all facets of its programs, mortgage insurance, financial management, and administrative operations. In fiscal year 2015, we audited general controls over the IBM mainframe general support system, which houses applications that support the preparation of HUD's financial statements. HUD did not ensure that general controls over its computing environment fully complied with Federal requirements. Specifically, (1) some accounts on the IBM mainframe were not properly managed and (2) vulnerabilities were not reported in system security documentation. These weaknesses occurred because policies were not always followed. In addition, although HUD had taken action to address information system control weaknesses reported in prior years, several of those weaknesses remained open. Without adequate general controls, there was no assurance that financial management applications and the data within them were adequately protected.

Ginnie Mae Did Not Provide Adequate Oversight of its Master Subservicer To Ensure Compliance With Federal Regulations and Guidance

Ginnie Mae did not provide adequate oversight of one of its single family master subservicers to ensure adequate business process controls were in place to provide a compliant level of internal controls over financial reporting. Specifically, (1) proper segregation of duties does not exist over cash processes; (2) ongoing monitoring was not in place to review change activities made by individuals in the loan administration department, who had access to and change capability for master data for approximately 21,000 loans; and (3) management used an ineffective monitoring tool that did not capture all financial data adjustments. These conditions occurred because (1) the contractor believed that the risk of wrongful acts was mitigated through its use of security cameras, access restrictions, and background checks; (2) management did not have a policy and process to perform periodic monitoring or review reports to ensure that unauthorized changes were not made; (3) the approval process for adjustments was not automated within the contractor's primary financial system that houses all loan transactions; and (4) the report that was used to monitor financial data changes did not allow for a meaningful review because it did not capture all financial data adjustments. As a result, Ginnie Mae's data was susceptible to unauthorized access and tampering which increased its risk of undetected misstatements in the financial statements.

Controls To Prevent Misclassification of FHA Receivables Had Not Been Fully Implemented

In fiscal year 2015, our review of partial claims found that the risk of not completely and accurately identifying recorded loans receivable with missing notes at the end of each reporting period continued to be an issue. The risk continued because the action plans developed by FHA in 2015 to remedy the control deficiencies identified in our 2014 audit report have not been fully implemented. As a result, we continue to have concerns regarding the reliability of financial information related to loans receivable produced using FHA's current partial claims business processes.

FHA's Internal Control Over Financial Reporting Had Weaknesses

In fiscal year 2015, we identified weaknesses in FHA's internal control over financial reporting. These weaknesses related to (1) a failure to obligate funds for future borrower disbursements upon home equity conversion mortgages (HECM) notes, (2) a failure to implement some key controls over its cash flow modeling processes, and (3) inadequate procedures for identifying and reviewing abnormal USSGL account balances. Factors contributing to these issues were (1) FHA's belief that future borrower disbursements should be treated as claim payments made to lenders and (2) the lack of emphasis on the need for or importance of maintaining complete and up-to-date model documentations. These weaknesses significantly increased FHA's risk of having errors in its financial statements and not preventing and detecting them in a timely manner.

Weaknesses Were Identified in Selected FHA Information Technology Systems

Our review of the general and application controls over FHA's Single Family Insurance System (SFIS) and the Claims subsystem found that (1) there were weaknesses in the SFIS information system, which included five of the nine vulnerabilities identified during the fiscal year 2015 vulnerability scan previously identified but not corrected; (2) the risk assessment prepared for SFIS did not accurately document whether SFIS was operating with an acceptable level of risk; (3) effective application contingency planning had not been implemented for SFIS; (4) SFIS may be at risk due to improperly implemented security controls with connected applications; and (5) SFIS management was not familiar with the data values. Additionally, we found a weakness in the Claims information system, in which some of the personally identifiable information (PII) was not encrypted. These conditions occurred because some application controls were not sufficient. As a result, the information used to provide input to the FHA financial statements could be adversely affected.

Report on Compliance With Laws and Regulations

In connection with our audit, we performed tests of HUD's compliance with certain provisions of laws and regulations. The results of our tests disclosed six instances of noncompliance that are required to be reported in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, or OMB Bulletin No. 15-02, Audit Requirements for Federal Financial Statements. However, the objective of our audit was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

HUD's Financial Management Systems Did Not Comply With the Federal Financial Management Improvement Act

We have reported on HUD's lack of an integrated financial management system annually since 1991. In fiscal year 2015, we noted a number of instances of FFMIA noncompliance with HUD's financial management system. HUD's continued noncompliance was due to a reliance on financial system limitations and information security weaknesses. While HUD continued to work toward financial management system modernization in 2015, significant challenges remained.

HUD Continued To Not Comply With the HOME Investment Partnership Act

HUD continued to not comply with section 218(g) of the HOME Investment Partnership Act (also known as the HOME Statute) regarding grant commitment requirements. HUD's misinterpretation of the plain language in the Act, the implementation of the cumulative method and the FIFO technique, and HUD's recapture policies continued to result in HUD's noncompliance with HOME Statute requirements. Further, HUD's corrective action plan to modify IDIS to assess grantee compliance on a grant-by-grant basis for fiscal year 2015 and later grants was halted due to budget shortfalls. As a result, HUD incorrectly permitted some jurisdictions to retain, commit, and disburse HOME Investment Partnerships Program grant funds beyond the statutory deadline. HUD will continue to be noncompliant with related laws and regulations until the cumulative method is no longer used to determine whether grantees meet commitment deadlines required by the HOME Statute. Additionally, we concluded that these conditions created the potential for an ADA violation, which was reported to OCFO in an audit memorandum.¹⁰ Lastly, allowing grantees to disburse from commitments made outside the 24-month statutory period may have caused HUD to incur improper payments.

HUD Did Not Comply With Treasury's Financial Manual's Rules on Cash Management or 2 CFR Part 200

HUD did not comply with Treasury's cash management regulations¹¹ and 2 CFR (Code of Federal Regulations) Part 200¹² because HUD's PHAs maintained Federal cash in excess of their immediate disbursement need. Specifically, MTW PHAs reported maintaining \$573 million and \$466.5 million as of September 30, 2014, and September 30, 2015, respectively. In addition, non-MTW PHAs held between \$81 million and \$106 million for up to 6 months before it was transitioned back to HUD. This condition occurred because HUD could not quantify the amount of MTW accumulations that existed or how much it should transition. Additionally, HUD did not have a system to perform (1) cash reconciliations to identify accumulations and (2) offsets to transition accumulations back to HUD in a timely manner. Since PHAs maintained these funds in excess of their immediate disbursement needs for extended periods, HUD did not comply with Treasury's cash management regulations or the related CFR regulations, and it could not ensure that these funds were properly safeguarded against fraud, waste, and abuse.

HUD Reported 14 ADA Violations in October 2015; and OIG Referred One Potential Violation to HUD

In fiscal year 2015, HUD OCFO made demonstrable progress and remedied long-standing issues related to ADA reporting requirements in October 2015.¹³ As of September 30, 2015, all

¹⁰ Audit Memorandum 2015-FO-0801, Potential Antideficiency Act Violation HOME Investment Partnerships Program, issued June 16, 2015.

¹¹ Treasury Financial Manual Vol. 1, Part 4A- Section 2045.10- Cash Advances Establishing Procedure for Cash Advances-section 3.

¹² 2 CFR 200 305.

¹³ 31 U.S.C. (United States Code) 1341, 1342, 1350, 1517, and 1519; Once it has been determined that there has been a violation of 31 U.S.C 1341(a), 1342, or 1517(a), the agency head "shall report immediately to the President and Congress all relevant facts and a statement of actions taken" in accordance with 31 U.S.C. 1351, and 1517(b).

confirmed ADA violations were with OMB for review and approval. We noted that in October 2015, HUD reported 14 ADA violations that occurred between 2004 and 2014 to the President, U.S. Government Accountability Office (GAO), and Congress. Additionally, during the course of our 2015 audit, we noted a potential ADA violation regarding the HOME Investment Partnerships Program.

HUD Did Not Comply With the Improper Payments Elimination and Recovery Act of 2010

For fiscal year 2014, HUD¹⁴ found that HUD did not comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) because it (1) did not include all accompanying materials required by OMB in its published fiscal year 2014 agency financial report and (2) did not conduct a compliant program specific risk assessment for each program. Specifically, HUD did not adequately report on its supplemental measures as required by OMB and its risk assessment did not include a review of all relevant OIG audit reports. This is the second year in a row that HUD did not comply with IPERA. Additionally, significant improper payments in HUD's rental housing assistance programs continued during fiscal year 2014.

Ginnie Mae Did Not in Comply With the Debt Collection Improvement Act of 1996

Ginnie Mae did not take all steps necessary to maximize collection of mortgage-backed securities (MBS) program debts as required by the Debt Collection Improvement Act (DCIA) of 1996. Specifically, it failed to analyze the possibility of collecting on certain uninsured mortgage debts owed to Ginnie Mae using all debt collection tools allowed by law before writing them off. This condition occurred because Ginnie Mae's executive management decided to not pursue the MBS program debts because it believed that DCIA did not apply to Ginnie Mae; therefore it did not need to comply with DCIA requirements. As a result, Ginnie Mae may have missed opportunities to collect millions of dollars in debts related to losses on its MBS program.

Results of the Audit of FHA's Financial Statements

We performed a separate audit of FHA's fiscal years 2015 and 2014 financial statements. Our report on FHA's financial statements, dated November 16, 2015,¹⁵ includes an unqualified opinion on FHA's financial statements, along with discussion of three significant deficiencies in internal controls.

Results of the Audit of Ginnie Mae's Financial Statements

We performed a separate audit of Ginnie Mae's fiscal years 2015 and 2014 (restated) financial statements. Our report on Ginnie Mae's financial statements, dated November 13, 2015,¹⁶ includes a disclaimer of opinion on these financial statements, along with discussion of four

¹⁴ Audit Report 2015-FO-0005, Compliance With the Improper Payments Elimination and Recovery Act, issued May 15, 2015.

¹⁵ Audit Report 2016-FO-0002, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2015 and 2014, issued November 16, 2015, was incorporated into this report.

¹⁶ Audit Report 2016-FO-0001, Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2015 and 2014 (Restated), issued November 13, 2015, was incorporated into this report.

material weaknesses, one significant deficiency in internal control, and one instance of noncompliance with laws and regulations.

Objectives, Scope, and Methodology

As part of our audit, we considered HUD's internal controls over financial reporting. We are not providing assurance on those internal controls. Therefore, we do not provide an opinion on internal controls. We conducted our audit in accordance with Government Auditing Standards and the requirements of OMB Bulletin 15-02. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

We also tested HUD's compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements that could have a direct and material effect on the financial statements. However, our consideration of HUD's internal controls and our testing of its compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements were not designed to and did not provide sufficient evidence to allow us to express an opinion on such matters and would not necessarily disclose all matters that might be material weaknesses; significant deficiencies; or noncompliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements. Accordingly, we do not express an opinion on HUD's internal controls or its compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements.

With respect to information presented in HUD's "required supplementary stewardship information" and "required supplementary information" and management's discussion and analysis presented in HUD's fiscal year 2015 agency financial report, we performed limited testing procedures as required by AU-C 730, Required Supplementary Information. Our procedures were not designed to provide assurance, and, accordingly, we do not provide an opinion on such information.

Because of the matters described in the Basis for Disclaimer of Opinion section above, we were not able to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Agency Comments and Our Evaluation

On November 5, 2015, we provided a draft of the internal control and compliance sections of our report to OCFO, appropriate assistant secretaries, and other departmental officials and requested that OCFO coordinate a departmentwide response. OCFO responded in a memorandum dated November 10, 2015, which is included in its entirety in our separate report, along with our complete evaluation of the response. In summary, while OCFO recognized there were some weaknesses within its operations, it indicated it did not have adequate time to sufficiently validate the information within the draft report. It also indicated that beginning in December 2015 it would work closely with the OIG to develop optimal resolutions to result in a more effective HUD.

All facts presented were communicated to the OCFO and applicable program offices throughout the course of the audit through multiple vehicles such as assessments, notifications of findings

and recommendations, finding outlines, and periodic status meetings. Additionally, all the findings presented, with the exception of two, were reported in prior years and represent long standing weaknesses within HUD's financial management. We look forward to working with HUD to find satisfactory resolution to the findings presented through the audit resolution process.

This report is intended for the information and use of the management of HUD, OMB, GAO, and Congress and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited. In addition to a separate report detailing the internal control and compliance issues included in this report and providing specific recommendations to HUD management, we noted other matters involving internal control over financial reporting and HUD's operations that we are reporting to HUD management in a separate management letter.



Frank Rokosz
Deputy Assistant Inspector General for Audit

November 18, 2015

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Audit report number	Unsupported 1/	Funds to be put to better use 2/
2016-FO-0001	\$291,489,605	
2016-FO-0003		\$1,071,263,037
Totals	\$291,489,605	\$1,071,263,037

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.

Appendix B

HUD's Fiscal Years 2015 and 2014 (Restated) Consolidated Financial Statements and Notes