Office of the Chief Financial Officer, Washington, DC

Additional Details To Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2016-FO-0003
November 18, 2015

To:	Joseph Hungate, Deputy Chief Financial Officer, F
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From:	Thomas McEnanly, Director, Financial Audits Division, Washington DC, GAF
Subject:	Additional Details To Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) additional details to supplement our audit of HUD's internal controls over financial reporting and compliance with applicable laws, regulations, and governmentwide policy requirements and provisions of contracts and grant agreements.

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.

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Highlights

What We Audited and Why

We are required to audit the consolidated financial statements of the U.S. Department of Housing and Urban Development (HUD) annually in accordance with the Chief Financial Officers Act of 1990 as amended. This report supplements our independent auditor's report on the results of our audit of HUD's principal financial statements for the fiscal years ending September 30, 2015 and 2014. Provided are assessments of HUD's internal controls and HUD's compliance with applicable laws, regulations, and governmentwide policy requirements and provisions of contracts and grant agreements.

What We Found

We issued a disclaimer of opinion on HUD's consolidated financial statements for fiscal years 2015 and 2014 (restated). We took this action because there were many unauditable material financial statement line items due to departures from U.S. generally accepted accounting principles (GAAP) and other deficiencies in internal controls over financial reporting. This report provides additional details on five material weaknesses, five significant deficiencies, and five instances of noncompliance with applicable financial management laws and regulations. Details of the results of our audit of HUD's component entities, the Federal Housing Administration and Government National Mortgage Association (Ginnie Mae) can be found in separate audit reports.

Primarily, HUD (1) did not account for the Office of Community Planning and Development's formula grant programs' commitments and disbursements in accordance with GAAP, (2) inadequately accounted for assets and liabilities resulting from the Office of Public and Indian Housing's (PIH) cash management process, (3) lacked proper validation procedures for its grant accrual estimates, (4) could not provide auditable data to support Ginnie Mae's budgetary resources, and (5) lacked adequate financial management systems to ensure accurate and reliable financial reporting. Our findings reflect deficiencies in HUD's (1) control environment, (2) internal controls over and oversight of Ginnie Mae, and (3) oversight and the lack of a senior assessment team or equivalent to assess financial transactions and their compliance with GAAP.

What We Recommend

Most significiantly, we recommend that HUD (1) properly account for all financial transactions occuring from PIH's cash management process in accordance with U.S. GAAP and transition as much as $507.5 million in excess funding, (2) validate grant accrual estimates to ensure reliable and accurate financial reporting, and (3) implement adequate resources and controls to ensure the reliable and accurate reporting of Ginnie Mae's budgetary resources.

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Background and Objective

We are required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994 and implemented by Office of Management and Budget (OMB) Bulletin 15-02, Audit Requirements for Federal Financial Statements, to audit the U.S. Department of Housing and Urban Development's (HUD) principal financial statements or select an independent auditor to do so. The objective of our audit was to express an opinion on the fair presentation of these principal financial statements.

Management is responsible for

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing, maintaining, and evaluating internal controls and systems to provide reasonable assurance that the broad objectives of the Federal Financial Management Improvement Act of 1996 (FFMIA) are met; and
- Complying with applicable laws and regulations.

In auditing HUD's principal financial statements, we were required by Government Auditing Standards to obtain reasonable assurance about whether HUD's principal financial statements were presented fairly, in accordance with generally accepted accounting principles (GAAP), in all material respects. We believe that our audit provides a reasonable basis for our opinion.

In planning our audit of HUD's principal financial statements, we considered internal controls over financial reporting by obtaining an understanding of the design of HUD's internal controls, determined whether these internal controls had been placed into operation, assessed control risk, and performed tests of controls to determine our auditing procedures for expressing our opinion on the principal financial statements. We are not providing assurance on the internal controls over financial reporting. As a result, we do not provide an opinion on internal controls. We also tested compliance with selected provisions of applicable laws, regulations, and government policies that may materially affect the consolidated principal financial statements. Providing an opinion on compliance with selected provisions of laws, regulations, and government policies was not an objective, and, accordingly, we do not express such an opinion.

This report is intended solely for the use of HUD management, OMB, and Congress. However, this report is a matter of public record, and its distribution is not limited.

Results of Audit

Material Weaknesses

Finding 1: CPD's Formula Grant Accounting Did Not Comply With GAAP, Resulting in Misstatements on the Financial Statements

HUD's Office of Community Planning and Development's (CPD) formula grant program accounting continued to depart from GAAP because of its use of the first in, first out (FIFO) method[1] for committing and disbursing obligations. Since 2013, we have reported that the information system used, the Integrated Disbursement Information System (IDIS) Online, a 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 only 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 are necessary for the system to comply with FFMIA and USSGL transaction records. The inability of IDIS Online to provide an audit trail of all financial events affected by the FIFO method prevented the financial effects of FIFO on HUD's consolidated financial statements from being quantified. 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.

[1] The Federal Accounting Standards Advisory Board (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. General 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 are the first funds committed and disbursed, regardless of the source year in which grant funds were committed for the activity.

IDIS Online's Accounting for Transactions Departed From GAAP and Accounting Standards

CPD's inadequate budget controls and disregard for USSGL attributes at the transaction level when making commitments and disbursements for CPD's formula grants as well as CPD's use of the FIFO method resulted in

- A departure from Federal financial accounting standards and GAAP,
- Noncompliance with budgetary internal control requirements, and
- Noncompliance with the overall conceptual framework established by the Federal financial management laws and guidance issued by the standard setters.

During fiscal years 2015 and 2014, $4.4 billion and $4.8 billion, respectively, in disbursements were susceptible to this FIFO method and were reported in HUD's consolidated financial statements. Also during this time, $6.3 billion and $10.1 billion, respectively, in undisbursed obligations were impacted. These material amounts, which impact the combined statement of budgetary resources and consolidated balance sheet, were not presented in conformity with GAAP.

CPD's Steps To Eliminate the Use of FIFO for Fiscal Year 2015 and Future Grants Were Halted

Steps to eliminate the FIFO logic from IDIS Online were halted in the spring of 2015 because of budget shortfalls that impacted this project. As of September 30, 2015, CPD was waiting for the expenditure plan to be approved by the Office of the Chief Information Officer (OCIO) so that the information technology (IT) contractor could continue the remaining work on the FIFO elimination plan. The expenditure plan budget was $1.85 million, which left a funding gap of $150,000 from the estimated a cost of $2 million to complete the project.

Although FIFO was removed from fiscal year 2015 and forward grants, modifications to IDIS are necessary for the system to comply with FFMIA and the USSGL at the transaction level. Among the remaining work, CPD must ensure that IDIS ties disbursements to specific commitments and that historical data at the transaction level are maintained by the system. This includes transactions to account for subgranted amounts, collections, program income, and manual disbursements.

CPD's plan at fiscal yearend was to continue work on the IDIS project by November 2015. As noted above, CPD will likely need additional funding to complete the FIFO conversion. In October 2016, CPD plans to give the Office of Inspector General (OIG) its assessment of the status of the FIFO conversion and any remaining work.

While CPD had taken steps to eliminate the FIFO method for commitments and disbursements on future grants, these steps will not be sufficient to eliminate this deficiency as a material weakness and clear the basis for disclaimer reported in the independent auditor's report for fiscal year 2015 and future independent auditor's reports. Specifically, since the plan did not address fiscal year 2014 and prior grants, there will continue to be a material amount of funding susceptible to the FIFO logic. The effects of not removing the FIFO logic retroactively will have implications for future years' financial statement audit opinions until the impact is assessed to be immaterial.

We will continue to work with CPD and the Office of the Chief Financial Officer (OCFO) to monitor the progress of HUD's FIFO elimination plan. During the next fiscal year, we will also continue to ensure that IDIS uses a non-FIFO method to commit and disburse fiscal year 2015 and 2016 CPD formula grant funds and that there is an appropriate audit trail available for review.

Conclusion

We continue to report that the use of the FIFO method (1) departed from Federal accounting standards and (2) was noncompliant with budgetary internal control requirements and the overall conceptual framework established by the Federal financial management laws and guidance issued by the standard setters. Specifically, the use of FIFO by the information system, IDIS Online, made it noncompliant with Federal financial management system requirements because of inadequate budget controls and the misuse of USSGL attributes at the transaction level for CPD's formula grant disbursements. While steps were underway to remove the FIFO method, these changes applied to fiscal year 2015 and future grants for disbursements only and will not be applied retroactively. Additional work is needed to match disbursements to commitments and to make IDIS compliant with the USSGL and FFMIA. The effects of not removing the FIFO method retroactively will continue to have implications for future years' financial statement audit opinions until the impact is assessed to be immaterial.

During fiscal year 2015, $4.4 billion in disbursements was susceptible to this FIFO method, which is not in accordance with GAAP. Due to this material amount, the combined statement of budgetary resources and the consolidated balance sheet were not prevented from containing material misstatements.

Recommendations

Prior-year recommendations regarding this finding remained open and can be referred to in the Follow-up on Prior Audits section of this report. We have no new recommendations in this report.

Finding 2: 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),[2] receivables, and payables in its Office of Public and Indian Housing (PIH) programs in accordance with GAAP and FFMIA. First, HUD accounted for prepayments to Moving to Work (MTW) public housing agencies (PHA) for fiscal year 2015 through manual fiscal-yearend 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 Indian Housing Block Grant (IHBG) grantees used for investment. These problems occurred because of HUD's continued weak internal controls over the cash management process, including the lack of an automated process. Additionally, 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 million[3] 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.

HUD's Adjustments for Prepayments to MTW PHAs for Excess Housing Choice Voucher Funds Were Not Auditable or Comparative

In response to a prior-year material weakness,[4] HUD recognized a prepayment on its fiscal year 2015 financial statements for funds advanced to MTW PHAs in excess of their immediate disbursement needs. HUD determined the amount it recognized on the financial statements by asking its MTW PHAs to confirm (self-report) their balances as of September 30, 2014, and March 31, 2015. MTW PHAs reported holding $573 million and $529 million as of September 30, 2014, and March 31, 2015, respectively. To estimate a balance as of September 30, 2015, PIH also asked its MTW PHAs to self-report non-housing-assistance-payment (HAP) expenses from April 1, 2015, through September 30, 2015. PIH used this information, along with disbursement information from the HUD Central Accounting and Program System (HUDCAPS), to estimate that as of September 30, 2015, MTW PHAs held $466.5 million in excess funds in their reserve accounts.

To recognize the excess funds on the financial statements, HUD manually adjusted its fiscal year 2015 prepayment balance on September 28, 2015, so that the balance as of September 30, 2015,

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[2] HUD accounts for advances in its public and Indian housing program as PIH prepayments.
[3] $232 million = $273 million in prepayments not recorded for IHBG minus $41 million in receivables not recorded in the Housing Choice Voucher program. This should have reduced the prepayment.
[4] Audit Report 2015-FO-0002, Interim Report on HUD's Internal Controls Over Financial Reporting, issued December 8, 2014

matched PIH's $466.5 million estimate. However, HUD did not restate its fiscal year 2014 financial statements for comparability, although a prepayment balance existed at the time.

HUD recorded the fiscal year 2015 balance late in the fiscal year and did not restate its 2014 financial statements because it did not have the information necessary to recognize the activity on the financial statements as required by GAAP. This condition occurred because HUD did not require MTW PHAs to report information on their reserve balances until July 2015, and the information it requested could not be validated by PIH until the end of September 2015 or used to restate HUD's fiscal year 2014 financial statements.

Due to the timing of PIH's validation reviews and the material manual adjustments performed, we did not have sufficient time to perform the audit procedures necessary for the balances recorded. As a result, we could not provide a reasonable basis for an opinion regarding the activity and balances recognized on HUD's financial statements related to this activity.

HUD's Accounting for Its Non-MTW PHA Cash Management Process for the Housing Choice Voucher Program Was Incomplete, Untimely, and Not in Compliance With GAAP and FFMIA

For non-MTW PHAs, PIH had a cash management process[5] to reconcile the prepayment provided by HUD with actual expenses incurred by the PHA. However, this process did not allow HUD to account for the changes in financial activity in accordance with GAAP or complete proper adjustments in a timely manner.

Based on reconciliations completed, PIH performed offsets[6] or provided additional funding to cover shortages. When PIH determined the excess amount it planned to offset or the shortage it planned to provide, OCFO should have recognized a receivable or payable, respectively, and reduced its prepayment by the amount of the receivable in accordance with Statements of Federal Financial Accounting Standards (SFFAS) 1, Accounting for Selected Assets and Liabilities. Further, OCFO should have adjusted its prepayment balance as HUD provided additional advanced payments or as PHAs used their excess funds to pay for actual HAP expenses. However, HUD did not recognize receivables or payables and adjustments to record prepayment activity were untimely.

For example, in its June 30, 2015, cash reconciliation, PIH determined to offset $94 million of the funding it prepaid to certain PHAs and provide $78 million in additional funding to other PHAs it underpaid. However, OCFO did not recognize these as receivables or payables in the general ledger or interim financial statements. While PIH offset a portion of the $94 million before fiscal year end, it had not offset the remaining balance of $41 million as of September 30, 2015. This balance represented an account receivable, which HUD did not recognize on the financial statements. This understated HUD's accounts receivable and overstated HUD's

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[5] PIH performed quarterly cash management reconciliations to identify excess accumulations, which were collected through offsets against future monthly Housing Choice Voucher program disbursements.
[6] When PIH determined that a PHA received a prepayment in excess of its immediate disbursement need, it offset future disbursements to collect the excess funding provided.

prepayment balances on its September 30, 2015, balance sheet by $41 million. Further, since OCFO did not record the $78 million payable, HUD's accounts payable were also understated. We could not determine the appropriate account payable balance as of September 30, 2015, because HUD did not track the additional disbursements made to liquidate the payable.

Additionally, instead of adjusting its financial statements as additional prepayment activity occurred, OCFO manually determined prepayment activity by subtracting its previous prepayment balance from PIH's most recent quarterly calculation.[7] This practice was problematic because (1) prepayments and expenses were not recognized at the transaction level and (2) PIH's quarterly calculations were not completed until several months after the end of the quarter, which did not allow for timely financial reporting. For example, OCFO accounted for prepayment activity that occurred through March 31, 2015, by manually adjusting its prepayment balance by $153 million[8] on July 10, 2015, more than 3 months after the activity occurred. Further, as a result of the untimeliness, PIH had to estimate its September 30, 2015, balance based on its June 30, 2015, calculation.

HUD did not record receivables or payables or adjust its prepayment balance in a timely manner because it did not have systems that captured PHA monthly HAP expenses. As a result, it relied on PHA-reported expense information, which was not in real time and required HUD verification. The expense information also did not flow to HUD's financial system, which is necessary to recognize activity at the transaction level. Second, HUDCAPS operates on the U.S. Government fiscal year, while PHA funding is based on calendar years. This prevented automation of the cash reconciliation process to identify accounts receivable and accounts payable[9] and record prepayment activity in a timely manner. As a result, HUD's cash management and accounting process did not comply with FFMIA because adjustments were not at the transaction level and were not recognized when incurred.

In our fiscal year 2013 report, we recommended that this process be automated, and management generally concurred. HUD was working on implementing a new system, the Next Generation Management System, which would contain a "Housing Choice Voucher Payment Processing - Payment Calculation" module that should allow HUD to calculate PHA expenses on its own. However, as of the date of this report, management had not made a decision on our recommendation because PIH had not provided an action plan for how the recommendation would be implemented.

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[7] PIH used a net restricted assets report to manually calculate PHA prepayment and reserve balances. The report used each PHA's most recent audit submission as a beginning balance and added self-reported Voucher Management System expenses and HUDCAPS disbursements to determine the ending balance. The report was maintained on an Excel spreadsheet. Since PHAs have different fiscal years, this report used different beginning balances.

[8] This balance was determined by OCFO by subtracting the previous PIH prepayment balance of $64 million from the March 31, 2015, net restricted assets report balance of $217 million.

[9] PIH performed these manual calculations outside HUD's financial systems using Excel spreadsheets and data from the Financial Assessment Subsystem, HUDCAPS, and the Voucher Management System for approximately 2,200 PHAs.

HUD's Accounting for Its Indian Housing Block Grant Prepayments Was Not in Accordance With GAAP

HUD did not properly account for approximately $273 million in advanced payments to its IHBG grantees for investment. HUD authorizes grantees to invest funds under the IHBG program for up to 5 years. These grantees must spend the funds on eligible, affordable housing activities by the 5-year deadline or return the funds to their line of credit in HUD's Line of Credit Control System (LOCCS). As of June 30, 2015, 43 grantees authorized to invest funds drew down approximately $273 million for investment activities. However, HUD accounted for these funds as disbursements and recorded an expense on the financial statements. These disbursements did not represent actual expenses because the grantees had not yet provided goods or services in return. Therefore, they should be recognized instead as an advanced payment on HUD's financial statements, in accordance with SFFAS 1. Additionally, PIH did not monitor these advanced payments centrally.

HUD did not record these prepayments because OCFO was unaware that payments were being advanced to IHBG grantees. This condition occurred because OCFO did not regularly communicate with program offices and use GAAP to identify and evaluate financial events that occurred in a program that could impact financial reporting (such as through a senior assessment council or team). Without this function, program offices operate according to their program regulations and are generally not aware of how program activity impacts the financial statements. Further, without this function, OCFO could not objectively use GAAP to evaluate financial events in HUD's programs. Once we notified OCFO about the advances and the need to properly account for them, OCFO consulted with the program office and used the IHBG program regulation instead of accounting standards to defend its position on expensing IHBG investments instead of recognizing them as advances on the financial statements. OCFO stated that it expensed IHBG investments because program regulations[10] allowed for investment of Federal cash and therefore were used for statutory purposes. This position conflicts with SFFAS 1 because it does not consider the timing of actual expenses, which occur when the grantee provides goods or services,[11] not when it invests Federal cash. While the grantees are authorized to invest Federal cash, this activity does not meet the criteria of an expense for financial accounting and reporting purposes. Additionally, grantees report the balances invested on OMB's Standard Form (SF)-425,[12] which requires them to report advances of Federal cash to the

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[10] Regulations at 24 CFR (Code of Federal Regulations) 1000.58 permit IHBG grantees to invest their funding for up to 5 years.

[11] According to SFFAS 1, "…advances are cash outlays made by a Federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Examples include travel advances disbursed to employees prior to business trips, and cash or other assets disbursed under a contract, grant, or cooperative agreement before services or goods are provided by the contractor or grantee."

[12] SF-425 is a Federal financial reporting standard form prescribed by OMB (OMB approval number 0348-0061). The form is completed by grantees and submitted to the Federal agency. Grantees report their investments on line 10c, Cash on Hand. The instructions for this line item state, "A recipient must compute the amount of Federal Cash on Hand due to undisbursed advance *payments using the same basis that it uses in requesting the advances."*

agency. This government document further supports that these funds are considered advanced funds according to OMB rules.

In addition to the causes noted above, program offices and OCFO reported that they did not have the systems to capture the information needed for reliable financial reporting. Although not having adequate systems may hinder HUD's ability to record these prepayments, it does not exempt HUD from accurate financial reporting.

Conclusion

OCFO did not have a function in place that facilitated recurring communications with program offices that would enable them to critically evaluate financial events or financial systems that could have an impact on financial reporting. Therefore, HUD did not account for prepayments, receivables, and payables in its PIH programs in accordance with GAAP and FFMIA. As a result, as of September 30, 2015, (1) $466 million recorded for MTW PHAs housing assistance prepayments could not be audited, and an opinion on this balance could not be provided; (2) HUD's PIH prepayments and accounts receivable on its balance sheet were understated by $232 million[13] and $41 million, respectively; (3) HUD's expenses on it statement of net costs were overstated by $273 million; and (4) HUD's accounts payable were understated by an unknown amount.

Recommendations

Several prior-year recommendations regarding the Housing Choice Voucher program portion of this finding remained open and can be referred to in the Followup on Prior Audits section of this report. We have the following new recommendations.

We recommend that the Deputy Chief Financial Officer

2A. Evaluate the IHBG investment process and implement a proper accounting treatment in accordance with Federal GAAP.

2B. Work with the Office of Native American Programs to calculate the amounts advanced to grantees and restate HUD's financial statements to recognize the prepayments on the financial statements.

2C. Develop standard operating procedures for routinely obtaining information on grantee investment activity and accurately reporting amounts in HUD's general ledger and financial statements.

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[13] $232 million = $273 million in prepayments not recorded for IHBG minus $41 million in receivables not recorded in the Housing Choice Voucher program. This should have reduced the prepayment.

We recommend that the Deputy Assistant Secretary for Public and Indian Housing

2D. Establish a process to track the amount HUD owes to PHAs to cover prepayment shortages and provide the information to OCFO so that it can be properly recognized as accounts payable.

2E. Develop a tracking function for the payments advanced to IHBG recipients to facilitate financial reporting and monitoring compliance with grant time restrictions.

Finding 3: 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 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.

We Could Not Form an Opinion on CPD's Fiscal Year 2015 Accrued Grant Liabilities

The fiscal year 2015 estimated accrued grant liabilities for CPD's programs were $2 billion. This amount accounted for 84 percent of HUD's $2.4 billion in total accrued grant liabilities. We did not have sufficient time to perform all of the audit procedures we deemed necessary to obtain sufficient, appropriate audit evidence to form an opinion on CPD's fiscal year 2015 accrued grant liabilities because CPD did not have adequate internal controls in place. Specifically, CPD did not have a validation process for estimating its accrued grant liabilities. There were no other compensating audit procedures that could be performed to obtain reasonable assurance regarding the $2 billion estimate. As a result, we were unable to obtain sufficient, appropriate audit evidence for CPD's fiscal year 2015 accrued grant liabilities. Therefore, we could not form an opinion on CPD's accrued grant liabilities for fiscal year 2015.

CPD Did Not Have Procedures To Validate Its Grant Accrual Estimates

HUD first prepared estimates of its accrued grant liabilities for inclusion in its financial statements in 2014. Our audit of those financial statements identified a material weakness that HUD did not validate the estimates of its accrued grant liabilities.[14] Our work on HUD's fiscal year 2015 financial statements found that there were still no validation procedures for CPD's estimates. This deficiency was due in part to a lack of relevant grantee reporting. CPD was working with a contractor to develop a statistical sampling plan to validate its estimates in accordance with the requirements of Federal Accounting Standards Advisory Board (FASAB) Technical Release (TR) 12, Accrual Estimates for Grant Programs, but the validation process had not been implemented as of September 30, 2015. As a result, CPD could not ensure that its estimates and their underlying assumptions were reliable.

Conclusion

CPD did not have validation processes for its estimated accrued grant liabilities because of a lack of procedures and relevant grantee reporting. It could not ensure that the assumptions it used to produce its estimates were accurate because of this lack of internal controls. This condition resulted in a high risk that CPD's estimates could have been misstated. Additionally, because of the lack of internal controls, we were unable to perform all of the audit procedures necessary to obtain sufficient, appropriate audit evidence regarding CPD's fiscal year 2015 accrued grant liabilities. Therefore, we could not form an opinion on CPD's accrued grant liabilities for fiscal year 2015.

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[14] Audit Report 2015-FO-0004, Fiscal Years 2014 and 2013 Consolidated Financial Statements Audit, issued March 6, 2015

Recommendations

Prior-year recommendations regarding this finding remained open and can be referred to in the Followup on Prior Audits section of this report. We have no new recommendations in this report.

Finding 4: Ginnie Mae's Systems Data To Account for Its Budgetary Resources Were Not Auditable

In response to our fiscal year 2013 recommendation[15] regarding a material internal control weakness in financial reporting, the Government National Mortgage Association (Ginnie Mae) implemented a system to account for its budgetary resources; however, the implementation was problematic, and the system's data were not reliable. Therefore Ginnie Mae reverted to its old 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,[16] (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's 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.

Ginnie Mae's Accounting for Its Budgetary Activity Required Material Manual Adjustments and Lacked Adequate Internal Controls

In fiscal year 2013, we reported that there were material internal control weaknesses in Ginnie Mae's accounting for its budgetary resources because it did not use the USSGL to record budgetary events at the transaction level as required by FFMIA and GAAP. Instead, Ginnie Mae manually calculated its budgetary resources using OMB apportionments, proprietary data, obligation records maintained on Excel spreadsheets, and its interpretation of how all of this information should be reflected in its statement of budgetary resources. To comply with FFMIA and GAAP, Ginnie Mae implemented a budgetary module within in its core financial system and in fiscal year 2015, it assured us that this would be the system of record for financial reporting. However, the system produced incorrect balances that did not agree with Ginnie Mae's control totals, causing it to perform material manual adjustments to its September 30, 2015, budgetary resource balances totaling $17.7 billion. In essence, Ginnie Mae used its previous manual process for financial reporting and manually adjusted its system's data to equal its manual calculations. The manual calculation to determine the final balances was performed by one staff member, and the journal vouchers used to adjust the balances did not include sufficient support for proper supervisory review. The staff member performing the calculation also had access to both budget and general ledger functions within Ginnie Mae's Financial Accounting System (GFAS), which is an inappropriate segregation of duties.

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[15] Audit report 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.

[16] Ginnie Mae adjusted 8 accounts, which affected 10 of the 11 accounts it reported as its status of budgetary resources in its trial balance. These accounts adjusted made up 98 percent of Ginnie Mae's total status of budgetary resources and totaled $20.4 billion.

Ginnie Mae Did Not Provide Documentation in the Required Timeframe

Ginnie Mae assured us that it knew the cause of all of the differences between systems data and its manual calculation; however, it could not provide sufficient support for the adjustments or systems data in a reasonable timeframe for us to obtain reasonable assurance regarding the adjustments or the balances recorded. For example, Ginnie Mae could not provide any fiscal year 2015 financial data from the general ledger system until August 3, 2015.[17] Additionally, Ginnie Mae did not provide its complete contract activity report[18] or support for all of the obligations in our sample within the timeframe required. Further, Ginnie Mae did not provide its September 30, 2015, trial balance until October 30, 2015, 9 business days after the agreed-upon due date. This delay prevented us from adequately reviewing Ginnie Mae's adjustments and auditing the Ginnie Mae component of HUD's consolidated statement of budgetary resources.

Insufficent Resources Devoted to System Implementation

Ginnie Mae worked with a contractor to develop its budgetary module within its core financial system; however, it did not gather sufficient information to ensure that the system would capture all of its budgetary requirements, develop edit checks or review processes to identify incorrect transactions, or dedicate enough time and staff to user acceptance testing and contract conversion. Ginnie Mae's management allocated only one staff member for system implementation, which was inadequate for the size of the project. As a result, several transactions were coded incorrectly, the system improperly accounted for several of Ginnie Mae's budgetary events, and Ginnie Mae had to perform time-consuming reconciliations to ensure that contracts were correctly valued in the system. After implementation, Ginnie Mae recognized that system balances were incorrect; however, the problems causing the incorrect balances could not be promptly reconciled, researched, and resolved by the one staff member allocated to implementation. Additionally, since Ginnie Mae did not start regularly producing system data until August 2015, it had limited time to reconcile, research, and correct these issues. While Ginnie Mae assured us that all causes for the discrepancies had been identified, we found additional problems with the system that Ginnie Mae was unaware of. Specifically, we noted double counting of transactions due to proprietary reversals that did not flow to the budgetary general ledger.

Lack of adequate system requirements gathering, inadequate time for user acceptance testing and data conversion, and insufficient resources allocated to implementation contributed to a system that did not produce reliable information for financial reporting. In addition, due to the intensive effort required to reconcile, research, and correct issues within the system, Ginnie Mae maintained poor documentation and a weak audit trail and could not deliver prepared-by-client items on time. This problem contributed to our inability to obtain reasonable assurance about the reliability of the balances reported for Ginnie Mae's status of budgetary resources.

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[17] Ginnie Mae provided its second quarter trial balance (March 31, 2015) and supporting data on August 3, 2015.

[18] The contract activity report that we received did not contain several purchase orders that were included in the system. Ginnie Mae stated that it may not have provided us the full report. We received additional portions of the contract activity report on October 6, 2015, but this was not in the timeframe required to complete our audit. We need the full report to validate purchase orders recorded in the system.

Conclusion

Ginnie Mae is responsible for managing a substantial amount of budgetary resources. Proper accounting for these budgetary resources requires a system that can recognize individual transitions at the transaction level in accordance with GAAP and FFMIA. In fiscal year 2014, Ginnie Mae implemented a system to account for its budgetary resources; however, during fiscal year 2015, the system's data were not auditable. This deficiency was due to the many material manual adjustments to most of its budgetary accounts,[19] the weak controls in place over the adjustments, and Ginnie Mae's inability to provide the trial balances within the timeframe required to perform adequate audit work. This condition occurred because Ginnie Mae's management did not devote sufficient resources to system implementation. As a result, we could not provide reasonable assurance regarding the accuracy of the status of $19.8 billion in budgetary resources that HUD reported for Ginnie Mae as of September 30, 2015.

Recommendations

We recommend that Ginnie Mae's Acting Chief Financial Officer

4A. Assign adequate resources to identify and resolve incorrect transactions in GFAS so that the system can be used for reliable financial reporting of Ginnie Mae's budgetary resources.

4B. Promptly complete all reconciliation processes to determine the root causes of incorrect balances.

4C. Based on root causes identified, make necessary adjustments to the system configurations in GFAS to ensure proper and accurate budgetary resource reporting that complies with FFMIA and OMB A-11.

4D. Review user roles in GFAS and assign additional staff to ensure that proper segregation of duties is maintained.

[19] Ginnie Mae adjusted 8 accounts, which affected 10 of the 11 accounts it reported as its status of budgetary resources in its trial balance. These adjusted accounts made up 98 percent of Ginnie Mae's total status of budgetary resources and totaled $20.4 billion.

Finding 5: 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 through the transition of 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. These system issues and limitations inhibited HUD's ability to produce reliable, useful, and timely financial information.

HUD's Financial Systems Lacked Key Functionality

Several of HUD's financial systems used to support significant balances on the financial statements lacked key functionality or system requirements. This deficiency prevented HUD from relying on the data output provided and reporting key financial statement balances in accordance with GAAP.

> *Ginnie Mae did not have systems in place to adequately record and account for the loan accounting and processing of activity in its defaulted issuers' portfolio.* During our 2014 audit, we identified material weaknesses related to Ginnie Mae's complete and accurate recording of and accounting for key financial statement line items. Also identified were weaknesses in internal control over financial reporting that impeded Ginnie Mae's ability to produce complete, accurate, and reliable financial statements. These material weaknesses resulted in our inability to validate the completeness, accuracy, and reliability of $6.6 billion in nonpooled loan assets and the understatement of the mortgage-backed securities loan liability account. These material weaknesses remained unresolved as of September 30, 2015.
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> Ginnie Mae did not have an accounting system to account for and track servicing costs at a loan level. As a result, it was reliant on third-party master subservicer data, which we found unreliable because of completeness and accuracy weaknesses. We concluded that Ginnie Mae failed to adequately establish and maintain accounting systems to manage and control the loan accounting and processing of the activities related to its defaulted issuers' portfolios. Refer to the relevant material weaknesses and associated recommendations for additional details.[20]
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> *System configuration issues within the budgetary accounting module of the GFAS application impeded our ability to obtain assurance regarding key financial statement line items.* System configuration and posting logic deficiencies in the GFAS budgetary module resulted in inaccurate budgetary account balances. Although Ginnie Mae attempted to compensate for system configuration deficiencies with ad hoc manual

[20] Audit Report 2015-FO-0003, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2014 and 2013, issued February 27, 2015

adjustments, it was unable to resolve these errors in a timely manner, and manual journal vouchers were insufficiently supported. Additionally, we noted issues regarding the segregation of duties within GFAS. Specifically, accounting personnel had inappropriate access to multiple roles that should be separated to maintain effective internal control.

The GFAS budgetary module was implemented with incomplete system requirements and inadequate user acceptance testing. In addition, the completeness and accuracy of data migration were insufficiently validated before deployment into the production environment, and manual attempts to correct system weaknesses were unsuccessful and insufficiently supported. As a result, we were unable to validate $17.7 billion of the manual adjustments recorded.

We also found that Ginnie Mae was unable to provide adequate audit evidence to support transactional data in the unpaid obligation and allotment accounts or provide adequate documentation to support its unpaid, undelivered orders and allotment activity. This deficiency ultimately inhibited our ability to adequately audit Ginnie Mae's budgetary resources and obtain reasonable assurance regarding the status of its budgetary resources.[21]

Updates to the IDIS system remained in process and continued to hinder CPD's ability to properly account for formula grant transactions in accordance with GAAP and comply with FFMIA. CPD uses IDIS to manage its formula grant programs. CPD was midway through executing the IT project to eliminate the FIFO method of funds attribution from IDIS, which did not comply with GAAP. While CPD had made progress in addressing this issue, updating the application to specifically identify grants initiated during 2015 and going forward, funding constraints delayed further remediation and compliance with accounting standards and FFMIA. See further discussion of this issue above in the related material weakness.[22]

Emergency Homeowner's Loan Program data in HUD's Loan Accounting System was not reliable.[23] We noted that Emergency Homeowner's Loan Program (EHLP) data in HUD's Loan Accounting System (LAS) were not reliable because of system and process internal control weaknesses. Specifically, EHLP loan data initially entered into LAS were inaccurate and incomplete, the data correction process was ineffective, and loan-level transaction details in LAS were lost during a database rebuild effort. EHLP was implemented quickly, with existing systems and processes, and did not have a centralized office responsible for administering and managing the program in its entirety. The EHLP data in LAS on September 30, 2014, were unreliable and did not support the loans receivable balances in the general ledger. HUD made additional efforts during 2015 to fix EHLP data, but balances remained unauditable at yearend.

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[21] Finding 4: Ginnie Mae's System Data To Account for Budgetary Resources Were Not Auditable
[22] Finding 1: CPD's Formula Grant Accounting Did Not Comply With GAAP, Resulting in Misstatements on the Financial Statements
[23] Audit Report 2015-DP-0004, Loan Accounting System, issued December 9, 2014

HUD did not have a working property inventory system in place. HUD did not have a functional, automated property management system during fiscal year 2015 (as required by Title 40 of the United States Code), which established executive agencies' responsibilities to maintain adequate inventory controls and accountability systems. HUD initially implemented the Facilities Integrated Resource Management System (FIRMS) to consolidate, automate, and provide reports on furniture, equipment, personal property, and space. While we have reported on FIRMS' FFMIA noncompliance since 2010, technical issues caused by a lapsed maintenance contract had rendered FIRMS nonfunctional since 2012. Since then, HUD had been unable to return FIRMS to an operational state. To address FIRMS' FFMIA noncompliance and meet business requirements regarding property management, the Office of Administration was working with OCIO on a two-phase plan to replace FIRMS and move to an automated property management application hosted by the Federal Aviation Administration during fiscal year 2016.

Legacy procurement applications that do not comply with financial system requirements could not be decommissioned due to longstanding data migration challenges. HUD implemented a new procurement application, the HUD Integrated Acquisition Management System (HIAMS), in 2012. Although this system had been in production for more than 3 years, HUD was unable to decommission the legacy HUD Procurement System (HPS) and Small Purchase System (SPS) as of September 30, 2015, because of technical issues associated with the transfer of data to HIAMS. HPS and SPS are legacy procurement applications that do not meet Federal financial system requirements.

A lack of system integration and automated controls increased the risk associated with HUD's payment management process. In an audit conducted in fiscal year 2013,[24] we found that the HIAMS procurement application did not interface with the payment processing function of the HUDCAPS application. The lack of automated validation controls increased the risk associated with the payment management function. This condition remained in fiscal year 2015.

HUD Did Not Have Financial Systems in Place To Meet Financial Management Needs

In addition to weaknesses and limitations associated with HUD's financial systems, HUD did not have systems in place to meet other financial management needs.

HUD lacked an effective cost accounting system. In fiscal year 2006, the U.S. Government Accountability Office (GAO) reported[25] that HUD's financial systems did not have the functionality to provide managerial cost accounting across its programs and activities. HUD lacked an effective cost accounting system that was capable of tracking

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[24] 2014-DP-0005, Information Systems Controls in Support of the Financial Statements Audit, issued April 30, 2014. This was a limited distribution report due to the sensitive nature of the information reported and was, therefore, not made available to the public.
[25] GAO-06-1002R, Managerial Cost Accounting Practices, dated September 21, 2006

and reporting the costs of HUD's programs in a timely manner to assist in managing its daily operations. This lack of functionality resulted in the lack of reliable and comprehensive managerial cost information on HUD's activities and outputs. This deficiency rendered HUD unable to produce reliable, cost-based performance information. This condition remained in fiscal year 2015.

PIH's manual cash management processes did not allow recognition of financial transactions or timely adjustments to PHA disbursements. PIH's cash management process was not automated. The cash reconciliation master file used to determine appropriate adjustments was manual. It was maintained on an Excel spreadsheet on a shared drive, and the integrity of the data was not properly protected or secured. The process to perform adjustments to future disbursements in HUDCAPS was also manual. Due to HUDCAPS' functional limitations, HUD could not capture and recognize financial transactions resulting from the quarterly reconciliations. With more than 2,200 PHAs that require a quarterly reconciliation and potential adjustment of future disbursements, the amount of resources available to complete the work was limited. This lack of an automated process substantially increased the risk of error. Further, a lengthy manual reconciliation process prevented timely and accurate financial transaction recognition.[26]

HUD did not adequately design or implement financial systems for the Section 108 and Section 184 loan guarantee programs. Program offices continued to rely on Excel spreadsheets and Access databases to account for more than $2 billion in CPD loan guarantees and approximately $5.1 billion in PIH loan guarantees as of September 30, 2015. Without a financial system to record detailed program transactions, HUD could not adequately monitor loan guarantee programs. HUD was also unable to monitor loan commitments and note issuances and repayment amounts, which could result in unreliable data affecting the financial statements.

CPD's Section 108 loan guarantee program did not have a system to perform its financial management processes. There was no automated interface to obtain associated grant data from the program application. When a guaranteed loan became delinquent or in default, program staff had to request that OCFO accounting personnel manually reduce the funds available, greatly increasing the risk of error.

PIH's Section 184 loan guarantee program used a system of four separate Microsoft Access database tables to process and maintain data on loan guarantees, defaults, and lender claims. The program office had noted the risk of duplication across these databases, and overpayments on claims had occurred because of payment duplication.

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[26] Finding 2: HUD Did Not Account for Its Assets and Liabilities for Its Public and Indian Housing Programs in Accordance With GAAP and FFMIA

HUD Continued To Move Forward With the Implementation of a New Core Financial System

While HUD had made efforts to modernize its financial systems since 2003, many disparate legacy financial systems remained in place during fiscal year 2015. In the fall of 2012, the New Core project was initiated to move HUD forward in implementing a new financial system. New Core, moved significant HUD financial management functions to the U.S. Department of the Treasury, Bureau of Fiscal Service's Administrative Resource Center (ARC).

Phase 1 of the New Core implementation has consisted of three releases to date. Release 1 of phase 1 of New Core included deployment of the New Core Interface Solution (NCIS) to facilitate the processing of travel and relocation transactions. Release 2 was implemented in 2015 and covered the time and attendance function. Release 3 will be implemented in the first quarter of fiscal year 2016 and will transition key financial management functions to ARC. During 2015, we performed a review of release 1 and a preimplementation review of release 3 and noted several significant deficiencies.

> *Application control weaknesses related to NCIS data processing resulted in data completeness and accuracy issues in the general ledger*.[27] NCIS is middleware that supports the automated transfer of data between HUD's existing accounting system, HUDCAPS, and ARC's Oracle Financial system. We noted that application control weaknesses included insufficient monitoring controls over interface processing, ineffective controls to prevent duplicate transactions, and a lack of effective data reconciliations, which enabled unresolved errors to continue for 6 months. We found inaccurate financial data in HUDCAPS and the Oracle Financial system and discrepancies between HUD's general ledger and Treasury systems.
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> We also found that the issues with release 1 were related to incomplete system requirements, inadequate training and controls, and insufficient postdeployment review. We noted that while HUD had taken some action to address recommendations made after our review of release 1 and preimplementation review of release 3, the extent of process changes must be carefully managed. The scope for future releases and phases was being evaluated as HUD determined the best path forward. Details regarding this release had not been finalized, and there was no scheduled date for implementation.

Conclusion

Complete and reliable financial information is critical to HUD's ability to accurately report on the results of its operations to both internal and external stakeholders. During fiscal year 2015, system limitations and weaknesses continued to contribute to the possibility that a material misstatement of HUD's financial statements would not be prevented or detected and corrected in a timely manner.

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[27] Audit Report 2015-DP-0007, New Core Project: Release 1of Phase 1 New Core Interface Solution, issued September 3, 2015

Until these weaknesses are fully remedied, HUD's ability to produce reliable, useful, and timely financial information needed for accountability, performance reporting, and decision making will remain a departmental material weakness. Therefore, we will continue to monitor HUD's progress in addressing our concerns in this area.

Recommendations

Prior-year recommendations regarding this finding remained open and can be referred to in the Followup on Prior Audits section of this report. Any new recommendations can be found after each finding referenced.

Significant Deficiencies

Finding 6: HUD's Financial Management Governance Structure and Internal Controls Over Financial Reporting Were Ineffective

HUD's financial management governance remained ineffective. 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 needs 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 (FERA), management control reviews (MCR),[28] and reconciliation activities. These conditions stemmed from HUD's inadequate implementation of the Chief Financial Officers Act of 1990 (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 weaknesses. As a result of control weaknesses, there were multiple deficiencies in HUD's internal controls over financial reporting, resulting in misstatements on the financial statements and noncompliance with laws and regulations.

An Independent Organizational Assessment of HUD OCFO Recommended Ways To Improve HUD's Financial Management Governance

We made several recommendations to HUD's Deputy Secretary to improve HUD's financial management governance during our audit of HUD's 2013 financial statements.[29] These recommendations included conducting a study of HUD OCFO as well as creating and chairing a senior management council or equivalent.

During fiscal year 2015, HUD took steps to address these recommendations and several of the weaknesses in its financial management governance structure. In one of these steps, HUD contracted with the National Academy of Public Administration (NAPA) to conduct a study, which was completed in March 2015.[30] NAPA made three high-level recommendations, concluding that HUD should

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[28] An MCR is a detailed evaluation of the complete system of management controls in a functional area. Such a review will produce extensive documentation of controls and will include the testing of most, if not all, controls.
[29] Audit Report 2014-FO-0003, Additional Details To Supplement Our Report on HUD's 2013 and 2012 (Restated) Financial Statements, issued December 16, 2013
[30] Department of Housing and Urban Development, Office of the Chief Financial Officer, Organizational Assessment; http://napawash.org/images/reports/2015/HUD_OCFO_Study_Final_Report.pdf

1. Improve financial management oversight and governance,
2. Address concerns associated with the transition to the Federal shared service provider, and
3. Strengthen the finance workforce.

HUD did not formally document its evaluation of the impact of financial governance weaknesses identified by NAPA within any system of record. Additionally, HUD did not formally identify or document corrective actions to address the recommendations identified by NAPA in any system of record. As a result, many of the issues that we discussed in 2014 remained.

Specifically, HUD lacked a senior management council and senior assessment team or equivalent committees responsible for (1) assessing and monitoring deficiencies in internal control resulting from the Federal Managers' Financial Integrity Act (FMFIA) assessment process, (2) advising the HUD Secretary of the status of corrections to existing material weaknesses, and (3) apprising the Secretary of any new material weaknesses that may need to be reported to the President and Congress through the annual financial report. While establishment of a senior management council and senior assessment team is not required by OMB Circular A-123, Management's Responsibility for Internal Control, it is recommended and is a best business practice.[31]

While the lack of a senior management council and senior assessment team or equivalents was not the sole cause of the deficiencies in the structure of HUD's OCFO and financial management systems, HUD's ability to identify the need for and make significant changes was impaired.

Stronger Direction and Involvement With Program Accounting Was Needed From OCFO

HUD's financial management structure relied on the delegation of several key financial management functions to HUD's program offices, including review and approval of vouchers, reviews of unliquidated obligations, and some budgetary functions. However, program-related issues, concerns, and decisions often took a higher priority than financial management and the requirements for proper financial accounting. Previous audits indicated that accounting procedures were often determined by program office preference without the guidance and oversight of OCFO or a regard for federally mandated accounting standards. While HUD had taken initial steps to address these issues, substantial work remained. HUD's initial efforts included an effort to develop a memorandum of understanding between OCFO and program offices to improve collaboration with program offices on important accounting issues. However, this issue has been the root cause of several deficiencies identified in our audits. We noted the following instances in which this environment, combined with a lack of communication, led to deficiencies.

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[31] According to OMB Circular A-123, the chief financial officer should be a member of the senior management council, and the senior assessment team should report to the chief financial officer. The senior assessment team provides oversight and accountability for the agency's internal controls over financial reporting and should include executives from areas responsible for maintaining controls over key processes and systems.

CPD's budgetary accounting for grants. The material weakness associated with CPD's budgetary accounting for grants,[32] which contributed to our 2015 disclaimer of opinion, occurred within the environment of substantial delegation and deferral to program office priorities. This deficiency occurred because OCFO was not involved in the development of the mixed financial system (IDIS Online) to ensure that it complied with FFMIA and GAAP. This deficiency will exist for several years because the programing changes to the CPD formula grant programs system will be on a prospective basis for fiscal years 2015 going forward and not apply to prior-year grant funds. As of September 30, 2015, approximately $6.3 billion and $10.1 billion, respectively, in undisbursed obligations were impacted.

PIH cash management. As we first reported during the 2013 financial statement audit,[33] HUD did not account for transactions resulting from a congressional requirement to implement Treasury regulations on cash management for the Section 8 Housing Choice Voucher program. This condition occurred because OCFO was not consulted when PIH implemented the cash management process in fiscal year 2012. Since a basic understanding of the business processes and financial transactions impacted by the cash management process was not established and continued in fiscal year 2015, significant delays between the occurrence and recognition of financial events in the general ledger continued in fiscal year 2015.[34] As much as $507 million in excess funds continued to be held at PHAs and was not accounted for and moved back to HUD in a timely manner. Another $41 million in receivables and $78 million in payables were not recognized on the financial statements in a timely manner. This condition could occur in other HUD programs without OCFO's knowledge.

Accounting for property plant and equipment. Weaknesses in accounting for internal use software continued. OCFO was not provided adequate documentation from OCIO to accurately account for the cost of software projects. This condition occurred because OCFO and the OCIO lacked adequate internal controls to ensure the timely exchange of information needed for accurate financial reporting. While OCFO recently implemented procedures requiring OCIO to provide timely and reliable information, other recommendations remained open. As a result, the $250 million balance for internal use software recognized in the property plant and equipment financial statement line item remained at risk of possible misstatement.

Additionally, the Office of the Chief Procurement Officer (OCPO) did not properly recognize leasehold improvements and liabilities on the financial statements resulting from energy saving improvements totaling $46 million.[35] The total value of the contract

[32] Refer to finding 1 for more detail.
[33] Audit Report 2014-FO-0003, Additional Details To Supplement Our Report on HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements, issued December 16, 2013
[34] See finding 2 for more detail.
[35] The U.S. General Services Administration delegated to HUD the management of the energy savings performance contract in its entirety because the improvement project costs will be paid back to the contractor using HUD's administrative funds saved from the future energy savings over 20 years.

was $86 million to be paid over 19 years. This condition occurred because OCPO did not notify OCFO about the agreement authorizing the improvements. As a result, the statement of budgetary resources and balance sheet could have been misstated.

Lastly, OCPO did not properly classify the acquisition of furniture and equipment as capitalized expenses. HUD paid vendors dedicated to sell furniture, fixtures, and equipment a total of $1.2 million and $3.6 million in fiscal year 2014 and as of June 30, 2015, respectively. These purchases were not capitalized because of OCPO's incorrect application of HUD's capitalization policy when obligating the contracted funds. OCFO then paid invoices without verifying that funds obligated were properly classified as a capitalized acquisition. As a result, HUD's financial statements were misstated for furniture not properly capitalized.

The lack of adequate OCFO oversight of these and other financial management functions contributed to these deficiencies. The lack of oversight was the result of OCFO's not having a position or division responsible for overseeing and coordinating financial management functions handled by the program offices. As a result, HUD's statements may have been misstated.

Ginnie Mae's Financial Governance Weaknesses Continued

In fiscal year 2015, Ginnie Mae failed to maintain a governance framework that allowed appropriate policies, people, systems, and controls to ensure the reliability and integrity of Ginnie Mae's financial and accounting information. This failure in governance was the underlying cause of the problems cited in the Ginnie Mae financial statement audit report[36] and in this report.[37] Ginnie Mae (1) failed to adequately identify, analyze, and respond to changes in the control environment and risk associated with the acquisition of a multi-billion-dollar servicing portfolio; (2) failed to adequately establish accounting policies, procedures, and accounting systems to manage and control the loan accounting and processing of the activities related to its defaulted issuers' portfolio; and (3) failed to adequately oversee the implementation of the budgetary accounting module in its financial system to ensure accurate reporting of budgetary activity. This condition occurred because of finance staff turnover and insufficient internal controls to manage the risks associated with business decisions and changes in its business environment. Additionally, Ginnie Mae's executive leadership failed to backfill a number of critical financial management positions, including the deputy chief financial officer, controller, and the economic modeling director, all of which have significant financial reporting roles. However, as noted in fiscal year 2014, these positions had been vacant for an extended period, and Ginnie Mae relied heavily on contractors to compensate for finance staffing deficiencies. As a result, serious financial reporting deficiencies occurred at Ginnie Mae, which impacted HUD consolidated financial reporting. Most recent was the lack of coordination and poor communication regarding the discovery of material accounting errors due to misapplication of GAAP that resulted in $1.9 billion of restatement adjustments to HUD's fiscal year 2014 consolidated financial statements after the fiscal yearend. On October 23, 2015, Ginnie Mae

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[36] Audit Report 2015-FO-0003, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2014 and 2013, issued February 27, 2015

[37] Refer to finding 4.

provided the financial statements to HUD and notified OIG about an additional restatement needed. On October 28, Ginnie Mae provided HUD the restatement or error correction adjustment entries for HUD's consolidated financial statements. On November 4, 2015 Ginnie Mae provided HUD a second set of restatement or error correction adjustment entries for HUD's consolidated financial statements. However, due to Ginnie Mae's late notification, inadequate communication, and lack of transparency, HUD encountered difficulties in preparing consolidated financial statements within the timeframes required and OIG was not able to gather sufficient appropriate evidence to validate the accuracy of the accounting adjustments.

Ginnie Mae's management of risks associated with (1) handling complex and changing financial management operations without the appropriate accounting policies and procedures in place and (2) monitoring the work performed by third-party service providers (such as master subservicers) on Ginnie Mae's multi-billion-dollar servicing portfolio will challenge Ginnie Mae's inadequate financial management staff. These governance weaknesses contributed to Ginnie Mae's inability to produce auditable financial statements.

To address these issues, additional oversight is needed from OCFO to ensure that the policies and guidance it provides are properly implemented.

Reconciliations of Significant Account Balances Were Not Performed in a Timely Manner

OCFO did not perform required cash reconciliations in a timely manner or have a reconciliation process that included verifying that HUD's monthly, quarterly, and annual obligation reports to Treasury and OMB agreed with HUD's obligation control accounts for each open appropriation account as required. Additionally, HUD did not perform intragovernmental transaction (IGT) reconciliations as required.

> *Cash reconciliations were not performed in a timely manner.* During our review of cash reconciliation status reports, we found that cash reconciliations for one appropriation, 0163, were not performed between October 2014 and February 2015. Additionally, we found that 2 months of reconciliations for 14 other appropriations were performed more than 60 days after the end of the applicable month. This condition occurred because of a lack of supervisory monitoring of the cash reconciliation status report. As of June 30, 2015, the Public Housing Operating Subsidy fund, fund 0163, and the other 14 appropriations had fund balances with Treasury of $2.3 billion and $520 million, respectively. Reconciliations that are not performed in a timely manner increase the risk that financial activity will not be accurately reported to Treasury as well as the risk of fraud, waste, or mismanagement of funds.
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> *The subsidiary ledger was not reconciled to the obligation balances in the general ledger for all of HUD's open appropriations accounts.* In fiscal year 2014, we reported that HUD's obligation controlling accounts were not reconciled to the supporting records for HUD's open appropriations accounts.[38] This condition continued in fiscal year 2015.

[38] Audit Report 2015-FO-0002, Interim Report on HUD's Internal Controls Over Financial Reporting, issued December 8, 2014

Management continued to lack a formal process to ensure that periodic reconciliations took place and were formally reviewed for HUD's subsidiary ledgers and the general ledger and that monthly, quarterly, and annual obligation reports to Treasury and OMB agreed with HUD's obligation control accounts for each open appropriation account as required by GAO Title 7, chapter 3.7. Reconciliations were performed only when requested during routine audit procedures. As a result, differences between the two ledgers were not identified and resolved in a timely manner. Our review of the reconciliations performed identified the differences shown in table 1.[39]

Table 1[40]

Program	Appropriation	Differences
Community Development Block Grant	0162	$15.8 million
HOME Investment Partnerships Program	0205	$5.0 million
Homeless Emergency and Rapid Transition to Housing Continuum of Care	0192	$11.2 million
Public Housing Capital Fund	0304	$29.9 million
Total		**$61.9 million**

We noted several deficiencies with the reconciliations reviewed, such as that (1) differences between the systems were not explained or reconciled and required extensive research, (2) reconciliations were not completed in a timely manner, and (3) there was no evidence of a supervisory review.

Without formal procedures to require the completion of periodic reconciliations, the differences between the subsidiary and general ledger systems may not be identified and resolved in a timely manner, causing the amount of transactions, time, and research needed to reconcile the differences to increase. Additionally, potential misstatements could not be detected in a timely manner.

There was poor oversight of intragovernmental activity at the consolidated level. HUD did not perform required IGT reconciliations, such as HUD's fiduciary borrowings with Treasury's Bureau of Fiscal Service and reconciliations for transfers of budget authority and transfers of assets among Federal agencies, including Treasury's General Fund. Further, HUD could not provide evidence that research and resolution efforts had been made to reconcile IGT differences reported on the agency's quarterly consolidated IGT scorecard issued by Treasury.[41] This condition occurred because (1) OCFO's IGT

[39] Community Development Block Grant, HOME Investment Partnerships Program, and Hearth program differences are as of June 30, 2015. Capital Fund differences are as of March 31, 2015. We requested reconciliations of obligation balances for a sample of appropriations as of September 30, 2015, but they were not provided in time for review because of a lack of staff resources and technical issues with related systems impacted their ability to pull timely reports.

[40] Differences presented as absolute values

[41] Fiscal Service has established a set of performance metrics and scorecards to help identify and resolve root causes of IGT differences. The scorecards are at a governmentwide and agency-specific level and are sent to significant entities within 90 calendar days after the end of a quarter. The scorecard will focus on differences by trading

reconciliation procedures had not been updated to reflect the recent changes from the Governmentwide Treasury Account Symbol Adjusted Trial Balance System implementation and updated Treasury Financial Manual chapters, (2) HUD's IGT point of contact did not know what reports were available to perform oversight of IGT at the consolidated level, and (3) the IGT point of contact had not collaborated with HUD's component entities to resolve differences reported on HUD's scorecard.[42] As a result, material IGT differences between HUD records and Treasury's records remained unresolved. Table 2 shows the differences according to the specific IGT subcategories.

Table 2[43]
HUD IGT scorecard differences

General Fund	Q 1	Q 2	Q 3
FBWT (RC 29)*	$0.2 million	$0 million	$0 million
Authority	$0 million	$8.9 million	$1.1 million
Nonentity	$2.4 billion	$1.9 billion	$3.9 billion
Other General Fund RCs	$0 million	$10 million	$0 million
Subcategory total	**$2.4 billion**	**$1.9 billion**	**$3.9 billion**
IGT	**Q 1**	**Q 2**	**Q 3**
Investments	$24.1 million	$109.4 million	$18.7 million
Borrowings	$20.9 million	$40.4 million	$16 million
Benefits: U.S. Department of Labor	$0.1 million	$7.4 million	$.05 million
Benefits: Office of Personnel Management	$4.7 million	$1.5 million	$2.2 million
Buy-sell	$33.1 million	$31.8 million	$409 million
Transfers	$14.9 million	$2.8 million	$2.8 million
Subcategory total	**$97.8 million**	**$193.3 million**	**$448.7 million**
Grand total	**$2.5 billion**	**$2.1 billion**	**$4.3 billion**

**Fund Balance with Treasury (Reciprocal Category)*

Reconciling IGT balances is a key internal control, which ensures that Federal agencies make routine efforts to resolve IGT differences. Additionally, completion of targeted difference and root cause-corrective action plan forms is essential to ensure that agencies research and resolve root causes of IGT differences. If this reconciliation is compromised, accounting differences could occur at the agency and governmentwide financial reporting levels. Further, because HUD maintains a difference of more than

partner, IGT subcategory, USSGL account, and reciprocal category. Fiscal Service will monitor the quarterly scorecards to assess how well agency corrective actions resolve problematic areas.

[42] HUD's scorecard includes FHA, Ginnie Mae, and HUD amounts combined.

[43] Differences presented as absolute values

$100,000 for investments and borrowings, Treasury considers HUD to be noncompliant with the policies in the IGT guide.

Completion of Front-End Risk Assessments Continued To Be Delayed or Not Completed

HUD continued to not complete and approve FERAs[44] in a timely manner. As of September 30, 2015, there were seven FERAs in process with an additional FERA noted as an exception because the funds for that program were spent before the FERA was finalized. These assessments ranged from 1 to 7 years since their start. While HUD Handbook 1840.1, Departmental Management Control Program, requires that FERAs be conducted and provides criteria that trigger when a FERA must be performed, it does not provide periods for completion of the assessments by the program offices or completion of the review process by OCFO. Additionally, the handbook lacks an escalation process to address program offices that are nonresponsive to requests to complete assessments. For example, OCFO was not consulted regarding the development of a FERA for the National Disaster Resilience Competition,[45] which will award nearly $1 billion to eligible communities. The competition was announced in June 2014. Due to the lack of procedures in this area, OCFO did not have the authority to enforce the timely completion of the assessments, allowing the program offices to complete them at their convenience. A lack of timely FERAs can lead to undetected risks and corresponding internal control gaps or weaknesses that can adversely impact efficient and effective operations and financial reporting and result in noncompliance with laws and regulations.

Completion of the MCR Process Was Inconsistent Across HUD's Program Areas

HUD's status report indicated that it did not conduct routine or timely MCRs[46] for its program areas as required by HUD Handbook 1840.1. Only one MCR was conducted for CPD, and one was conducted for the Office of Single Family Housing between 2014 and 2015. However, OCFO explained that it tracked and monitored only the MCRs it asked to be performed. The office further explained that many MCR's were conducted throughout the year and could be shared with OCFO during the data call for each office's FMFIA statement of assurance, but most MCRs were initiated and tracked at the program office level.

Although OCFO encouraged the program offices to perform MCRs, the handbook does not specify how often HUD's program offices must conduct and finalize an MCR, nor does it include clear instructions or a timeframe for OCFO to obtain, review, and track the MCR process. But it does state that the Chief Financial Officer is responsible and accountable for managing and overseeing HUD's Management Control Program. This responsibility includes developing policies and procedures to be used throughout HUD to ensure consistent application

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[44] The assessment's purpose is to detect conditions that may adversely affect the achievement of program objectives and provide reasonable assurance that the goals of safeguarding assets, effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations are met.

[45] We were informed by CPD that it would amend the approved FERA for Hurricane Sandy to include an assessment of this competition. Of the nearly $1 billion available through the Disaster Relief Appropriations Act of 2013 (part of Public Law 113-2-Hurricane Sandy), about $820 million is designated for all States and local governments that experienced a major declared disaster in 2011, 2012, and 2013.

[46] An MCR is a detailed evaluation of the complete system of management controls in a functional area. Such a review will produce extensive documentation of controls and will include the testing of most if not all controls.

of the development of an effective monitoring program. Additionally, the Chief Financial Officer is responsible for addressing crosscutting departmental issues; that is, matters involving more than one primary organization head.

Inconsistent performance and tracking of MCRs may prevent HUD from achieving its internal control monitoring goal of detecting conditions that may adversely affect the achievement of program objectives. This inconsistency decreased the potential for HUD to achieve the intended results of its programs and administrative functions by minimizing risks of fraud, waste, abuse, and mismanagement of funds. It also could decrease the reliability of HUD's financial reporting and its ability to comply with applicable laws and regulations. For example, MCRs provide a basis for the HUD Secretary to report annually to the President and Congress, as required by FMFIA, on the adequacy of management controls within HUD. Insufficient monitoring and tracking of this process for all of HUD's program offices could prevent the Secretary from having an adequate basis when reporting on FMFIA.

HUD Worked To Issue Policy Guidance, But There Were Deficiencies in Implementation

HUD took steps during fiscal year 2015 to provide policy guidance for all agency financial management personnel, activities, and operations as required by the CFO Act. HUD had also made progress in establishing and updating financial management handbooks and policies and procedures. However, some HUD financial management handbooks remained outdated or incomplete, and further development of policies and procedures is needed. To improve continuity of accounting policies and procedures in a changing environment, financial management policy should be centrally located and easily accessible by staff. OCFO's significant turnover in the past 5 years, combined with the lack of a policy framework, contributed to issues related to compliance with accounting standards and other regulations. HUD must continue to establish and implement accounting policies and procedures in a permanent and easily accessible manner.

As of September 30, 2015, policies for estimating grant accruals, purchase card expenditures, and services or contracts were in place, and HUD had updated its Accounting Policies Handbook. These policies were created to address findings in our 2013 audit.[47]

Adequate Accounting and Financial Systems Had Not Been Implemented and Maintained

The CFO Act states that the responsibilities of an agency chief financial officer include developing and maintaining adequate accounting and financial systems and implementing agency asset management systems, including systems for cash management, debt collection, and property and inventory management and control. While HUD was nearing its move to New Core on September 30, 2015, it had not developed and maintained adequate financial systems as of that date. As a result, OCFO did not maintain financial systems as required by the CFO Act as discussed in finding 5 of this report. HUD's system issues resulted in its inability to provide reliable financial information consistently, accurately, and uniformly.

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[47] Audit report 2014-FO-0003, Additional Details To Supplement Our Report on HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements, issued December 16, 2013

Conclusion

Despite the progress made during fiscal year 2015, deficiencies in HUD’s financial management governance structure continued. Specifically, insufficient OCFO guidance to and collaboration with program offices as well as inadequate monitoring contributed to internal control weaknesses in financial reporting and noncompliance with laws and regulations. Insufficient collaboration between OCFO and program offices led to a number of material weaknesses and significant deficiencies in HUD’s internal controls over financial reporting.

Recommendations

We recommend that the Deputy Chief Financial Officer

6A. Evaluate the weaknesses identified by NAPA, as well as OCFO’s disagreement with those weaknesses and recommendations, and identify what corrective actions will be taken and when those actions will be taken.

6B. Develop a process to ensure that issues and recommendations from all evaluations and audits, including those performed by third parties like NAPA, are adequately documented and tracked and properly evaluated by senior management to ensure that HUD’s FMFIA structure remains compliant. HUD should also ensure that corrective actions are agreed upon and responsibility for implementing corrective actions is appropriately delegated.

6C. Develop procedures to provide oversight of OCPO procurement activities to ensure that those with financial accounting and reporting impact are properly captured and reflected in HUD’s financial statements.

6D. Review projects and acquisitions to determine whether the proper accounting treatment was applied and determine whether corrections to HUD’s financial statements are needed.

6E. Contact all other HUD program offices to determine whether any other programs authorize or are aware of grantees holding funds in advance of their immediate disbursement needs and determine financial statement impact on and compliance with Treasury cash management requirements of any found.

6F. Distribute the workload among available accountants when staff is unavailable to ensure that all cash reconciliations are performed in a timely manner.

6G. Ensure that standard operating procedures for IGT activity are updated, to include reconciling IGT balances for all transactions required by the Federal Intragovernmental Transactions Accounting Policies Guide included in the Treasury Financial Manual 2-4700. HUD should also include procedures to promptly reconcile, research, and resolve differences identified in the Treasury quarterly scorecard.

6H. Provide training on IGT reporting to ensure that responsible staff is sufficiently trained to allow reconciliations to be promptly performed and differences identified to be identified, researched, and resolved in a timely manner.

6I. Ensure that the agency's key IGT point of contact is responsible for overseeing and coordinating efforts with component entities to ensure that Treasury quarterly scorecard differences are promptly researched and resolved.

6J. Revise policies and procedures to ensure that MCRs are routinely monitored and completed for all program areas and establish a timeframe for completion of the MCR reports. Further, HUD should ensure that an escalation process is included to address untimely completion of the MCR process.

Finding 7: 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).

The Office of Multifamily Housing Programs Did Not Comply With the Administrative Control of Funds Policies and Procedures

HUD's Office of Multifamily Housing Programs did not ensure that it complied with OCFO's administrative control of funds policies and procedures[48] in administering its Section 8 project-based rental assistance program. It (1) implemented substantial changes to the Section 8 project-based program obligation process in fiscal year 2011 without OCFO's approval[49] and (2) could not provide the appropriate obligating documents as stated in its 2011 funds control plan to support that obligations and disbursements complied with legal authorization and contract requirements.[50] This deficiency was reported in our prior-year audit report,[51] and the Office of Multifamily Housing Programs agreed to implement changes. However, this weakness continued in fiscal year 2015.

In fiscal year 2011, the Office of Multifamily Housing Programs changed the process used to authorize, record, and notify Section 8 multifamily projects without obtaining approval from OCFO. Approval is required to ensure that the obligation process meets ADA and GAO

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[48] HUD's policies require OCFO to review and approve funds control plans to ensure that internal controls for processing obligations and disbursements comply with OMB Circular A-11, Budget Execution Manual, requirements. Controls should provide evidence of government officials' authorization for each transaction in which program funds are used, preventing or minimizing ADA violations at all levels of the budget process.

[49] Under Section 902 of the CFO Act, the agency chief financial officer is charged with overseeing all financial management activities relating to the programs and operations of the agency; developing and maintaining an integrated agency accounting and financial management system, including financial reporting and internal controls; and directing, managing, and providing policy guidance and oversight of agency financial management personnel, activities, and operations.

[50] The housing assistance payments contract renewal, along with the notification of funding, is required for authorizing the project's continued participation and for authorizing the obligation of funds the first year.

[51] Audit Report 2015-FO-0002, Interim Report on HUD's Internal Controls Over Financial Reporting, issued December 8, 2014

appropriation law's legal requirements. The unapproved plan stated that the program offices could use the "Funding Notification for Field Office – S8 Budget Authority Change" form or the "Funding Notification Letter" to notify the recipients to be used as the point of obligation. The S8 Budget Authority Change did not identify the funding recipient's project name, address, type and number of units with the respective rent rates, and the periods covering the funding allocated. More importantly, the form did not provide for the name and signature of HUD's delegated official authorized to review and authorize the obligation.

The latest approved funds control plan for the Office of Multifamily Housing Programs' Section 8 program required it to demonstrate that the funds were obligated or disbursed in accordance with legal requirements, such as (1) a signed notification of funding of Section 8 contract rents and funding form for budgetary increases on HUD-administered contracts,[52] (2) a signed transaction annual contributions contract amendment for budgetary increases on project-based contract-administered contracts,[53] or (3) a signed agreement to enter into a housing assistance payments contract renewal (if any) and the attached notification of funding.[54] The approved forms were designed to provide the project name, address, number and types of units, rent rates, covered period, amount of funding allocated, and signature of the approving HUD official.

In fiscal year 2015, we found that 150 obligations and disbursements (75 obligations and 75 disbursements) from a sample of 236 (114 of obligations and 122 disbursements), or 63.6 percent, were not supported with proper obligating documentation as prescribed in the latest approved housing control of funds requirements. These 150 obligation and disbursement transactions were $137.9 million and $6.8 million, respectively.

This condition occurred because the Office of Multifamily Housing Programs misunderstood the use of the Section 8 budget authority change form as the obligation point. The funds control plans specifically stated that "…funding notification may be in the form of the Funding Notification Letter, which is the obligating document, or the Funding Notification for Field Office – S8 Budgetary Authority Change." The forms used to process obligations did not provide assurance regarding whether the obligations were accurately processed and approved by the authorized official. Also the Office of Multifamily Housing Programs replaced the funding notification letter to the projects with an email to the projects.

In July 2015, we asked the Office of Multifamily Housing Programs to provide the email notifications or any other documentation showing that obligations were reviewed and approved by the HUD authorized officials. It dismissed our request, indicating it may not have backups to retrieve the notifications.

[52] The notification of funding of Section 8 contract rents and funding form is required for authorizing obligation of funds to a housing assistance payments contract administrated by HUD at least annually.
[53] The transaction annual contributions contract amendments form is required for authorizing obligations to a contract administrated by a contractor acting on HUD's behalf at least annually.
[54] The housing assistance payments contract renewal, along with the notification of funding, is required for authorizing the project's continued participation and for authorizing the obligation of funds the first year.

In October 2015, the Office of Multifamily Housing Programs provided OCFO a funds control plan for its review. OCFO is expected to review the plan in fiscal year 2016.

Not All HUD Programs Had a Funds Control Plan

Our review of HUD's funds control plans found 112 program codes that were not documented in a funds control plan. HUD's program codes are used to identify funds obligated and spent for specific programs and activities in its financial systems. During the first 6 months of fiscal year 2015, expenditures of $2.2 billion and obligations of $2.4 billion were made from these program codes.

This condition was reported in prior years. In the past, HUD decided to not create funds control plans for programs or accounts that were only spending funds and not incurring new obligations. However, OMB Circular A-11, section 150, Administrative Control of Funds, states that the purpose of an agency's funds control system is to restrict both obligations and expenditures from each appropriation of fund account to the lower of the amount apportioned by OMB or the amount available for obligation or expenditure in the appropriation or fund account.

Additionally, HUD Handbook 1830.2, REV-5, Administrative Control of Funds, states that proper execution of a funds control plan should provide reasonable assurance that obligations and expenditures will not exceed the authorized limits of the allotted funds. It also states that funds control plans must contain detailed information for the program line item or other activity included in the allotment, broken down to the lowest level of any corresponding assignment of funds, and list the hierarchy of accounting codes associated with each funded activity covered in the allotment to show how funded activities are controlled and rolled up to the allotment level as a required element of a funds control plan.

Further, OCFO did not have controls over the process for establishing new program codes in HUD's accounting system. Program offices were able to request a new program code without the review and approval of the respective funds control officer, allotment holder, or OCFO. Therefore, program codes were established without confirmation that an adequate funds control plan had been approved. This practice resulted in decreased assurance that HUD's funds were obligated and disbursed in compliance with applicable laws and regulations.

FMFIA states that internal accounting and administrative controls of each executive agency must be established in accordance with standards prescribed by the Comptroller General and must provide assurance that obligations and costs comply with applicable law.

As a result of the lack of funds control plans for all activities and program codes, HUD did not have documented internal controls over the obligation and disbursement of all of its funds. As a result, it could not monitor the internal controls to ensure that they functioned effectively. This condition caused HUD to lose traceability of transactions with the corresponding authority and program law.

Funds Control Plans Were Not Kept Up to Date

We previously reported that all of HUD's funds control plans were not updated in a timely manner. This condition continued in fiscal year 2015. OCFO requires allotment holders to recertify annually that internal controls to administer funds have not changed and to submit updated plans before implementing changes. We noted the following:

- Not all offices submitted the annual certification. Specifically, only 4 of the 16 offices (or 25 percent) submitted their annual certification. This deficiency resulted in 66 funds control plans not being recertified for fiscal year 2015.

- 30 of 32 salaries and expenses funds control plans had not been updated to reflect the implementation of HIAMS, which occurred during fiscal year 2012.

- The salaries and expenses funds control plans did not reflect the December 2012 rescission of forms HUD-718, Funds Reservation and Contract Authority, and HUD-720, Requests for Contract Services, formerly used to request contract actions through OCPO.

- The funds control plan for the Office of the Chief Human Capital Officer had not been updated since its reorganization and renaming from the Office of Administration in 2009. As a result, the plan referenced divisions and offices that no longer exist.

- The funds control plans for the Section 184 Loan Guarantee program were inconsistent with the procedures in use. Revisions to these plans were in process during fiscal year 2015.

These conditions existed because HUD's allotment holders did not update their funds control plans or notify the Chief Financial Officer in a timely manner after changes occurred. HUD Handbook 1820.2, REV-5, states that an allotment holder must immediately advise the Chief Financial Officer of any changes to its funds control plan during the fiscal year. Administrative changes to the funds control plans must be communicated in writing, including the precise timing of any changes, to the persons or positions authorized to initiate, approve, and process actions that commit, obligate, or spend funds.

Another factor leading to the out-of-date funds control plans was OCFO's lack of oversight and monitoring of the program offices' compliance with their funds control plans in prior years. The CFO Act states that the responsibilities of an agency chief financial officer include directing, managing, and providing policy guidance and oversight of all agency financial management personnel, activities, and operations. Because of the lack of oversight and monitoring, OCFO was not aware that changes within the program offices were going unreported and, therefore, could not correct the behavior. During fiscal year 2013, OCFO's Funds Control Assurance Division began performing reviews of program office compliance with the funds control plans and completed its first year of a 5-year cycle in fiscal year 2014.

OCFO concurred with prior-year recommendations and was implementing corrective actions. In July 2015, OCFO identified funds control plans that required updates and requested the allotment holders and funds control officers to provide updated plans for its review.

CFO Systems Division Did Not Document Changes To The Accounting Data

During our review, we found instances where the OCFO Systems division made changes to accounting data that resulted in unsupported general ledger transactions. As a result, we could not validate these transactions compliance with the program funds control process and consistency with Federal accounting standards.

In the first instance, accounting data changes were made in September 2015 to correct $2.4 billion of Disaster program funds that were misallocated in the wrong organization code by CPD staff in March 2015. The second instance occurred due to HUDCAPS system limitations when OCFO, following Congressional authorization, administratively transferred Housing for the Elderly and Disabled program funds from one appropriation fund to another.[55] While our sample found that OCFO made accounting data changes to transfer $50 million in budgetary authority between funds, there may be additional transfers. Last year, OCFO performed similar entries for $531 million, but did not have documentation available for review until January 2015.

In neither instance did the sample selected have a user name or the transaction description that would enable another accountant or program staff to identify the source document and who performed the transaction. Furthermore, the documentation provided did not support (1) that transactions were reviewed and approved by the responsible official, (2) that accounting changes were accurately processed; and (3) how the general ledger was impacted by the data changes processed. This condition occurred because OCFO did not have policies or procedures requiring staff to document the system data changes or entries affecting the Program funds general ledger and that it be reviewed and approved. These controls are important in order to comply with GAO Standards for Internal Control in the Federal Government which includes a standard for performing control activities, such as proper management review and authorizations and documentation of transactions, to ensure the establishment and maintenance of internal control in an organization. Additionally, OMB Circular A-11 Section 150 states that per the Antideficiency Act agencies are required to establish funds control regulations that would enable identifying the person responsible for any obligation or expenditure.

Conclusion

HUD did not have a fully implemented and complete administrative control of funds system during fiscal year 2015. As a result, it did not have adequate assurance that its obligations and disbursements complied with applicable laws and limitations. HUD's ability to determine the

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[55] P.L. 112-10, Department of Defense and Full-Year Continuing Appropriations Act, 2011 approved April 15, 2011. SEC. 2256. The first proviso under the heading ‘‘Housing for the Elderly’’ and under the heading ‘‘Housing for Persons with Disabilities’’ in division A of Public Law 111–117 are each amended to read as follows: ‘‘Provided, That amounts obligated for initial project rental assistance contracts from amounts appropriated in fiscal year 2003 and thereafter shall remain available for the purpose of paying such obligations incurred prior to the expiration of such amounts for a 10 year period following such expiration:’’

responsible parties in the event of an ADA violation was also hindered as a result of its incomplete funds control system.

In addition, processing disbursements before the documented point of legal obligation may lead to violations. Statistically projecting our results for the Multifamily Section 8 Rental Housing Assistance disbursements in fiscal year 2015, we can be 95 percent confident that at least $6.06 billion in obligations and $5.42 billion in disbursements were processed without properly authorized supporting documentation. Consequently, we were not able to validate multiple obligation and disbursement samples to determine whether obligations incurred and disbursements made were properly approved by the authorized official with the correct projects, number of units, rent rates and the amount allocated.

Recommendations

Prior-year recommendations regarding this finding remained open and can be referred to in the Followup on Prior Audits section of this report. We have one new recommendation in this report.

We recommend the Deputy Chief Financial Officer

7A. Develop policies and procedures to ensure that any data changes and accounting adjustments processed by OCFO Systems staff that impact the general ledger are sufficiently documented, identifying a description of the event, the preparers of the adjustment, the approving officials of the adjustment, and dates when adjustments occurred.

Finding 8: 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[56] 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.

HUD Did Not Sufficiently Monitor Obligations To Ensure Timely Expenditures for Its Disaster Recovery Program

HUD's Disaster Recovery and Special Issues Division did not sufficiently monitor the timeliness of expenditures within its disaster recovery program.[57] As a result, grant funds were retained for funding lines with either no disbursement activity or no disbursements within the last 2 years.[58] We found 10 obligations under HUD's disaster recovery program that met this criteria for potentially slow-moving or stalled projects, with total undisbursed obligations of $331.1 million as of September 30, 2015.

Of the 10 obligations, 9 funding lines from the fiscal year 2008 appropriation[59] for Hurricane Ike disaster funds showed no disbursement activity had occurred since the funds were obligated. These funding lines were allocated in 2011, and the total undisbursed obligations totaled $263.4 million. We also identified one allocation funded by the fiscal year 2012 supplemental appropriation[60] of disaster funds with no disbursement activity since September 7, 2013. This project was allocated more than $71.6 million and had an undisbursed obligation amount of more than $67.6 million as of September 30, 2015.

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[56] $104.3 million in homeless assistance funds, $90 million in housing obligations, and $6.1 million in administrative obligations

[57] Federal Register, 74 FR 7244 Vol. 74, No.29, states HUD expects each state grantee to expeditiously obligate and expend all funds, including any recaptured funds or program income, and to carry out activities in a timely manner.

[58] Federal Register, 74 FR 7244 Vol. 74, No.29 and 77 FR 22583 Vol. 77, No. 73 state funds available until expended unless, in accordance with 31 U.S.C. 1555, HUD determines the purposes for which the appropriation has been made have been carried out and no disbursement has been made against the appropriation for 2 consecutive fiscal years. In such a case, HUD shall close out grant prior to expenditure of all funds.

[59] Funds appropriated under Public Law 110-329, issued September 30, 2008, 122 STAT. 3599

[60] Funds appropriated under Public Law 112-55, issued November 18, 2011, 125 STAT.

HUD's interpretation of the law and related guidelines regarding the disaster programs was that any expenditure requirements should be measured against the grant as a whole.[61] HUD stated that there was no formal requirement regarding the review of expenditure activity for separate funding allocations under one grant. HUD generally relied on the needs assessment conducted during the initial allocation process. No formal procedures had been developed or consistently implemented to identify, monitor, and review these allocations to determine whether a bona fide need[62] existed for these funds as required by the Federal Register.[63]

We also found discrepancies in the funding status for these grants between the Disaster Recovery Grant Reporting (DRGR) system and two of HUD's financial systems, the Financial DataMart and LOCCS. There were significant differences in the total reported as disbursed and undisbursed amounts for the disaster recovery funds at fiscal yearend.

As a result, $331.1 million in obligated disaster grant funds was tied up in potentially stalled projects instead of being used to further the purposes of the program and reallocated to eligible States in need.

If disaster recovery funds are obligated for stalled projects, the goals of HUD's disaster recovery program to rebuild the affected areas and provide crucial seed money to start the recovery process will not be achieved. Additionally, these stalled activities may represent obligations with no bona fide need, also referred to as an invalid obligation, resulting in HUD's unpaid obligation balances being overstated on its consolidated statement of budgetary resources.

Unliquidated Obligations on Expired Homeless Assistance Grants Had Not Been Recaptured by CPD

Expired Homeless Emergency and Rapid Transition to Housing – Continuum of Care (HEARTH CoC) grants were not closed within the 90-day period after the expiration date as required by either the program's funds control plans or the Code of Federal Regulations.[64] The Office of Special Needs Assistance Programs (SNAP) did not implement or enforce policies and

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[61]One grant may consist of several activities or projects funded by several different allocations or obligations. For example, funding for Hurricane Ike was provided to the grantees in multiple allocations.

[62] GAO, Principles of Federal Appropriations Law, 3rd edition, chapter 5, section A, states that the concept of the "legal availability" of appropriations is defined in terms of purpose, time, and amount. Section B states that the bona fide needs rule is one of the fundamental principles of appropriations law. A fiscal year appropriation may be obligated only to meet a legitimate, or bona fide, need arising in or in some cases, arising prior to but continuing to exist in the fiscal year for which the appropriation was made.

[63] Federal Register 77 FR 22583 Vol. 77 states, "During the course of the grant, HUD will monitor the grantee's actions and use of funds for consistency with the plan, as well as meeting the performance and timeliness objectives therein. The Action Plan must contain: (1) An impact and unmet needs assessment. Development of a needs assessment to understand the type and location of community needs will enable grantees to target limited resources to areas with the greatest need. Remaining recovery needs also evolve over time as they are met by dedicated resources. As a result, the needs assessment and Action Plan may be considered as a living document, which grantees may need to periodically update over time."

[64] 24 CFR 84.71(b) – "Unless HUD authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in HUD instructions."

procedures to ensure that expiring contracts were closed within the 90-day period. The expired grants with an available balance report as of October 7, 2015,[65] showed that approximately 2,308 contracts, which expired between July 1, 2014, and June 30, 2015, were not closed within the 90-day period. In addition, the remaining undisbursed obligation balances of approximately $104.3 million had not been recaptured.

Newly drafted procedures to automate and expedite the deobligation and recapture process were still being tested because of the creation of the Office of Policy Development and Coordination (OPDC) in October 2014. This office was created to focus on grant closeouts and audit responses for CPD programs. SNAP had worked diligently during the fiscal year to close out and recapture remaining funds on expired grants identified in prior-year audit reports. However, the field offices continued to be overwhelmed with running multiple fiscal year funding competitions simultaneously because of the cumulative effect of delays from prior years. In addition, employee turnover and inadequate training of field staff and grantees continued to be an issue. HUD was (1) reviewing the effectiveness of pilot processes implemented in fiscal year 2015 regarding the recapture and closeout process, (2) training field office staff, and (3) assigning clear roles and responsibilities in the closeout and recapture process. HUD stated that these tasks should enable SNAPS and OPDC to more regularly monitor and track the financial status of its grants and field office compliance with the newer and more automated program procedures to close out and recapture unexpended funds on expired contracts.

As a result, $104.3 million in grant funds was not recaptured and reallocated to be used to further the purposes of the program or returned to Treasury. Additionally, HUD's unpaid obligation balances were overstated on the statement of budgetary resources.

Housing Obligations Were Inactive or Expired

As of September 30, 2015, we noted $54.4 million in project-based Section 8 funds, $36.2 million in Section 235-236 funds, and $1.3 million in Section 202-811 funds that were identified to be deobligated but were not. HUD did not adequately monitor and deobligate unliquidated balances from these obligations, resulting in the unpaid obligation balance on HUD's statement of budgetary resources being potentially overstated by $90 million. See table 3 for details.

Table 3 Invalid housing obligations		
	$	**#**
Project-based Section 8	$52.5 million	228
Section 235-236	$36.2 million	477
Section 202-811	$1.3 million	29
Total	$90 million	734

[65] We used the report, dated October 7, 2015, because it accounted for transactions made within the 7 days during which the accounting system was held open for any remaining yearend transactions.

Program Offices Did Not Complete Their Deobligation Certifications in a Timely Manner and Did Not Complete Deobligations Identified During the Departmental Review

The annual departmentwide obligation review and certification process is an essential part of HUD's internal controls over its funding and accurate financial reporting. This review gives OCFO assurance that its fiscal yearend obligation balance is valid and accurately valued. To ensure adequate time for the deobligation of any invalid obligations by the end of the fiscal year, OCFO required program offices to review and certify their obligations by June 30, 2015. We noted that a number of program offices completed their review and certified their obligations after the June 30 deadline. As a result, offices may be unable to process deobligations before the end of the fiscal year (September 30).

Several offices did not complete the deobligation of the invalid obligations they identified. During the fiscal year 2015 review, offices marked 2,105 obligations with remaining balances of $107.9 million for deobligation. Of these, 556 obligations with remaining balances of $30.7 million were not closed out and deobligated by the end of the fiscal year.[66] We attributed HUD's inability to process all of the closeouts and deobligations by the end of the fiscal year to delayed certifications and a lack of monitoring of obligations throughout the year. Several HUD program offices relied on the annual OCFO-coordinated open obligations review to assess all of their obligations and deobligate any invalid obligations. As we have reported in prior years, while the OCFO-coordinated review is an important internal control, it was not designed to be the sole control over open obligations because (1) the period for review and deobligation is limited and (2) only obligations above the predetermined threshold are required to be reviewed.

As a result, HUD's unpaid obligation balances on the statement of budgetary resources were overstated by $30.7 million. HUD was working to close and deobligate these obligations, and the associated funding should be recaptured during fiscal year 2016.

HUD's Administrative Obligation Monitoring Improved in 2015

HUD's administrative obligations are a result of contracts entered into for the goods and services necessary to operate, such as employee training, printing services, subscriptions, IT support, and other service contracts. Most of these administrative obligations are made using annual appropriations that must be used to meet a bona fide need of the fiscal year in which they were appropriated. After the year passes and the terms of the contract have been fully executed, the remaining balances are invalid.[67] HUD's monitoring of these obligations improved in 2015, and $6.1 million in inactive or expired obligations had been identified as of September 30, 2015, down from $46.1 million as of September 30, 2014. We attribute this improvement to every program office's certifying its obligations before September 30 this year, while three program offices did not in 2014.

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[66] Refer to Appendix B – Departmentwide Obligation Review – Schedule of Recommended Deobligations.

[67] In our review, we considered an obligation invalid if it had not had a disbursement in the last 2 years. We assume that if the obligation has not had a disbursement in 2 years, the contract has been fully executed and it is unlikely that future adjustments would be needed.

As a result, HUD's September 30, 2015, unpaid obligation balances on the statement of budgetary resources were potentially overstated by $6.1 million. Because most of HUD's administrative obligations are made using annual appropriations, not periodically reviewing their validity throughout the fiscal year can cause HUD to lose the opportunity to use funds tied to obligations that become invalid during the year.

Prior-Year Recommendations Had Not Been Implemented

We noted that as of September 30, 2015, prior-year recommendations regarding deobligation amounts of $106.3 million were outstanding. Therefore, HUD's unpaid obligations on the statement of budgetary resources related to prior-year unimplemented recommendations were overstated by $106.3 million. See table 4 for details.

Table 4		
Office	**Program**	**$**
Office of Housing	EHLP	$76.8 million
CPD	Homeless assistance	$29.5 million
Total:		**$106.3 million**

Conclusion

HUD's processes for (1) monitoring the validity and need for its unliquidated obligations and (2) timely closeout of expired grants continued to not be fully effective during fiscal year 2015. As a result, we identified $531.5 million tied to expired or inactive obligations or grants that had not completed the closeout process. Additionally, HUD did not close out all of the obligations identified as invalid by the end of the fiscal year. This deficiency resulted in $30.7 million in invalid obligations remaining on HUD's books at yearend. In total, HUD's unliquidated obligation balance on the statement of budgetary resources was potentially overstated by $562.2 million. We also noted that as of September 30, 2015, HUD had not implemented prior-year recommendations of $106.3 million, which also caused a potential overstatement on the statement of budgetary resources.

HUD's lack of an established process to reconcile the subsidiary and general ledger systems caused differences between obligations controlling accounts and supporting records to not be identified on a timely basis, if at all. This deficiency left unsupported or incomplete balances in the general ledger, which were at risk of being transferred to the new accounting system.

Recommendations

We recommend that the Principal Deputy Assistant Secretary for Community Planning Development

8A. Close out and deobligate the remaining balances on 2,308 expired homeless assistance contracts of $104,347,996. HUD should also deobligate $3,602,342 in 102 program obligations marked for deobligation during the departmentwide open obligations review. Lastly, HUD should review the 57 obligations with remaining balances of $188,176 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

8B. Review the open obligations totaling $331,136,395 for the 10 funding lines in question and determine whether a bona fide need still exists. If the funds are no longer needed, HUD should deobligate, recapture, and reallocate the funds to eligible States with a current need.

8C. Develop and implement a monitoring plan to review outstanding disaster grant activity to ensure that the expenditure rates are consistently tracked and evaluated and that there are specific criteria to identify slow-moving projects. The procedures should include a process to follow up and recommend corrective actions for the slow-moving projects identified, to include recapturing funds if necessary.

8D. Design and implement a policy to ensure that reconciliations of expenditure activity between HUD's financial management systems and DRGR are periodically performed for all active disaster grant balances to ensure that expenditure activity is accurate in DRGR. The policy should also include procedures for followup and resolution of identified differences.

We recommend that the Principal Deputy Assistant Secretary for the Office of Housing-Federal Housing Commissioner

8E. Deobligate all obligations marked for deobligation during the departmentwide open obligations review, including as much as $19,634,263 in 209 administrative obligations and $2,224,807 in 24 program obligations marked for deobligation as of September 30, 2015. Additionally, HUD should review the 225 obligations with remaining balances of $285,024 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

8F. Review and if necessary deobligate the 228, 477, and 29 expired or inactive project-based Section 8, Section 235-236, and Section 202-811 projects totaling $52.5 million, $36.2 million, and $1.3 million, respectively.

We recommend that the Principal Deputy Assistant Secretary for Public and Indian Housing

8G. Deobligate all obligations marked for deobligation during the departmentwide open obligations review, including as much as $3,269,289 in 16 program obligations marked for deobligation as of September 30, 2015. Additionally, HUD should review the 14 obligations with remaining balances of $146,320 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

We recommend that the Chief Information Officer

8H. Deobligate all obligations marked for deobligation during the departmentwide open obligations review, including as much as $430,942 in 44 administrative obligations and $135,957 in 2 program obligations marked for deobligation as of September 30, 2015. Additionally, HUD should review the 17 obligations with remaining balances of $1,486,191 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

We recommend that the Acting Chief Human Capital Officer

8I. Deobligate the $290,591 in 101 administrative obligations marked for deobligation during the departmentwide open obligations review. Additionally, HUD should review the 307 obligations with remaining balances of $3,761,645 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

We recommend that the Chief Administrative Officer

8J. Review the 216 obligations with remaining balances totaling $1,506,233 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

We recommend that the Assistant Secretary for Fair Housing and Equal Opportunity

8K. Deobligate $140,165 in 41 administrative and $125,166 in 3 program obligations marked for deobligation during the departmentwide open obligations review.

We recommend that the Assistant Secretary for Departmental Equal Employment Opportunity

8L. Review the 20 obligations with remaining balances of $77,807 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

We recommend that the Assistant Secretary for Policy Development and Research

8M. Deobligate $78,230 in one administrative obligation and $193,265 in five program obligations marked for deobligation during the departmentwide open obligations review.

We recommend that the Deputy Chief Financial Officer

8N. Review the seven administration obligations with remaining balances of $115,035 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

We recommend that the Acting Ginnie Mae Chief Financial Officer

8O. Deobligate the $587,198 in eight administrative obligations marked for deobligation during the departmentwide open obligations review.

Finding 9: The Emergency Homeowner's Loan Program Loan 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 was 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 necessary to obtain sufficient, appropriate audit evidence regarding the accuracy of loans receivable balances related to 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.

The EHLP Loans Receivable Balance Was Not Auditable

The direct loan and loan guarantees line item on HUD's balance sheet did not include all loans receivable for EHLP. The total principal amount of the EHLP loan portfolio was $246 million. HUD did not correct the loan-level data in LAS, a subsidiary ledger that supports its general ledger and financial statements, because of reliability problems with the EHLP loan data and the ongoing efforts to correct them. Accordingly, there were loans with total principal of at least $116 million that were not recorded for fiscal years 2014 and 2015. Further, we were unable to determine other errors in the recorded balances because the data was unavailable.

We could not obtain assurance that the EHLP loans receivable balance included in HUD's direct loan and loan guarantees line item was accurate or complete because we were unable to perform all of the audit procedures for the EHLP loan balances that were necessary.

EHLP Loan Data Was Incomplete and Not Reliable

Our audit of HUD's fiscal year 2013 financial statements found that HUD did not have an adequate subsidiary ledger with sufficient loan-level detail to support the general ledger balances for EHLP.[68] In an attempt to correct this deficiency, HUD entered loan-level detail data into LAS in September 2014. However, a comparison of the data in the National Service Center's Single-Family Mortgage Asset Recovery Technology system (SMART), where the EHLP loan files were maintained, with the data in LAS identified differences in the loan principal amounts between the two systems. Specifically, we identified $116 million related to loan records in SMART that were not in LAS. These differences were caused by corrupted data in LAS and an unsuccessful attempt to correct the corruption. As we reported last year,[69] this deficiency resulted in data in LAS that was not accurate and complete and did not support the EHLP loans receivable balances in the general ledger.

During fiscal year 2015, HUD attempted to correct the data reliability issue by performing a "scrub" of the loan-level detail data for the 7,960 open loans in the EHLP portfolio. The scrub

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[68]Audit Report 2014-FO-0003, Additional Details To Supplement Our Report On HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements, issued December 16, 2013

[69]Audit Report 2015-FO-0004, Fiscal Years 2014 and 2013 Consolidated Financial Statements Audit, issued March 6, 2015

was meant to ensure the accuracy and completeness of the EHLP loan data in SMART before another attempt was made to enter the data into LAS. The scrub included validation of the completeness of the loan files, including the payment histories that had the final loan principal amounts. The results of the scrub were compared to the data in SMART to identify discrepancies. This effort began on August 19, 2015, and was not complete as of the date of this report. We received the results to date of the scrub on September 4, 2015, and noted that 1,941 loans were missing loan files. Of the 6,019 remaining loans, there were 219 with discrepancies in their loan amounts. HUD estimated that all discrepancies regarding loan amounts versus payment histories would be corrected by the end of September 2015. However, HUD also stated that it could not estimate when the 1,941 missing loan files would be located.

As a result of the incomplete loan files and unreliable data, we were unable to perform all of the audit procedures necessary to obtain sufficient, appropriate audit evidence regarding EHLP loan balances.

Conclusion

Loan balances for EHLP were not accurate or complete; therefore, we could not audit the balances reported on HUD’s financial statements. This condition occurred because of a lack of reliable loan-level data. HUD was attempting to correct this problem by performing a scrub of the EHLP loan files. As of the date of this report, work was ongoing. As a result, we were unable to perform all of the audit procedures necessary to obtain sufficient, appropriate audit evidence regarding the reasonableness of EHLP loan balances reported on HUD’s financial statements. However, we know that at least $116 million in loan principle had not been recorded as of the end of the fiscal year.

Recommendations

Prior-year recommendations regarding this finding remained open and can be referred to in the Follow-up on Prior Audits section of this report. We have no new recommendations in this report.

Finding 10: 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 (GSS), 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. Without adequate general controls, there was no assurance that financial management applications and the data within them were adequately protected.

Information System Control Weaknesses Were Identified in the IBM Mainframe

The IBM mainframe houses many of HUD's applications used to facilitate day-to-day operations. The mainframe includes communication functionalities on multiple platforms that provide information exchange services between users and applications. It permits authorized HUD users to access data maintained on multiple applications and integrate the data into other applications or process the information in its current form. In addition, the mainframe acts as a gateway for authorized external organizations and agencies to access HUD-maintained data. Major financial applications that operate on the IBM platform include (1) HUDCAPS, (2) the Single Family Insurance Claims Subsystem, and (3) the Tenant Rental Assistance Certification System.

During our review, we found[70] that HUD did not ensure that information system controls over the IBM mainframe fully complied with Federal requirements and its own security policies. Specifically,

1. User accounts on the IBM mainframe were not properly managed. Members of the Help Desk had access to a powerful system utility, although they had no business need for it. Additionally, two users had update privileges to datasets that were part of the IBM mainframe's security application. These users had no business purpose for modifying these datasets. Users had these unnecessary privileges in their profiles because reviews of user access to the IBM mainframe did not include reviewing the user accounts to determine whether they followed the policy of least privilege. This failure to follow HUD's IT security policy increased the risk that sensitive information could be exploited by malicious individuals, system integrity could be compromised, and data could be corrupted or disclosed.

[70] Work performed as part of our review of information system controls in support of the fiscal year 2015 audit of HUD's financial statements

2. Vulnerabilities were not reported in system security documentation. This condition occurred because of an oversight by HUD's IT support contractor. Failure to properly document open findings in risk assessments and security authorization documentation presents an inaccurate risk profile for the information system.

We Followed Up on Information System Control Weaknesses Previously Identified in the Program Accounting System

The Program Accounting System (PAS) provides fund accountability and an integrated subsidiary for HUD's grant, subsidy, and loan programs. PAS interfaces nightly with HUDCAPS and LOCCS. PAS maintains accounting records based on transactions received from HUDCAPS and provides fund control information to LOCCS, which is used to disburse payments for more than 100,000 projects. Together, PAS and LOCCS control outlays of more than $30 billion annually. PAS also provides daily extracts to the Financial Data Mart and monthly extracts to the Tenant Rental Assistance Certification System. PAS data are critical to the success of HUD's monthly, quarterly, and annual external reporting and audited financial statements. PAS processes more than 66 percent of the monthly accounting transactions handled by OCFO.

Our review in fiscal year 2014[71] found that HUD did not ensure that general and application controls over PAS fully complied with Federal requirements and its own security policies. We identified weaknesses related to access controls, error handling, processes for transaction overrides, outdated documentation, and segregation of duties.

We followed up on the status of these weaknesses during fiscal year 2015. HUD planned to develop and document error handling procedures and establish a documented process for transaction overrides during the first quarter of fiscal year 2016.

We Followed Up on Information System Control Weaknesses Previously Identified in LAS

LAS is based on a commercial-off-the-shelf product and was implemented in August 2006. LAS is a mixed financial system that performs the direct loan servicing activities required to support HUD's Section 202 Housing for the Elderly and Handicapped Loan Program, Section 201 Flexible Subsidy Program, Section 236 Excess Rental Income Program, Green Retrofit Program, and EHLP. The system maintains the loan amortization schedules, generates the monthly interest amounts due and principal amounts due, and applies collections to the interest and principal amounts due, and all excess amounts are recorded in the project-loan suspense account.

In an audit conducted in fiscal year 2014,[72] we found that the EHLP data in LAS was incomplete and inaccurate. Specifically, (1) the loan data in LAS was incomplete, (2) the loan data initially entered into LAS was inaccurate, and (3) the process used by HUD to correct the data for the HUD direct loan portion of the program may not have resulted in accurate data. Controls over the data transfer process for EHLP loan data were not secure. While a secure Web site had been established for the fiscal agents and States to send EHLP loan information to the Office of

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[71] 2014-DP-0006, Information System Control Weaknesses Identified in the Program Accounting System, issued September 23, 2014

[72] 2015-DP-0004, Review of the Loan Accounting System, issued December 9, 2014

Housing and OCFO, the fiscal agent and State grantees, which administered the program, were not required to transmit data via the secure Web site. In addition, controls to lock out a user after three failed login attempts had not been implemented.

Data changes were not adequately controlled in LAS. Some access controls in LAS were not effective. Specifically, (1) the user recertification process did not ensure that all users were included, (2) formal procedures for granting and removing user access were not always followed, (3) excess privileges were granted to two users, and (4) audit logs were not reviewed. Our audit revealed that the LAS configuration management plan was outdated, documentation for application interfaces with LAS was not consistent, and technical details required to operate the interfaces were not included in the documentation.

We followed up on the status of these weaknesses during fiscal year 2015. HUD took actions during the fiscal year to address the weaknesses identified with the process to make data changes, the configuration management plan, and access controls. HUD continued to address the weaknesses identified related to the EHLP data, the data transfer process, the review of audit logs, and revision of the interface documentation. These actions were scheduled to be completed during fiscal year 2016.

We Followed Up on Information System Control Weaknesses Previously Identified in LOCCS

LOCCS is HUD's primary system for disbursement, cash management, and postaward of financial grants. It is a mission-critical system, with approximately 20,000 users. LOCCS is an integral part of OCFO's core financial management system. It manages disbursements for most HUD programs. LOCCS is available 7 days a week to service the funding needs of HUD's grant, loan, and subsidy clients. Users typically access LOCCS through Web-enabled modules or by using the Voice Response System (VRS). VRS is a hardware component relied upon by approximately 5,000 users. It allows recipients to request payments via a question and answer session using a touch-tone telephone.

Our fiscal year 2013 audit of LOCCS[73] found that (1) the LOCCS VRS was not covered by a hardware maintenance agreement, (2) LOCCS disaster recovery testing did not include all of the essential components, (3) LOCCS access controls needed updates, (4) some of the LOCCS system documentation was outdated, and (5) the separation of duties between the LOCCS voucher processing and banking groups had not been fully achieved.

We followed up on the status of these weaknesses during fiscal year 2015. HUD had addressed four of the five weaknesses identified during the audit and was working to ensure that future LOCCS disaster recovery testing includes all of the essential components.

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[73] 2014-DP-0001, Information System Control Weaknesses Identified in the Line of Credit Control System, issued November 7, 2013. This was a limited distribution report due to the sensitive nature of the information reported, and was, therefore, not made available to the public.

We Followed Up on Information System Control Weaknesses Previously Identified in HUD's Intranet GSS

In an audit we conducted in fiscal year 2014,[74] we reviewed controls over HUD's Intranet GSS. We found that OCIO did not have documentation that sufficiently defined the segregation of duties or procedures for evaluating compliance with the segregation of duties for users with above-read access to the Intranet GSS and its interconnected systems. We also found that security management documentation was not always complete, accurate, or current. Not all security management program documents were updated to reflect current conditions; some information on HUD's IT security Web site was outdated, inaccurate, or unavailable; and minor applications did not have valid authorizations to operate.

We followed up on the status of these weaknesses during fiscal year 2015. HUD had taken action to correct segregation of duties weaknesses and planned to address the security management weaknesses by the third quarter of fiscal year 2016.

We Followed Up on Weaknesses Identified During the Fiscal Year 2013 Review of Information Systems Controls in Support of the Financial Statements Audit

During fiscal year 2013, we reviewed policies and processes applicable to HUD's continuous monitoring program.[75] Continuous monitoring is maintaining ongoing awareness of information security, vulnerabilities, and threats to support organizational risk management decisions. HUD's continuous monitoring program needed improvements in its design to strengthen the collecting and reporting of information security data. The improvements would also increase assurance of the accuracy and reliability of the business and financial processes that the IT systems support. We followed up on the status of these weaknesses and found that HUD had developed and implemented a schedule to perform vulnerability scans for applications that support the financial statements. Additionally, HUD completed the development of its Information Security Continuous Monitoring Strategy and Program and the HUD Security Assessment Authorization Continuous Monitoring Guide during fiscal year 2014. These documents clarify HUD's continuous monitoring policies. HUD completed the corrective actions for the remaining weaknesses during fiscal year 2015.

While observing the semiannual disaster recovery exercise in April 2013, we noticed that telecommunication links were not in place for transmitting data to Treasury from the recovery site. OCIO had a memorandum of understanding with Treasury to allow HUD applications to transfer business and budgetary information for action required by Treasury. The "Disasters and Other Contingencies" clause in the memorandum required the designated technical staff to immediately notify the designated counterpart in the event of a disaster or other contingency that disrupts the normal operation of the connected systems. The memorandum did not contain alternate provisions for the connection to be resumed at an alternate site. Upon further inquiry, we determined that there were no contingency plans in place for resuming operation of the telecommunication links to Treasury during a disaster recovery event.

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[74] 2015-DP-0005, Fiscal Year 2014 Review of Information Systems Controls in Support of the Financial Statements Audit, issued February 24, 2015

[75] 2014-DP-0005, Fiscal Year 2013 Review of Information Systems Controls in Support of the Financial Statements Audit, issued April 30, 2014

We followed up on the status of this weakness during fiscal year 2015. HUD planned to work with Treasury to develop, implement, and document the plan for resuming telecommunication links to Treasury when HUD is processing from the alternate site. HUD expected to complete this action during the first quarter of fiscal year 2016.

Conclusion

HUD's computing environment provides critical support to all facets of its programs, mortgage insurance, financial management, and administrative operations. During fiscal year 2015, as in prior years, we continued to identify information systems control weaknesses that could negatively affect HUD's ability to accomplish its assigned mission, protect its data and IT assets, fulfill its legal responsibilities, and maintain its day-to-day functions. As a result, we continued to report a significant deficiency for HUD's computing environment.

Recommendations

Recommendations were included in separate OIG audit reports. Therefore, no recommendations are reported here.

Compliance With Laws and Regulations

In fiscal year 2015, we found instances in which HUD did not ensure that transactions were executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and any other laws, regulations, and governmentwide policies identified in OMB audit guidance.

Finding 11: HUD's Financial Management System 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.

Agency and OIG FFMIA Compliance Determinations

FFMIA, section 803(a), requires chief financial officer agencies to establish and maintain financial management systems that comply substantially with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the USSGL at the transaction level. FFMIA also requires agencies and their auditors to determine annually whether an agency's financial management system (including primary or general ledger accounting systems and subsidiary or "mixed" systems) complies with those requirements.

As of September 30, 2015, we noted multiple instances in which HUD did not substantially comply with the three section 803(a) elements of FFMIA. We tested compliance with FFMIA in accordance with OMB Circular No. A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996.[76]

HUD also concluded that the agency and its financial management system did not substantially comply with each element of FFMIA. Refer to table 5 for details.

Table 5
Compliance with Section 803(a) elements of FFMIA

	Agency	Auditor
1. System requirements	Lack of substantial compliance noted	Lack of substantial compliance noted
2. Accounting standards	Lack of substantial compliance noted	Lack of substantial compliance noted
3. USSGL at transaction level	Lack of substantial compliance noted	Lack of substantial compliance noted

As of Septemer 30, 2015, HUD reported that 5 of 40 financial systems did not comply with the requirements of FFMIA. For areas of FFMIA noncompliance, each agency must identify remediation activities that are planned and underway, describing target dates and offices

[76] OMB Memorandum M-13-23 (OMB Circular A-123, appendix D) (October 21, 2013, accessed October 8, 2015); http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-23.pdf

responsible for bringing systems into substantial compliance with FFMIA.[77] Refer to HUD's 2015 agency financial report for additional details.

In addition, when auditors disclose a lack of substantial compliance with one or more of the section 803(a) requirements, FFMIA requires that auditors provide additional details regarding the noncompliance.[78] Refer to appendix C for additional details.

As the combined impact of HUD's system limitations expands beyond the scope of the updated FFMIA framework, the system flaws identified as instances of FFMIA noncompliance are further described in the internal control section of this report as deficiencies contributing to a related material weakness.

Entity-Wide Non-Compliance With Federal Financial Management System Requirements

We noted that HUD is not substantially compliant with Federal financial management system requirements because of pervasive information security weaknesses at the entity-level and within various financial systems identified by the FISMA review and other separate evaluations. The heads of agencies and their offices of inspectors general or independent auditors, as applicable, are required to annually report on the adequacy and effectiveness of information security policies, procedures, and practices, including any "major information security incident" or "related sets of incidents." FISMA requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. The heads of agencies and offices of inspectors general are required to annually report on the compliance and effectiveness of the agency program.[4] The fiscal year 2015 independent evaluation of the HUD IT security program found weaknesses in multiple areas which is discussed further in a limited distribution report issued to HUD.

Conclusion

We reviewed HUD's compliance with FFMIA as of September 30, 2014, and found instances of substantial noncompliance with each of the section 803(a) elements within HUD's financial management system. Despite legacy system modernization efforts in 2015, we continued to report that HUD's financial systems did not substantially comply with FFMIA as of September 30, 2015.

Recommendations

There are no new recommendations in this area.

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[77] OMB Circular A-136, Revised (August 4, 2014, accessed October 8, 2015); https://www.whitehouse.gov/sites/default/files/omb/assets/OMB/circulars/a136/a136_revised_2015.pdf

[78] OMB Bulletin 15-02, Audit Requirements for Federal Financial Statements, (August 4, 2015, accessed October 8, 2015); https://www.whitehouse.gov/sites/default/files/omb/bulletins/2015/15-02.pdf

Finding 12: 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 the current 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.[79] Lastly, allowing grantees to disburse funds from commitments made outside the 24-month statutory period may have caused HUD to incur improper payments.

HUD Policies Did Not Comply With the HOME Statute

The HOME Statute required HUD to establish a HOME Investment Trust Fund for each participating jurisdiction (grantee), with a line of credit that included the grantee's annual allocation. The Statute also required each grantee to place all of its annual allocation's funds under a binding commitment within 24 months after it received its line of credit. Failure to do so would result in the grantee's losing its right to draw any funds that were not placed under binding commitment within the 24 months and required HUD to make such reductions and reallocate the funds as soon as possible.

HUD implemented a flawed process, called the cumulative method, to determine a grantee's compliance with the requirements of section 218(g) of the Statute and determine the amount to be recaptured and reallocated with section 217(d). HUD measured compliance with the commitment requirement cumulatively, disregarding the allocation year used to make the commitments.

Further, as discussed in finding 1 of this report, HUD also implemented the FIFO method to commit HOME program funds, which made it difficult to determine which commitments were made during the 24-month period. We continued to find this FIFO method to be a departure from Federal GAAP.

Our audit results indicated that the use of a noncumulative method would result in a number of grantees that would not meet the 24-month commitment deadline, resulting in grant funds that could possibly have been recaptured and reallocated. We determined the commitment status, based upon a noncumulative approach, for 309 grantees for the 2013 annual allocation

[79] Audit Memorandum 2015-FO-0801, Potential Antideficiency Act Violation HOME Investment Partnerships Program, issued June 16, 2015

commitment requirement and noted that 185 grantees had met the commitment requirement based upon HUD's cumulative method but did not meet the requirement based upon OIG's noncumulative method. We also noted that 37 grantees did not meet the requirement based on either method. This discrepancy resulted in a total net difference of $38.6 million, which should have been recaptured and reallocated if HUD had used the noncumulative calculation and grantees did not provide evidence to support commitments that were not entered into IDIS Online.

Use of the Cumulative Method May Have Caused Improper Payments

During the fiscal year 2013 audit, we identified three grantees that committed grant funds beyond the 24-month statutory deadline using the noncumulative commitment method. The three grantees were recipients of the fiscal year 2010 grant year allocation of HOME program funds, which had a 24-month commitment deadline that fell in fiscal year 2012. We followed up on the status of these grantees during the fiscal year 2015 audit. We obtained disbursement data for these three 2010 grantees as of July 31, 2015, and determined that they had disbursed approximately $950,000 from the commitments they made after their 24-month commitment deadline expired in fiscal year 2012. We believe that the $950,000 disbursed from commitments outside the 24-month statutory period meets the criteria of an improper payment. According to OMB Circular A-123, appendix C, an improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.

Use of the Cumulative Method May Have Caused ADA Violations

We reported to HUD in an audit memorandum[80] in June 2015 that these conditions met the criteria for an ADA violation. ADA prohibits Federal agencies from making or authorizing an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation. It also prohibits HUD from obligating the Government to pay money before funds have been appropriated for that purpose unless otherwise allowed by law (31 U.S.C. (United States Code) 1341(a)(1)(B)). Additionally, it prohibits HUD from accepting voluntary services for the United States or employing personal services not authorized by law, except in cases of emergency involving the safety of human life or the protection of property (31 U.S.C. 1342), or making obligations or expenditures in excess of an apportionment or reapportionment or in excess of the amount permitted by agency regulations (31 U.S.C. 1517(a)).

We determined that the cumulative method to determine compliance with the HOME Statute's 24-month commitment deadline incorrectly permitted some jurisdictions to retain and commit HOME program funds beyond the statutory commitment deadline. If funds are retained by grantees beyond the statutory deadline, HUD may incur an ADA violation if the funds that are inappropriately retained and not recaptured remain available for obligation or expenditure by the grantee. OCFO opened an investigation to review this matter after reviewing our June 2015 memorandum.

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[80] Audit Memorandum 2015-FO-0801, Potential Antideficiency Act Violation HOME Investment Partnerships Program, issued June 16, 2015

Changes To Eliminate the Cumulative Method Were Underway But Were Halted

In fiscal year 2013, CPD agreed to implement changes to IDIS Online to eliminate the FIFO method for fiscal year 2015 CPD formula grants (including the HOME program) beginning September 30, 2014. CPD stated that once the applicable changes were made to the HOME regulations and IDIS Online, HUD would stop using the cumulative method for determining compliance with the HOME 24-month commitment requirement for fiscal year 2015 grants. In doing so, CPD would comply with section 218(g) of the HOME Statute for grants obligated after the system changes are implemented. Despite our position to have changes applied prospectively as well as retroactively, CPD decided that compliance with the 24-month statutory commitment requirement for funds obligated before the system and regulatory changes would still be determined on a cumulative basis. For funds obligated after the system and regulatory changes, compliance would be determined on a grant-specific basis.

However, in fiscal year 2015, steps to eliminate the FIFO logic from IDIS Online were halted due to budget shortfalls that impacted this project. Although FIFO had been removed from fiscal year 2015 and forward grants, modifications to IDIS were still necessary for the system to comply with FFMIA and the USSGL at the transaction level. Among the remaining work, CPD must ensure that IDIS ties disbursements to specific commitments for the HOME program and that historical data at the transaction level are maintained by the system. This requirement includes transactions to account for subgranted amounts, collections, program income, and manual disbursements.

As of September 30, 2015, CPD was waiting for the expenditure plan to be approved by OCIO so that the IT contractor could start work on the elimination plan. The expenditure plan was for more than $1.8 million, which would leave a funding gap of $150,000 because the IT contractor estimated a cost of $2 million to complete the project.

CPD's plan as of the date of this report was to start work again on the IDIS project by November 2015. CPD would provide the workplans from the IT contractor to explain the plan for completing the remaining work to make IDIS compliant with the USSGL and FFMIA.

Conclusion

Although FIFO had been removed from fiscal year 2015 and forward grants, modifications to IDIS were still necessary for the system to comply with FFMIA and the USSGL at the transaction level. Among the remaining work, CPD must ensure that IDIS ties disbursements to specific commitments for the HOME program so that compliance with the HOME Statute can be made on a grant-by-grant basis. We also concluded that these conditions created the potential for an ADA violation and improper payments.

We will continue to work with CPD and OCFO to monitor the progress of HUD's plan to eliminate the FIFO and cumulative methods. During the next fiscal year, we will ensure that IDIS uses a non-FIFO method to disburse fiscal year 2015 and 2016 CPD formula grants and commit HOME funds and that the cumulative method for determining compliance with the HOME Statute is no longer being used. Further, we will continue to ensure that there is an appropriate audit trail for these processes and that OCFO continues to investigate the potential for an ADA violation due to these conditions.

HUD will continue to be noncompliant with the HOME Statute until the cumulative method is no longer used to determine whether commitment deadlines required by the Statute are met by the grantees. As a result, we will continue to report that HUD is noncompliant with related laws and regulations until the cumulative method is no longer used.

Recommendations

Prior-year recommendations regarding this finding remained open and can be referred to in the Follow-up on Prior Audits section of this report. We have provided new recommendations below.

We recommend that the Deputy Chief Financial Officer

12A. Implement a payment recapture audit for the HOME program, specifically to identify and recapture improper payments made as a result of the continued use of the cumulative method.

12B. Include the HOME program in the next annual improper payment risk assessment and ensure that the impact of the cumulative method to meet commitment deadlines is included in the risk assessment process to evaluate the susceptibility to significant improper payments.

Finding 13: HUD Did Not in Comply With Treasury's Financial Manual Rules on Cash Management or 2 CFR Part 200

HUD did not comply with Treasury's cash management regulations[81] and 2 CFR (Code of Federal Regulations) Part 200[82] 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 these funds were transitioned back to HUD. This condition occurred because HUD could not quantify the amount of MTW accumulations that existed or how much it should move. 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.

MTW PHAs Continued To Maintain Housing Choice Voucher Funds in Excess of Immediate Disbursement Need

HUD provided HAPs to its MTW PHAs to cover monthly voucher expenses. However, HUD disbursed HAPs that far exceeded PHAs' HAP expenses. In fiscal year 2013, PIH acknowledged this problem and worked to address it. However, PHAs reported holding $573 million as of September 30, 2014, and PIH's most recent estimate showed that as of September 30, 2015, MTW PHAs still held approximately $466.5 million. These reserves accumulated because HUD's HAPs were estimated based on the PHAs' prior quarter expenses, and when estimated HAP expenses exceed actual HAP expenses, reserves accumulate.

In fiscal year 2013, PIH implemented procedures to track and offset excess funding provided to its non-MTW PHAs. Unfortunately, this process did not include MTW PHAs. PIH did not include MTW PHAs in the offset process because, unlike non-MTW PHAs, HUD had not tracked MTW PHAs' accumulations and did not receive information on their total actual expenses. Without this information, HUD could not estimate and monitor accumulations. In our

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[81] Treasury Financial Manual Vol. 1, Part 4A, Section 2045.10, Cash Advances Establishing Procedure for Cash Advances, section 3, states, "It is the responsibility of grantor agencies to monitor the cash management practices of their recipient organizations to ensure that Federal cash is not maintained by them in excess of immediate disbursing needs. Agencies must establish systems and procedures to assure that balances are maintained commensurate with immediate disbursing needs, excess balances are promptly returned to the Treasury; and advance funding arrangements with recipient organizations unwilling or unable to comply are terminated."

[82] Regulations at 2 CFR 200.305 state, "For non-Federal entities other than States, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means." The regulations further state, "Advance payments to a non-Federal entity must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity for direct program or project costs and the proportionate share of any allowable indirect costs."

fiscal year 2014 audit, we recommended that HUD quantify and move funding in excess of MTW PHA immediate disbursement needs. However, since HUD waited until July 2015 to collect information on MTW reserves, it still could not quantify the amount it should transition.[83] Additionally, since HUD did not require MTW PHAs to report non-HAP expenses,[84] PIH could not perform the procedures established in 2013 to offset new MTW reserve accumulations.

PIH's Cash Management Process Did Not Offset Excess Accumulations in a Timely Manner

PIH's cash management process for non-MTW PHAs continued to be manual, which did not allow for offsets of excess accumulations in a timely manner.[85] For example, HUD provided $106 million in excess funding from October to December for non-MTW PHAs in 2014 but did not offset it until May and June 2015. HUD also identified $81 million in excess funding provided from January to March but did not offset it until July and September 2015. Finally, as of September 30, 2015, PIH had not offset $41 million it identified as excess funding provided from April to June 2015, and it had not completed cash reconciliations from July to September 2015 to identify newly accumulated excess reserves. This condition occurred because PIH's cash management process was still manual[86] despite our recommendation in fiscal year 2014. As discussed in finding 2, we previously recommended that PIH implement a system to automate the process. However, as of the date of this report, HUD had not provided an adequate management decision on how it planned to address this recommendation.

Conclusion

HUD did not comply with Treasury's cash management regulations and 2 CFR Part 200 because HUD's PHAs maintained cash in excess of their immediate disbursement need totaling and approximately $507 million[87] as of September 30, 2015. This condition occurred because HUD could not quantify the amount of MTW accumulations it should transition and it did not have a system to perform cash reconciliations and offsets in a timely manner. This system is essential in identifying and recovering funds advanced in excess of immediate disbursement needs. Since PHAs maintained these funds, 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.

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[83] See finding 2 for more information on PIH's process for valuing MTW PHA reserves. Additionally, although PIH estimated an amount for financial reporting purposes, it reported that before transitioning any funds, it needed to conduct comprehensive reviews in 2016 to validate the amounts held and the amounts that should be transitioned.

[84] PIH must know the PHAs' HAP and non-HAP expenses to perform cash reconciliations. PIH reported that it could not require such reporting because of the Paperwork Reduction Act. In fiscal year 2015, HUD submitted the Paperwork Reduction Act exemption to OMB but had not received approval.

[85] See finding 2 for more information on the manual process and system limitations.

[86] See finding 2 for more information on PIH's manual cash reconciliation process.

[87] As of September 30, 2015, PIH estimated that MTW PHAs held $466 million and non-MTW PHAs held $41 million that were not offset from cash reconciliations. $466.5 million + $41 million = $507.5 million

Recommendations

Several prior-year recommendations regarding this finding for the Housing Choice Voucher program remained open and can be referred to in the Follow-up on Prior Audits section of this report. In addition to the prior-year findings, we have the following new recommendation.

We recommend that the Assistant Secretary of Public and Indian Housing

13A. Complete any outstanding validation reviews and transition back as much as $466.5 million in Housing Choice Voucher program funding from MTW PHAs and $41 million from non-MTW PHAs.

Finding 14: HUD Reported 14 ADA Violations in October 2015, and OIG Referred One Potential ADA Violation to HUD

In fiscal year 2015, HUD OCFO[88] made demonstrable progress and remedied longstanding issues related to reporting requirements of ADA in October 2015.[89] As of September 30, 2015, all 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, GAO, and Congress. Additionally, during the course of our 2015 audit, we noted a potential ADA violation regarding the HOME Investment Partnerships Program.

ADA Violation Reports Remained in Process at OMB

While ADA cases associated with probable violations had not been reported to the President, Congress, and the Comptroller General as of September 30, 2015, HUD reported 14 ADA violations that occurred between 2004 and 2014 in October 2015.

Since fiscal year 2009,[90] we have reported on HUD's slow-moving progress in conducting, completing, and closing the investigation of potential ADA violations. During the audit, we noted that HUD had made substantial headway in reviewing old cases and reporting on confirmed ADA violations. HUD reported these issues to the President, Congress, and GAO in October 2015. This is an important milestone and going forward without the legacy ADA backlog, HUD should continue to perform timely review and reporting of potential ADA violations.

HUD's ADA case processing timeframe policy is to complete the end-to-end review within 1 year of referral or notification.

Potential ADA Violation Regarding HOME Investment Partnerships Program

As discussed in finding 12, we noted a potential ADA violation regarding HOME Investment Partnerships Program funds based on HUD's implementation of the cumulative method to meet commitment deadlines and its use of the FIFO method to commit and disburse funds for this program.[91] We found that HUD's use of the cumulative method to determine compliance with the HOME Statute's 24-month commitment deadline incorrectly permitted some jurisdictions to retain and commit HOME program grant funds beyond the statutory commitment deadline. If

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[88]Public Law 108-7, Division K, Title II, Department of Housing and Urban Development Appropriations, 2003, granted HUD's Chief Financial Officer, in consultation with the HUD budget officer, the "sole authority" to investigate potential or actual violations under ADA and all other statutes and regulations related to the obligation and expenditure of funds made available in any act. Further, the Appropriations Act provided that the Chief Financial Officer must determine whether violations occurred and submit the final reports required by law.

[89] 31 U.SC. 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).

[90] See OIG's fiscal year 2009 audit report 2010-FO-0003 for details.

[91] Audit Report 2015-FO-0801, Potential Antideficiency Act violation HOME Investment Partnerships Program, issued June 16, 2015

funds are retained by grantees beyond the statutory deadline, HUD may incur an ADA violation because funds remain available for obligation or expenditure by the grantee. ADA prohibits Federal agencies from making or authorizing an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation. In fiscal year 2015, we found that HUD continued to use the cumulative method for determining compliance with the commitment requirements of the HOME Statute. Therefore, we concluded that the conditions remained and the potential for an ADA violation continued to exist. We made recommendations regarding this potential ADA violation, which remained outstanding as of September 30, 2015.

Conclusion

HUD reported on 14 confirmed ADA violations in October 2015 to the President, GAO, and Congress. While it was not able to report these violations as of September 30, 2015, HUD had made significant progress and should continue to review and report on potential ADA violations in a timely manner.

Recommendations

Many prior-year recommendations regarding this finding will be closed due to the progress made regarding ADA violation reporting. We have no new recommendations in this report.

Finding 15: HUD Did Not Comply With the Improper Payments Elimination and Recovery Act of 2010

For fiscal year 2014, HUD OIG's Improper Payments Elimination and Recovery Act (IPERA) audit[92] found that HUD did not comply with 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.

HUD Did Not Completely and Accurately Report All Information on Improper Payments and Its Recovery Efforts

HUD must meet six requirements included in IPERA to comply with it. One of these requirements is to publish an agency financial report for the most recent fiscal year and post that report and any accompanying material required by OMB on the agency Web site. However, HUD's fiscal year 2014 agency financial report did not include a summary of its supplemental measures, which included all elements required by OMB Circular A-123, Appendix C, Part III, Requirements for Implementing Executive Order 13520. This condition occurred because HUD did not have written procedures to ensure the reporting of complete and accurate information. As a result, HUD did not comply with IPERA.

HUD's Improper Payments Risk Assessments Had Deficiencies

HUD did not include all relevant OIG audit reports in its fiscal year 2014 improper payments risk assessments. Specifically, OIG Audit Report 2014-FO-0003, Additional Details To Supplement Our Report on HUD's Fiscal Year 2013 and 2012 (Restated) Financial Statements, was not considered during the risk assessment of the CPD formula grant programs. This report included a material weakness regarding CPD's accounting practices for its formula grant programs, a finding on noncompliance with the HOME Investment Partnership Act, and a finding on noncompliance with Federal financial management system requirements for the system used to make disbursements for CPD's formula grant programs. These findings indicated potentially significant improper payments.

Additionally, HUD did not consider the dollar amounts associated with OIG or GAO audit reports or program monitoring reviews conducted by HUD management when performing its improper payments risk assessments. HUD instead only considered the number of audit reports issued when determining a program's susceptibility to improper payments. By considering only the number of audit reports issued and not the dollar amounts associated with any relevant findings, a program's susceptibility to significant improper payments might be understated.

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[92] Audit Report 2015-FO-0005, Compliance With the Improper Payments Elimination and Recovery Act, issued May 15, 2015

As a result of these two weaknesses in its improper payments risk assessments, HUD did not comply with the IPERA requirement to conduct a program-specific risk assessment for each program or activity.

Significant Improper Payments in Rental Housing Assistance Programs Continued

An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. HUD's rental housing assistance programs, consisting of (1) Public Housing Operating Subsidy, (2) Section 8 Housing Choice Voucher and Modern Rehabilitation, and (3) multifamily owner-administered project-based programs, continued to report significant amounts of improper payments. OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments, defines significant improper payments as gross annual improper payments in the program exceeding (1) both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported or (2) $100 million (regardless of the improper payment percentage of total program outlays).

HUD's most recent contracted quality control study[93] for fiscal year 2014 estimated that program administrator error contributed to gross improper payments of $247.6 million in public housing, $392.3 million in Section 8 Housing Choice Voucher and Modern Rehabilitation, and $129.5 million in multifamily owner-administered project-based programs. Improper payments due to tenants intentionally not reporting income amounted to $119.3 million in Public Housing Operating Subsidy, $221.8 million in Section 8 Housing Choice Voucher and Modern Rehabilitation, and $63.8 million in multifamily owner-administered project-based programs. HUD did not conduct a study to estimate improper payments from administrator billing errors for fiscal year 2014 but instead used a previously estimated amount and adjusted it for inflation for an estimate of $107.6 million. In total, HUD made an estimated $1.28 billion in improper payments during fiscal year 2014.

Conclusion

HUD did not comply with IPERA for fiscal year 2014 because (1) it did not include all OMB-required elements related to its supplemental measures in its agency financial report and (2) the fiscal year 2014 risk assessment was significantly deficient because it did not include a review of all relevant audit reports and did not consider the dollar amounts associated with OIG and GAO audit reports or HUD's program monitoring findings. As a result, HUD officials and other users of the agency financial report, including Congress and OMB, did not have a complete and accurate picture of HUD's improper payments and recovery efforts for use in policy-making decisions. Additionally, the deficiencies in its risk assessment process may cause HUD to underestimate the susceptibility of its programs to significant improper payments.

[93] FY [fiscal year] 2014 Quality Control for Rental Assistance Subsidy Determinations, issued September 25, 2015. This report was produced for HUD by ICF International. The study was based on analyses of a statistical sample of tenant files, tenant interviews, and third-party documents verifying income.

Recommendations

Recommendations were included in a separate OIG audit report. Therefore, no recommendations are reported here.

Scope and Methodology

We considered internal controls over financial reporting by obtaining an understanding of the design of HUD's internal controls, determined whether these internal controls had been placed into operation, assessed control risk, and performed tests of controls to determine our auditing procedures for the purpose of expressing our opinion on the principal financial statements. We also tested compliance with selected provisions of applicable laws, regulations, and government policies that may materially affect the consolidated principal financial statements.

We considered HUD's internal controls over required supplementary stewardship information reported in HUD's fiscal year 2015 agency financial report by obtaining an understanding of the design of HUD's internal controls, determined whether these internal controls had been placed into operation, assessed control risk, and performed limited testing procedures as required by the American Institute of Certified Public Accountants, U.S. Auditing Standards, AU-C, Section 730, Required Supplementary Information. The tests performed were not to provide assurance on these internal controls, and, accordingly, we do not provide assurance or an opinion on such controls.

With respect to internal controls related to performance measures to be reported in management's discussion and analysis and HUD's fiscal year 2015 agency financial report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions as described in section 230.5 of OMB Circular A-11, Preparation, Submission, and Execution of the Budget. We performed limited testing procedures as required by AU-C, Section 730, Required Supplementary Information, and OMB Bulletin 15-02, Audit Requirements for Federal Financial Statements. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

To fulfill these responsibilities, we

- Examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated principal financial statements;
- Assessed the accounting principles used and the significant estimates made by management;
- Evaluated the overall presentation of the consolidated principal financial statements;
- Obtained an understanding of internal controls over financial reporting (including safeguarding assets) and compliance with laws and regulations (including the execution of transactions in accordance with budget authority);
- Tested and evaluated the design and operating effectiveness of relevant internal controls over significant cycles, classes of transactions, and account balances;
- Tested HUD's compliance with certain provisions of laws and regulations; governmentwide policies, noncompliance with which could have a direct and material effect on the determination of financial statement amounts; and certain other laws and regulations specified in OMB Bulletin 15-02, including the requirements referred to in FMFIA;

- Considered compliance with the process required by FMFIA for evaluating and reporting on internal controls and accounting systems; and
- Performed other procedures we considered necessary in the circumstances.

We did not evaluate the internal controls relevant to operating objectives as broadly defined by FMFIA. We limited our internal controls testing to those controls that are material in relation to HUD's financial statements. Because of limitations inherent in any internal control structure, misstatements may occur and not be detected. We also caution that projection of any evaluation of the structure to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be significant deficiencies. We noted certain matters in the internal control structure and its operation that we consider to be significant deficiencies under OMB Bulletin 15-02.

Under standards issued by the American Institute of Certified Public Accountants, 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 a 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 controls, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our work was performed in accordance with generally accepted government auditing standards and OMB Bulletin 15-02. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Followup on Prior Audits

Not included in the recommendations listed after each finding are recommendations from prior year reports on HUD's financial statements that have not been fully implemented based on the status reported in the Audit Resolution and Corrective Action Tracking System (ARCATS). Specifically, we identified 98 unimplemented recommendations from prior year reports dating back to the audit of the fiscal years 2010 and 2009 financial statements. 58 of the 98 unimplemented recommendations were overdue for final action as of the date of this report (two recommendations did not have final action target dates because an agreed upon action plan had not been determined at the time of this report). Each of these open recommendations and its status is shown below.

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
Interim Report on HUD's Internal Controls Over Financial Reporting, 2015-FO-0002			
2015-FO-0002-001A	CPD	Continue to work with CPD's information technology services contractor and OCFO to ensure that all three phases of the plan to bring IDIS into compliance with GAAP and applicable Federal system requirements are completed as scheduled.	N/A
2015-FO-0002-002B	PIH	Reinstate cash reconciliations as soon as possible and transition as much as $423 million that accumulated in PHA NRAs during fiscal year 2014.	10/1/2015
2015-FO-0002-2D	PIH	Submit the Paperwork Reduction Act request to OMB for consideration to allow the collection of information needed to monitor and track MTW accumulations. If approved, make necessary changes to policies to require PHAs to report the information needed to monitor and track accumulations.	10/1/2015
2015-FO-0002-2E	PIH	For MTW PHAs, develop a plan to quantify and aggressively transition back to HUD funding that exceeds PHAs' immediate disbursement needs.	10/1/2015
2015-FO-0002-002F	PIH	Establish procedures to track and monitor MTW accumulations to ensure that PHAs do not hold excess funds in advance of their immediate disbursement needs, to include the completion of cash reconciliations or a comparable tool.	4/1/2016

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
2015-FO-0002-002G	PIH	Issue guidance to MTW PHAs explaining Treasury's cash management rules and require them to report their unspent funds in the MTW annual report.	12/8/2015
2015-FO-0002-002H	OCFO	Reclassify prepayments to accounts receivable once PIH determines the amount of the prepayment that PIH cannot offset because PHAs have insufficient funds.	11/16/2015
2015-FO-0002-003D	OCFO	Review assumptions used to produce grants payable accrual estimates and validate the input to the models used by each program office as stated in its grant accrual policy.	11/16/2015
2015-FO-0002-003F	CPD	Validate grants payable estimates and any assumptions used to produce the estimates against subsequent grantee reporting.	9/30/2016
2015-FO-0002-003G	CPD	Incorporate into their grants payable accrual estimation methodologies steps to appropriately validate grant accrual estimates and assumptions used to produce the estimates against subsequent grantee reporting.	10/2/2015
2015-FO-0002-003J	PIH	Validate grants payable accruals and any assumptions used to produce their estimates in accordance with the provisions of FASAB Technical Release 12.	11/16/2015
2015-FO-0002-003K	PIH	Incorporate into their grants payable accrual estimation methodology steps to appropriately validate grants payable estimates and assumptions used to produce the estimates.	11/16/2015
2015-FO-0002-005C	OCFO	Work with the Office of Multifamily Housing Programs to evaluate its obligation process for the Section 8 project-based program to ensure that it complies with HUD, OMB, and GAO legal requirements to have a legal point of obligation.	11/30/2015
2015-FO-0002-005D	OCFO	Develop procedures for documenting the results of funds control plan reviews to ensure that all sections comply with OMB Circular A-11, part 3, section 150, Administrative Control of Funds, and part 7, appendix H, Checklist for Funds Control Regulation Plans, and that OCFO has approved each plan.	11/30/2015

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
2015-FO-0002-005E	Housing	Work with OCFO to revise the funds control plans for the Section 8 project-based programs to ensure that the obligation process in place is sufficient to support a legally binding point of obligation and is reviewed and authorized by designated officials.	9/15/2015
2015-FO-0002-006A	CPD	Review the status of the 2,743 expired contracts, which make up the $119.9 million in Homeless Assistance funds; close out the contracts; and recapture the excess funds.	9/30/2015
2015-FO-0002-006B	CPD	Deobligate $174,168 in 5 administrative obligations and $9,920,926 in 308 program obligations marked for deobligation during the departmentwide open obligations review. Additionally, review the 72 obligations with remaining balances totaling $313,419 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	10/1/2015
2015-FO-0002-006C	CPD	Increase its communication with HUD field offices and grantees to ensure that the field offices are aware of and comply with updated deobligation and recapture policies for expired grants.	9/25/2015
2015-FO-0002-006E	Housing	Deobligate all obligations marked for deobligation during the departmentwide open obligations review, including as much as $4,988,326 in 613 administrative obligations and $6,395,922 in 79 program obligations marked for deobligation as of September 29, 2014. Additionally, review the 269 obligations with remaining balances totaling $19,624,446 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	3/23/2016
2015-FO-0002-006F	Housing	Deobligate the 76 expired or inactive Sections 202 and 811 and project-based Section 8 projects totaling $3,458,166.	3/4/2016
2015-FO-0002-006G	Housing	Review and if necessary deobligate $4,576,896 in 10 obligations related to HUD’s Emergency Homeowner Loan Program substantially similar states program.	3/9/2016

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
2015-FO-0002-006H	Housing	Develop and implement policies and procedures, including contingency plans to ensure that Housing meets all future deadlines for the departmentwide unliquidated open obligations review.	3/4/2016
2015-FO-0002-006I	Housing	Deobligate the 36 inactive or expired Sections 235 and 236 funding lines totaling $23.5 million.	3/9/2016
2015-FO-0002-006J	OCIO	Deobligate all obligations marked for deobligation during the departmentwide open obligations review, including as much as $3,561,042 in 64 administrative obligations marked for deobligation as of September 29, 2014. Additionally, review the 171 obligations with remaining balances totaling $19,730,791 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	2/29/2016
2015-FO-0002-006O	CAO	Deobligate $89,237 in 46 administrative obligations marked for deobligation during the departmentwide open obligations review. Additionally, review the 199 obligations with remaining balances totaling $4,146,234 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	7/17/2015
2015-FO-0002-006P	CHCO	Deobligate the $366,348 in 99 administrative obligations marked for deobligation during the departmentwide open obligations review. Additionally, review the 65 obligations with remaining balances totaling $1,383,565 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	12/8/2015
2015-FO-0002-006Q	PIH	Deobligate all obligations marked for deobligation during the departmentwide open obligations review, including as much as $160,998 in 73 administrative obligations and $1,182,645 in 24 program obligations marked for deobligation as of September 29, 2014. Additionally, review the 34 obligations with remaining balances totaling $151,963 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	4/8/2016

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
2015-FO-0002-006R	PIH	Develop and implement oversight procedures to ensure that the level one representative (1) completes all responsibilities related to the departmentwide unliquidated open obligation review within the timeframe required, (2) monitors the status of the review, and (3) executes a contingency plan if problems are identified to allow the review to be completed by the established deadline.	4/8/2016
2015-FO-0002-006S	OCFO	Deobligate $785 in one administrative obligation marked for deobligation during the departmentwide open obligations review. Additionally, review the six obligations with remaining balances totaling $332,888 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	12/8/2015
2015-FO-0002-006T	FPM	Review the 50 obligations with remaining balances totaling $308,793 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	1/29/2016
2015-FO-0002-006U	FHEO	Deobligate $5,210 in two administrative obligations and $109,500 in one program obligation marked for deobligation during the departmentwide open obligations review. Additionally, review the 17 obligations with remaining balances totaling $26,711 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	12/4/2015
2015-FO-0002-006V	Public Affairs	Deobligate $85,006 in 12 administrative obligations marked for deobligation during the departmentwide open obligations review.	9/30/2015
2015-FO-0002-006W	CEO, Office of Secretary	Deobligate $68,828 in 16 administrative obligations marked for deobligation during the departmentwide open obligations review.	9/30/2015
2015-FO-0002-007A	OCFO	Revise its policies and procedures to include a period of completion for front-end risk assessments by program offices and the review process by OCFO. Further, OCFO should ensure that an escalation process is included to address untimely completion of the assessment process.	11/30/2015

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
2015-FO-0002-007D	OCFO	Periodically reconcile balances with OCIO subsidiary records and research and resolve any identified differences.	3/31/2016
2015-FO-0002-007F	CPD	Increase efforts to quickly complete outstanding front-end risk assessments and coordinate with OCFO to finalize the review and approval process even in the absence of policies and procedures with specific deadlines in this area.	9/25/2015
2015-FO-0002-007G	PIH	Increase efforts to quickly complete outstanding front-end risk assessments and coordinate with OCFO to finalize the review and approval process even in the absence of policies and procedures with specific deadlines in this area.	12/31/2015
2015-FO-0002-007H	CIO	Develop and implement procedures to ensure that the cost of newly acquired or developed software and historical projects is analyzed in a timely manner to determine whether cost should be capitalized or expended based on SFFAS requirements and that information is communicated to OCFO in a timely manner.	3/6/2016
2015-FO-0002-007I	CIO	Develop a subsidiary system to accumulate the capitalized cost and related depreciation expense for each software project under development or placed into production.	3/31/2016
2015-FO-0002-009A	Ginnie Mae / ACFO for Systems	Enhance communication to appropriately identify mixed systems and include them in the inventory of financial systems.	6/30/2015
2015-FO-0002-009B	Ginnie Mae / ACFO for Systems	Add the Integrated Pool Management System, Unclaimed Funds System, and Reporting and Feedback System to the inventory of FFMIA financial and mixed systems.	7/30/2015
2015-FO-0002-009C	OCFO	Implement a periodic review process to independently evaluate system classifications.	4/8/2016

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
2014-FO-0003-001A	CPD	Develop and implement a detailed remediation action plan to ensure that grant management systems eliminate the FIFO methodology in its entirety. The plan should (1) explain how the budget fiscal year-TAFS for each accounting transaction (project and activity setup, commitment, disbursement, etc.) will be recorded, remain constant, and be maintained, (2) reference Federal system requirements and criteria, and (3) include resources, specific remedies, and intermediate target dates necessary to bring the financial management system into substantial compliance.	9/30/2014
2014-FO-0003-001B	CPD	Establish controls within the system, which provide an audit trail of the use of the funds by the budget fiscal year-TAFS.	9/30/2014
2014-FO-0003-001C	OCFO	Provide oversight of CPD's system implementation or modification to ensure that Federal financial management accounting standards are embedded into the system so that the information transferred from grant management systems to HUD's core financial systems comply with these standards, are recorded in HUD's consolidated financial statements in accordance with Federal GAAP, and ensure that compliant administrative control of funds for its formula grant programs is established.	10/30/2015
2014-FO-0003-002A	PIH/OCFO	Transition the PHA NRA excess funds, which are as much as $643.6 million as of June 30, 2013, to HUD's control as soon as possible to safeguard the program resources.	5/9/2015
2014-FO-0003-002C	PIH/OCFO	Implement a cost-effective method for automating the cash management process to include an electronic interface of transactions to the standard general ledger.	N/A
2014-FO-0003-002E	OCFO	Review the cash management process to identify all financial events to be recognized in accordance with GAAP. Establish procedures to account for the cash management activity in a timely manner in compliance with GAAP.	4/8/2015

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
2014-FO-0003-002G	OCFO	Ensure that PIH's automation of its cash management process complies with Federal financial management requirements.	12/31/2015
2014-FO-0003-003A	PIH/OCFO	Design and Implement a loan guarantee system that complies with the Guaranteed Loan System Requirements. Ensure that the implemented loan guarantee system should be integrated with HUD's financial management systems and be included in its financial management system plans.	12/31/2015
2014-FO-0003-004G	OCFO	Establish an appropriate accounting and financial reporting governance structure within OCFO with the appropriate level of accounting, experience, and training to support the size and complexity of HUD's and its component entities' financial reporting requirements.	3/11/2015
2014-FO-0003-006C	OCFO	Enforce already existing internal control procedures to ensure proper supervision over accounting for Section 8 FAF receivables.	10/1/2014
2014-FO-0003-006D	OCFO / Housing	Perform a thorough analysis of outstanding FAF receivables and fiscal year 2013 collections to ensure that the receivables accurately represent the amounts owed to HUD, including but not limited to positive confirmations of outstanding receivable balances with the trustees.	3/4/2015
2014-FO-0003-007C	PIH	Review the procedures in use for the Section 184 Indian Housing Loan Guarantee Program to ensure that they provide assurance that obligations and expenditures do not exceed limitations and update the funds control plans accordingly.	4/1/2015
2014-FO-0003-008A	CPD	Review the status of these 1,855 expired contracts, which make up the $50.9 million; close out the contracts; and recapture the excess funds.	9/30/2014
2014-FO-0003-008B	CPD	Complete the closeout of any remaining CDBG-R and HPRP grants and forward all grant closeout agreement certifications to OCFO for recapture.	9/30/2014

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
2014-FO-0003-008C	CPD	Deobligate $14,425,629 tied to 238 program obligations marked for deobligation during the department wide unliquidated obligations review. Additionally, OCFO should review the 93 obligations with remaining balances totaling $316,935 and close out and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of appropriations at 31 U.S.C. 1301 or the criteria for recording obligations at 31 U.S.C. 1501.	4/3/2015
2014-FO-0003-008D	Housing	Deobligate $12,755,325 tied to 165 administrative obligations and $2,734,967 tied to 25 program obligations marked for deobligation during the department wide unliquidated obligations review. Additionally, the Office of Housing should review the 429 obligations with remaining balances totaling $5,764,905 and close out and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of appropriations at 31 U.S.C. 1301 or the criteria for recording obligations at 31 U.S.C. 1501.	4/2/2015
2014-FO-0003-008E	Housing	Research and deobligate at least $9.3 million tied to the 115 inactive and/or expired Section 202/811 funding lines.	4/2/2015
2014-FO-0003-008F	Housing	Review and deobligate at least $26 million tied to 215 inactive and/or expired Section 8 obligations.	4/2/2015
2014-FO-0003-008H	PIH	Review and, if necessary, recapture all 212 operating subsidy (0163) funding lines with remaining balances totaling $11 million.	11/30/2014
2014-FO-0003-008J	CHCO	Deobligate the $2,483,254 tied to 12 administrative obligations marked for deobligation during the department wide unliquidated obligations review. Additionally, OCHCO should review the 730 obligations with remaining balances totaling $10,227,309 and close out and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of	4/11/2015

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
		appropriations at 31 U.S.C. 1301 or the criteria for recording obligations at 31 U.S.C. 1501.	
2014-FO-0003-008K	OCFO	Deobligate the $1,419 tied to three administrative obligations marked for deobligation during the department wide unliquidated obligations review. Additionally, OCFO should review the 42 obligations with remaining balances totaling $3,115,954 and close out and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of appropriations at 31 U.S.C. 1301 or the criteria for recording obligations at 31 U.S.C. 1501.	12/31/2014
2014-FO-0003-008M	OCFO	Design and implement a policy to ensure those reconciliations between the subsidiary ledgers (supporting records) and the obligation balances in the general ledger (controlling accounts) are periodically performed for all HUD appropriations. The policy should also address the follow-up and clearance of identified differences and the responsibilities for the preparers and reviewers.	4/1/2015
2014-FO-0003-008N	OCFO	Work with the program offices to determine the ARRA funds that were not spent by September 30, 2013; implement the manual process identified; and recapture, to the extent permitted by law, the unspent ARRA funds and return them to Treasury, including at least $4.7 million and $2.6 million in unspent grant funds for the CDBG-R and HPRP programs, respectively	10/17/2014
2014-FO-0003-008O	CIO	Deobligate $7,263,662 tied to 178 administrative obligations marked for deobligation during the department wide unliquidated obligations review.	2/13/2015
2014-FO-0003-008U	FHEO	Review the 52 obligations with remaining balances totaling $145,060 and closeout and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of appropriations at 31 U.S.C. 1301 or the criteria for recording obligations at 31 U.S.C. 1501.	4/1/2015

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
2014-FO-0003-008Y	Office of Secretary	Review the 41 obligations with remaining balances totaling $132,080 and close out and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of appropriations at 31 U.S.C. 1301 or the criteria for recording obligations at 31 U.S.C. 1501.	10/31/2014
2014-FO-0003-009B	Deputy Secretary	After conclusion of the study, issue a directive or memorandum to HUD, reemphasizing the Chief Financial Officer's authority and responsibility for department wide financial management and internal controls over financial reporting and changes in any financial management governance.	12/17/2014
2014-FO-0003-009C	Deputy Secretary	Create and chair a Senior Management Council or equivalent to ensure that HUD remains committed to implementing and operating the recommendations made in the study and ensure that an appropriate system of internal controls is in place.	12/17/2014
2014-FO-0003-009F	OCFO	Ensure that documented policies and procedures are in place for all of HUD's accounting processes and that they are periodically evaluated for necessary updates.	6/30/2016
2014-FO-0003-011C	OPD	Review the HUD-administered assistance obligations with remaining balances totaling $24.3 million and close out and deobligate amounts tied to obligations that are no longer valid or needed.	4/6/2015
2014-FO-0003-011D	OPD	Review the SSS assistance obligations for each State and deobligate as much as $47.9 million tied to obligations that are no longer valid or needed.	4/2/2015
2014-FO-0003-011E	OPD	Develop and implement procedures to routinely evaluate the assistance and administrative obligation balances for the HUD-administered and SSS subcategories of EHLP to determine whether a valid need still exists and if not, deobligate those balances.	4/6/2015

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
2014-FO-0003-014A	OCFO	Make the review of ADA cases a priority by enforcing HUD's ADA case processing timeframe policy going forward and commit to a firm deadline for finalizing the review of the remaining old ADA cases.	12/1/2014
2014-FO-0003-015A	CPD	Make changes to IDIS Online, which will require grantees to specifically identify the grant allocation year to which the commitment should be assigned and include the commitment dates. The system should also allow HUD to ensure that commitments made during overlapping allocations and periods are counted toward only 1 year's compliance requirements.	10/30/2015
2014-FO-0003-015B	CPD	Stop using the cumulative method and the deadline compliance report for determining compliance with the 24-month commitment requirement in the HOME Investment Partnership Act and use only the commitments made within the 24-month period to determine compliance.	10/30/2015
2014-FO-0003-015C	CPD	In accordance, with the GAO legal decision and opinion, take steps to identify and recapture funds that remain uncommitted after the statutory commitment deadline and reallocate such funds in accordance with the Act.	10/30/2015
2014-FO-0003-015D	CPD	Recapture funds from allocations during the 24-month overlapping period only for grantees that do not comply with the 24-month commitment requirement.	10/30/2015
Additional Details To Supplement Our Report On HUD's Fiscal Years 2012 and 2011 Financial Statements, 2013-FO-0003			
2013-FO-0003-001C	OCFO	Ensure that Section 108 Loan Guarantee program financial management system requirements are incorporated into HUD's core financial system improvement program to get more transparent and complete information for financial and management reports.	10/1/2015
2013-FO-0003-003C	OCFO	Develop and implement formal financial management policies and procedures to require an annual evaluation by OCFO and applicable program offices of all allowance for loss rates	11/29/2013

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
		and other significant estimates currently in use to ensure appropriateness.	
2013-FO-0003-004B	CPD	Develop internal controls to review field office compliance more frequent than every 4 years, especially when findings have been identified in the past, and to ensure that action plans operate effectively and have addressed the deficiencies noted so that noncompliance is not repeated during the next quality management review.	2/14/2014
2013-FO-0003-005A	OCFO	In coordination with the Office of the Deputy Secretary, emphasize the importance of financial management for the administrative control of funds.	3/15/2014
2013-FO-0003-006A	CPD	Review the status of these expired contracts, which make up the $50.6 million, and recapture excess funds for the contracts that have not been granted extensions.	10/18/2013
2013-FO-0003-006B	CPD	Review the 270 obligations with remaining balances totaling $432,147 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	9/30/2014
2013-FO-0003-006L	Housing	Review the 588 obligations with remaining balances totaling $1,912,078 and close out and deobligate amounts tied to obligations that are no longer valid or needed. Additionally, $10,565,965 in 209 administrative obligations and $145,006 in eight program obligations marked for deobligation should be deobligated.	3/21/2014
2013-FO-0003-006O	Housing	Review the 69 inactive or expired obligations with $1,202,207 in remaining balances and coordinate with OCFO to deobligate any funds that are determined to be expired or inactive after review.	3/19/2014
Additional Details To Supplement Our Report On HUD's Fiscal Years 2011 and 2010 Financial Statements, 2012-FO-0003			
2012-FO-0003-002B	CPD	Review the status of each of its homeless assistance contracts that make up the $32 million OIG identified as excess funding and recapture excess funds for expired contracts that have not been granted extension.	2/6/2013

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
2012-FO-0003-004B	OCFO	Establish and implement procedures to ensure that the funds control plans are updated to include the new program codes and new appropriation requirements.	12/15/2015
2012-FO-0003-005B	PIH	Office of Housing report on income discrepancies at the 100 percent threshold level as a supplemental measure; assign staff to review the deceased single-member household and income discrepancy reports at least quarterly and follow up with owners and management agents (O-A) listed on these reports; and include in the contract between HUD and O-As a provision for improper payments that requires to resolve in a timely manner income discrepancies, failed identity verifications, and cases of deceased single-member households.	4/30/2016
Additional Details To Supplement Our Report On HUD's Fiscal Years 2010 and 2009 Financial Statements, 2011-FO-0003			
2011-FO-0003-001A	CPD	Cease the changes being made to IDIS for the HOME program related to the FIFO rules until the cumulative effect of using FIFO can be quantified on the financial statements.	6/15/2015
2011-FO-0003-001B	CPD	Change IDIS so that the budget fiscal year source is identified and attached to each activity from the point of obligation to disbursement.	6/15/2015
2011-FO-0003-001C	CPD	Cease the use of FIFO to allocate funds (fund activities) within IDIS and disburse grant payments. Match outlays for activity disbursements to the obligation and budget fiscal source year in which the obligation was incurred and in addition, match the allocation of funds (activity funding) to the budget fiscal year source of the obligation.	6/15/2015
2011-FO-0003-001D	CPD	Include as part of the annual CAPER [consolidated annual performance and evaluation report] a reconciliation of HUD's grant management system, IDIS, to grantee financial accounting records on an individual annual grant basis, not cumulatively, for each annual grant awarded to the grantee.	6/15/2015

Audit Report/ Rec #	Program Office	Open Recommendations	Final Action Target Date
2011-FO-0003-002C	OCFO	Review the 510 obligations that were not distributed to the program offices during the open obligations review and deobligate amounts tied to closed or inactive projects, including the $27.5 million we identified during our review as expired or inactive.	10/31/2011
2011-FO-0003-002N	PIH/OCFO	Recapture the full amount of obligations from these 434 PIH low-rent grants totaling $174 million and return to the U.S. Treasury the total balance of budgetary resources from invalid grants.	6/30/2012
2011-FO-0003-004A	CPD	Review the status of each of its homeless assistance contracts that make up the $97.8 million OIG identified as excess funding and recapture excess funds for expired contracts that have not been granted extensions.	3/16/2012
2011-FO-0003-005B	OCFO	Establish and implement procedures to ensure accuracy and completeness of ARRA funds control plans.	12/30/2011

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use[1]
8A.	$108,138,514
8B.	$331,136,395
8E.	$22,144,094
8F.	$90,000,000
8G.	$3,415,609
8H.	$2,053,090
8I.	$4,052,236
8J.	$1,506,233
8K.	$265,331
8L.	$77,807
8M.	$271,495
8N.	$115,035
8O.	$587,198
13A.	$507,500,000
Totals	**$1,071,263,037**

1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an 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

Departmentwide Obligation Review – Schedule of Recommended Deobligations

	OIG review of inactive administrative obligations		HUD's departmentwide unliquidated obligation review – invalid obligations identified by HUD but not deobligated as of 9/30/15					
Program office	**Recommended for review**		**Administrative obligations**		**Program obligations**		**Total**	
	#	**$**	**#**	**$**	**#**	**$**	**#**	**$**
Office of Housing	225	$285,024	209	$19,634,263	24	$2,224,807	233	$21,859,070
PIH	14	146,320			16	3,269,289	16	3,269,289
OCIO	17	1,486,191	44	430,942	2	135,957	46	566,899
OCHCO	91	2,255,411	101	290,591			101	290,591
Office of Admin-istration	216	1,506,233						
FHEO			41	140,064	3	125,166	44	265,331
DEEO	20	$77,807						
PD&R			1	78,230	5	193,265	6	271,495
OCFO	7	115,035						
Ginnie Mae			8	587,198			8	587,198
CPD	57	188,176			102	3,602,342	102	3,602,342
Total	647	**$6,060,198**	404	$21,161,289	152	$9,550,826	556	**$30,712,115**

** Immaterial differences in totals due to rounding*
OCHCO – Office of the Chief Human Capital Officer
FHEO – Office of Fair Housing and Equal Opportunity
DEEO – Office of Departmental Equal Employment Opportunity
PD&R – Office of Policy Development and Research

Appendix C

Federal Financial Management Improvement Act Noncompliance, Responsible Program Offices, and Recommended Remedial Actions

This appendix provides details required under FFMIA reporting requirements. We noted instances in which HUD's systems did not substantially comply with FFMIA requirements. Specifically, we noted instances of substantial noncompliance with (1) Federal financial system requirements, (2) Federal accounting standards, and (3) the USSGL at the transaction level. The details about non-FFMIA-compliant systems, responsible parties, primary causes, and HUD's intended remedial actions are included in the following sections.

Systems That Do Not Comply With Federal Financial Systems Requirements

Facilities Integrated Resources Management System – The FIRMS application does not comply with Federal financial management systems requirements. While HUD had identified FIRMS as FFMIA noncompliant since 2010, technical issues, including a lapsed maintenance contract, have rendered FIRMS non-functional. The Office of the Administration is responsible for FIRMS (to which responsibility was transferred from the Office of the Chief Human Capital Officer). We have previously recommended improvements to system interfaces with the financial system and the acquisition system. To achieve eventual FFMIA compliance and to meet business requirements regarding property management, HUD was working to decommission FIRMS and move to a shared service provider, the Federal Aviation Administration.

HUD Procurement System and Small Purchase System – HPS and SPS are legacy procurement applications that do not comply with FFMIA because they lack important functionality. OCPO is responsible for HPS and SPS. As a result of our previous recommendation, OCPO began implementing a new procurement system, HIAMS, to replace HPS and SPS beginning in fiscal year 2012. While HUD had planned to decommission HPS and SPS, technical issues related to data migration have delayed decommissioning of the systems. HUD planned to decommission the HPS and SPS procurement applications once the technical issues associated with the migration had been addressed and the data transfer was complete. This was scheduled to be done by the first quarter of fiscal year 2016.

Systems That Do Not Comply With Federal Accounting Standards and the USSGL

Integrated Disbursement and Information System Online - IDIS does not comply with applicable Federal accounting standards or the USSGL at the transaction level.
IDIS is noncompliant because the system is configured to account for grants using the attribution methodology known as FIFO, which does not comply with GAAP. While CPD had made progress addressing this issue, updating the IDIS application to specifically identify grants initiated during 2015 and going forward for disbursements only, funding constraints delayed further remediation and FFMIA compliance. CPD is responsible for IDIS.

We have previously recommended that HUD modify IDIS to account for grant disbursements by the specific identification method and configure the system to record transactions in compliance with the USSGL. CPD was midway through executing the IT project to eliminate the FIFO method of funds attribution from IDIS Online. Additional changes need to be made to IDIS to remedy its FFMIA noncompliance.

Systems That Do Not Comply With Financial System Requirements, Federal Accounting Standards, and the USSGL

Ginnie Mae Financial and Accounting System

We noted that Ginnie Mae's GFAS system did not comply with the three elements of FFMIA as of September 30, 2015. During our fiscal year 2014 audit of Ginnie Mae's financial statements, we were unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of $6.6 billion in nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio and $735 million in liability for loss on the mortgage-backed securities program guaranty. We also noted four material weaknesses and recommendations to Ginnie Mae management. As a result of the scope limitation in our audit work and the effects of material weaknesses in internal control, we were not able to obtain sufficient, appropriate evidence to provide a basis for an audit opinion on Ginnie Mae's fiscal year 2014 financial statements.[94]

In addition, we noted weaknesses related to the budgetary accounting module of the GFAS application during the course of the 2015 financial statement audit and made recommendations to Ginnie Mae to address these weaknesses. Specifically, because of system configuration issues, large manual adjustments were needed to reconcile budgetary balances. To remediate GFAS' FFMIA noncompliance, Ginnie Mae will need to address the issues related to the budgetary accounting module and the four material weaknesses identified during the course of the 2015 financial statement audit.

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[94] Audit Report 2015-FO-0003, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2014 and 2013, issued February 27, 2015

Appendix D

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

OFFICE OF THE CHIEF FINANCIAL OFFICER

November 10, 2015

MEMORANDUM FOR: David A. Montoya, Inspector General, Department of Housing and Urban Development (HUD)

FROM: Joseph Hungate III, Deputy Chief Financial Officer, HUD

SUBJECT: Response to Draft Additional Details to Supplement Our Fiscal Years 2015and 2014 U.S. Department of Housing and Urban Development Financial Statement Audit

HUD has faced a number of challenges that represent potential vulnerabilities in program and financial operations that impaired our ability to effectively deliver on some program objectives but these challenges did not prevent us from achieving our mission. During the past year, we have focused on overcoming a number of challenges, made significant improvement in our operations, and laid the foundation to remediate the remaining challenges.

Comment 1

The challenges facing HUD will require coordination between several HUD entities, including the Office of Inspector General, to clarify facts and causes, and identify essential actions necessary to correct the weaknesses within our operations. Based on the compressed timeframe, there is inadequate time to sufficiently validate the information within the draft report and provide suitable resolutions.

Overall, while I realize there are some weaknesses within our operations that we are committed to addressing, I am concerned about the feasibility and achievability of some recommendations. The redundancy and characterization of some facts, findings, and causes makes corrective actions problematic.

Comment 2

I invite you to participate in a new approach where we leverage individual expertise but maintain independence to dramatically improve overall financial management, strengthen internal controls and reach compliance while enhancing program delivery.

Having our teams coordinate, from our respective roles, on an in-depth analysis offers the best opportunity to develop the optimal resolutions that can result in an even more effective HUD. I would like to begin an enhanced coordinated in-depth analysis in December with the goal of strengthening our financial management foundation through resolution of audit findings. I look forward to working with the Office of the Inspector General to help us continue to build a stronger HUD.

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OIG Evaluation of Auditee Comments

Comment 1 As required by the American Institute of Certified Public Accountants' Codification of Statements on Auditing Standards, AU-C section 260, The Auditor's Communication with Those Charge with Governance, we are required to communicate with you timely observations of the issues or audit matters that are in the auditor's professional judgment, significant and relevant to your responsibility to oversee the financial reporting process. We satisfied this auditing standard by communicating the findings contained within this report to the OCFO and applicable program offices through (1) reporting deficiencies to the OCFO in the Third Quarter Assessment, issued on September 16, 2015; (2) the issuance of notification of findings and recommendations or finding outlines, both of which layout the condition, cause, criteria, impact, and proposed recommendations, which were issued beginning in September through October 2015; and (3) periodic status meetings which included briefings on the status of work and identification of potential findings prior to the inclusion in the draft report. All of these methods of communication occurred prior to the issuance of the draft report in an effort to facilitate discussion with the affected offices and to determine if the facts which our conclusions were based on were accurate. This also allowed affected offices to review and provide comments to the findings for consideration prior to their inclusion in the draft report. Further, all but two findings cited in this report have been reported in prior years and are long standing weaknesses with unresolved prior year recommendations.

Comment 2 As part of the audit resolution process, we are available to meet and discuss possible action plans that will satisfactorily resolve the recommendations included within this report. We look forward to working with you in this area in an effort to resolve the many financial reporting deficiencies facing HUD today.