Office of the Chief Financial Officer, Washington, DC

Additional Details To Supplement Our Fiscal Years 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit

Office of Audit, Financial Audits Division
Washington, DC

Audit Report Number: 2018-FO-0004
November 15, 2017

To: Thomas W. Harker, Acting Deputy Chief Financial Officer for Financial Management and Accounting, F

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

Subject: Additional Details To Supplement Our Fiscal Years 2017 and 2016 (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 website. 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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Additional Details To Supplement Our Fiscal Years 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit

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, 2017 and 2016 (restated), related to HUD's internal controls and 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 2017 and 2016 (restated) due to severe weaknesses in HUD's internal controls over financial reporting. This report provides additional details on six material weaknesses, three significant deficiencies, and three instances of noncompliance with applicable financial management laws and regulations. We also cited another matter that warranted attention by management. Details of the results of our audit of HUD's component entities, the Federal Housing Administration and Government National Mortgage Association, can be found in separate audit reports.

Primarily, HUD (1) lacked adequate controls over its financial reporting preparation process; (2) inadequately accounted for assets, liabilities, commitments, and disbursements in accordance with generally accepted accounting principles (GAAP); (3) delayed completion of significant reconciliations; (4) lacked adequate financial management systems to ensure accurate and reliable financial reporting; and (5) reported significant amounts of invalid obligations. These conditions were caused by (1) ineffective internal controls, including customer complementary controls, over financial reporting after the transition to a Federal shared service provider; (2) poor oversight of components' financial reporting; and (3) continued weaknesses in HUD's financial management governance structure.

What We Recommend

We recommend that HUD (1) properly account for all financial transactions in accordance with GAAP; (2) improve internal controls over the financial reporting process, including developing and implementing effective customer complementary controls; and (3) deobligate up to $648.9 million in invalid or inactive obligations and return to the U.S. Treasury more than $329.3 million in unapportioned funds that are not available for obligation.

Table of Contents

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 17-03, 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.

In planning our audit of HUD's principal financial statements, we considered internal controls over financial reporting and 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 internal controls or compliance with selected provisions of laws, regulations, and government policies was not an objective, and, accordingly, we do not express such an opinion.

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.
- 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 disclaimer of 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.

Report on Internal Controls Over Financial Reporting

Material Weaknesses

Finding 1: Weak Internal Controls Over Financial Reporting Led to Errors and Delays in the Preparation of Financial Statements and Notes

HUD's Office of the Chief Financial Officer (OCFO) did not comply with financial reporting requirements and made management decisions that exposed its financial reporting process to increased risk for error. For example, (1) HUD had not designed or implemented effective complementary customer agency controls to leverage Federal shared service provider (FSSP) controls; (2) HUD's OCFO did not provide third quarter notes to OMB or the Office of Inspector General (OIG) for review, and OCFO management implemented a new note preparation process in the eleventh month of the fiscal year before completing validation of the new process; (3) OCFO did not record budget authority provided in the fiscal year 2017 Continuing Resolution amounting to $5.2 billion in the first quarter, of which $4.2 billion remained unrecorded in the second quarter; (4) The Government National Mortgage Association (Ginnie Mae) incorrectly implemented an accounting change that materially misstated its third quarter statements; and (5) OCFO continued performing a significant number of manual journal entries to clean up its general ledger. These deficiencies occurred because internal controls over HUD's financial reporting process were weak, allowing significant decisions to be made without careful consideration of (1) GAAP, (2) U.S. Treasury and OMB requirements, or (3) the impact on HUD's operations. The result of these conditions was that (1) OCFO duplicated processes instead of leveraging the Administrative Resource Center's (ARC) services; (2) OIG and OMB staff were unable to review and provide comments to third quarter notes, increasing the risk of errors going undetected; (3) funds were not made available to major program offices, and there were material first and second quarter intragovernmental differences between HUD and Treasury; (4) HUD's quarterly financial statements were materially misstated; and (5) there was an increased risk of errors due to HUD's extensive reliance on manual journal vouchers.

HUD Had Not Designed or Implemented Effective Entity-Level Controls Related to Its Shared Service Provider for Financial Reporting

Two years after the transition to an FSSP,[1] the Financial Reporting Division (FRD) within the Office of the Assistant Chief Financial Officer for Accounting (OCFO Accounting), which is

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[1] In fiscal year 2016, HUD transitioned to an FSSP, the U.S. Department of the Treasury's Bureau of Fiscal Services, Administrative Resource Center (ARC), which included the migration of its general ledger to Oracle Federal Financials and many of its financial reporting processes.

responsible for validating and certifying HUD's financial statements, was still reliant on its old financial reporting system and processes to validate the FSSP-prepared financial statements. Although ARC has its own financial reporting division that performs various analyses and provides them to HUD, FRD still performed the same analyses used before the transition and used the Hyperion Financial Management (HFM) system to recreate the financial statements. FRD's efforts were duplicative and labor intensive. OCFO management had expressed concerns about FRD's using HFM to validate the financial statements because the mapping was not documented and validated. Further, OCFO management stated that HFM was designed for use before the transition to the shared service provider and the continued use of HFM did not take advantage of the services that ARC provides.

OCFO Accounting management failed to identify efficient and effective methods to perform validations of ARC-prepared financial statements. Additionally, validation tools provided by ARC were not fully leveraged due to insufficient guidance provided by OCFO Accounting to FRD staff. Insufficient guidance prevented FRD staff from implementing effective controls. The time spent duplicating ARC's processes could have been spent on tasks that would strengthen HUD's accounting and financial reporting operations, such as (1) fully analyzing ARC's analyses and validations and documenting its review and (2) fully evaluating the impact of changes in HUD's operations on its financial statements. Without effectively designed and operating user complementary controls, which is a requirement in The U.S. Government Accountability Office's (GAO) Green Book,[2] OCFO continued to struggle with accurately reconciling key financial statement balances and resolving any identified differences in a timely manner.

HUD's Third Quarter Financial Statement Notes Were Not Available for Audit

Although required by OMB Circular A-136,[3] HUD did not submit third quarter financial statement notes to OMB or OIG. On August 14, 2017, the Deputy CFO notified OIG staff that HUD would not be providing third quarter notes. The Deputy CFO stated that although notes for the third quarter had been prepared, there were anomalies that resulted from using the current process for preparing the notes. She was also concerned that the current process was too labor-

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[2] GAO's Green Book provides internal control considerations for service organizations, including shared service providers. Service organization internal control considerations include management's responsibility for the performance of third-party-provided processes, establishing "user controls" at the agency receiving services, and service organization oversight. Establishing entity-level control (ELC) is a primary step in operating an effective system of internal control. The Green Book defines ELCs as controls that have a pervasive effect on an entity's internal control system and pertain to multiple components. ELCs include controls related to the entity's use of service organizations.

[3] OMB Circular A-136 requires agencies to submit third quarter unaudited interim financial notes, along with unaudited interim financial statements, to OMB. The purpose of this submission is to (1) allow agencies to receive comments from OMB in advance of the year-end deadline, so that they will have sufficient time to improve the accuracy and conformity of these notes for the year-end submission of PARs or agency financial reports (AFR)s, and (2) enable Treasury's Bureau of the Fiscal Services to conduct preliminary analysis on agency data to facilitate preparation of the Financial Report of the U.S. Government.

intensive and did not produce timely and accurate notes as evidenced by the magnitude of errors identified in the fiscal year 2016 AFR which resulted in its reissuance and the fiscal year 2017 third quarter notes. For those reasons, the Deputy CFO determined that continuing to rely on FRD's current processes was not acceptable. Specifically, OCFO did not have a financial reporting system capable of producing its note disclosures, and instead produced them manually which posed a great challenge and significant risks.[4] The Deputy CFO decided to stop all further work on the third-quarter fiscal year 2017 notes and have staff focus on implementing a new process for preparing the notes. The Acting ACFO for Financial Management was tasked with developing the new process.

As of September 6, 2017, the ACFO Office of Financial Management had not completed their validation for fiscal year 2016, and fiscal year 2017 financial data had not been tested using the new process. Once OCFO applied the new process to the fiscal year 2017 third quarter financial data, it found "gaps" in the tool that needed to be resolved. As of September 30, 2017, this analysis was not complete, and OCFO staff advised that they were still working on resolving variances and making changes to the tool where necessary to eliminate variances. Further, OCFO was not able to include some notes in the notes tool and required manual templates to facilitate the compilation of the note. While the consolidated financial statement notes were given to the OIG for audit by the required due date, OCFO was still determining the appropriate mapping for note 3- Fund Balance With Treasury. OCFO provided a new mapping and revised note 3 on November 12, 2017, however, did not provide adequate support for it. Further, the use of manual templates resulted in material errors in note 7, Direct Loans and Loan Guarantees, Non-Federal Borrowers, totaling as absolute value of approximately $522.3 billion, which were identified by us. After we informed OCFO of the errors, they worked to make corrections; however, due to the late identification and correction of the errors, we did not have sufficient time to complete our review of the revised note to ensure all errors were corrected. Therefore, we could not obtain sufficient appropriate evidence to render an opinion on Note 3 and Note 7.

OCFO management's decision to implement a new notes process in the eleventh month of the fiscal year without adequate testing of the process using current year data and financial reporting requirements increased HUD's risk of not producing reliable financial statements and accompanying notes within prescribed year-end timeframes. Further, due to OCFO electing to not submit third quarter notes, OIG and OMB staff were unable to review and provide comments on them prior to the end of the fiscal year. This would have allowed for improvements in the accuracy and conformity of HUD's Agency Financial Report.

HUD Did Not Record Budget Authority for Major Appropriations From the Fiscal Year 2017 Continuing Resolution

OCFO elected not to record budget authority provided in the fiscal year 2017 Continuing Resolution for 10 U.S. Treasury account symbols (TAS) totaling $5.2 billion in funding in the

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[4] Further discussion on OCFO's lack of a financial reporting system capable of producing footnote disclosures is found in Finding 5.

first quarter and $4.2 billion in the second quarter. This is not in accordance with applicable Treasury guidance or GAAP.[5]

We attributed this condition to improper implementation of changes in delegation and poor internal controls. Late in fiscal year 2016 and into fiscal year 2017, there were delegation of responsibility changes within OCFO. The Office of Chief Financial Officer for Budget (OCFO Budget) indicated that the responsibility of recording warrants and annual appropriations transitioned from OCFO Accounting to Budget during the first quarter of 2017. The personnel with delegated responsibility for executing these procedures were unaware of the posting logic for Standard General Ledger (SGL) accounts 109000 - Fund Balance With Treasury While Awaiting a Warrant, 310100 – Unexpended Appropriations – Appropriations Received,[6] 41190 – Other Appropriations Realized,[7] and 4450 – Unapportioned Authority, which requires the level 1 budget template to be completed in Oracle Federal Financials. Therefore, OCFO failed to record the budget authority due to a lack of defined policies and procedures within OCFO Budget. There were no procedures established for recording the appropriations provided by a continuing resolution for both the proprietary and budgetary transactions.

The lack of recording the budget authority caused an intragovernmental difference between HUD and Treasury's General Fund totaling $5.2 billion in the first quarter and $4.2 billion in the second quarter. To fix the difference, Treasury had to process an entry to the General Fund to record the full amount of the continuing resolution authority for both reciprocal categories 40 and 41.[8] This difference was presented to HUD's CFO Accounting and Budget offices by their shared service provided by ARC. The proposed solution to resolve the difference that was provided by ARC's Intragovernemental Branch to HUD in March 2017 was to complete level 1 budget templates to record the authority. The difference was also presented to OCFO Accounting during quarterly meetings with Treasury regarding HUD's Intragovernmental Scorecard. Despite ARC's Agency Intragovernmental Branch communicating the requirement to record the Budget Level 1 templates and knowledge of the impact the difference was having at the governmentwide level, OCFO Budget did not execute actions to address the difference.

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[5] Statement of Federal Financial Standards (SFFAS) No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, paragraph 71, states that appropriations should be recognized in capital as "unexpended appropriations" (and among assets as "funds with Treasury") when made available for apportionment, even if a Treasury warrant has not yet been received or the amount has not been fully apportioned. The U.S. Department of the Treasury published a scenario using the August Treasury Financial Manual (TFM) (TFM Release S2-05-03). Appropriations Provided by a Continuing Resolution states, "Although a warrant may not be issued, agencies' Fund Balance With Treasury (FBWT) should be recorded under a CR [continuing resolution]. The CR entitles agencies to FBWT."
[6] Unexpended Appropriations - Appropriations Received, Account 310100. The amount of new appropriations received during the fiscal year. Special and trust funds do not use this USSGL account to record appropriations of dedicated and dedicated collections. However, special and trust funds that receive appropriations from the General Fund of the U.S. Government are to use this account.
[7] Other Appropriations Realized, Account 411900. The amount of budget authority appropriated as specified in the appropriation language for all other appropriations not otherwise classified
[8] Agencies should validate and reconcile their data monthly to resolve intragovernmental differences in certain reciprocal categories before their data submissions to the Governmentwide Treasury Account Symbol Adjusted Trial Balance System. Reciprocal category 40 represents the fund balance with Treasury balance, and reciprocal category 41 represents the warrants issued - appropriations received as adjusted balance.

Therefore, the second quarter Intragovernmental Transactions (IGT) Scorecards reflected that OCFO had made limited progress in recording the budget authority, showing a reduction from $5.2 billion in the first quarter to $4.2 billion in the second quarter.

There were several impacts of this decision. First, HUD did not make available funds provided through the fiscal year 2017 Continuing Resolution to its program offices, including the Office of Community Planning and Development (CPD), Office of Housing, and Office of Public and Indian Housing (PIH). Second, HUD understated the fund balance with Treasury balance in SGL accounts 109000 - Fund Balance With Treasury While Awaiting a Warrant, 310100 – Unexpended Appropriations – Appropriations Received, and 41190 – Other Appropriations Realized and overstated 4450 – Unapportioned Authority for the first 9 months of the fiscal year. From October 1, 2016, through July 5, 2017, there was an unrecorded balance between $4.2 and $5.2 billion. This resulted in the misrepresentation of the fund balance with Treasury balance between HUD and Treasury and caused HUD's Consolidated Balance Sheet, Combined Statement of Changes in Net Position, and Combined Statement of Budgetary Resources for the first and second quarters to be materially understated. In consideration of HUD's compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act) for the second quarter of 2017, the unrecorded budgetary balances made HUD's submission of file A – Appropriations Account incomplete and inaccurate. Therefore, HUD was unable to validate that all reportable data had been submitted to USASpending.gov, resulting in noncompliance with the DATA Act. The stakeholders and end users accessing the website could not obtain an accurate representation of HUD's budgetary funding through the submitted data in file A.

Lastly, HUD's IGT Scorecard for the first and second quarter of 2017 documented the existence of the agency's difference in fund balance with Treasury relating to the Continuing Resolution, noting a difference of $5.2 billion and $4.2 billion, respectively, contributing to the governmentwide intragovernmental difference. HUD's ranking in contribution to the governmentwide intragovernmental difference increased from 41st to 8th. Resolution of governmentwide intragovernmental differences is a material weakness for the U.S. Governmentwide Financial Report.

Refer to the table below for a complete list of the program offices' budget authority by TAS that was not available as of March 31, 2017.

Table 1 Unrecorded budget authority as of March 31, 2017			
USSGL 310100 Unexpended Appropriations - Appropriations Received Balance			
Fiscal year 2017 TAS	**HUD**	**U.S. Treasury's General Fund**	**Difference**
0108	$(41,060,000)	$48,766,153	$7,706,153
0162	(1,811,270,878)	3,564,557,512	1,753,286,634
0174	-	63,109,139	63,109,139
0176	-	31,956,173	31,956,173
0192	-	1,290,868,759	1,290,868,759
0205	-	545,033,476	545,033,476
0303	(6,094,884,542)	6,263,412,763	168,528,221
0308	-	192,196,015	192,196,015
0349	-	71,714,931	71,714,931
0350	-	43,028,958	43,028,958
Total	**(7,947,215,420)**	**12,114,643,879**	**4,167,428,459**

Ginnie Mae's Third Quarter Fiscal Year 2017 Statement of Budgetary Resources Contained Material Errors

Ginnie Mae improperly implemented a change to its budgetary resource accounting, which resulted in material errors in its third quarter statement of budgetary resources, which went undetected until identified by OIG.

Ginnie Mae collects money to fund its operations, which are either apportioned for use or are to be saved for the future (unapportioned). Previously, Ginnie Mae recorded these anticipated resources[9] with a status of either allotted (account 4610) or unapportioned (account 4450). However, based on USSGL guidelines, amounts apportioned but not yet collected should be recorded in status SGL account 4590 - Apportionments Anticipated Resources, and during fiscal year 2017, Ginnie Mae decided to start using this account to show the status of its anticipated collections. This is appropriate when the collections have already been apportioned; however, Ginnie Mae applied it to all of its funds, including the capital reserve account, which is not apportioned. As a result, the $1.83 billion anticipated balance in the capital reserve fund was incorrectly classified as apportioned on its third quarter statement of budgetary resources.

This change further complicated financial reporting. Ginnie Mae collected in its financing fund $205 million over the amount anticipated, which resulted in a $205 million credit balance in SGL account 4060 - Anticipated Collection from Non-Federal Sources. ARC applied this credit balance to Ginnie Mae's unapportioned line item on the consolidated statement of budgetary

[9] 4060 - Anticipated Collections from Non-Federal Sources and 4070 - Anticipated Collections from Federal Sources

resources as required by the USSGL crosswalks. However, Ginnie Mae's system posting logic incorrectly included it in USSGL account 4450 -Unapportioned, which also crosswalks to the unapportioned line item on the consolidated statement of budgetary resources. Therefore, this amount was double counted under the unapportioned line item, and the abnormal credit balance was included in the apportioned line item on the Combined Statement of Budgetary Resources.

We attributed the conditions cited above to a lack of procedures. Ginnie Mae's budgetary procedures were still in draft and did not include instructions on the process and protocol to research and resolve new issues that arise. This significant change was made without adequate research and review to ensure compliant Federal GAAP accounting. Further, Ginnie Mae's Federal Accounting Standards Advisory Board (FASAB) financial reporting director, who initiated this change, was also acting as Ginnie Mae's budget officer for most of the year. The financial reporting director is responsible for Ginnie Mae's Federal Financial Statement preparation and accounting framework and oversees a team of general ledger accountants. The budget officer oversees 3 budget analysts and manages budget formulation, justification, and maintains the SF-132 Apportionment and Reapportionment Schedule activities. Assigning responsibilities related to two key roles of the organization to one individual created an environment that allowed excessive pressures to exist and go unaddressed, which increased the risk of error.

As a result, HUD's consolidated third quarter statement of budgetary resources' apportioned and unapportioned line items were overstated and understated by a net of $1.62 billion, respectively, representing an absolute value of $2.03 billion. Although this will not impact Ginnie Mae's or HUD's yearend statements because the anticipated accounts will be closed out for yearend reporting, the contributing cause of these errors increases the risk of a material misstatement continuing to occur in HUD's consolidated financial statements without being detected.

HUD's Reliance on Manual Journal Vouchers Increased Risk

HUD relied heavily on manual journal vouchers in fiscal year 2017 to ensure that its general ledger and financial statements were accurate. From October 1, 2016, through September30, 2017, HUD used 1,265 journal vouchers totaling $4.6 billion to account for daily loan activity and 1,617 journal vouchers totaling $1.39 trillion to adjust transactional data in its general ledger.[10] While many of the adjusting journal vouchers did not impact amounts at the USSGL account level by fund, they did manually change transactional data either by (1) adjusting one or more segments of the accounting flex field[11] (AFF) or (2) closing AFFs manually.

A significant portion of these journal vouchers, totaling approximately $475.9 billion, were needed to adjust incorrect or missing AFF values on converted data.[12] These journal vouchers were necessary because if the amounts are not recorded with the correct AFF values in Oracle, data on payments coming from the HUD Centralized Accounting and Program System

[10] This includes both the debits and the credits.
[11] The AFF represents the accounting strip or line of accounting and must be present on every transaction in Oracle Federal Financials. Segments include fund, budget fiscal year, USSGL, budget objects class, internal org, cost pool, Cam1, category B, program, cohort, Cam2, and Cam3.
[12] HUD transferred all of its pre-2016 HUDCAPS data into Oracle.

(HUDCAPS) may be rejected and could cause abnormal balances that would require time to research and resolve. Due to differences in the infrastructure of HUDCAPS and Oracle, many of the transactions that were transitioned to Oracle had missing or incorrect AFF values, and in many cases, the transactional records in Oracle did not match HUD's subsidiary records. We attributed these issues to the rushed implementation of phase 1, release 3, of the New Core Project.[13] In addition to the data issues, HUD did not do enough research and preparation to ensure that Oracle Federal Financials could adequately address its financial reporting needs.

In addition to the adjustments related to data conversion cleanup and the recording of daily loan activity, HUD adjusted transactional data totaling approximately (1) $579.4 billion as part of the normal closing process, (2) $713.8 million for loan cleanup, (3) $607.7 million to adjust its budgetary balances to agree with Standard Form (SF)-132, (4) $75.9 billion to add DATA Act elements, (5) $88.3 billion to eliminate intra-HUD transfers that netted to $0 and did not represent actual transfers, (6) $909.7 million for receivable corrections and manual receivable recording, (7) $3.3 billion to manually record PIH prepayment, and (8) $120.4 billion for items that will require manual adjustments on an ongoing basis, such as grant accruals and eliminations. This extensive use of journal vouchers complicated the financial reporting process, burdened staff, and increased the risk of error.

Conclusion

As reported in prior-year audit reports and in this report (finding 6), HUD's financial management governance continued to be weak, allowing for weak internal controls over HUD's financial reporting process and allowing significant decisions to be made without careful consideration of (1) Federal GAAP, (2) Treasury and OMB requirements, or (3) the impact on HUD's operations. These weaknesses prevented HUD from establishing a robust financial reporting framework that would allow for the preparation of reliable and timely quarterly and yearend consolidated financial statements and other financial reporting requirements. These weaknesses continued to allow material misstatements to occur without being detected until identified by OIG. Until OCFO is able to design and implement sufficient and effective internal controls over its financial reporting process and adequately monitor the controls to ensure that they are operating successfully, HUD will continue to struggle with meeting OMB and Treasury financial reporting requirements, including the production of reliable financial statements and notes.

Recommendations

Recommendations related to the deficiency in complementary controls is included in finding 6 of this report because it affects all business processes that were transitioned to ARC and is not isolated to financial reporting. We have the following additional recommendations:

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[13] For further details, see Audit Report 2016-DP-0004, New Core Project: Phase 1, Release 3, Implementation and New Core Interface Solution Functionality, Finding 1: HUD Rushed Implementation of Phase 1, Release 3, of the New Core Project.

We recommend that the Acting Deputy Chief Financial Officer

1A. Implement a repeatable and sustainable process to prepare timely and accurate quarterly financial statement notes, including third and fourth quarter notes within the OMB required timeframe.

1B. Establish policies and procedures for recording the budget authority apportioned to HUD during a continuing resolution, including both the proprietary and budgetary transactions.

1C. Ensure that the budget execution policies and procedures are properly delegated, assigned, and communicated to the personnel fulfilling these responsibilities.

1D. Ensure that the budget execution procedures executed internally by OCFO Budget are consistent with those established by ARC.

1E. Develop and implement policies and procedures to ensure that intragovernmental differences identified with U.S. Treasury's General Fund are resolved on a timely basis with corrective action plans.

We recommend that Ginnie Mae's Chief Financial Officer

1F. Develop standard operating procedures for implementing accounting changes, including steps to assess the appropriate impact on each treasury account symbol.

1G. Review all of Ginnie Mae's TAS's to determine the appropriate accounting treatment for anticipated collections, make the appropriate adjustments as determined necessary, apply this process going forward, and make restatements if necessary. The CFO should ensure that the accounting treatment follows the USSGL guidance through all phases of the anticipated collection (before collection and after collection).

Finding 2: HUD Assets and Liabilities Were Misstated and Not Adequately Supported

HUD did not properly account for, have internal controls over, or have adequate support for all of its assets and liabilities. Specifically, (1) CPD did not adequately validate its accrued grant liabilities estimates; (2) PIH's accounting for its cash management process was haphazard and did not comply with Federal GAAP or FFMIA; (3) HUD did not recognize prepayments for funds advanced to its Indian Housing Block Grant (IHBG) grantees for investments; (4) PIH did not accurately track accounts receivable payments or writeoffs related to the Housing Choice Voucher program; (5) balances related to HUD's loan guarantee programs were not reliable; and (6) HUD did not properly account for its property, plant, and equipment. These problems occurred because of (1) continued weaknesses in HUD's internal controls over financial reporting, (2) a lack of communication between OCFO and the program offices, and (3) insufficient information systems. As a result, several financial statement line items were misstated or could not be audited as of September 30, 2017. Specifically, (1) CPD's accrued grant liabilities estimates could not be audited; (2) PIH's prepayment and related accounts receivable and payable line items on its interim balance sheets were misstated; (3) we could not provide an opinion on HUD's September 30, 2017, PIH prepayment balance; (4) HUD's assets and expenses related to IHBG investments were understated and overstated by approximately $149 million, respectively, due to the improper accounting of IIHBG investments; (5) HUD's accounts receivable balance is at risk of misstatement because Housing Choice Voucher program debts were not adequately tracked; (6) the CPD Section 108 and PIH Section 184 loan guarantee liabilities contained unreconciled differences and could not be audited; and (7) HUD's $323.8 million balance for property, plant, and equipment was not supported.

CPD Did Not Adequately Validate Its Accrued Grant Liabilities Estimates

CPD continued to lack an adequate validation process for its estimated accrued grant liabilities due to a lack of procedures and relevant grantee reporting, as we first reported in fiscal year 2014.[14] For fiscal years 2017 and 2016, CPD reported accrued grant liabilities of $2.2 billion and $2.3 billion, respectively. These amounts accounted for 87 percent of HUD's $2.5 billion total accrued grant liabilities reported for fiscal year 2017 and 85 percent of $2.7 billion for fiscal year 2016. As a result, CPD could not ensure that its assumptions and, therefore, its estimates were accurate and reliable in accordance with the requirements of FASAB Technical Release 12, Accrual Estimates for Grant Programs.

HUD did not adequately validate its estimated grant liabilities because without guidance or authorization from OMB, CPD implemented a systematic waiver, which allowed its grantees the option not to provide the Federal Financial Report (SF-425), which was designed specifically to account for grantee expenditures and allow CPD to form a reasonable accrual estimate.[15] Instead, CPD relied on a third party as a means of providing this accrual estimate calculation.

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

[15] The SF-425 was established, and submission requirements were mandated by OMB.

Using the data provided by CPD,[16] a contractor procured by OCFO established and implemented a validation methodology that resulted in a materially[17] inaccurate outcome, which invalidated the statistical integrity of the process. This error was due to inaccurate results obtained from the survey of grantees and included in the statistical validation calculation. Additionally, because the grant accrual estimate of $2.2 billion was within OCFO's materiality level[18] from the lower bound of the confidence interval determined by the validation results, CPD and OCFO determined that the CPD grant accrual methodology was validated as materially correct. Because estimates are already inherently uncertain, the validation results presented by CPD lacked the statistical integrity to provide a 90 percent confidence level that the estimate fell between ($1.5 billion) and ($285 million). Adding $710.1 million to one side of this range changes the confidence level of the sample design and increases the relative precision percentage to an amount far greater than the determined 68 percent,[19] causing an inappropriate final conclusion that the estimate was materially correct.

Although CPD and OCFO had made significant improvements in the area of accrual validation, their overall process lacked the particular elements required to ensure that the resulting point estimate, precision percentage, and upper and lower bounds were reasonable and not materially incorrect. Therefore, CPD and OCFO did not have assurance that the fiscal year 2016 accrual estimate of $2.2 billion was a reasonable estimate based on the results of the validation methodology. Also, other HUD internal control deficiencies prevented us from obtaining adequate, sufficient supporting evidence to develop a point estimate to determine the reasonableness of CPD's fiscal year 2016 accrual estimate. There were no other compensating audit procedures that could be performed in the time available to obtain reasonable assurance regarding CPD's accrued grant liabilities estimates for fiscal years 2017 and 2016.

As a result of these deficiencies, we were unable to obtain sufficient, appropriate audit evidence for CPD's accrued grant liabilities and could not form an opinion on CPD's accrued grant liabilities for fiscal years 2017 and 2016.

HUD's Accounting for PIH's Cash Management Transactions Did Not Comply With Federal Financial Accounting Standards or The Federal Financial Management Improvement Act

PIH's Housing Choice Voucher program began implementing cash management in fiscal year 2012 to control the reserves held by public housing agencies (PHA). Since its full implementation in fiscal year 2013, PHA reserves have been drastically reduced. However, HUD's accounting for cash management transactions has continued to be problematic, and we

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[16] Review of the data provided to the contractor (for the establishment of the methodology) revealed several inaccurate numerical figures based on the automated databases used by HUD. We were not provided documentation establishing that CPD performed a verification of accuracy before use.
[17] The materiality of $510 million was determined during our initial risk assessment. The fiscal year 2016 accrual estimate exceeds the upper bound by more than the material amount. Also, the initial precision of 8 percent was determined to be 68 percent, which is materially inaccurate.
[18] Within $710.1 million from the lower bound of ($1.5 billion)
[19] If the booked amount ($2.2 billion) is the new lower boundary for the point estimate, the precision relative to the sample point estimate ($897.9 million) is 151.7 percent.

have reported on this issue since full implementation in fiscal year 2013. The manual nature of the process and lack of OCFO consultation have resulted in haphazard accounting that is difficult and time consuming to audit.

Specifically, (1) the inputs used to determine the PIH prepayment financial statement line item were inconsistent, untimely, and contained inaccuracies; (2) changes in the PIH prepayment financial statement line item were not recorded at the transaction level in HUD's general ledger; (3) accounts receivables and payables arising from the completion of cash management reconciliations were not recognized in the general ledger and on HUD's financial statements, and (4) PIH's methodology for prepare the restricted net position (RNP) report and all of the risks associated with its inputs were not disclosed in HUD's financial statement notes.

As a result, there was a high risk that the PIH prepayment, accounts receivable, and accounts payable financial statement line items were misstated and could not be audited. Further, this method of accounting was not in accordance with Federal GAAP and FFMIA and did not provide full disclosure to the users of the financial statements. In fiscal year 2017, we found misstatements in HUD's interim financial statements, and we could not provide an opinion on the balance recorded in HUD's September 30, 2017, financial statements.

1. *<u>Inputs used to determine the PIH prepayment</u>.* PIH used quarterly RNP reports that use data from several different sources. We found the following issues related to the RNP report:

    - *Inconsistent beginning balance*s – PIH used different sources of data to determine the beginning balance every quarter. Some of these sources were Excel spreadsheets that were tracked and updated manually by the program office, while in other reports PIH used PHA financial statements from Financial Assessment of Public Housing Agencies system.

      Due to inconsistent RNP beginning balances each quarter, we could not implement consistent audit methodologies to test the balances. PIH provided the June 30, 2017, RNP report to us almost 1 month late and only 1 week before fiscal yearend. We were not notified until that date that the approach for determining the beginning balances had changed. Because PIH strayed from its procedures which were provided to us during its internal control testing phase, we were unable to perform sufficient audit procedures regarding the new method at yearend. Further, the ending balance determined by the December 31, 2016, RNP reports was $208 million different from the December 31, 2016, beginning balances[20] used in the June 30, 2017, report. While the differences for some of these PHAs had reasonable explanations, they highlight the risk of using different methods to calculate the beginning balance each quarter.

[20] We compared only ending balances with positive beginning balances since ending balances can include negatives and beginning balances replace negative balances with 0 (therefore, it would not be fair to compare these).

Further, since some of the beginning balances PIH used were from Excel spreadsheets that were updated manually, Financial Management Center (FMC) and Quality Assurance Division (QAD) beginning balance reviews were not always included correctly in the RNP report, misstating the balances. For example, (1) the Moving to Work (MTW) PHA beginning balances from QAD reviews in the March 31, 2017, RNP report were off by $9.7 million from the actual QAD reports; (2) PIH used FMC reviews for 13 PHAs in our December 31, 2016, sample, and of the 13, the beginning balance for 1 PHA was off by $4 million because the FMC forgot to update its log; and (3) in our September 30, 2016, sample, 9 of 30 PHAs were incorrect by $9 million because the results of the FMC review were not included.

- *Untimely expense data* – Voucher Management System expense data were not available until almost a month after the period ended, and the data could be adjusted by PHAs after PIH pulled the data for the report. As a result, we found errors in the expenses in the RNP reports, which resulted in errors on HUD's quarterly financial statements with an absolute value ranging between $29.5 million and $87.5 million for MTW PHAs and averaging approximately $11 million for the sample of 30 non-MTW PHAs reviewed. While our sample included the 15 largest PHAs, there were 2,217 non-MTW PHAs included in the report that were at risk of similar errors.

- *Inaccurate disbursement data* – PIH used HUDCAPS pay tables to retrieve the disbursement data. This was problematic because the payment date from these tables was not always the same as the accounting disbursement date. The payment date corresponds to the period when the PHA incurred the expense (period of service), not the date on which HUD paid the PHA. While it was appropriate for PHAs to record expenses when incurred, the PIH prepayment calculation was used to determine an asset on HUD's balance sheet, not an expense or liability. Additionally, since each report shows only a particular period for each PHA, ensuring that disbursements were reported in the appropriate period is critical.

  Since PIH did not use HUD's accounting data, the quarterly MTW RNP reports contained errors, which resulted in errors on HUD's quarterly financial statements with absolute values ranging between $21 million and $52.1 million.

In addition to the impacts listed above, since the RNP report did not necessarily represent what each PHA was holding, reclassification of the prepayment to accounts receivable was problematic. Ordinarily, if HUD prepaid an entity and the entity owed HUD money, it would be appropriate to take the entire receivable out of the prepayment. However, because of the inaccuracies contained in the RNP report, PIH calculated that some of its PHAs had $0 in prepayment, yet they still owed HUD money. This situation would be virtually impossible if the prepayment calculation accurately reflected HUD's prepayment.[21] Further, in this situation, it was not correct to subtract the receivable balance because there was nothing to reclassify from that PHA.

Since PIH subtracted the entire receivable balance from the PIH prepayment and many of those PHAs did not have balances large enough to cover the receivable, PIH understated the prepayment by $26.3 million and $24.2 million as of September 30, 2016, and March 31, 2017, respectively. After we brought this matter to the attention of OCFO and PIH, they made changes to ensure that they did not subtract receivables from PHAs with no prepayment balance.

2. *Accounts receivables and payables arising from cash management reconciliations*. When excesses and shortages were determined during the cash reconciliation process and the claims to cash were established through PHA notification, accounts receivables and payables were not recognized in the general ledger and on HUD's financial statements. As mentioned above, due to the inaccuracy of the RNP report, reclassification of accounts receivables is difficult. HUD would run into similar issues on a much larger scale if it tried to reclassify these receivables because the RNP report does not precisely measure each PHA's reserves at the point in time when the receivable is determined.

   Since accounts receivables and payables determined during PIH's cash management reconciliations were not recognized on HUD's financial statements, those financial statement line items were understated, and the PIH prepayment was overstated by the amount that should be reclassified as a receivable. This process did not comply with FFMIA since receivable and payable transactions were not recorded as they occurred or at the transaction level.

3. *Changes to the PIH prepayment*. As PHAs received and spent HUD's prepayments, changes in the PIH prepayment financial statement line item were not recorded at the transaction level in HUD's general ledger. Instead, OCFO recorded manual journal entries quarterly to adjust the balance to agree with PIH's RNP report, which was as of 3 months before the end of the quarter. For the September 30, 2017, balance, PIH used the June 30 report and added in disbursements and estimated Voucher Management System expenses through September 30. This process also did not comply with FFMIA since prepayment transactions were not recorded as they occurred or at the transaction level.

4. *Note disclosure*. PIH's methodology for preparing the RNP report and all of the risks associated with its input discussed above had not been properly evaluated by OCFO and were not disclosed in HUD's financial statement notes. Since the risks associated with PIH's calculation process were not properly disclosed in HUD's financial statement

[21] If a PHA owes HUD money, the PHA should have at least that much in prepayment because (1) if it was all spent on eligible expenses, HUD would not make the PHA repay it (there would be no receivable) and (2) PIH stated that if the PHA spent the money on ineligible expenses, it would make the PHA correct it in the Voucher Management System to represent only eligible expenses. Therefore, the PIH prepayment calculation would reflect the remaining balance, considering only legitimate expenses, and there would be a prepayment balance.

notes, readers of HUD's financial statements could not fully understand the risks associated with this balance.

5. *Lack of automated system and OCFO oversight.* PIH continued to lack an automated cash management system; therefore, it was tasked with manually developing the RNP report and determining the PIH prepayment balance. PIH was forced to balance this responsibility with its primary responsibility, which was ensuring sound financial management within the Housing Choice Voucher and Moderate Rehabilitation Programs. An automated system is essential for accurately reporting all cash management events in accordance with GAAP and alleviating this burden from PIH.

   In our fiscal year 2013 report, we recommended that PIH's cash management process be automated, and management generally concurred. However, without assurance from senior-level HUD management, PIH was reluctant to commit to a corrective action plan that involved the automation of this process. Therefore, management had not provided an agreed-upon action plan for our prior-year recommendations. Recently, PIH informed us that it had worked with the Office of the Chief Information Officer (OCIO) and plans were in place for an Enterprise Subsidies Management Program and an Enterprise Voucher Management System. However, PIH had not provided a management decision, and it is hard to determine whether and when these new systems will be implemented.

   In addition to the lack of an automated system, OCFO had no controls in place to ensure that the RNP report was accurate. OCFO also did not demonstrate any oversight of PIH's methodology to ensure that it complied with GAAP and that changes to the methodology were reviewed by OCFO to ensure compliance with GAAP before implementation. While OCFO was working on evaluating PIH's methodology and determining an improved way to determine the balance, PIH's current process existed for the entire fiscal year 2017 without OCFO oversight.

   Without adequate OCFO oversight and an automated system, PIH used the information that it had available to prepare the RNP report instead of using other financial information that would be appropriate. Specifically, PIH did not use HUD's accounting disbursement data in its RNP report because it did not have access to it. However, it had access to HUDCAPS pay tables, which were more suitable for program monitoring because they could track a PHA's calendar year expenses. Additionally, the changes that PIH made to the beginning balance methods were for enhanced program monitoring. However, when these changes were made, it did not consider the impact on financial reporting and the controls needed to ensure that these manually calculated balances were accurate and consistent. Although the information PIH had may best address its program office responsibilities, it was not necessarily appropriate for financial reporting purposes.

   In our fiscal year 2013 report, we also recommended that OCFO review the cash management process to identify all financial events to be recognized in accordance with GAAP and establish procedures to account for the cash management activity in a timely manner in compliance with GAAP. This recommendation is still outstanding and overdue for corrective action.

As a result of the many deficiencies noted above, we could not form an opinion on the PIH prepayment financial statement line item, and the accounts receivable and payable and other related line items are at risk of misstatement. Additionally, this process did not comply with GAAP and FFMIA.

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

During our audit of HUD's fiscal year 2015 financial statements, we determined that invested IHBG funds were not properly recorded and presented on HUD's financial statements in accordance with GAAP, resulting in misstatements on HUD's financial statements. Specifically, HUD did not record an advance for the funds it disbursed to grantees for investment in advance of programmatic expenses. Instead HUD recorded an expense when disbursed. In HUD's September 30, 2017, financial statements, this practice understated HUD's assets by approximately $149 million. As this balance fluctuates, it could result in material misstatements.

We made four recommendations[22] to OCFO and the Office of Public Housing and they disagreed with all four recommendations. The offices used a combination of litigation, the Red book, and program regulations to support their position. However, HUD's position was not supported by generally accepted accounting standards. HUD's position centered solely on the fact that grantees were allowed to keep the interest earned on investments and that the Native American Housing Assistance and Self Determination Act of 1996 (NAHASDA) regulations allow for investing. Therefore, the recognition of the expense should occur when the funds were provided to the grantee.

While we agree that grantees were allowed to keep the interest and NAHASDA regulations do allow for investing, these statements did not justify HUD's accounting treatment because they were irrelevant in evaluating these disbursements against GAAP.[23]

We referred the disagreement to Deputy CFO and Principal Deputy Assistant Secretary for Public and Indian Housing on April 21, 2016, and after receiving no response, we referred the disagreement to the Deputy Secretary on September 20, 2016, for a decision.

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[22] (1) Evaluate the IHBG investment process and implement a proper accounting treatment in accordance with Federal GAAP, (2) 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, (3) develop standard operating procedures for routinely obtaining information on grantee investment activity and accurately reporting amounts in HUD's general ledger and financial statements, and (4) develop a tracking function for the payments advanced to IHBG recipients to facilitate financial reporting and monitoring compliance with grant time restrictions

[23] 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 receipts' anticipated expenses or as advance payments for the good and services the entity acquires."

While these recommendations were awaiting the Deputy Secretary's decision, OCFO resubmitted a management decision on March 29, 2017, including an analysis of tribal investments using accounting standards. Our evaluation determined that while this decision did consider accounting standards, it was fundamentally flawed. HUD argued that IHBG investments were not assets because they did not meet the following essential characteristics: (1) it embodies economic benefits or services that can be used in the future and (2) the government controls access to those economic benefits or services and can obtain or deny or regulate the access to those benefits or services.

We reviewed HUD's analysis and determined that (1) the investments do embody economic benefit or service because HUD receives its economic benefit or service when the investments are spent on an activity that fulfills HUD's mission, whereas money held in investment accounts does not fulfill HUD's mission and (2) HUD controls access to the economic benefits through regulations over the investments, a depository agreement, and regulations on how the funds are spent once the investment period is over. These controls were put into place to ensure that HUD will receive its future economic benefit. While investing was permitted by NAHASDA, it was not a primary objective,[24] and while the money was held in investment accounts, it was not achieving HUD's mission. To achieve any of the primary objectives of the Act and contribute to HUD's mission, money must be pulled from the investment account and spent on eligible activities. Therefore, the expense occurs when the grantee uses the money on an eligible activity and should be recognized as an advance before that event, as described in Statements of Federal Financial Accounting Standards 1.

On July 11, 2017, the Deputy Secretary provided a final decision, which concluded that since investment is an authorized program purpose, HUD's accounting treatment was correct. The Deputy Secretary did not consider or make reference to GAAP to support the decision. While we closed the recommendations with disagreement in accordance with HUD policies, we recommended reopening the previously issued recommendations in this report.

However, as stated above, we disagreed with this decision because it did not adequately evaluate the IHBG program regulations and requirements against GAAP. A professional accounting judgment can be made only in the context of the applicable accounting framework, accounting standards, or other relevant literature. This decision does not show evidence to support that the accounting framework and accounting standards were adequately considered in the decision.

[24] NAHASDA SEC. 201. NATIONAL OBJECTIVES AND ELIGIBLE FAMILIES. [25 U.S.C. (United States Code) 4131] (a) PRIMARY OBJECTIVE- The national objectives of this Act are-- (1) to assist and promote affordable housing activities to develop, maintain, and operate affordable housing in safe and healthy environments on Indian reservations and in other Indian areas for occupancy by low-income Indian families; (2) to ensure better access to private mortgage markets for Indian tribes and their members and to promote self-sufficiency of Indian tribes and their members; (3) to coordinate activities to provide housing for Indian tribes and their members with Federal, State, and local activities to further economic and community development for Indian tribes and their members; (4) to plan for and integrate infrastructure resources for Indian tribes with housing development for tribes; and (5) to promote the development of private capital markets in Indian country and to allow such markets to operate and grow, thereby benefiting Indian communities.

Accordingly, we will continue to review and report this issue as a departure from GAAP until corrected.

Weaknesses in Debt Management of PIH Repayment Agreements Increased the Risk of Misstatement in HUD's Accounts Receivables

The Housing Choice Voucher program did not accurately track accounts receivable payments or writeoffs, which resulted in a risk of misstatement of HUD's accounts receivable on its balance sheet. The listing it provided to OCFO for recording in its March 31, 2017, and June 30, 2017, financial statements included six debts totaling $252,436 that had previously been written off, one duplicate debt totaling $2.7 million, one error totaling $500,000, and two debts totaling $363,632 that had already been closed. These errors had an absolute value of $3.8 million. Further, of the 10 repayment agreements reviewed, 5 did not match the listing the Housing Choice Voucher program used to track it debts and inform OCFO of the balance for HUD's financial statements, with differences totaling $1.5 million.

OCFO was responsible for the oversight of debt collection of the agency; however, we noted weak financial management governance in this area. For example, OCFO was recording these debts through manual journal entries in its FRD instead of servicing them through the Fort Worth Accounting Center as prescribed by HUD's debt collection handbook. Therefore, these transactions were not recorded in a timely manner and at the transaction level as required by Federal GAAP and FFMIA.

Significant Unreconciled Differences Continued To Exist in HUD's Loan Guarantee Liability Balances

As of September 30, 2017, significant unreconciled differences related to the 2015 data conversion existed in balances related to the CPD Section 108 and PIH Section184 loan guarantee programs. These differences were originally identified by ARC in its monthly reconciliations between the general ledger and subledgers in fiscal year 2016 and as of the end of fiscal year 2017, remained unresolved. ARC had not received supporting documentation from HUD to support the loan guarantee liabilities that were reported in HUD's financial systems when they were converted to Oracle during the implementation of the FSSP. As of September 30, 2017, the unreconciled differences related to the 2015 data conversion totaled $273.3 million.

In addition to the unreconciled differences related to the 2015 data conversion, there was $22.9 million in unreconciled differences relating to current-year loan guarantee activity that required further research by HUD and ARC. This brought the total amount of unreconciled differences to $296.2 million as of September 30, 2017. As a result, the loan guarantee liability balances for the Sections 108 and 184 programs were unsupported and could not be audited.

HUD's Property, Plant, and Equipment Were Not Adequately Supported and Could Not Be Audited

HUD continued to be unable to account for its property, plant, and equipment, including leasehold improvements, necessary to comply with Federal accounting standards. The following deficiencies identified during our fiscal year 2016 audit remained outstanding as of September 30, 2017.

Inadequate subsidiary ledger for internal use software and commercial-off-the-shelf software licenses: HUD's capitalized cost of internal use software (IUS) and commercial-off-the-shelf software licenses were not supported by an adequately detailed subsidiary ledger. A list of IUS projects with an estimated opening balance of $251 million did not have adequate support for the underlying transactions to support each software project's capitalized expenditures and accumulated depreciation. The stand-alone list of software projects is not integrated into the general ledger and did not reconcile. Since fiscal year 2016, the shared service provider had tracked $56.7 million in new IUS development transactions using the Oracle general ledger but lacked a subsidiary ledger and procedures to allocate newly incurred IUS costs to existing or new software projects, to add indirect costs, and to reclassify and depreciate the full cost of completed projects once placed into operation. Lastly, HUD had not completed its inventory of commercial-off-the-shelf software licenses to determine and record the capitalized cost and amortization.

Inadequate controls and subsidiary ledger for property, plant, leasehold improvements, and equipment: HUD did not recognize $61.5 million in leasehold improvements from capitalized building renovations completed since 2009. Other capital improvement projects to the HUD headquarters building estimated at $4.7 million were underway but remained unrecorded in HUD's books. HUD completed a physical inventory of its personal property and equipment and began using the Facilities Acquisition Management Enterprise System (FAMES) as an asset management system. However, the data of the physical inventory entered into FAMES remained unreliable because items recorded did not have all of the cost information.

For more than a decade, OCFO and the Office of Administration (OA) did not have a reliable and integrated asset management system. Complementary controls to share and document the information about acquisitions among stakeholders were not consistently followed, and no oversight from upper management was provided to detect and correct deficiencies. Also, HUD had not completed the analysis of its licenses inventory to determine cost, amortization, and carrying value. OCFO and OA were working to improve their control process but had not implemented corrective actions during fiscal year 2017.

As a result, HUD's property, plant, and equipment balances of $323.8 million[25] reported on the financial statements remained unsupported as of September 30, 2017, and we were not able to express an opinion on this balance. OCFO and OA could not provide reasonable assurance that government assets were safeguarded from being lost or stolen. OCFO and OA agreed with prior-year recommendations and were working to develop and implement corrective actions with an expected date for full implementation in fiscal year 2019.

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[25] The total property, plant, and equipment balance reported on HUD's fiscal year 2017 and 2016 consolidated financial statements was $413 million, which included property, plant, and equipment held by Ginnie Mae. The amount that we could not express an opinion on constituted 78.4 percent of the consolidated balance.

In our fiscal year 2016 report, we recommended that the Deputy CFO and the Chief Administration Officer develop and establish control activities to record internal use software, leasehold improvement, and property acquisition transactions in a complete and accurate manner enabling compliant financial reporting. We also recommended that they evaluate whether using existing Oracle accounting modules and ARC business processes to account for fixed assets and internal use software would be more cost effective and beneficial for HUD operations than to continue developing FAMES. OCFO and OA agreed with prior-year recommendations and were working to develop and implement corrective actions. However, these recommendations remained outstanding and overdue for corrective actions.

Conclusion

In fiscal year 2017, HUD did not properly account for all of its assets and liabilities in accordance with Federal GAAP or have adequate internal controls over them. Specifically, CPD did not have an adequate validation process in place for the estimates of its accrued grant liabilities. As a result, we were unable to obtain sufficient, appropriate audit evidence and could not form an opinion on CPD's accrued grant liabilities for fiscal years 2017 and 2016. HUD did not account for advances and prepayments, receivables, and payables in its PIH programs in accordance with Federal GAAP and FFMIA. As a result (1) HUD's interim and yearend balance sheets contained misstatements, (2) we could not provide an opinion on HUD's September 30, 2017, PIH prepayment balance, and (3) HUD's assets and expenses were understated and overstated by at least $149 million. In addition, the Housing Choice Voucher program did not accurately track accounts receivable payments and writeoffs, resulting in additional risk of misstatement of HUD's accounts receivable. There also were unreconciled differences in the loan guarantee liability balance for the CPD Section 108 and PIH Section 184 programs, resulting in unsupported balances that could not be audited. Finally, HUD's $323.8 million balance for property, plant, and equipment was not supported and could not be audited.

Recommendations

Several prior-year recommendations regarding the CPD accrued grant liabilities; Housing Choice Voucher program; loan guarantee programs; and property, plant, and equipment portions of this finding remained open and can be referred to in the Followup on Prior Audits section of this report. We are reopening recommendations from audit report number 2016-FO-0003[26] related to IHBG because we disagreed with closure, as discussed above. Recommendations related to HUD's noncompliance with the Debt Collection Improvement Act (DCIA) related to the recording of Housing Choice Voucher program accounts receivable can be found in finding 11 of this report. We have the following new recommendations.

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[26] Audit Report 2016-FO-0003, Additional Details To Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, issued November 18, 2015

We recommend the Acting Deputy Chief Financial Officer

2A. Work with PIH to develop and implement a consistent and reasonable methodology for determining the PIH prepayment that (1) allows for timely recording of financial events, (2) complies with GAAP, and (3) provides an adequate audit trail until the cash management process is automated.

2B. Develop and implement procedures to ensure that the methodology is reevaluated by PIH and OCFO annually and any changes do not compromise (1) the audit trial, (2) compliance with GAAP, or (3) the accuracy of the balance.

2C. Reopen recommendation 2016-FO-0003-002-A, "Evaluate the IHBG investment process and implement a proper accounting treatment in accordance with Federal GAAP."

2D. Reopen recommendation 2016-FO-0003-002-B, "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."

2E. Reopen recommendation 2016-FO-0003-002-C, "Develop standard operating procedures for routinely obtaining information on grantee investment activity and accurately reporting amounts in HUD's general ledger and financial statements."

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

2F. Work with OCFO to develop a consistent and reasonable methodology for determining the PIH prepayment, which (1) allows for timely recording of financial events, (2) complies with GAAP, and (3) provides an adequate audit trail until the cash management process is automated.

2G. Reopen recommendation 2016-FO-0003-002-D, "Develop a tracking function for the payments advanced to IHBG recipients to facilitate financial reporting and monitoring compliance with grant time restrictions."

We recommend that the Assistant Secretary for Community Planning and Development

2H. Remove the waiver concerning the completion and submission of the SF-425 by CPD's grantees and implement a process to collect SF-425 information electronically.[27] This process should begin with initial (and ongoing) grant documentation containing specific requirements stating that the Federal Financial Report should be properly completed and required to be submitted quarterly, semiannually, or annually (depending on the grant type and applicable program requirements).

[27] No documented approval from OMB has been provided to OIG for this SF-425 waiver.

2I. During the implementation process of the waiver removal and collection of SF-425 data, ensure that CPD verifies the accuracy of the accrual data collected from the grantees and provided to its contractor conducting the validation methodology and retain documentation showing that it has independently verified that the contractors resulting accrual estimation information is accurate.

Finding 3: Significant Reconciliations Were Not Completed in a Timely Manner

HUD did not resolve material differences between subsidiary ledgers and the general ledger and did not maintain sufficient evidence to support financial statement line items. Further, OCFO did not complete required cash reconciliations in a timely manner or properly reconcile and monitor HUD's suspense accounts. In fiscal year 2017, HUD made limited progress in establishing policies and procedures and defining roles and responsibilities related to key reconciliations of material financial statement line items. As a result, HUD remains susceptible to increases in the risks of fraud, waste, and mismanagement of funds, which affected HUD's ability to effectively monitor budget execution and affects the ability to accurately measure the full cost of the Government's programs. Additionally, the risk that a misstatement to the financial statements would not be detected and prevented is increased. Further, not maintaining accurate and detailed reports on HUD's suspense activity increases the effort required to resolve differences and clear transactions entered into the suspense accounts and increases the potential risk that financial activity might not be accurately reported, cash differences could occur, and overobligations or overexpenditures could be hidden.

HUD's Subsidiary Ledgers Were Not Reconciled to the General Ledger

HUD was unable to reconcile material differences between subsidiary ledgers and the general ledger or provide sufficient evidence to support material financial statement line items.

As of September 30, 2017, HUD was still researching $1.21 billion in subsidiary ledger to general ledger differences that could not be supported. The $1.21 billion in differences can be tracked to $720 million in differences that occurred before May 2016 and $492 million that occurred from June 2016 forward. Further, we reviewed the periods in which HUD first identified each reconciling difference and found that the oldest outstanding period also represented the largest amount of reconciling differences. January 2016 represented the oldest period recorded and largest amount of reconciling differences at $484 million (40 percent of all reconciling items identified).

The identified differences are represented in the following accounts: loan guarantee, loan interest receivable, liability for nonentity assets not reported on the statement of custodial activity, accounts receivable allowance, and other accounts. See table 2 below.

Table 2	
Reconciling differences (as of September 30, 2017)	
Description	**Current difference total**
Loan guarantee liability	$697,430,274
Loan interest receivable	202,118,175
Liability for nonentity assets not reported on statement of custodial activity	189,768,546
Other[28]	122,059,562
Total	**1,211,376,558**

As noted in our fiscal year 2016 financial statement audit,[29] HUD continued to not have effective controls implemented to ensure that source documentation was adequately maintained to support subsidiary ledger application or end user computing application balances in accordance with Principle 10 of the GAO's Green Book.[30] Additionally, HUD did not have effective controls in place to prevent or detect differences between subsidiary ledgers and (or) end user computing applications and the general ledger. These weaknesses can be attributed to the $720 million in reconciling differences that occurred in HUD's review period of May 2016 and earlier.

Further, in an audit conducted by HUD OIG,[31] HUD did not have sufficient resources to assign to the fiscal year 2017 subsidiary to general ledger reconciliation project. As a result, HUD's focus for the project had been on the differences identified in fiscal year 2016. HUD had not assigned staff to assess the differences identified in fiscal year 2017. The lack of resources dedicated to the fiscal year 2017 process can be attributed to the $492 million in reconciling differences that occurred in HUD's review period of June 2016 and forward.

As a result, HUD became susceptible to increases in the risks of fraud, waste, and mismanagement of funds, which affected its ability to effectively monitor budget execution and accurately measure the full cost of the Government's programs. Additionally, the risk that a misstatement to the financial statements would not be detected and prevented was increased.

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[28] Other includes 11 general ledger accounts contributing to the total differences between the subledger and the general ledger. We concluded that the individual differences within each of the 11 accounts were immaterial to the financial statements; however, the total amount should be included in the total difference. The accounts include (1) unfilled customer orders; (2) accounts receivable allowance; (3) accounts receivable; (4) liability for deposit accounts, clearing accounts, & undeposited collections; (5) obligations ; (6) accounts payable; (7) foreclosed property; (8) foreclosed property - allowance; (9) advances; (10) prepayments; and (11) disbursements in transit.
[29] Audit report 2017-FO-0003, issued November 15, 2016
[30] Principle 10: Design Control Activities requires that internal control be clearly documented and financial records be properly managed and maintained. Specifically, 10.03: Design of Appropriate Types of Control Activities requires that transactions be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions, which is applicable to the entire process or life cycle of a transaction. Additionally, management should design control activities so that all transactions are completely and accurately recorded. Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination.
[31] Audit report 2017-DP-0003, issued September 28, 2017

Cash Reconciliations Were Not Performed in a Timely Manner

Our review of HUD's cash reconciliation status reports for October through March of fiscal year 2017 found that cash reconciliations were performed more than 60 days after the end of the applicable month for 22 funds. Our review of HUD's July and August cash reconciliation status reports found that cash reconciliations had not been performed for 19 funds as of September 30, 2017. This condition occurred because policies and procedures were not in place to explain the roles and responsibilities and processes for reconciling HUD's fund balance with Treasury. Additionally, HUD's management did not ensure that staff completed the reconciliations in a timely manner.

As of March 31, 2017, the 22 funds for which reconciliations were not performed within 60 days of month end had a fund balance with Treasury totaling $1 billion. We noted that three of these funds had unreconciled differences with an absolute value of $2 million. As of September 30, 2017, the 19 funds for which reconciliations were not performed had a fund balance with Treasury totaling $1.23 billion. Unresolved differences, regardless of their materiality, compromise the reliability of HUD's fund balance with Treasury balances and Treasury's published financial reports. Reconciliations that are not prepared in a timely manner and according to Treasury guidelines increase the potential risk that (1) the closing balance of fund balance with Treasury will be misstated, (2) HUD's financial activity will not be accurately reported to Treasury, and (3) cash differences could occur. Additionally, failure to implement timely and effective reconciliation processes could (1) increase the risks of fraud, waste, and mismanagement of funds; (2) affect the Government's ability to effectively monitor budget execution; and (3) affect the ability to accurately measure the full cost of the Government's programs.

Suspense Accounts Were Not Properly Monitored and Cleared

Consistent with OMB Circular A-11 guidance, agencies can use clearing or suspense accounts to temporarily account for transactions until they can be matched to a specific receipt or expenditure account. Our review of HUD's suspense accounts for the first 6 months of fiscal year 2017 found that they were not reconciled with Treasury reports in a timely manner. In addition, HUD did not properly monitor the balances in its suspense accounts. We found that ending balances included in the Accounting, Monitoring, and Analysis Division's (AMAD) quarterly suspense aging reports did not tie to the trial balances for the suspense accounts. We also noted that $1.7 million remained in HUD's suspense accounts for more than 60 days. Also, the quarterly suspense aging reports used by AMAD did not adequately track individual transactions, schedule numbers, entry dates, and the age of items that make up the total balance in the suspense accounts. They also did not include details on the clearance of items from the suspense accounts. For example, AMAD was unable to provide sufficient evidence to support an evaluation of the intragovernmental payment and collection (IPAC) transactions posted to suspense supporting (1) a determination of the appropriate TAS for recording the transactions, (2) that sufficient funding (obligation) was in place before recording in the appropriate TAS, and (3) the posting of transactions out of suspense and into the appropriate TAS based on the research conducted.

This condition occurred because policies and procedures were not in place to fully explain the roles and responsibilities and processes for reconciling HUD's suspense accounts or to document internal controls. The Treasury Financial Manual requires agencies to reconcile their budget-clearing account balances monthly, as suspense account balances are subject to performance standards.[32] Further, agencies are not allowed to use suspense accounts for outlays or payments or to mask an overobligation or overexpenditure of an expenditure account. Not maintaining accurate and detailed reports on HUD's suspense activity increases the effort required to resolve differences and clear transactions entered into the suspense accounts and increases the potential risk that financial activity might not be accurately reported, cash differences could occur, and overobligations or overexpenditures could be hidden. We reported on the problems with the quarterly suspense aging reports in its fiscal years 2013 and 2014 management letters; however, no changes had been made to include more detail in the reports.

Conclusion

HUD had significant unreconciled differences between subsidiary ledger records and the general ledger totaling $1.21 billion. Resource limitations, competing priorities, and inadequate information processing controls contributed to HUD's inability to remediate unsupported general ledger balances in a timely manner.

Additionally, HUD's reconciliations were not completed in a timely manner for its fund balance with Treasury balances. HUD also did not properly reconcile and monitor its suspense accounts. OCFO's failure to implement policies and procedures that explained the roles and responsibilities or processes for reconciling these significant account balances led to the continuation of this finding. The weak internal control activities provided the potential for misstatement of the closing balances with Treasury, inaccurate financial activity being reported to Treasury, and material differences going undetected. Individual IPAC transactions recorded without supporting documentation provided potential for inconsistences between HUD's financial reporting and that of the corresponding Federal program agencies, which could contribute to nonfiduciary (buy-sell) intragovernmental differences.

Further, HUD's failure to implement timely and effective reconciliation processes for significant line items increases the risk of fraud, waste, and abuse; hinders effective budget execution; and impedes a complete and accurate accounting for departmental programs.

Recommendations

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

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[32] Treasury Financial Manual, Volume I, Part 2, Chapter 5100, Reconciling Fund Balance with Treasury Accounts (T/L 683), Section 5145 – Reconciling Budget Clearing Account Differences

We recommend that the Acting Deputy Chief Financial Officer

3A. Develop and implement a formal process to (1) track and age the suspense accounts by individual transaction detail, (2) perform regular monitoring of all suspense (clearing) accounts, and (3) promptly research transactions entered into the suspense accounts to ensure that they are posted to the appropriate TAS within 60 days.

Finding 4: CPD's Formula Grant Accounting Did Not Comply With GAAP, Resulting in Misstatements on the Financial Statements

HUD CPD's formula grant program accounting continued to depart from GAAP because of its use of the first in, first out (FIFO) method[33] 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 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.

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.

[33] The FASAB Handbook defines FIFO as a cost flow assumption. The first goods purchased or produced are assumed to be the first goods sold (FASAB Handbook, Version 13, appendix E, page 30, dated June 2014). In addition, the Financial Audit Manual 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) Financial Audit Manual, 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.

During fiscal years 2017 and 2016, $1.5 billion and $2.7 billion, respectively, in disbursements were susceptible to this FIFO method and were reported in HUD's consolidated financial statements. Also during this time, $1.5 billion and $2.4 billion, respectively, in undisbursed obligations were impacted.[34] These material amounts, which impact the combined statement of budgetary resources and consolidated balance sheet, were not presented in conformity with GAAP.

Progress Was Made in Correcting Future Accounting; However, Material Misstatements Will Continue for Several Years Due to Inaction on Fiscal Year 2014 and Older Grants

In fiscal year 2016, HUD eliminated the FIFO logic for fiscal year 2015 and later grant years. Then, in early 2017, CPD delayed deployment for IDIS work to remove the cumulative method that has been used to determine compliance with the 24-month commitment deadline.[35] The 2-month delay resulted from the complexity of the HOME Investment Partnerships program 24-month commitment deadline work being greater than originally planned, which required a rebaseline of both the project cost and schedule and was completed in March of this year. All additional work still needed to make the system comply with FFMIA requirements was scheduled to deploy in October 2017.

Although FIFO was removed from fiscal year 2015 and forward grants, additional modifications to IDIS are necessary for the system to comply with FFMIA and USSGL at the transaction level. Among the remaining work, CPD must ensure that IDIS properly records current and historical records for receipt and drawdown transactions.

While CPD had taken steps to eliminate the FIFO method for commitments and disbursements on fiscal year 2015 and forward 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 2017 and future independent auditor's reports until the scope of the deficiency is assessed to be immaterial. 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 for several more years.

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[34] HUD determined that $2.0 billion in undisbursed obligations was susceptible to FIFO as of September 30, 2017. This differs from our calculation by approximately $428.5 million. Despite the difference in the two amounts, both entities have determined that the funds susceptible to FIFO as of September 30, 2017, are material. We attributed the variance to a different methodology and basis used for the calculation. We based our computation on the undisbursed obligations in its Program Accounting System (PAS) for all FIFO-affected PAS codes with balances in 2014 and prior years, whereas the basis for HUD's calculation was all grant numbers in IDIS with an undisbursed obligations balance on 2014 and older funds for all FIFO-affected programs.

[35] The Fiscal Year 2017 Consolidated Appropriations Act (Public Law No. 115-31) included a suspension of the 24-month HOME commitment requirement for deadlines occurring in 2016, 2017, 2018, and 2019. As a result, the cumulative method is not being used to determine compliance with the 24-month deadlines in those years because the requirement has been suspended. For fiscal year 2020, we will revisit our previously reported finding in this area for noncompliance with laws and regulations due to HUD's use of the cumulative method.

We will continue to work with CPD and 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 disburse CPD formula grant funds for 2015 grants and forward 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 and will not be applied retroactively. Additional work is needed to ensure that IDIS properly records current and historical records for receipt and drawdown transactions. 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 2017, $1.5 billion in disbursements and $1.5 billion in obligations were susceptible to this FIFO method, which is not in accordance with GAAP. Although the financial effects of FIFO on HUD's consolidated financial statements cannot be quantified due to IDIS' inability to produce an audit trail, the combined statement of budgetary resources and the consolidated balance sheet were materially misstated due to the amount and pervasiveness of the funds subject to FIFO.

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 5: HUD's Financial Management System Weaknesses Continued

HUD's financial system weaknesses remained a material weakness in fiscal year 2017 due to the combined impact of a multitude of financial reporting deficiencies and limitations. While HUD took steps to modernize its financial management system through the transition of key financial management functions to an FSSP in 2016, it encountered significant challenges after implementation that had not been resolved as of September 30, 2017. Many of the material weaknesses discussed in this audit report share the same underlying cause, shortcomings in HUD's financial management systems. HUD's efforts to modernize its financial management systems continued to be hindered by weaknesses in implementing key information technology (IT) management practices.[36] HUD's inability to modernize its legacy financial systems resulted in a continued reliance on legacy financial systems with various limitations. HUD's loans, grants, commitments, obligations, and payments still flow through antiquated systems developed 15 to 30 years ago, which require complex interfaces with the FSSP environment. Program offices have 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.[37]

HUD Continued To Encounter Significant Challenges With Its Transition to a Shared Service Provider for Financial Management Services

HUD experienced significant data quality challenges following the transition of key financial management functions to an FSSP with release 3 of the New Core Project on October 1, 2015.[38] Specifically, HUD had unresolved data conversion errors and inaccurate funds management reports and lacked a fully functional data reconciliation process. In addition, HUD's New Core Interface Solution's (NCIS) performance was not adequately monitored, tracked, or measured, and controls over processing errors within Oracle Federal Financials were routinely bypassed. Data conversion errors complicated the analysis and monitoring of balances for funds control purposes and increased the risk of invalid spending transactions and inaccurate financial reporting. Additionally, the dilution and deferral of key requirements and system testing enabled significant data quality issues to go unnoticed and unaddressed until after the implementation of New Core, release 3. HUD officials did not adequately meet the significant business-user requirement that system-generated listings of program obligations and expenditures be reconciled to trial balance-general ledger data in a timely manner.

[36] GAO, GAO-16-656, July 2016, Financial Management Systems: HUD Needs to Address Management and Governance Issues That Jeopardize its Modernization Efforts; http://www.gao.gov/assets/680/678727.pdf
[37] U.S. Department of Housing and Urban Development, 2016 Agency Financial Report; March 1, 2017; https://www.hud.gov/sites/documents/AFR2016.PDF
[38] New Core was HUD's financial system modernization program, initiated in 2013, that involved migrating financial management capabilities to an FSSP with expected benefits, including reduced legacy system costs, improved data, and remediated audit deficiencies.

As of September 30, 2017, transaction processing using the New Core Financial Management Solution had improved, but challenges and weaknesses remained.[39] Specifically, transactions were inaccurately posted to the general ledger, weaknesses still existed with transaction processing, and the NCIS reconciliation tool was not effective. These conditions occurred because of inadequate information processing controls, timing issues with transaction processing and data entry errors in the crosswalk tables, funds being prematurely end dated for yearend close, and fund codes being erroneously disabled. Further, HUD did not focus on the accuracy and usefulness of the NCIS reconciliation tool and reports because resources were prioritized to improve NCIS transaction processing.

Although HUD had improved since our fiscal year 2016 audit, it continued to experience delays in the resolution of data conversion issues. For example, during fiscal year 2017, HUD noted that analysis and resolution of data conversion issues that resulted in default values proved to be more difficult and time consuming than anticipated. Despite more than 2 years having passed since the transition to ARC financial management services and Oracle, HUD has not completed its analysis of all 181 funds with default values. While the initial target date to address these issues was December 2017, the Office of the Chief Financial officer for Systems (OCFO Systems) now expects project completion by December 31, 2018.

The fact that OCFO now estimates that these issues won't be remediated until more than 3 years after the transition to the FSSP is a harsh reminder of the enduring consequences from HUD's weak IT and financial system governance practices.

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. This deficiency prevented HUD from relying on the data output provided and reporting key financial statement balances in accordance with GAAP.

Ginnie Mae Systems Were Unable To Track Loan-Level Activity in Defaulted Issuer Portfolio. 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. Ginnie Mae remained unable to support key financial statement line items related to its nonpooled loans portfolio acquired from defaulted issuers. Ginnie Mae's challenges come from its lack of a financial system (or systems) capable of recording loan-level transaction details in compliance with GAAP accounting requirements. Material weaknesses related to Ginnie Mae's nonpooled loans portfolio, approximately $3.6 billion and $4.5 billion, as of September 30, 2017, and September 30, 2016, remained unresolved as of September 30, 2017.

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

[39] Audit Report 2017-DP-0003, New Core Project: Although Transaction Processing Had Improved Weaknesses Remained, issued September 28, 2017

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.[40]

System Controls Over Ginnie Mae's GFAS Budgetary Module Were Not Adequate.
In fiscal year 2015, we reported that system configuration and posting logic deficiencies in the Ginnie Mae Financial and Accounting System (GFAS) budgetary module resulted in inaccurate budgetary account balances. 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. While we have noted significant progress in the system configuration and posting logic, Ginnie Mae has not completed its action plan for resolving the segregation of duties issues.

Further, we noted control weaknesses regarding the Commitment Control module in GFAS. Specifically, a budget override function that allows users to bypass budget warnings is configured in GFAS and available to end users. Although the system warns end users of budget check failures or overbudget tolerance attempts, the warning is not a hard stop that prevents further action. The user can bypass the warning simply by checking the "override budget" box to continue processing the transaction. The step in the overall process to ensure that funds are available occurs only after the voucher has been created by the user and approved by a manager. The convenience of the override function, coupled with the fact that approval occurs before verifying the availability of funds, provides an opportunity for users to bypass warnings and potentially commit funds beyond the available budget. While use of the override function is logged into GFAS, Ginnie Mae lacks policies and procedures governing its use and has not implemented a periodic review of use of the override function to validate that its use complies with policies and procedures.

IDIS Remained Unable To Properly Account for Formula Grant Transactions.
Updates to IDIS 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. While CPD plans to complete IDIS system configuration updates in early fiscal year 2018 to address remnants of the FIFO method of accounting for grant disbursements, management's decision to implement appropriate grant accounting for fiscal year 2015 and forward grants prospectively will impede HUD's ability to resolve material weaknesses and comply with FFMIA for a number of years. The material weakness and FFMIA noncompliance related to CPD's formula grant accounting will not be completely addressed until the amounts subject to FIFO become immaterial. Refer to finding 4 for additional details regarding IDIS noncompliance with FFMIA.[41]

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[40] Audit Report 2018-FO-0002, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2017 and 2016 (Restated), issued November 14, 2017
[41] Finding 4: CPD's Formula Grant Accounting Did Not Comply With GAAP, Resulting in Misstatements on the Financial Statements

Property, Plant, and Equipment Data Remained Unreliable.

Despite taking steps toward addressing longstanding property management system weaknesses during fiscal year 2017, unresolved control deficiencies continued to impede HUD's ability to support key property, plant, and equipment balances. While HUD is using FAMES as its asset management system, addressing the longstanding departmental need for a working property management system, FAMES data remained unreliable. Although HUD completed its long-delayed physical inventory of its property, plant, and equipment during fiscal year 2017, HUD has been unable to complete a corresponding inventory of software licenses and did not account for capitalized leasehold improvements, key components of HUD's property, plant, and equipment balances. Additionally, HUD inconsistently recorded key data elements during the course of the physical inventory, which resulted in the continued unreliability of physical asset balances in FAMES. OCFO and OA must work to implement corrective actions and effective controls to adequately support property, plant, and equipment balances that remained unauditable as of September 30, 2017.

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 Did Not Have a Financial Reporting System Capable of Producing Its Note Disclosures.

HUD's shared service provider produced HUD's financial statements; however, HUD was still responsible for producing most of its financial statement notes. Producing accurate and timely notes without a system has posed a great challenge for HUD. In fiscal year 2016, its manual processes contributed to HUD's inability to produce timely and accurate notes and as a result, required HUD to reissue its financial statements. Further, HUD did not submit fiscal year 2017 third quarter consolidated financial statement notes to OMB or OIG as required because OCFO management determined that the system and processes in place could not be relied upon to produce accurate and timely notes. Therefore, OCFO determined that it needed to develop a new process for fiscal yearend. Implementing a new process at the end of the fiscal year increased the risk of misstatement due to insufficient time for adequate testing. In addition, HUD's new process is not a system, but an Excel tool that maps Governmentwide Treasury Account Symbol Adjusted Trial Balance System data. While this new tool may reduce the manual processes required in note preparation, it is still not a system or system application with traditional application and general controls, as one would expect to have when preparing the financial report of a cabinet-level agency.

HUD Lacked an Effective Cost Accounting System.

As of fiscal year 2017, HUD continued to lack adequate cost allocation and accounting systems and processes to accurately report on the cost of programs, assist in managing daily operations, and effectively estimate projected costs. As a result, HUD relied on an extremely manual, complex, and tedious process to allocate indirect administrative costs to HUD programs at yearend.

After the transition to the FSSP in fiscal year 2015, HUD discontinued use of the Total Estimation and Allocation Mechanism it had previously used to allocate indirect administrative costs. This system was discontinued around the second quarter of fiscal year 2015, and the quality of information with which costs must be allocated has further diminished. Despite being within the scope of the New Core program, there were no plans to implement this core financial system capability as of fiscal year 2017.

In fiscal year 2006, GAO first reported on a lack of managerial cost accounting functionality within HUD's financial management system.[42] Further, GAO noted the continuing effect of inadequate cost accounting and allocation practices in its fiscal year 2017 report, noting that HUD's cost estimates for IT Investments exhibited significant weaknesses and were generally unreliable.[43] HUD's lack of adequate cost accounting and cost allocation system functionality continued to hinder HUD's ability to produce reliable performance information and impedes HUD's ability to provide accurate financial reporting and estimates.

PIH Manual Cash Management Processes Could Not Be Audited.
PIH's manual cash management processes did not allow recognition of financial transactions and resulted in a yearend balance that could not be audited. PIH's cash management process was not automated. Under the cash management process, PIH manually determined the amount PHAs were holding (PIH prepayment on HUD's balance sheet) and the amount that it should offset to follow cash management requirements. This process was conducted through the use of complex Excel spreadsheets that included extracted data as of a point in time from multiple systems and manual tracking logs for more than 2,200 PHAs. The use of multiple Excel files, instead of a system, increases the risk of human error due to lack of access controls, version controls, and traditional data processing controls normally embedded in applications. Additionally, it does not provide a complete audit trail since changes are not automatically tracked, as they would be in a system. PIH lacked a system to track these amounts in real time as the disbursements and expenses occurred, resulting in (1) increased risk of error, (2) untimely recognition of accounting events in HUD's general ledger and financial statements,[44] (3) misstatements on HUD's interim balance sheets, and (4) a September 30, 2017, PIH prepayment balance that could not be audited.

HUD Lacked Systems To Properly Account for Section 108 and 184 Loan Guarantee Programs
A lack of systems to account for the Section 108 and 184 loan guarantee programs in the past contributed to HUD's inability to support related general ledger balances. A historical lack of compliant loan guarantee systems contributed to HUD's inability to support key general ledger balances with subledger data or supporting documentation. Because of this deficiency, unreconciled differences due to the 2015 data conversion to Oracle Federal Financials continued throughout fiscal year 2017. Specifically, unreconciled differences between the general ledger and subsidiary ledgers existed in HUD's accounts for loan guarantee liabilities and unpaid obligations. HUD now uses Oracle as its subsidiary ledger for these programs; however, there is no interface between Oracle and the systems used to track daily loan guarantee activity. As a result, this activity must be manually loaded into Oracle.

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[42] GAO-06-1002R, Managerial Cost Accounting Practices, dated September 21, 2006
[43] GAO-17-218, HUD Needs to Address Significant Weaknesses in Its Cost Estimating Practices, http://www.gao.gov/assets/690/682537.pdf
[44] Finding 2: HUD's Assets and Liabilities Were Misstated and Not Adequately Supported

Conclusion

Complete and reliable financial information is critical to HUD's ability to accurately report on the results of its operations to internal and external stakeholders. During fiscal year 2017, 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.

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.

Recommendations

We recommend that HUD's Acting Deputy Chief Financial Officer

5A. Implement an information system or system application that can produce HUD's consolidated financial statement notes accurately and in a timely manner.

Finding 6: HUD's Financial Management Governance Was Ineffective

HUD's financial management governance remained ineffective during fiscal year 2017. As of September 30, 2017, HUD financial management leadership structure was in disarray. Entering its second full year without a confirmed CFO, its Acting CFO unexpectedly resigned, and multiple assistant CFO positions remained vacant. Additionally, HUD continued to lack mature financial management governance practices and sufficient policies and procedures to update significant business process changes after its transition to an FSSP for financial management services. Further, as we have reported in prior-year audits, HUD did not have reliable financial information for reporting and continued the use of its outdated legacy financial systems. Weaknesses in program and component internal controls that impacted financial reporting were able to develop in part due to a lack of established financial management processes. HUD's unaddressed financial management weaknesses have significantly contributed to the high volume of material weaknesses in internal controls over financial reporting and instances of noncompliance with laws and regulations. Without financial management leadership setting direction and priorities and ensuring oversight, HUD's efforts at solving these deficiencies are unlikely to make meaningful progress.

High Turnover in Key OCFO Positions Continued To Impede HUD's Establishment of Effective Internal Control

While we have reported on HUD's financial management governance weaknesses since 2013, ongoing vacancies in key OCFO positions exacerbate what are already significant financial and operational risks related to financial reporting. Specifically, HUD's Deputy CFO (and by default, Acting CFO) unexpectedly resigned and left HUD with minimal notice 5 days before the key fiscal yearend of September 30. Further complicating the situation, the Assistant CFO for Budget, appointed to serve as Acting Deputy CFO, left HUD in early November. The impact of these high-level personnel changes, coupled with the absence of a confirmed CFO for the last 2 consecutive years has impeded OCFO's ability to effect change in its internal control framework. These two senior positions set financial policy and give direction to OCFO staff, program offices, and HUD components. HUD has made efforts to temporarily address the gaps by bringing onboard a number of OCFO special assistants to assist in this transitory period. Vacancies in critical management and financial reporting also exist, such as the Assistant CFO for Financial Management, Assistant CFO for Budget, and Director of the Financial Reporting Division, which have hindered HUD's ability to address the material weaknesses and other deficiencies related to departmental financial integrity. Due to the longstanding vacancies in many key positions, responsibilities among Assistant CFOs are no longer clearly defined, performed, and monitored, putting HUD's financial integrity at risk.

Organizational Assessments Found Weaknesses Within HUD's Financial Management and Internal Controls

Over the last few years, organizational assessments and reviews have been conducted by GAO and other subject-matter experts that have largely echoed our reporting on HUD's governance weaknesses and the negative impact those weaknesses have had on internal controls and achievement of departmental objectives.

In our prior year audit reports, we reported that a National Academy of Public Administration (NAPA) study was conducted in 2015 to identify risks associated with the transition of its accounting functions to a shared service provider and, in part, to address concerns we previously identified related to financial management governance. NAPA made three high-level recommendations, concluding that HUD should (1) improve financial management oversight and governance, (2) address concerns associated with the transition to the FSSP, and (3) strengthen the finance workforce.[45] This review supported the longstanding OIG recommendation that HUD establish a management council to enhance financial governance. While HUD had long resisted OIG recommendations regarding the establishment of a senior management council to address governance weaknesses, the recent revision of OMB Circular A-123, appendix A, changed formation of a management council from a best practice to a requirement.[46]

In response, HUD formed a senior management council, the Executive Operations Council, and a Financial Management subcommittee. While the establishment of these committees is an essential first step to improved governance, we noted issues during its seminal year. Specifically, the Financial Management Council failed to meet in June, July, August, or September 2017 due to changes in HUD leadership. The effectiveness of HUD's Financial Management Council will be limited if HUD does not make the Council and its responsibilities a priority.

Most recently, during fiscal year 2017, HUD performed a financial internal control program assessment in accordance with OMB Circular A-123, Appendix A, Internal Control Over Reporting. The assessment noted that of 24 key controls over financial reporting and funds control, 13 controls were ineffectively designed, and documentary evidence was not available in a timely manner to validate operating effectiveness for the 11 controls that were found to be effectively designed. Based on the testing results, current key internal controls over the completeness of data recorded in Oracle were not designed and operating effectively. These results, coupled with unremediated material weaknesses, prompted OCFO to provide a statement of no assurance regarding the effectiveness of internal controls over financial reporting, which fed into HUD's 2017 overall statement of assurance[47] reported in its AFR.

The assessment also paints a bleak picture of the challenges facing HUD as it attempts to address a myriad of material weaknesses, significant deficiencies, and noncompliance with laws and regulations. The significant issues related to HUD's internal control over financial reporting are

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[45] Department of Housing and Urban Development, Office of Chief Financial Officer, Organizational Assessment, March 19, 2015. http://napawash.org/images/reports/2015/HUD_OCFO_Study_Final_Report.pdf

[46] OMB Memorandum M-16-17; OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control; July 15, 2016; https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2016/m-16-17.pdf

[47] Section 2-31 U.S.C. (United States Code) 3512(d)(2), commonly referred to as Section 2 of FMFIA, requires that the head of each Executive agency annually submit to the President and Congress (1) a statement on whether there is reasonable assurance that the agency's controls are achieving their intended objectives and (2) a report on material weaknesses in the agency's controls. The statement of assurance represents the agency head's informed judgment as to the overall adequacy and effectiveness of internal control within the agency related to operations, reporting, and compliance.

in part due to financial management governance weaknesses that have been left unaddressed for far too many years.

HUD Has Not Designed or Implemented Effective Complementary Customer Agency Controls

HUD has not designed or implemented effective complementary customer agency controls to leverage FSSP controls. The Green Book provides internal control considerations for service organizations including FSSPs. Service organization internal control considerations include establishing complementary customer agency controls, or "user organization controls," at the agency receiving services.[48]

We identified the following areas in which complementary controls were not in place, designed, or operating effectively: (1) HUD did not consistently review key account reconciliations performed by the FSSP and resolve differences in a timely manner; (2) HUD failed to properly validate FSSP-prepared financial reports; and (3) as previously noted, 9 of the 14 key compensating controls tested during HUD's 2017 OMB Circular A-123, appendix A, assessment failed the test of design, while the other 5 key compensating controls could not be assessed.

In fiscal year 2016, HUD started the process of mapping FSSP complementary customer agency controls to potential departmental actions. However, the effort languished, and management failed to establish and maintain adequate documentation of its internal control system, as required by GAO's Green Book. Control documentation created in fiscal year 2016 was not integrated into policies and procedures, nor was control documentation updated during fiscal year 2017. Therefore, as described in material weaknesses 1 and 2, OCFO Accounting failed to identify efficient and effective methods to perform validations of ARC-prepared financial statements and account reconciliations. Ultimately, the validation tools provided by ARC were not fully leveraged due to insufficient guidance provided to OCFO Accounting staff.

As a result, the lack of user organization controls has had a negative impact on HUD's ability to adequately address financial and operational risks. For example, OCFO Accounting did not identify a material error in the fiscal year 2016 yearend consolidated financial statements prepared by ARC, which contributed to HUD's withdrawal of its 2016 consolidated financial statements and agency financial report. Additionally, as described in finding 1, intragovernmental reconciliations for first and second quarters of fiscal year 2017 contained material differences, which did not have corrective action plans implemented to resolve them due to OCFO Accounting's lack of effective complementary controls. This weakness resulted in budget authority of $4.2 to $5 billion not being recorded in the general ledger and quarterly financial statements. Lastly, as detailed in finding 3, subledger reconciliation differences of more than $1 billion have not been resolved in a timely manner, preventing HUD from ensuring that its financial statement balances are accurate.

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[48] Complementary customer agency controls are named such because the purpose is to complement those controls in place at the service organization.

Without effectively designed and operating user complementary controls, HUD will continue to struggle with accurately reconciling key financial statement balances and resolving identified differences in a timely manner. FSSP controls are useful to address risks only when customer agencies like HUD have implemented complementary controls that are designed and operating effectively.

HUD's Pervasive Lack of Policies and Procedures Continued to Hinder Progress

HUD has not incorporated key elements of internal control into its financial management operations. Specifically, HUD has not implemented control activities through policies and procedures or established the periodic review of policies and procedures to ensure that HUD's documentation reflects changes to business processes. This condition was identified during fiscal year 2016 and continued during fiscal year 2017 without significant improvement.

Also, in fiscal year 2016 GAO noted that weaknesses in HUD's governance across various management functions may reduce the agency's ability to effectively and efficiently accomplish its mission. GAO cited HUD governance deficiencies, including outdated or incomplete policies and procedures, and added that maintenance of current and complete policies and procedures is an important component of agency governance. GAO concluded that gaps in HUD's policies and procedures have adversely affected the performance of key management functions and have increased the risk of noncompliance with laws and regulations. GAO recommended that HUD establish a process and schedule for reviewing and updating policies and procedures.[49]

To improve the continuity of accounting policies and procedures in a changing environment, policies and procedures should be centrally located and easily accessible to staff. While OCFO has developed a policy framework to address this issue, it is still in draft and under management review and was not in place during fiscal year 2017. The lack of a policy and procedure framework has hindered and will continue to hinder HUD's ability to resolve the multitude of internal control issues requiring remediation.

Information and Communication Were Inadequate

Maintaining effective information and communication within OCFO and among HUD's departments and program offices has been a consistent departmental challenge that continued during fiscal year 2017.

Poor Information and Communication Within OCFO.

We noted major weaknesses in communication within OCFO that contributed to significant errors in its financial reporting. For example, the transition of core functions from one office to another within OCFO was made informally through email correspondence, with no formal announcement of changes or procedures describing the specific responsibilities being transitioned. Unclear roles and responsibilities and poor communication caused confusion within OCFO and contributed to budget authority of between $4.2 and $5 billion going unrecorded during the first and second quarters, as reported in finding 1 of this report. As further

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[49] GAO-16-497, Actions Needed to Incorporate Key Practices into Management Functions and Program Oversight, http://www.gao.gov/assets/680/678551.pdf

discussed in finding 1, HUD implemented a new process to prepare its notes to its consolidated financial statements. The FRD, part of OCFO Accounting, is responsible for financial statement note preparation and was not made aware that OCFO senior management had decided to implement a new note preparation process and tool until it shared this information with OIG in August 2017. As of September 19, 2017, only days before fiscal yearend, it appeared that there was ineffective communication regarding the impact of the change on related time-sensitive reporting processes and how FRD's responsibilities would be impacted because FRD stated that it did not understand its role in the process. While we agree that a new process was needed, the decision to make such an impactful change to a significant business process so late in the year (1) increases the risk of misstatement occurring without being prevented or detected due to unestablished and immature financial reporting preparation processes, (2) negatively impacts employee morale and commitment to the mission of the agency, and (3) reflects the level of risk that management is willing to take with HUD's yearend financial reporting.

Poor Information and Communication Between OCFO and Program Offices.
We have consistently reported on the lack of adequate information and communication between the OCFO and HUD's components and program offices. Specifically, component and program office accounting policies and procedures were, at times, developed without adequate OCFO input due to broad delegations of key financial management functions to component and program office personnel. We have attributed the root cause of a number of significant deficiencies and material weaknesses and instance of noncompliance with laws and regulations identified in our audits to inadequate consideration of key accounting and financial rules and regulations. For example, we have attributed the material weaknesses related to CPD's budgetary accounting for grants and inadequately supported assets and liabilities and noncompliance with DCIA to weak oversight and collaboration between OCFO and program offices.

- *CPD's budgetary accounting for grants.* The material weakness associated with CPD's budgetary accounting for grants,[50] which contributed to our 2013 qualified opinion and our disclaimer of opinion since 2014, 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 made to IDIS Online will be on a prospective basis for fiscal years 2015 forward and not apply to prior-year grant funds. As of September 30, 2017, and September 30, 2016, approximately $1.5 billion and $2.4 billion, respectively, in undisbursed obligations had been impacted.

- *PIH cash management.* As we first reported during the 2013 financial statement audit,[51] OCFO was not consulted when PIH implemented its cash management

[50] Refer to finding 4 for more detail.
[51] 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

process in fiscal year 2012. Further, as PIH's cash management process has evolved, HUD's OCFO has not taken an active role in accounting for it. HUD's OCFO has no controls in place to ensure that the RNP report, which is used to calculate the PIH prepayment balance, is accurate. Additionally, OCFO has not demonstrated oversight of PIH's methodology to ensure that it complies with GAAP and changes to the methodology are reviewed by OCFO to ensure compliance with GAAP before implementation. While OCFO is working on evaluating PIH's methodology and determining an improved way to determine the balance, PIH's current process existed for the entire fiscal year 2017 without OCFO oversight. Due to OCFO's lack of oversight and controls, PIH used the information that it has available to prepare the RNP report.[52] Although the information PIH has may best address its program office responsibilities, it is not necessarily appropriate for financial reporting purposes. This weakness resulted in misstatements on HUD's interim balance sheets, and we could not provide an opinion on the balance it recorded as of September 30, 2017. Further, this process was not compliant with GAAP or FFMIA.

- *Indian Housing Block Grant investments.* OCFO did not properly account for approximately $149 million[53] in advanced payments to its IHBG grantees for investment because OCFO believes that these investments do not meet the criteria of an asset.[54] In our analysis, we determined that (1) the investments do embody economic benefit or service because HUD receives its economic benefit or service when the investments are spent on an activity that fulfills HUD's mission, whereas money sitting in an investment account does not fulfill HUD's mission and (2) HUD controls access to the economic benefits through regulations over the investments, a depository agreement, and regulations on how the funds are spent once the investment period is over. OCFO provided a flawed accounting analysis that centered on NAHASDA regulations and did not adequately assess all aspects of the investments against GAAP.[55]

  On July 11, 2017, the Deputy Secretary concluded that HUD's accounting treatment is correct but did not include any reference to GAAP to support the decision. We disagreed with this decision because it did not adequately evaluate the IHBG program regulations and requirements against GAAP. An agency's ability to fully evaluate its operations and all applicable regulations against GAAP is the cornerstone to sound and accurate financial reporting. Therefore, this flawed analysis represents another example of weaknesses in HUD's financial management governance.

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[52] Refer to material weakness 2 for further detail
[53] This estimate is based on our review of SF-425s as of December 31, 2016, and June 30, 2017. SF-425s for September 30, 2017, were not available in time for this report.
[54] SFFAS 5, Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements, (1) it embodies economic benefits or services that can be used in the future, and (2) that the government controls access to those economic benefits or services and can obtain or deny or regulate the access to those benefits or services.
[55] 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 receipts' anticipated expenses or as advance payments for the good and services the entity acquires." See material weakness 2 for further details on this subject.

- *Noncompliance with DCIA*. OCFO is responsible for overseeing departmental debt collection;[56] however, OCFO was recording Housing Choice Voucher program debts through manual journal entries within the FRD, instead of servicing them through the Fort Worth Accounting Center, as prescribed by the debt collection handbook. Therefore, OCFO did not comply with its own debt collection handbook. Additionally, OCFO had no controls in place to ensure that program offices implemented requirements of the debt collection handbook related to the execution of repayment agreements and collection activities. Finally, HUD's Departmental Claims Collection Officer (DCCO) review process was not sufficient to validate debts that were terminated and forgiven. (Refer to finding 11 for additional details.)

Financial Management Maturity Weaknesses Necessitated Frequent Restatements

Financial management governance issues have not only contributed to several of the material weaknesses and significant deficiencies noted in our independent auditor's report, they have also impacted the integrity of HUD's financial reporting processes. HUD's financial management governance weaknesses have resulted in many financial statement and note disclosure errors that required frequent restatements. For the fourth consecutive year, HUD will need to restate financial statements and note disclosures to correct errors. Additionally, in fiscal year 2017, HUD had to withdraw and reissue its fiscal years 2016 and 2015 consolidated financial statements and accompanying note disclosures due to pervasive material errors identified by OIG after to their publication. Frequent restatements to correct errors and disclaimers can undermine stakeholder trust and confidence.

This example, coupled with the other material weaknesses and significant deficiencies noted in this report, substantiates that HUD's financial management maturity is at "inadequate" or "basic" levels in the areas of financial integrity and financial systems and reporting based on the Bureau of the Fiscal Service, U.S. Department of the Treasury, Draft Federal Financial Management Maturity Model.[57] The model is a business tool developed to help a CFO self-assess the organization's level of financial management discipline, effectiveness, and efficiency. It centers on the "fitness" of an agency's financial management and can validate an agency's maturity against a standard framework and areas in which there is opportunity to improve. Based on this model, HUD meets the examples outlined under the inadequate and basic levels, such as and most importantly (1) receives a modified opinion or disclaimer, (2) does not meet reporting deadlines and is unable to produce the cost of agency programs, (3) uses legacy financial management systems, and (4) relies heavily on manual processes for financial reporting. HUD needs to implement practices that are robust and supported by continuous process improvements and that can effectively handle potential challenges and changing circumstances.

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[56] OMB Circular A-129 - To achieve these objectives, agencies shall: Assign to the agency CFO, in accordance with the Chief Financial Officers Act of 1990 (CFO Act), responsibility for directing, managing, and providing policy guidance and oversight of agency financial management personnel, activities, and operations, including the implementation of asset management systems for credit management and debt collection.

[57] Bureau of the Fiscal Service, U.S. Department of Treasury, Draft Federal Financial Management Maturity Model, https://www.fiscal.treasury.gov/fsservices/gov/fit/MaturityModelHandout2017-05-10.pdf

Ginnie Mae's Financial Governance Weaknesses Continued

In fiscal year 2017, Ginnie Mae's executive management efforts to address the financial management governance problems cited in our fiscal years 2016, 2015, and 2014 audit reports continued. While progress was made in some areas, more work is needed to fully address the issues cited in our report[58]. Specifically, we noted issues with (1) keeping Ginnie Mae OCFO operations fully functional; (2) ensuring that emerging risks related to financial management operations were addressed in a timely manner; (3) establishing and implementing appropriate accounting policies, procedures, and systems; and (4) implementing effective entitywide governance over models used to generate accounting estimates for financial reporting. Ginnie Mae's continued inability to support key financial statement balances is due in part to corrective actions taking more time to implement than anticipated. Ultimately, Ginnie Mae's inability to produce auditable financial statements for the fourth consecutive fiscal year continues to negatively impact the completeness and accuracy of HUD's consolidated financial reporting.

HUD Did Not Implement and Maintain Adequate Accounting and Financial Systems

The Chief Financial Officers Act of 1990 (CFO Act) states that the responsibilities of an agency CFO 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. We continued to report a material weakness related to HUD's financial management system and noncompliance with FFMIA, as discussed in finding 5 and 10. Additionally, we noted that a GAO review of HUD's IT governance in fiscal year 2016 largely agreed with the conclusions reached and reported by HUD OIG. GAO also reported on HUD's financial systems modernization efforts and concluded that HUD's management and governance weaknesses must be addressed to enable HUD to effectively modernize its financial systems.[59]

To implement and maintain financial systems in accordance with CFO Act requirements, OCFO and other departmental organizations will need to collaborate effectively, address governance weaknesses, and remediate financial system issues.

Management Control Reviews Were Not Performed

During fiscal year 2017, HUD did not conduct any routine or timely management control reviews (MCR) for its program areas as required by HUD guidance. We have reported since fiscal year 2015 on HUD's lack of conducting routine or timely MCRs.[60] We recommended that

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[58] Audit Report 2018-FO-0002, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2017 and 2016 (Restated), issued November 14, 2017

[59] GAO-16-656, HUD Needs to Address Management and Governance Weaknesses That Jeopardize Its Modernization Efforts, http://www.gao.gov/assets/680/678727.pdf

[60] 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.

HUD revise its MCR policies and procedures to include clearer and more specific requirements, including accountability for nonperformance.[61]

Additionally, during GAO's assessment of HUD's governance in fiscal year 2016, it cited governance weaknesses specifically related to HUD's inconsistent performance of key departmental monitoring controls (such as program evaluations). GAO issued recommendations for HUD to address program evaluation issues that impeded effective governance.[62]

Inconsistent performance of MCRs deprives management of an important monitoring tool that should provide key feedback on the effectiveness and efficiency of departmental operations. Without consistent MCRs, HUD may be unable to detect conditions that could adversely impact achievement of program objectives in a timely manner. It may also 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 the Federal Managers Financial Integrity Act (FMFIA), on the adequacy of management controls within HUD. Insufficient performance and monitoring of this process for all of HUD's program offices could prevent the Secretary from having an adequate basis when reporting on FMFIA.

Efforts to implement recommendations offered by OIG or GAO have been halted due to the transition of program monitoring controls from OCFO to Office of Strategic Planning and Management. Therefore, we have yet to note improved consistency or increased frequency of reviews, and prior-year OIG recommendations remained unresolved as of September 30, 2017.

HUD Was Not Addressing Internal Control Deficiencies in a Timely Manner

HUD was not addressing internal control deficiencies in a timely manner in accordance with internal control requirements and OMB Circular A-50, Audit Followup. The timely remediation of identified control deficiencies is a key element of the monitoring component outlined in GAO's Green Book, Standards for Internal Control in the Federal Government. Specifically, we noted that as of October 13, 2017, 67 of 80, or 84 percent, of OIG recommendations from prior-year financial statement audit reports were past the agreed-upon dates for final action. Further, we noted that as of October 13, 2017, management had not established action plans for 20 additional recommendations, a significant increase from only 2 recommendations without action plans as of September 30, 2015. To improve internal controls, HUD must develop responsive management action plans and address deficiencies in a timely manner.

Conclusion

HUD effectively does not have a financial management governance structure due to the number of open OCFO leadership positions. The vacancies adversely affect HUD's already limited

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[61] Audit Report 2016-FO-0003, Additional Details To Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, issued November 18, 2015, finding number 2016-FO-0003-6J: 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.

[62] GAO-16-497, Actions Needed to Incorporate Key Practices into Management Functions and Program Oversight, http://www.gao.gov/assets/680/678551.pdf

ability to address longstanding financial management governance deficiencies that have contributed to numerous material weaknesses in internal control over financial reporting, instances of departmental noncompliance with laws and regulations, and the need for frequent restatements. HUD needs to continue to address issues related to the transition to an FSSP despite more than 2 years having passed since the change. In addition to the challenges related to the significant overhaul of many financial processes, HUD management has yet to approve a policy and procedure framework, and progress in the development and implementation of key policies and procedures continued to stagnate. With the recent issuance of a Financial Management Maturity Assessment Model by the U.S. Department of the Treasury, we performed an assessment of HUD's financial management maturity to inform our work related to HUD's continuing financial governance weaknesses.[63] Using the methodology prescribed to perform the assessment, we noted that HUD's financial management maturity could generally be classified as "inadequate" or "basic." Additionally, OCFO's unaddressed financial governance weaknesses have continued to hinder effective remediation of the litany of material weaknesses, significant deficiencies, and instances of noncompliance with laws and regulations we have reported as of September 30, 2017.

Recommendations

Prior-year recommendations remained unimplemented and can be found in the Followup on Prior Audits section of this report. We have the following new recommendation.

We recommend that the Acting Deputy Chief Financial Officer

6A. Establish and implement policies and procedures that require identification and performance of complementary controls and periodic evaluation of established complementary controls to ensure that they continue to address financial and operational risks and document, assign, and communicate user complementary controls roles and responsibilities.

[63] Treasury Financial Management Federal Financial Management Self-Assessment Maturity Model

Significant Deficiencies

Finding 7: Weaknesses in HUD's Administrative Control of Funds System and Internal Control Documentation

HUD continued to not have a fully implemented and complete administrative control of funds system and internal control documentation that provided oversight of both obligations and disbursements. We have reported on HUD's administrative control of funds in our audit reports and management letters since fiscal year 2005. Our current review noted instances in which (1) the Office of Multifamily Housing Programs did not follow HUD's administrative control of funds policies; (2) funds control matrices did not follow the policies and procedures included within HUD's Funds Control Handbook; (3) CAM1[64] was not included in funds control matrices and funds control documentation; (4) the Office of the Chief Procurement Officer (OCPO) did not maintain adequate records for interagency agreements (IAA) in its procurement system of record, U.S. Treasury Administrative Resource Center's PRISM; and (5) OCFO did not maintain adequate records and internal control documentation for IPACs that are recorded within the financial system of record, Oracle Federal Financials. These conditions existed because of (1) management decisions made by HUD OCFO and OCPO, (2) a lack of compliance reviews conducted in fiscal year 2017, and (3) failures by HUD's allotment holders to update their funds control matrices and notify OCFO of changes in their obligation process before implementation. As a result, HUD could not ensure that its obligations and disbursements were within authorized budget limits and complied with the Antideficiency Act (ADA) and internal control documentation requirements established by GAO.

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 comply with OCFO's administrative control of funds policies and procedures[65] 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[66] and (2) could not provide the appropriate obligating documents as stated in its 2017 funds control matrix to support that obligations and disbursements complied with legal authorization and contract

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[64] The Oracle financial system includes an AFF for the line of accounting. The program class and program code are combined into one field called "CAM1" in Oracle.

[65] 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.

[66] Under Section 902 of the CFO Act, the agency CFO 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.

requirements.[67] This deficiency was reported in our prior-year audit report,[68] and the Office of Multifamily Housing Programs had agreed to implement changes.

During our fiscal year 2016 audit, the Office of Multifamily Housing Programs provided OCFO a funds control plan for its review. The interim[69] funds control policy and documentation did not address Multifamily Housing Programs process changes during the first 6 months of 2017. When HUD completed the transition to implementing funds control matrices in March of 2017, the Office of Housing continued to fail to follow the new governing procedures regarding funds control. Specifically, in our review of the Multifamily Housing Programs' obligations and disbursements transactions, we determined that the point of obligation document and obligation funds verification official remained inconsistent with the funds control matrix, despite OCFO's efforts to improve its funds control structure with the intention to make the updating process less burdensome for the program offices.

As a result of the continued inconsistencies with funds control documentation, in fiscal year 2017, we found that 36 obligations and 31 disbursements from samples of 142 obligations and 136 disbursements, or 24.1 percent of the total transactions tested, were not supported with proper obligating documentation as prescribed in the latest approved housing control of funds requirements. These obligation and disbursement transactions totaled $20.2 million and $4.5 million, respectively.

HUD's Funds Control Documentation Did Not Properly Include Significant Business Processes Completed by Its Federal Shared Service Provider

HUD's funds control plans for all program offices were not updated in a timely manner. We have previously reported this condition, and it continued in fiscal year 2017 as HUD was transitioning to a new funds control structure using the funds control matrices. OCFO requires allotment holders to recertify annually that internal controls to administer funds have not changed and submit updated matrices before implementing changes. However, we noted the following:

- There was no traceability from the standard operating procedures established in the HUD Guidance on Funds Control for Business Processes document to the appropriation funds used for obligations incurred and disbursement transactions for the first 6 months of fiscal year 2017. Specifically, there was no documentation of fund, program code, or program class to restrict funds accordingly.

- OCFO did not document funds control procedures for 17 salaries and expenses appropriation funds (TAS). Specifically, during quarters 1 and 2 of 2017, we identified 5

[67] 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.
[68] Audit Report 2017-FO-0003, Interim Report on HUD's Internal Controls Over Financial Reporting, issued November 15, 2016
[69] In 2016, HUD was transitioning to a new funds control policy, which was replacing the existing funds control plans with funds control matrices. During the transitional process, HUD used a temporary or interim funds control structure until the funds control matrices were completed.

CAM1 codes that had a total of 302,300 disbursement transactions totaling $483.8 million, which were untraceable to funds control documentation.

- The PIH funds control matrices were incomplete due to 15 CAM1 codes being excluded from the approved matrices as of March 30, 2017. For quarters 1 and 2 of 2017, there were 40,795 disbursement transactions totaling $2.1 billion processed using the missing CAM1 codes.

- The Office of Housing funds control matrices were incomplete due to 21 CAM1 codes being excluded from the approved matrices as of March 30, 2017. For the first 6 months of 2017, there were 4,318 disbursement transactions totaling $105.5 million processed using the missing CAM1 codes.

The Administrative Control of Funds Procedures for Salaries and Expenses internal guidance did not include the salaries and expenses (S&E) appropriation funds (TAS) and CAM1 codes used to process and allocate transactions in Oracle. As a result, while the S&E transactions were controlled at the budget object class (BOC) level, there was not a complete administrative control of funds over transaction-level detail in Oracle that could be traced to the corresponding S&E TAS, beginning with the appropriation and ending with the disbursement.

In our prior-year audit, we reported that these conditions existed because in October 2015, ARC's Oracle financial reporting system replaced HUDCAPS as the official system of record for all general ledger accounts and budgetary resources for HUD. This change resulted in the replacement of HUDCAPS with Oracle Federal Financials as the official system of record for all general ledger accounts and budgetary resources for HUD. As part of this transition, OCFO issued HUD's fiscal year 2016 Process Improvement for Funds Control Plans approach, and the Fiscal Year 2016 Funds Control Plans and Handbook Project memorandum on October 9, 2016, to outline the funds control requirements. According to the memorandum, OCFO did not require the revision of funds control plans to address Oracle financial reporting and the funds control business process for transactions processed by ARC, HUD's FSSP. Specifically, OCFO management did not require the budget execution and funds control procedures of transactions processed directly to Oracle as a part of the migration to be reflected in HUD's funds control plans. Therefore, all funds control procedures in place after the transition were inaccurate.

In fiscal year 2016, OCFO issued HUD's Guidance on Funds Control for Business Processes, which documents ARC's funds control procedures, for the program offices' use. As noted during our fiscal year 2016 Consolidated Financial Statement Audit, this document provided a conflicting control structure with the existing funds control plans due to key procedures, such as the allocation of funds to program offices, which did not reflect the budget execution procedures adopted with ARC. Critical financial reporting elements of program code and program class were not transparent in the funds control plans to provide accountability to the financial system of record. Further, the procedures identified in the document did not provide traceability to the applicable funds or program office transactions and accountability to the responsible officials. The issues noted above were originally identified during our fiscal year 2016 Consolidated

Financial Statement Audit, and they continued to exist for the 6-month period of October 1, 2016, to March 31, 2017.

Not All HUD Programs Had Proper Funds Control Documentation

In March 2017, OCFO issued the HUD Administrative Control of Funds Policies, 1830.2, REV-6 (Funds Control Handbook), HUD Administrative Control of Funds Procedures for Salaries and Expenses, and funds control matrices, which replaced the outdated funds control plans for each appropriation fund. The design of the funds control matrix included a Microsoft Excel spreadsheet for each program office with the appropriations funds associated with the program office and required fields for funds control compliance, including funds control office, allotment holder; CAM1; program or activity name; and the key components for assignment, commitment, obligation disbursement, and deobligation.

Funds control matrices for the Office of Housing and PIH were incomplete because they did not include all CAM1 codes that had a disbursement transaction initiated and processed against it in the first 6 months of 2017. Upon issuance of the revised funds control matrices, OCFO did not ensure that all transactions being processed within Oracle had a corresponding funds control matrix.

Due to these deficiencies, HUD was not in compliance with OMB Circular A-11, section 150, Administrative Control of Funds, which 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. Further, Housing and PIH did not follow the Funds Control Handbook's requirement that program offices not obligate or disburse funds on newly requested CAM1 codes unless and until complete, approved matrices exist for those CAM1 codes. OCFO's lack of funds control compliance reviews conducted in 2017 led to missing CAM1 codes not being identified and included in the matrices during the fiscal year. Therefore, OCFO did not complete the necessary steps to ensure that the funds control policies and procedures were followed by the program offices.

OCFO's issuance of the Administrative Control of Funds Procedures for Salaries and Expenses internal guidance established departmentwide funds control procedures for HUD's S&E transactions. The internal guidance indicated that the S&E business processes are standardized across the Department; therefore, funds control matrices are not required for S&E BOCs. In our review of the funds control documentation for S&E disbursement transactions, we determined that the documentation solely references the BOCs but not the corresponding S&E funds (TAS) for HUD's program offices. Although S&E has standardized processes for the transactions originating within Oracle, the funds control documentation should provide traceability to the corresponding fund (TAS) that it is being allocated to the general ledger for budgetary resources made available. In the previously used S&E funds control plans by TAS, there was an indication of processed transactions for BOCs, and the plan indicated the corresponding cost organization codes. Additionally, the Oracle financial system includes the AFF for the line of accounting, which maintains the CAM1 code and fund (TAS) as reporting elements. However, the Oracle reporting elements are not traceable to the internal funds control documentation used by HUD.

The exclusion of S&E appropriation funds from the funds control matrices fails to identify and document the apportioned amounts in the corresponding TAS that limit the obligations that may be incurred.

HUD Did Not Maintain Adequate Records for Interagency Agreement Activity

HUD's OCPO did not maintain adequate records for IAAs in its procurement system of record, ARC's PRISM, in accordance with 44 U.S.C. 3101 and 44 U.S.C. 3102[70] and GAO's Standards for Internal Control in the Federal Government (the Green Book). The Green Book highlights the requirement for documentation as part of an effective internal control system. Documentation is required for the effective design, implementation, and operating effectiveness of HUD OCPO's internal control system, including funds control over obligations and disbursements. The lack of documented, formulized procedures for managing and recording IAAs impacted OCPO's compliance with internal control standards and funds control over obligated amounts. The recorded award amounts were not supported by originating, IAA contracts with a Federal trading partner and (or) subsequent contract modifications within PRISM. Additionally, both the reported obligation amount and award amount in PRISM did not include the historical data, including the original IAA and modifications to date. In reviewing a sample of active IAAs in 2017, we found that there was $34 million (5 of 14 sample selections) as of March 31, 2017, and $193 million (2 of 12 sample selections) as of June 30, 2017, with unsupported award balances in PRISM.

OCPO management did not have formalized procedures for managing and recording IAAs, including the base contracts and modifications, and authorizing the contract activity. HUD's Procurement Policies and Procedures Handbook (2210.3, REV-10) did not have guidance for contracting officers to follow to record IAA modifications within PRISM. OCPO contracting officers relied on templates within the system to record contract modifications. The templates did not indicate award amount provided in the modification, and as a result, the modification did not support the balances reported in PRISM. In addition, each modification had multiple options that could be taken to increase or decrease the total obligation amount. OCPO did not maintain records to indicate the options that had been administered on the contract modifications.

These deficiencies resulted from HUD's transitioning from the HUD Integrated Acquisition Management System (HIAMS) to ARC's PRISM as the system of record for its procurement activity and transactions. During the transition, IAAs that were originally recorded in HAIMS were converted into PRISM in "conformed" base contracts. The conformed contracts included the current obligation balance from HIAMS and the award amount at the point in time of conversion. Each conformed contract was constructed to have the obligated amount and award

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[70] 44 U.S.C. 3101 - Records management by agency heads; general duties. The head of each Federal agency shall make and preserve records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the agency and designed to furnish the information necessary to protect the legal and financial rights of the Government and of persons directly affected by the agency's activities. 44 U.S.C. 3102 - Establishment of program of management. The head of each Federal agency shall establish and maintain an active, continuing program for the economical and efficient management of the records of the agency. The program, among other things, shall provide for (1) effective controls over the creation and over the maintenance and use of records in the conduct of current business.

amounts with the cumulative total of the preexisting base and modifications in HIAMS. The conformed contract and award and obligation balances at that point in time were recorded in PRISM as the base IAA; however, it was not the original base IAA. OCPO was unable to justify why some contracts were converted with the conformed copy, while other awards transferred with the base and contract modifications. OCPO did not have documented procedures for the conversion; therefore, there was no assurance that all corresponding IAA records were accurately transferred to PRISM.

Additionally, the underlying records, base contracts and modifications to support the interagency activity were not consistently transferred to PRISM from HIAMS. Therefore, the procurement system of record did not adequately capture the historical records and level of detail to ensure that the reported balances in PRISM were accurate. The system included only a portion of the total modifications made to the contract. For instance, an IAA with a base and 10 modifications could have records of only 4 of the 10 modifications in PRISM. In other instances, IAA data were transferred to PRISM without the conformed contract, which impacted the consistency of the data reported in the procurement system of record.

HUD Did Not Maintain Adequate Records and Document Internal Control Procedures for Processing IPAC Transactions

OCFO did not maintain adequate records and documentation for IPAC transactions that were recorded within the financial system of record, Oracle. The transaction amounts recorded within Oracle were not supported by sufficient supporting documentation to substantiate the accuracy and rights and obligation of the transaction recorded in accordance with GAO's internal control standards. Our review of a sample of 28 IPAC transactions processed by OCFO from October 1, 2016, to June 30, 2017, determined that all transactions lacked evidence of being sufficiently supported under an IAA, existing obligation, or collection before the IPAC was recorded in Oracle. In addition, 26 of the selections lacked documentation indicating that the IPAC amount was accurately recorded in Oracle, 3 of the selections lacked documented authorized approval on the IPAC transaction report according to the IPAC system, and 3 of the selected transactions lacked IPAC approval forms according to Oracle with evidence of an authorized approver's signature.

The condition resulted from OCFO's not having consistent records management requirements for each transaction initiated in the IPAC system. The processing of IPAC transactions is separated among OCFO's AMAD and ARC. Individual contracting officer's representatives (COR) within the program offices determine how to complete an IPAC transaction, which is then processed by either AMAD or ARC in Oracle Federal Financials. The CORs' review processes include verifying and confirming the appropriate values to record in Oracle for the summary amount, detail amount, unit amount, and unit price with regard to a transaction initiated in the IPAC system. Further, the CORs are required to perform review procedures to determine whether the transaction initiated within the IPAC system can be verified by an invoice, purchase order, or other agency records. However, there were no documented procedures providing guidance in the review process, and as a result, there was a lack of consistency among the CORs' review processes and verification of the payments or collections that were processed in Oracle.

In addition, AMAD (1) did not establish and document standardized operating procedures relating to the input and calculation of the values noted previously in accordance with GAO's Green Book documentation standards, (2) did not review corresponding obligations for each individual transaction processed to ensure that there was sufficient funding, and (3) did not have standardized requirements for maintaining records of each transaction initiated by the Federal program agencies. Therefore, there was a lack of consistency for reporting transactions initiated in the IPAC system to Oracle, and the transactions were susceptible to inconsistencies with corresponding transaction reports, obligating records, and existing contracts with the agencies.

Conclusion

HUD did not have a fully implemented and complete administrative control of funds system during the first 6 months of 2017. The interim funds control approach established as a result of HUD's transition to ARC created an inconsistent internal control structure for restricting the obligation and expenditure of funds. As a result, HUD did not have adequate assurance that its obligations and disbursements complied with applicable laws, limitations, and ADA requirements. The lack of approved CAM1 codes and appropriation funds (TAS) documented in funds control matrices did not provide accountability or traceability to the policies and procedures governing the obligations and expenditure of funds. The limited funds control of S&E transactions without matrices created an internal control environment that could allow for misappropriation of obligations, disbursement of funds, and misallocation of S&E costs.

In addition, processing disbursements before the documented point of legal obligation may lead to ADA violations. Statistically projecting our results for the multifamily Section 8 rental housing assistance disbursements in fiscal year 2017, we can be 95 percent confident that at least $1.90 billion in obligations and $1.96 billion in disbursements were processed without properly authorized supporting documentation. As a result, 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 amount allocated.

In addition, HUD's portfolio of active interagency agreements was not sufficiently maintained within the PRISM procurement system. The award amounts reported were not traceable to the underlying base contracts and modifications on record within PRISM. Between October 2016 and March 2017, HUD had $449.1 million in awarded funds and $19.2 million in obligation balances from active interagency agreements with HUD's trading partners, which may be at risk of being unsupported. The lack of documentation maintained by OCPO provides a potential risk for unresolved intragovernmental differences with trading partners. Intragovernmental differences contribute to the governmentwide material weakness on intragovernmental activity.

Lastly, OCFO did not maintain adequate records and documentation for IPACs that were recorded in Oracle. The transaction amounts recorded in Oracle were not supported by sufficient supporting documentation to substantiate the accuracy and rights and obligation of the transaction recorded. The potential impact of unsupported transactions, by detail amount, for the period October 2016 to June 2017 was $21 million, or 271 transactions. Additionally, OCFO lacked documented internal controls over the processing of IPACs in accordance with GAO's internal control standards.

Recommendations

We recommend that the Acting Deputy Chief Financial Officer

7A. Establish and approve funds control matrices for S&E transactions and ensure traceability to the program funds, adopting the policies for budget execution, obligation, and expenditure of funds.

7B. Ensure that each program office maintains current reporting elements in its funds control documentation, including the appropriation fund, CAM1, and BOC, to provide traceability to the Oracle financial system and the transaction source.

7C. Establish records maintenance policies and procedures to ensure the accurate recording of IPAC transaction details, including summary amount, detail amount, unit amount, and unit price.

7D. Monitor the review and verification processes to ensure that each IPAC transaction is accurately posted to the appropriate fund (TAS) in the Oracle financial system in a timely manner.

We recommend that HUD's Office of Chief Procurement Officer

7E. Ensure that originating base IAAs and modifications are maintained in HUD's procurement system of record, PRISM, including manual documentation and records from HIAMS.

7F. Develop, document, and implement policies and procedures for initiating, recording, and approving IAAs and subsequent modifications.

7G. Monitor the records management procedures of OCPO field offices for administering consistency among contracting officers processing IAAs and corresponding modifications.

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 $263.5 million[71] in invalid obligations not previously identified by HUD. We discovered another $323.6 million[72] in obligations that were inactive,[73] potentially indicating additional invalid obligations. We also identified $61.8 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, 2017. We attributed these deficiencies to ineffective monitoring efforts and the inability to promptly process contract closeouts. Lastly, we noted that as of September 30, 2017, HUD had not implemented prior-year recommendations to deobligate $121.7 million in funds. As a result, HUD's unliquidated obligation balances on the statement of budgetary resources were overstated by at least $360.1 million and potentially overstated by up to $770.6 million.

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

Grants were not closed within the 90-day period after the expiration date required by the program's Federal regulations. The Office of Special Needs Assistance Programs (SNAPS) did not implement or enforce policies and procedures to ensure that expiring contracts were closed within the 90-day period. We identified 2,741 contracts, which expired between July 1, 2016, and June 30, 2017, that were not closed within the 90-day period, and remaining undisbursed obligation balances of approximately $159.4 million had not been recaptured and reallocated to be used to further the purposes of the program or returned to Treasury.

In fiscal year 2015, the Office of Policy Development and Coordination (OPDC) was created to focus on grant closeouts and audit responses for CPD programs, starting with homeless assistance grants. OPDC and SNAPS were piloting automated processes to improve the closeout of expired grants and the recapture of any remaining funds. HUD was also working to assign clear roles and responsibilities to OPDC and SNAPS and to train field office staff. HUD believes these tasks will enable SNAPS to more regularly track the financial status of its grants as well as the field offices' efforts to comply with policies and procedures to recapture the unspent funds on expired contracts.

While SNAPs worked diligently to close out and recapture remaining funds on expired grants identified in prior-year audit reports, the field offices continued to be overwhelmed with running multiple fiscal year funding competitions simultaneously. Additionally, one of the key CPD specialists working in this area retired during the fiscal year.

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[71] $159.4 million in homeless assistance funds and $104.1 million in housing obligations
[72] $288.8 million in retained inactive open obligation review obligations and $34.8 million in Ginnie Mae funds
[73] We define an obligation as inactive if a disbursement has not been made within a reasonable amount of time. This time varies based on program area and applicable criteria.

As a result, funds remained obligated for grants that no longer had a bonafide need,[74] and HUD's unliquidated obligation balance was overstated on its consolidated statement of budgetary resources.

Housing Obligations Were Inactive or Expired

As of September 30, 2017, we noted that HUD did not adequately review its program obligations related to 70 expired or inactive obligations consisting of 40 Section 236 projects totaling $17.4 million and 30 Section 202-811 projects totaling $86.7 million. HUD did not adequately monitor and if necessary deobligate unliquidated balances from these obligations, resulting in the unpaid obligation balance on HUD's statement of budgetary resources being potentially overstated by $104.1 million.

HUD did not efficiently and effectively perform contract review and closeouts throughout the year. Due to inadequate monitoring of open obligations and inconsistent or incomplete review processes, HUD did not identify expired or inactive projects. Additionally, for Section 235-236, OCFO staff members marked 100 percent of obligations as retained during HUD's open obligations review (OOR) because they believed the program had a separate internal review process in place within the program office. However, we confirmed that there was no separate program review of the obligations. Therefore, all Section 235-236 obligations, which totaled $675.2 million, went unreviewed during fiscal year 2017.

Ginnie Mae's Obligation Balance Contained Invalid Obligations

Based on our review of Ginnie Mae's open obligations, we identified eight obligations with remaining balances totaling $34.8 million that were inactive. In response to our fiscal year 2016 report, Ginnie Mae implemented a new internal open obligation review, which also identified these obligations as inactive. However, they were not closed out and deobligated by the end of fiscal year 2017. While Ginnie Mae's review identified these obligations for deobligation, it could not complete closeout and deobligation before yearend. This deficiency was due to the backlog of obligations recommended for deobligation in our fiscal year 2016 report before the implementation of this new process.

HUD's Annual Departmentwide Obligation Review and Certification Process Had Weaknesses

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 end of the fiscal year 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 to date by June 30, 2017. A number of program offices completed their review and certified their obligations after

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[74] Principles of Federal Appropriations Law Volume I, Chapter 5 – Availability of Appropriations: Time, B. The Bona Fide Needs Rule - 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.

the deadline. Further, the memorandum from the CFO providing instructions and deadlines for the review was not delivered to the program offices until June 21, 2017, 9 days before the due date. As a result, offices may have been unable to complete an adequate review and process deobligations before the end of the fiscal year due to insufficient time.

During the fiscal year 2017 audit, we reviewed 2,805 HUD-identified obligations totaling $122 million marked for deobligation by the program offices. Of these, 1,337 obligations with remaining balances of $61.8 million were not closed out and deobligated by the end of the fiscal year.[75] 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 OOR 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[76] are required to be reviewed.

Further, we determined that HUD may be retaining obligations that are no longer needed or active. Our review identified 1,216 obligations with remaining balances totaling more than $288.8 million that have had no activity (disbursements) since at least fiscal year 2015. This represents obligations that are inactive, potentially invalid, and require review. Responsibility for the 1,216 inactive obligations is distributed across 5 program offices as shown in appendix B. We attributed this issue to a weakness with the OOR retain justification process. While the OOR web-based application requires users to provide justifications while retaining obligations, it does not provide assurance that each obligation is adequately reviewed before a retain or deobligate determination is made.

A review of retained obligations with no disbursement activity since March 31, 2015, found justifications such as "active contract" and "active grant." Further, our audit work noted inconsistencies among the program offices in the interpretation of what constitutes a sufficient justification to retain an obligation. For example, during followup inquiries to program offices, we received concurrence that some questioned inactive obligations marked as "retain" should have been deobligated. In another followup, program officials questioned the purpose of determining whether a grant was still needed, stating "…determining whether there is still a need for these grant funds is a strange question. So long as grantees have foreclosed, blighted, or abandoned properties, there will be need and eligible uses for funds." These factors allowed obligations to be retained without having a sufficient bona fide need.

As a result, HUD's unpaid obligation balances on the statement of budgetary resources were overstated by at least $61.8 million due to unprocessed deobligations and potentially overstated by an additional $288.8 million due to inactive invalid obligations as of September 30, 2017. See appendix B.

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[75] Refer to Appendix B – Departmentwide Obligation Review – Schedule of Recommended Deobligations.
[76] The threshold to be included in the OOR for administrative and program obligations is $24,284 and $113,355, respectively.

Prior-Year Recommendations Had Not Been Implemented

We noted that as of September 30, 2017, prior-year recommendations regarding deobligation amounts of $121.7 million were outstanding. Therefore, HUD's unpaid obligations on the statement of budgetary resources related to prior-year unimplemented recommendations were potentially overstated by $121.7 million. Refer to the table below.

Table 3		
Office	**Program**	**Amount**
Housing	Section 235-236	$22.1 million
Housing	Section 202-811	12.3 million
CPD	Emergency Solutions Grant	11 million
CPD	Neighborhood Stabilization Program	5.3 million
CPD	Homeless assistance	1.3 million
Housing	Project-based Section 8	.4 million
Ginnie Mae	Program contracts	69.3 million
Total:		**121.7 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 2017. We identified $298.3 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, resulting in $61.8 million in invalid obligations remaining on HUD's books at the end of the fiscal year. In total, HUD's unliquidated obligation balance on its consolidated statement of budgetary resources was overstated by $360.1 million and potentially overstated by an additional $288.8 million in obligations that have had no disbursement activity since at least fiscal year 2015. We also noted that as of September 30, 2017, HUD had not implemented prior-year recommendations for $121.7 million, which further contributed to a potential overstatement. In total, HUD's consolidated statement of budgetary resources was overstated by at least $360.1 million and potentially overstated by up to $770.6 million due to invalid obligations. Refer to the table below.

Table 4	
Program	**Amount**
Homeless Emergency Assistance and Rapid Transition to Housing Continuum of Care expired grants	$159.4 million
Ginnie Mae contract obligations	34.8 million
Expired or inactive housing obligations	104.1 million
Annual departmentwide obligations review – marked for deobligation but not deobligated as of 9/30/17	61.8 million
Annual departmentwide obligations review – obligations with no disbursements since 2015	288.8 million
Prior-year unimplemented recommendations	121.7 million
Total	**770.6 million**

Recommendations

We recommend that the Acting Deputy Chief Financial Officer

8A. Improve controls to ensure that the OOR process is successful. This includes but is not limited to the following: (1) providing clarity on what constitutes a reasonable justification for retaining obligations marked for review during the OOR and (2) ensuring that a reasonable amount of time is provided for program offices to adequately complete the markup review phase of the OOR.

8B. Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $212,447 in 46 administrative obligations and 1 program obligation totaling $135,956 marked for deobligation as of September 30, 2017.

We recommend that the Assistant Secretary for Community Planning Development

8C. Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $11,463,971 in 189 program obligations and $13,640 in 10 administrative obligations marked for deobligation as of September 30, 2017.

8D. Review the 1,110 identified inactive retained obligations with remaining balances totaling $229,327,332 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

8E. Close out and deobligate the remaining balances on 2,741 expired homeless assistance contracts of $159,437,069.

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

8F. Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $42,491,202 in 581 administrative obligations and $2,932,320 in 12 program obligations marked for deobligation as of September 30, 2017.

8G. Review the 84 identified inactive retained obligations with remaining balances totaling $56,435,559 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

8H. Review and if necessary deobligate the 40 and 30 expired or inactive Section 236 and Section 202-811 projects totaling $17,416,572 and $86,715,301, respectively.

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

8I. Review the one identified retained inactive obligation with a remaining balance totaling $765,000 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

We recommend that Deputy Chief Administrative Officer for the Office of Administration

8J. Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $2,266,017 in 100 administrative obligations marked for deobligation as of September 30, 2017.

We recommend that the Director of the Office of Healthy Homes and Lead Hazard Control

8K. Review the 14 identified retained inactive obligations with remaining balances totaling $2,165,769 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

8L. Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $559,569 in 53 administrative and $641,110 in 9 program obligations marked for deobligation as of September 30, 2017.

8M. Review the seven identified retained inactive obligations with remaining balances totaling $143,344 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

We recommend that the Acting General Deputy Assistant Secretary for Policy Development and Research

8N. Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $279,282 in 11 administrative obligations marked for deobligation as of September 30, 2017.

We recommend that the Chief Information Officer

8O. Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $264,476 in 108 administrative obligations marked for deobligation as of September 30, 2017.

We recommend the Chief Human Capital Officer

8P. Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $257,102 in 55 administrative obligations marked for deobligation as of September 30, 2017.

We recommend that the Acting General Counsel for the Office of General Counsel

8Q. Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $174,132 in 160 administrative obligations marked for deobligation as of September 30, 2017.

We recommend that Assistant Deputy Secretary for the Office of Field Policy

8R. Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $78,021 in two administrative obligations marked for deobligation as of September 30, 2017.

We recommend that Ginnie Mae's Chief Financial Officer

8S. Deobligate all obligations marked for deobligation during Ginnie Mae's open obligation review, including as much as $34,814,053 in eight contract obligations marked for deobligation.

Finding 9: HUD's Computing Environment Controls Had Weaknesses

HUD had various weaknesses with system controls and security management and did not ensure that general and application controls over its financial systems and computing environment fully complied with Federal requirements. These conditions were the result of a lack of planning, oversight, resources, and monitoring. Without effective controls in place, HUD cannot ensure that the systems and network will perform as intended to support its mission and generate accurate financial statements.

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. We audited the general and application controls over the intranet general support system (GSS) and selected information systems that support the preparation of HUD's financial statements.

Fiscal Year 2017 Federal Information System Controls Audit Manual General Support System Review

We audited the general controls over HUD's computing environment for compliance with HUD IT policies and Federal information system security and financial management requirements. We focused our audit work on the effectiveness of general controls over HUD's intranet GSS. The intranet GSS consists of web, file transfer protocol, and networking devices that support HUD's ability to provide information and services to the public.

Our review identified (1) weaknesses within the intranet GSS that were not properly tracked or remediated in a timely manner, (2) GSS's that were not reauthorized in accordance with policy, (3) a lack of offline backup storage for HUD's data centers, (4) weaknesses regarding the identification of changes in asset and device inventory, (5) use of an unsecured file transfer protocol, and (6) inadequate access controls for the intranet servers. These conditions occurred because (1) oversight of the tracking and remediation of the weaknesses was insufficient; (2) reauthorization was not specified in HUD IT Security Procedures; (3) OCIO felt that existing backup procedures and measures were sufficient and accepted the risk associated with not performing an offline backup; (4) there were resource issues, such as staffing and server requirements needed to enable reports on unauthorized changes in asset and device inventory; (5) OCIO believed that the unsecure protocol was used only to transfer files internally within HUD's infrastructure and behind HUD's firewall and, therefore, it did not pose a risk; and (6) OCIO did not review user accounts for compliance with account management requirements. As a result of these weaknesses, (1) HUD's systems could be unavailable and its business information disclosed; (2) OCIO could not guarantee that the current authorizing official had reviewed the old authorization decision document; (3) HUD's backup data were vulnerable to deletion and corruption by accident or intentional malicious action or from a virus that deletes data; (4) HUD could not ensure that only authorized systems and related program modifications were implemented; (5) HUD logon information and data were exposed to security attacks during transmission; and (6) the reliability of HUD's computerized data were diminished and the risk of destruction or inappropriate disclosure of the data were increased.

The New Core Project

During fiscal year 2017, we performed two audits that assessed the implementation of the New Core Project and the functionality of the New Core Financial Management Solution. The New Core Project was initiated in the fall of 2012 to implement a new core financial system for HUD. The project supported the integration activities associated with the migration of HUD's core accounting and administrative system functions from its legacy systems to an FSSP, ARC.

In February 2017, we reported that HUD's transition to an FSSP failed to meet expectations.[77] HUD's transition to an FSSP did not significantly improve the handling of its financial management transactions, and weaknesses identified with the controls over NCIS and PRISM™ contributed to the issues. A year after the transition to the FSSP, HUD had inaccurate data resulting from the conversions and continued to execute programmatic transactions using its legacy applications. The transition increased the number of batch processes required to record programmatic financial transactions and introduced manual processes and delays for budget and procurement transactions. In addition, the interface program that allowed for and translated the financial transactions between HUD and ARC was not covered under HUD's disaster recovery plan. These conditions occurred because of funding shortfalls as well as HUD's decisions to (1) separate phase 1 of the project into smaller releases, (2) move forward with the implementation despite unresolved issues, and (3) terminate the project before its completion. These system issues and limitations inhibited HUD's ability to produce reliable, useful, and timely financial information. While HUD considered its New Core Project implementation successful, it acknowledged that not all of the originally planned capabilities were deployed. We concluded that HUD needs to pursue new process improvement projects to address the functionalities that were not achieved with phase 1 of New Core, which will require additional time and funding. HUD will also need to pursue process improvements for the functionality planned in the future phases of the project. In April 2016, HUD ended the New Core Project and the transition to an FSSP; however, the transition did not allow HUD to decommission all of the applications it wanted to or achieve the planned cost savings after spending $96.3 million.

In September 2017, we reported that although transaction processing using the New Core Financial Management Solution had improved, challenges and weaknesses remained.[78] Although HUD had improved from what we found during our fiscal year 2016 audit work, HUD (1) continued to experience some weaknesses in transaction processing, (2) could not fully support the balances recorded in its general ledger, and (3) did not fully reconcile data between HUDCAPS and its general ledger.

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[77] Audit Report 2017-DP-0001, HUD's Transition to a Federal Shared Service Provider Failed To Meet Expectations, issued February 1, 2017 and finding 5 of this report, HUD's Financial Management System Weaknesses Continued

[78] Audit Report 2017-DP-0003, New Core Project: Although Transaction Processing Had Improved Weaknesses Remained, issued September 28, 2017

Followup on Previously Issued Reports on the New Core Project

During fiscal year 2016, we audited the implementation of phase 1, release 3,[79] of the New Core Project and determined that HUD had rushed the implementation. HUD had unresolved data conversion errors and inaccurate funds management reports and lacked a fully functional data reconciliation process. In addition, the performance of NCIS was not monitored, tracked, or measured, and controls over processing errors within Oracle Federal Financials were routinely bypassed. These conditions occurred because HUD did not move the implementation date when issues were identified during system testing to allow time to resolve the issues, development of the custom reports was not far enough along to allow full system testing, development of the reconciliation tool could not be completed before the scheduled implementation date, and time did not permit the establishment of performance metrics. As a result, in June 2016, unresolved data conversion errors were estimated at an absolute value of more than $9 billion, HUD's funds management reports contained inaccurate data, the newly completed status of funds reconciliation report indicated that there was an absolute value of $4.5 billion in differences between HUDCAPS and Oracle Federal Financials, and it was difficult to tell whether NCIS met user needs and business process requirements.

We issued six recommendations and HUD completed actions to address two regarding the routine bypassing of controls over processing errors and the monitoring and remediation of processing delays. The four remaining recommendations, related to correction of the data conversion errors, development of metrics to monitor system performance, review of custom reports for accuracy, and verification that the NCIS trial balance and status of funds reconciliation reports function properly and resolve the differences, are scheduled to be completed during December 2017.

Followup on Access Control Weakness and Inaccurate Security Documentation Identified Within NCIS

NCIS is a custom developed system owned by HUD and hosted by Oracle Managed Cloud Services. NCIS performs the extract, transform, and load functions, as well as a variety of error processing, reconciliation, and interface file management functions to support the interface of HUD systems with ARC's systems. In fiscal year 2016,[80] we found that some access controls within NCIS were not effective and some of the NCIS application security documentation was inaccurate. In regard to access controls, we found that excessive privileges were granted to two contractors. They were granted access to production data when their job functions did not require them to have that level of access. They were also authorized to use the default administrative user account within Oracle for NCIS. Due to limited resources within HUD, excessive privileges were granted to contractor personnel that fully understood and could monitor the newly developed application. However, NCIS audit logs for the end user and security administration functions provided information only on user logins and

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[79] Audit Report 2016-DP-0004, HUD Rushed Implementation of Phase 1, Release 3, of the New Core Project, issued September 20, 2016

[80] Audit Report 2017-FO-0003, Additional Details To Supplement Our Fiscal Years 2016 and 2015 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, reissued February 24, 2017

whether they were successful or failed. There was no documentation on the actions that the user took with these elevated privileges. Also, NCIS audit logs for the database did not contain detailed information on the actions the user took. These excessive access privileges gave the contractors inappropriate access to sensitive budget and general ledger financial transactions and gave them the ability to access the financial data, providing them with the ability to intentionally or accidentally delete or modify the data. These users also had the ability to modify user accounts, which could lead to the unauthorized granting of access to HUD users or contractor personnel. Allowing both contractors to use the default administrative user ID left HUD unable to definitively track actions to one individual in accordance with policy.

In regard to some NCIS application security documentation being inaccurate, we identified instances in which system documentation was not updated to reflect the current application as follows: (1) the end user and security administration audit logs did not contain the level of detail specified by the NCIS system security plan (SSP) and the NCIS security testing and evaluation documentation, (2) the NCIS SSP contained inaccurate information regarding the level of access provided to the security administration function, (3) the NCIS SSP contained inaccurate information regarding the functionality of the application, and (4) the NCIS SSP and the NCIS Operations and Maintenance Manual were not consistent in the identification and definition of the level of access of user roles. This condition occurred because OCFO did not enforce documentation requirements. OCFO has continually made significant system modifications to the NCIS application since its implementation in October 2014. The NCIS application was a significant part of the implementation of a new core financial management system. The SSP forms the basis for management authorization of the application to operate. Inaccurate information within this document could lead to inappropriate decisions.

We followed up on the status of these weaknesses during fiscal year 2017. HUD had completed actions to address the two recommendations regarding the inaccuracy of the application security documentation. HUD was working to address the four recommendations related to the excessive privileges granted to contractors, sharing of the administrative user ID, and tracking of user activities in the audit logs. HUD plans to complete actions to address these weaknesses by November 15, 2017.

Followup on Information System Control Weaknesses Previously Identified in HUD's Loan Accounting System

The Loan Accounting System (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 Emergency Home Loan Program (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. All excess amounts are recorded in the project-loan suspense account.

In fiscal year 2014,[81] we found that data related to the EHLP within LAS were incomplete and inaccurate. Specifically, the (1) loan data in LAS were incomplete, (2) loan data initially entered into LAS were inaccurate, and (3) the process used by HUD to correct the data for the HUD direct loan portion of the program may not result in accurate data. We found that controls over the data transfer process for EHLP loan data were not secure. While a secure website was established for the fiscal agents and States to send EHLP loan information to the Office of Housing and OCFO, the fiscal agent and State grantees, which administered the program, were not required to transmit data via the secure website. In addition, controls to lock out a user after three failed login attempts were not implemented.

In addition, data changes were not adequately controlled in LAS, and some access controls within 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 issued 24 recommendations to address the issues identified. HUD has completed actions to address 21 of the recommendations. Initially scheduled to be completed by April 2016, HUD continued to work during fiscal year 2017 to resolve recommendations related to the EHLP data in LAS. Three recommendations remained open at the end of the fiscal year.

Conclusion

HUD's computing environment provides critical support to all facets of its program, mortgage insurance, financial management, and administrative operations. During fiscal year 2017, 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 continue to report HUD's computing environment as a significant deficiency.

Recommendations

Recommendations related to our work on the fiscal year 2017 federal information system controls audit manual review will be included in a separate OIG audit report. Therefore, no recommendations are reported here.

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

Compliance With Laws and Regulations, Contracts, and Grant Agreements

In the following section is our report on HUD's compliance with laws, regulations, contracts, and grant agreements. We tested HUD's compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements that could have a direct and material effect on the financial statements. In fiscal year 2017, we found instances in which HUD did not comply with 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.

Our consideration of HUD's internal controls and our testing of its compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements were not designed to and did not provide sufficient evidence to allow us to express an opinion on such matters and would not necessarily disclose all matters that might be instances of noncompliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements. A description of the scope of our testing of compliance with provisions of laws, regulations, contracts, and grant agreements is included in the Scope and Methodology section of this report.

Finding 10: HUD's Financial Management System Did Not Comply With the Federal Financial Management Improvement Act

In fiscal year 2017, we noted a number of instances of FFMIA noncompliance within HUD's financial management system. We also noted inaccuracies in FMFIA and the FFMIA assurance statement process, which allowed certification of a financial management system as FFMIA compliant when it was not. This condition was caused by weaknesses in the reviews of FMFIA and FFMIA assurance certifications. HUD's continued noncompliance with FFMIA was due to a high volume of material weaknesses, ineffectively designed and operating key internal controls over financial reporting, and longstanding issues related to component and program office system weaknesses that remained unresolved.

HUD'S FFMIA Noncompliance Continued in Fiscal Year 2017

FFMIA, section 803(a), requires CFO agencies to establish and maintain financial management systems that substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) 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, 2017, we noted instances in which HUD did not 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.[82] HUD also concluded that the agency and its financial management system did not comply with each element of FFMIA as of September 30, 2017. Refer to the table below for details.

Table 5 Compliance with section 803(a) elements of FFMIA		
	Agency	Auditor
1. System requirements	Lack of compliance noted	Lack of compliance noted
2. Accounting standards	Lack of compliance noted	Lack of compliance noted
3. USSGL at transaction level	Lack of compliance noted	Lack of compliance noted

[82] OMB Memorandum M-13-23 (OMB Circular A-123, appendix D) (September 20, 2013, accessed October 22, 2017); http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-23.pdf

For areas of FFMIA noncompliance, each agency must identify remediation activities that are planned and underway, describing target dates and offices responsible for bringing systems into compliance with FFMIA.[83] These details are included in HUD's 2017 AFR.

In addition, when auditors disclose a lack of compliance with one or more of the section 803(a) requirements, FFMIA requires that auditors provide additional details regarding the noncompliance.[84] The details about systems not in compliance with FFMIA, responsible parties, recommendations, primary causes, and HUD's intended remedial actions are included in the following sections.

Systems That Do Not Comply With Federal Financial Systems Requirements

New Core Interface Solution
NCIS does not comply with Federal financial system requirements. Specifically, NCIS does not capture or record required general ledger account transaction information to enable traceability between program accounts and the general ledger. NCIS is a custom developed system owned by HUD and hosted by Oracle Managed Cloud Services. NCIS performs the extract, transform, and load functions, as well as a variety of error processing, reconciliation, and interface file management functions to support the interface of HUD systems with ARC systems. OCFO is responsible for NCIS. NCIS is a key interface between HUD's legacy systems and the general ledger, ARC's Oracle Federal Financials. NCIS has an outsized role in many key processes and, therefore, is tethered to numerous material weaknesses. NCIS will be unable to comply with FFMIA until the remediation of related material weaknesses.

HUD Integrated Acquisition Management System
HIAMS does not comply with Federal financial system requirements. OCPO is responsible for HIAMS, and it had completed closing award actions as of March 31, 2017. The system is no longer being used for data entry. OCPO is working to determine where it can store the data for reporting purposes during and after the decommissioning phase. OCPO estimates that by the end of the second quarter of fiscal year 2018, HIAMS will be decommissioned, but that is dependent on obtaining the storage space to contain the historical data for Freedom of Information Act reporting.

Systems That Do Not Comply With Federal Financial Systems Requirements and Federal Accounting Standards

Disaster Recovery Grant Reporting System
CPD is responsible for the Disaster Recovery Grant Reporting system (DRGR), an internet-based system supporting the Community Development Block Grant Disaster Recovery program

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[83] OMB Circular A-136, Revised (August 15, 2017, accessed September 27, 2017); https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A136/a136_revised_2017.pdf
[84] OMB Bulletin 17-03, Audit Requirements for Federal Financial Statements (September 29, 2017, accessed 10/16/2017); https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/bulletins/2017/bulletin_17-03_audit_requirements_federal_financial_statements%20%28FINAL%29.pdf

and other special appropriations, which does not comply with Federal financial system requirements and Federal accounting standards due to insufficient monitoring of invalid or expired obligations and processes to ensure timely Disaster Recovery program expenditures. The system was developed for grantees to identify activities funded under their action plans, along with budgets and performance goals for those activities. Once an action plan is submitted and approved, grantees can submit quarterly reports summarizing obligations, expenditures, drawdowns, and accomplishments for all of their activities. We have recommended and CPD has communicated that it intended to have developed and implemented a monitoring plan to review outstanding disaster grant activity as of September 30, 2017, to ensure that the expenditure rates are consistently tracked and evaluated and that there are specific criteria to identify inactive projects.

Single Family Mortgage Asset Recovery Technology
The Office of Housing is responsible for the Single Family Mortgage Asset Recovery Technology (SMART) application, a loan-servicing system that services several programs. SMART does not comply with Federal financial system requirements and Federal accounting standards due to a lack of third-party controls over the timely and accurate processing of promissory notes, mortgage instruments, and partial claims. The Office of Housing had incorporated a performance requirement measuring partial claims collection into a subsequent performance work statement as of September 30, 2017, which HUD expects will address FFMIA noncompliance going forward.

Single Family Asset Management System
The Office of Housing is responsible for the Single Family Asset Management System (SAMS). SAMS is a financial management system that performs a full range of financial oversight activities in support of HUD's Single Family Property Disposition program (section 204(g)).

SAMS does not comply with Federal financial system requirements and Federal accounting standards due to issues related to monitoring unliquidated obligation balances, inaccurate undelivered order balances, and interface reconciliations. The Office of Housing plans to address these issues by August 2018.

Systems That Do Not Comply With Federal Accounting Standards and the U.S. Standard General Ledger at the Transaction Level

Integrated Disbursement and Information System Online
IDIS Online does not comply with applicable Federal accounting standards and USSGL at the transaction level. CPD is responsible for IDIS. IDIS is noncompliant with FFMIA due to the use of the FIFO method to account for grant disbursements. We 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 USSGL. While system updates to address FFMIA noncompliance going forward will be completed in fiscal year 2018, CPD's decision to eliminate FIFO prospectively for fiscal year 2015 and future grants will result in lingering noncompliance until the amounts subject to FIFO become immaterial.

Systems That Do Not Comply With Financial System Requirements, Federal Accounting Standards, and the U.S. Standard General Ledger at the Transaction Level

Tenant Rental Assistance Certification System

A 2017 FFMIA compliance review noted that the Tenant Rental Assistance Certification System (TRACS) is not compliant with (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) USSGL at the transaction level. The Office of Housing is responsible for the TRACS application. TRACS is the official contract management repository for the Office of Multifamily Housing Programs' rental assistance project-based contracts, including budget projections and funding for contracts. TRACS is designed to process subsidy contracts, tenant rental assistance information, and owner requests for payment (vouchers). Implemented in 1993, TRACS collects tenant data and voucher data for project-based programs and authorizes payment for subsidy programs. TRACS does not comply with Federal financial system requirements, Federal accounting standards, or USSGL at the transaction level. TRACS issues include noncompliance with funds control policies and procedures, weaknesses monitoring unliquidated obligations, and failure to comply with improper payment requirements related to Rental Housing Assistance Programs (RHAP). The Office of Multifamily Housing Programs plans to address TRACS noncompliance through system enhancements it expects to implement by November 2018.

Ginnie Mae Financial and Accounting System

We noted Ginnie Mae's continuing noncompliance with the three elements of FFMIA as of September 30, 2017. Ginnie Mae's noncompliance stems from material weaknesses that include an inability to properly account for nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio. While progress was made during fiscal year 2017, Ginnie Mae will need to remediate unresolved material weaknesses to address FFMIA noncompliance. Ginnie Mae plans to resolve noncompliance with the implementation of a subledger database "loan-level accounting" system in the GFAS production environment in 2018.

Ginnie Mae's FMFIA and FFMIA Assurance Statements Were Inaccurate

Our review of program office fiscal year 2017 FMFIA and FFMIA assurance statements to OCFO noted that Ginnie Mae's assurance statement contained incorrect conclusions regarding its financial management system and classified it as FFMIA compliant. Likewise, OCFO's departmental FFMIA reporting did not obtain sufficient supporting documentation to validate program office or component office assertions and assurance statements before departmental reporting.

HUD reported incomplete FFMIA information because Ginnie Mae's FMFIA and FFMIA assurance processes overlooked key considerations, including process-related deficiencies and the uncertainty of remediation efforts aimed at addressing OIG-identified material weaknesses. Without assurance processes and reviews supported by timely information and sufficient supporting documentation, HUD risks publishing incomplete and inaccurate information and increases the likelihood of noncompliance with annual reporting requirements.

Conclusion

HUD's financial management system did not comply with FFMIA as of September 30, 2017. Specifically, we noted instances in which HUD did not comply with the three section 803(a) elements of FFMIA. Additionally, we noted inaccuracies with FMFIA and FFMIA assurance statements, noting Ginnie Mae's financial management system as FFMIA compliant when it was not.

The impact of HUD's system limitations is greater than noncompliance with the FFMIA framework. The identified system deficiencies identified as instances of FFMIA noncompliance and their impacts are further described throughout the Internal Control section of this report as contributing to a number of material weaknesses.

Recommendations

We recommend that Ginnie Mae's Executive Vice President and Chief Operating Officer

10A. Notify OCFO to disregard Ginnie Mae's previously provided FMFIA and FFMIA assurance statements and issue corrected FMFIA and financial management system OMB A-123, appendix D (FFMIA), assurance statements that reflect Ginnie Mae's noncompliance with FFMIA

We recommend that the Acting Deputy Chief Financial Officer

10B. Update policies and procedures to require evidence supporting component and program office assurance statements to ensure submissions' completeness and accuracy, including but not limited to (1) outstanding material weaknesses, (2) remediation plans, and (3) overall scope of assurance statements.

Finding 11: HUD Did Not Comply With the Debt Collection Improvement Act

DCIA, as amended, required that HUD refer delinquent debts to the Treasury within 120 days[85] and take all appropriate actions before discharging debts.[86] However, we found that HUD did not always follow applicable requirements for establishing and collecting debts for the Housing Choice Voucher program. Additionally, a separate program audit[87] identified similar weaknesses in the area of debt forgiveness and termination. These conditions occurred because OCFO and PIH did not follow responsibilities and procedures outlined in the HUD handbook on debt collection. Therefore, HUD did not comply with DCIA as amended and as a result, is unable to recoup money due back to HUD that could be used to serve the public.

HUD Did Not Always Follow Applicable Requirements When Establishing and Collecting Housing Choice Voucher Debts

In fiscal year 2016, we reported that Housing Choice Voucher program receivables were not reported in HUD's financial statements. At yearend, OCFO began reporting these receivables; however, this year we noted that most of these debts were very old and proper debt collection procedures were not followed. For example, PIH did not perform the proper procedures necessary to establish legally enforceable repayments, and HUD did not adequately track debt repayments and writeoffs. As a result, HUD did not comply with DCIA.

Establishing Legally Enforceable Repayment

During our review of Housing Choice Voucher program receivables as of June 30, 2017, we identified 32 program debts with PHAs totaling $27 million that were not under repayment agreement. All 32 had debt identification dates between July 2003 and August 2016, and PIH had not sent demand letters to 12. There were six additional debts totaling $2.7 million that were under repayment agreement but had no payments applied to the debt and were in delinquent status. All 38 of these debts have aged more than 120 days from the debt identification date but have not been referred to Treasury or the U.S. Department of Justice (DOJ) for collection. They had also not been evaluated by the OCFO DCCO to determine whether they were still collectable or should be written off.

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[85] Public Law 104-134—Apr. 26, 1996, 110 STAT. 1321 Sec. 31001. Debt Collection Improvement Act of 1996. (6) Any Federal agency that is owed by a person a past due, legally enforceable nontax debt that is over 180 days delinquent, including nontax debt administered by a third party acting as an agent for the Federal Government, shall notify the Secretary of the Treasury of all such nontax debts for purposes of administrative offset under this subsection. (Note: Effective May 9, 2014 agencies were required to transfer debts for administrative offset after 120 days in accordance with the DATA Act [Digital Accountability and Transparency Act of 2014]).

[86] Public Law 104-134—Apr. 26, 1996, 110 STAT. 1321 Sec. 31001. Debt Collection Improvement Act of 1996. 31 U.S.C. 3711- (g)(9) Before discharging any delinquent debt owed to any executive, judicial, or legislative agency, the head of such agency shall take all appropriate steps to collect such debt, including (as applicable)—administrative offset, tax refund offset, Federal salary offset, referral to private collection contractors, referral to agencies operating a debt collection center, reporting delinquencies to credit reporting bureaus, garnishing the wages of delinquent debtors, and litigation or foreclosure.

[87] Audit Report 2017-LA-0005, HUD Did Not Always Follow Applicable Requirements When Forgiving Debts and Terminating Debt Collections

Without executing repayment agreements or demand letters, HUD cannot lawfully collect on outstanding debts and pursue mandated collection actions on any delinquencies. Further, HUD is unable to recoup money due back to HUD that could be used to serve the public.

We attributed this condition to that fact that PIH did not implement procedures to ensure that it complied with HUD's debt collection handbook; therefore, PIH did not perform the tasks assigned to the action officials according to HUD's debt collection handbook.[88] While PIH is now working to establish formal standard operating procedures, neglecting this in the past has led to poor record keeping and inconsistent debt collection procedures.

Inaccurate Tracking of Collections and Writeoffs

HUD did not accurately track Housing Choice Voucher program payments or writeoffs. While tracking payments and writeoffs is an OCFO responsibility, PIH inappropriately performed this function. The listing it provided to OCFO for recording in its March 31 and June 30, 2017, financial statements included six debts totaling $252,436 that had previously been written off, one duplicate debt totaling $2.7 million, one error totaling $500,000, and two debts totaling $363,632 that had already been closed. Further, out of the 10 repayment agreements we reviewed, 5 did not match the listing the Housing Choice Voucher program uses to track its debts and inform OCFO of the balance for HUD's financial statements. These five differences totaled $1.5 million.

OCFO also recorded Housing Choice Voucher program debts through manual journal entries in its FRD, instead of servicing them through the Fort Worth Accounting Center as prescribed by the debt collection handbook. Therefore, OCFO did not comply with its own debt collection handbook. Additionally, OCFO had no controls in place to ensure that program offices implemented requirements of the debt collection handbook related to execution of repayment agreements and collection activities. OCFO also inappropriately relied on PIH to track debts that it had previously written off.

If debts and collections are not properly managed and accounted for, HUD cannot efficiently and effectively follow up with PHAs on delinquent debts. Further, the accuracy of HUD's accounts receivable balance on its financial statements was at risk for misstatement,[89] and other financial reporting on receivables will be inaccurate.

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[88] The Action Official is a program official with fiscal responsibility for any program that may result in debt owed to HUD. Specific duties of the Action Official include: 4. Sending the initial Demand Letter requesting payment of debt; 5. Providing appropriate documentation to the Fort Worth Accounting Center to establish an account receivable on all debts due to HUD; 9. Telephoning and personally contacting the debtor to determine debt collectability; 10. Implementing installment repayment agreements for collection where a full single repayment cannot be accomplished; 17. Evaluating each Field Office's application of policies and procedures relating to its debt collection activities to ensure they meet the requirements of the law and this handbook.

[89] This is also reported in material weakness 2.

HUD Did Not Always Follow Applicable Requirements When Forgiving Debts and Terminating Debt Collections

As reported in audit report 2017-LA-0005, HUD's DCCO terminated debt collections and forgave debts without ensuring that required debt collection actions were taken and that DOJ approval was obtained when required.

This condition occurred because HUD's DCCO review process was not sufficiently thorough to validate that requirements were met before program office requests for debt forgiveness or collection termination were approved. HUD did not always ensure that appropriate means of collection were pursued and obtain required DOJ approval, and HUD's controls over debt collection termination and forgiveness were not adequate.

As a result, HUD officials stopped collections and effectively disposed of government receivables totaling at least $4.4 million without appropriate authorization.[90] Therefore, HUD did not comply with DCIA, as codified in 31 U.S.C. 3711(g)(1).[91]

Conclusion

OCFO did not provide adequate oversight of Housing Choice Voucher program debts and did not have sufficient processes in place to validate the appropriateness of forgiving debts and terminating debt collection. Additionally, PIH and OCFO did not follow HUD's debt collection handbook. Since HUD did not always follow applicable requirements for establishing, collecting, and forgiving debts, it did not comply with DCIA.

Recommendations

Recommendations were issued under audit report 2017-LA-0005. Therefore, we will be tracking the status of recommendations under that audit report. We are making the following new recommendations:

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

11A. For all 32 debts not under repayment agreement, (1) send demand letters for any debts for which a demand letter has not been sent and (2) aggressively work with the PHAs to determine appropriate repayment agreement terms.

11B. Establish procedures to ensure that the debt file is sent to the OCFO DCCO for claim establishment if initial collection attempts prove unsuccessful.

11C. Establish procedures to routinely send all debts (delinquent or not) to OCFO for evaluation as required by the debt collection handbook.

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[90] Ten of twenty-nine reviewed debts totaling $1.2 million were found to be in violation of the DCIA transfer requirement of debts to Treasury for collection.

[91] See footnote 1. This was codified in 31 U.S.C. 3711(g)(1).

11D. Finalize the repayment agreement procedures and implement training to ensure that all of PIH is aware of the procedures. The repayment agreement procedures should ensure that PIH follows HUD's debt collection handbook.

We recommend that the Acting Deputy Chief Financial Officer

11E. Work with PIH to determine which debts should be transferred to the Departments of Treasury or Justice and which debts should be written off. The Deputy CFO should ensure that proper documentation is maintained to support a decision for writeoff.

11F. Establish controls to ensure that program offices send all outstanding debts to the Fort Worth Accounting Center for appropriate recording and management in a timely manner and in accordance with the debt collection handbook.

Finding 12: HUD Did Not Comply With the Improper Payments Elimination and Recovery Act of 2010 as Amended

HUD OIG's Improper Payments Elimination and Recovery Act (IPERA) audit[92] found that HUD did not comply with IPERA in fiscal year 2016 because it did not conduct its annual risk assessment in accordance with OMB Circular A-123, appendix C, guidance or meet its annual improper payment reduction target. Specifically, HUD did not assess all low-risk programs on a 3-year cycle and rate risk factors in accordance with its own risk rating criteria due to a lack of proper review procedures, thus making the review incomplete and noncompliant with section 3(a)(3)(B) of IPERA. HUD also missed its reduction rate goal for fiscal year 2016 for its high-priority program, RHAP, causing noncompliance with section 3(a)(3)(E) of IPERA. Additionally, we found that information published in the AFR did not meet the reporting requirements of OMB Circular A-136 and deviated from the reporting requirements of OMB Circulars A-123 and A-136, significant improper payments in HUD's RHAP continued, and HUD's improper payment estimate and methodology for RHAP continued to have deficiencies during fiscal year 2016. This is the fourth consecutive year that HUD did not comply with IPERA.

HUD Did Not Perform Risk Assessments in Accordance With OMB Guidance

HUD did not (1) assess all low-risk programs on a 3-year cycle and (2) rate risk factors in accordance with its own risk rating criteria due to a lack of proper review procedures. As reported in fiscal year 2015, OCFO continued to exclude programs with expenditures below $40 million from its risk assessment because it did not believe that these excluded programs were susceptible to having an error rate in excess of 25 percent.[93] Additionally, although HUD incorporated all nine required risk factors listed in OMB Circular A-123 as recommended in our fiscal year 2015 audit report, OCFO failed to assign the correct risk assessment rating for some programs in accordance with its internal risk assessment criteria.

We also identified certain HUD programs and activities that were not risk assessed at least once every 3 years, including Ginnie Mae programs and payments to Federal employees for all program offices within a 3-year cycle as required. In regard to HUD's 3-year cycle schedule, we determined that HUD did not implement this schedule and excluded some programs that were scheduled to be risk assessed in fiscal year 2016. This is the third consecutive year that HUD did not perform risk assessments in accordance with OMB guidance.

HUD Did Not Meet Its Fiscal Year 2016 Improper Payment Reduction Target on Its Rental Housing Assistance Programs

For fiscal year 2016, HUD's annual reduction target was 3.90 percent, compared to its actual rate of 5.20 percent reported in the AFR. HUD's ineffective strategy in addressing the root causes of its RHAP improper payments was the underlying cause of HUD's continued challenges in

[92] Audit Report 2017-FO-0006, Compliance With the Improper Payments Elimination and Recovery Act, issued May 11, 2017

[93] 25 percent of $40 million = $10 million

achieving its annual reduction targets. HUD did not meet its improper payment reduction target on its RHAP for fiscal years 2013, 2015, and 2016.

HUD's Scope for Payment Recapture Audits Was Incomplete, and Its Disclosures Were Misleading

The scope of HUD's agencywide payment recapture audits was incomplete, and its disclosures, in some instances, were misleading. In fiscal year 2015, we reported that HUD lacked support to show that all of its programs and activities that spent $1 million or more during the fiscal year were either considered for payment recapture audits or excluded based on cost-benefit considerations. This issue continued in fiscal year 2016. In fiscal year 2016, HUD made progress in remediating prior-year audit recommendations related to disclosures of excluded programs but did not address our concern regarding how HUD performed its cost justifications for programs that were excluded from the recapture audits by program office instead of by individual programs. We further noted inconsistencies in the number and scope of programs included in the payment recapture audits for fiscal year 2016 between HUD's AFR disclosure and the supporting documents.

We also identified inconsistencies between HUD's supporting documents and the AFR disclosures in the number and scope of programs covered in the recapture audits for fiscal year 2016. In addition, we found that the cost justifications, disclosed in HUD's AFR, for excluding certain programs from payment recapture audits were unreasonable and, therefore, misleading. HUD's scope for payment recapture audits was incomplete, and its disclosures were misleading for fiscal years 2013, 2015, and 2016.

HUD's Improper Payment Estimate and Reporting for Its High-Priority Program Remained a Concern

HUD's RHAP improper payment estimate reported in the fiscal year 2016 AFR may not have been reliable. Specifically, our concerns stemmed from HUD's reporting of a combined RHAP improper payment rate, instead of separate improper payment rates for each of the three RHAP components, and improper categorization of its RHAP improper payment estimates, including the lack of an improper payment estimation of payments made to deceased tenants. These issues were repeat findings from prior-year audits. As reported in fiscal year 2015, HUD continued to disclose a combined improper payment rate for the three components of RHAP in the fiscal year 2016 AFR, which may have masked increases in the improper payment rate for one or more of the components.

In addition, as reported in fiscal year 2015, HUD continued inappropriately categorizing its improper payment estimates reported in the fiscal year 2016 AFR because it failed to modify its contract with its independent contractor to conform to new OMB requirements. In addition, we determined that HUD did not take into account improper payments made to deceased tenants in its improper payment estimate. This is the third consecutive year that HUD's improper payment estimate and reporting for its high-priority program remained a concern.

HUD Did Not Fully Follow OMB's Improper Payment Reporting Requirements

In fiscal year 2015, HUD's reporting for supplemental measures, corrective actions, and accountability for RHAP was not in accordance with OMB Circular A-136 requirements. HUD also did not report its high-dollar overpayments in accordance with Executive Order 13520. These issues continued in fiscal year 2016. In addition, we identified instances in which HUD deviated from OMB Circulars A-123 and A-136 requirements, including inadequate disclosures for not reporting future-year reduction targets lower than the current improper payment estimates for its Disaster Recovery program and not maintaining sufficient support for supplemental measure targets.

Also, HUD was not explicit in its AFR that it missed its fiscal year 2016 improper payment reduction targets. In addition, as reported in fiscal year 2015, HUD continued to have no system in place to capture high-dollar overpayments for its high-priority program, RHAP. As a result, no high-dollar overpayments were captured and reported by HUD at the end of fiscal year 2016 as required. This is the fourth consecutive year that HUD did not fully follow OMB's improper payment reporting requirements.

Conclusion

HUD did not comply with IPERA for fiscal year 2016 because it did not conduct an annual risk assessment in accordance with OMB guidance and meet its annual improper payment reduction target. Additionally, we found issues concerning the completeness and reliability of HUD's improper payment data reporting, including payment recapture audit plans, and the reliability of HUD's improper payment estimate for its RHAP. Although we recognize HUD's ongoing efforts and plans to remediate many of the improper payment-related issues, if HUD does not address its noncompliance, it will continue to miss opportunities to prevent, identify, and recover improper payments.

Recommendations

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

Other Matter

Significant Amounts of Emergency Home Loan Program Funds Remain but Are Unavailable

As of September 30, 2017, the program account for EHLP had $329.4 million in unapportioned, no-year funds. The Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203, states that no emergency mortgage relief payments were to be made after September 30, 2011, unless such payments were made with respect to a borrower's receiving the benefit of emergency relief payments made on such date, establishing an obligation deadline of September 30, 2011, for emergency mortgage relief payments. As a result, the remaining unapportioned funds can no longer be used to make emergency mortgage relief payments and will remain in HUD's financial statements until they are canceled or rescinded by Congress.

HUD Did Not Use All of the Funds Appropriated for the EHLP

The Dodd-Frank Act, enacted July 21, 2010, provided $1 billion in no-year funding to the Emergency Homeowners' Relief Fund. HUD administered these funds through EHLP. HUD could not issue new loans or emergency relief payments after September 30, 2011, due to an obligation deadline in the Dodd-Frank Act. Because of this, any funds that were not obligated for emergency mortgage relief payments before September 30, 2011, could be used only to cover administrative costs of the program or to cover any upward adjustments of previous obligations. Before September 30, 2011, HUD obligated $528.2 million for EHLP, including administrative costs. Based on previous OIG recommendations,[94] HUD determined that it could return $375.2 million of the remaining $471.8 million in unobligated funds to Treasury and was given the authority to do so during fiscal year 2012. The remaining $96.6 million was expected to be used for upward adjustments of existing obligations and the program's administrative expenses. However, all of the funds retained by HUD were not used, and large amounts of the existing obligations were deobligated because they were not used by program beneficiaries. As a result, the EHLP program account had unapportioned authority of $329.4 million as of September 30, 2017. Because these are no-year funds and they can no longer be used for new program activity, they will remain on HUD's financial statements until the funds are canceled or rescinded by Congress.

Conclusion

HUD did not use all of the funding provided for EHLP. These funds cannot be used to make new loans or emergency mortgage relief payments. As a result, $329.4 million will remain on HUD's financial statements until canceled or rescinded by Congress.

[94] Recommendations 8A and 8B from Audit Report 2012-FO-0003, Additional Details To Supplement Our Report on HUD's Fiscal Years 2011 and 2010 Financial Statements

Recommendations

We recommend that the Acting Deputy Chief Financial Officer

13A. Determine the amount of additional funds needed to cover the remaining administrative costs and any possible upward adjustment of current obligations and seek authority from Congress to return up to $329,370,982 of the unapportioned authority remaining in the EHLP program account that is not needed.

Scope and Methodology

We are required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994 and implemented by OMB Bulletin 17-03, Audit Requirements for Federal Financial Statements, to audit HUD's principal financial statements, which consist of the consolidated balance sheets as of September 30, 2017 and 2016 (restated); the related consolidated statements of net cost, changes in net position, and combined statement of budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

We 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 an opinion on the principal financial statements. We also evaluated the internal controls in place at HUD's FSSP, ARC, to determine whether the FSSP's internal controls could be relied upon. We tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements that may materially affect the consolidated principal financial statements. 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.

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 considered to be significant deficiencies under OMB Bulletin 17-03.

We considered HUD's internal controls over required supplementary stewardship information reported in HUD's fiscal year 2017 AFR 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 and 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 2017 AFR, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. We performed limited testing procedures as required by AU-C, Section 730, Required Supplementary Information, and OMB Bulletin 17-03, 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 17-03, 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.
- Performed other procedures we considered necessary in the circumstances.

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 17-03. 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 as of October 13, 2017. Specifically, we identified 100 unimplemented recommendations from prior-year reports, dating back to the audit of the fiscal years 2010 and 2009 financial statements. Each of these open recommendations and its status is shown below.

We also noted that as of October 13, 2017, management had established action plans for 80 of 100 unimplemented recommendations referenced above, of which 67, or 84 percent, were past agreed-upon dates for final action. HUD did not have established action plans for the 20 additional recommendations.

Followup on prior audits			
Audit rec #	**Program office**	**Open recommendations**	**Final action target date**
Additional Details To Supplement Our Fiscal Years 2016 and 2015 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit (reissued, 2017-FO-0005, March 1, 2017			
2017-FO-0005-001-A	OCFO	Evaluate the current content of HUD's financial statement note disclosures to identify outdated or irrelevant information that may not be needed, while maintaining compliance with OMB Circular A-136 and presenting the reader with the information necessary to understand HUD's financial statements.	9/30/2017
2017-FO-0005-001-B	OCFO	Work with FHA and Ginnie Mae to reevaluate the note consolidation process to determine changes that can be made to the process to ensure compliance with financial reporting requirements.	9/30/2017
2017-FO-0005-001-C	OCFO	Reassess HUD's current consolidated financial statement and notes review process to ensure that (1) all reviewers have sufficient financial reporting experience; (2) it includes steps to verify that the notes match HUD's financial statements, are sufficiently supported, and accurately include FHA and Ginnie Mae information; and (3) the review can be completed within the required timeframe needed to allow for audit.	11/16/2017

2017-FO-0005-001-D	OCFO	Develop a plan to ensure that restatements to HUD's consolidated financial statements are properly reflected in all notes impacted by the restatement.	11/16/2017
Additional Details To Supplement Our Fiscal Years 2016 and 2015 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, 2017-FO-0003, November 15, 2016			
2017-FO-0003-001-C	OCFO	Review Ginnie Mae's accounting policies to ensure that they comply with the USSGL.	06/15/2017
2017-FO-0003-001-D	OCFO	Develop and implement policies and procedures that clearly outline the role and responsibilities of both HUD and ARC in the financial statement preparation and review process, including a timeline that will ensure compliance with OMB financial reporting deadlines and allow sufficient time to be audited	05/01/2017
2017-FO-0003-001-E	OCFO	Determine which notes cannot be completed in Oracle and develop and implement a plan to ensure that these notes can be produced in Oracle.	01/31/2018
2017-FO-0003-001-F	OCFO	Perform user acceptance testing in Oracle to ensure that it can produce all HUD proper financial information needed for note preparation within the timeframe required. If it is determined that HFM will be used for some portions of the notes, perform user acceptance testing to ensure that HFM is reading and crosswalking the Oracle data correctly.	06/30/2017
2017-FO-0003-001-G	OCFO	Based on the user acceptance testing, implement any further modifications needed in Oracle or HFM to ensure that the notes are populated correctly.	06/30/2017
2017-FO-0003-001-H	OCFO	Prepare first and second quarter financial statements and note disclosures for fiscal year 2017 and beyond to ensure the early identification of errors or problems in the financial reporting process.	06/30/2017
2017-FO-0003-001-J	GNMA	Implement controls to ensure that apportionments, allotments, and commitments (accounts 4510, 4610, and 4700) are closed to unapportioned authority (account 4450) as part of the yearend closing process and not before issuing any of its future financial statements.	09/30/2017
2017-FO-0003-002-A	OCFO	Continue working with ARC and complete the reconciliation and cleanup efforts for balances related to HUD's loan guarantee programs	N/A

2017-FO-0003-002-C	OCFO	Work with the Office of the Chief Administration Officer to establish control activities (that is, procedures) to completely and accurately record internal use software, leasehold improvement, and property acquisition transactions and enable compliant financial reporting.	N/A
2017-FO-0003-002-D	OCFO	Evaluate whether using existing Oracle accounting modules and ARC business processes to account for fixed assets and internal use software will be more cost effective and beneficial for HUD operations	N/A
2017-FO-0003-002-E	OCFO	Work with the OCFO to establish controls that ensure the timely communication of internal use and commercial-off-the-shelf software license acquisition activity and data	03/31/2018
2017-FO-0003-002-F	OCFO	Work with OCFO to develop control activities that address risks related leasehold improvement and property acquisition data completeness and accuracy.	N/A
2017-FO-0003-003-A	OCFO	Develop and implement standard operating procedures, including descriptions of roles and responsibilities, for fund balance with Treasury reconciliations.	05/31/2017
2017-FO-0003-003-B	OCFO	Continue the subledger reconciliation project and complete it in a timely manner, communicate results to top key stakeholders, and complete necessary adjustments or restatements (if applicable).	N/A
2017-FO-0003-003-C	OCFO	Perform a root cause analysis to identify potential control gaps and ineffective controls in the review of subledger balances to the general ledger.	N/A
2017-FO-0003-003-D	OCFO	Communicate the impact of system limitations that contributed to unreconciled balances to relevant management and design and implement effective controls that address relevant risks.	N/A
2017-FO-0003-006-A	OCFO	Establish a framework for financial policy development and review of policy and procedures that defines roles and responsibilities and provides reasonable assurance regarding the effectiveness of related controls.	N/A
2017-FO-0003-008-A	CPD	Close out and deobligate the remaining balances on 3,121 expired homeless assistance contracts of $151,719,152. Further, deobligate $10,996,784 in 234 program obligations marked for deobligation during the departmentwide open obligations review.	N/A

2017-FO-0003-008-C	CPD	Work with the Office of Policy Development and Coordination to issue and implement procedures to address undisbursed obligations on contracts after the 24-month expenditure period for the ESG program.	09/30/2017
2017-FO-0003-008-E	CPD	Research grants with no drawdown activity and if a bonafide need no longer exists, close out and deobligate remaining balances on the 16 grants with no drawdown activity totaling $6,966,585.	08/15/2017
2017-FO-0003-008-F	Housing	Deobligate all obligations marked for deobligation during the departmentwide open obligations review, including as much as $18,290,686 in 307 administrative obligations and $3,420,032 in 202 program obligations marked for deobligation as of September 30, 2016.	06/05/2017
2017-FO-0003-008-G	Housing	Review and if necessary deobligate the 785 expired or inactive Section 235-236, Section 202-811, and Project Based Section 8 projects totaling $22,075,052, $12,261,389, and $384,125, respectively.	03/22/2018
2017-FO-0003-008-H	OCFO	Deobligate the $83,501 in 124 administrative obligations marked for deobligation during the departmentwide open obligations review.	01/19/2018
2017-FO-0003-008-J	OCFO	Deobligate the $152,211 in 108 administrative obligations marked for deobligation during the departmentwide open obligations review.	09/30/2017
2017-FO-0003-008-K	FHEO	Deobligate all obligations marked for deobligation during the departmentwide open obligations review, including as much as $384,703 in 27 administrative obligations and $234,619 in 6 program obligations marked for deobligation as of September 30, 2016.	12/29/2017
2017-FO-0003-008-L	OCFO	Deobligate the $85,782 in 5 administrative obligations marked for deobligation during the departmentwide open obligations review.	12/31/2017
2017-FO-0003-008-O	GNMA	Implement a formal process to periodically review obligations and when necessary, contact OCPO to execute deobligations.	09/30/2017
2017-FO-0003-008-P	GNMA	Review the contracts totaling $72.8 million to determine validity and if no longer needed, forward to HUD’s procurement office for closure and deobligation.	09/30/2017
2017-FO-0003-008-Q	GNMA	Record the deobligations provided by OCPO totaling as much as $86.4 million for the contracts identified during our review. Additionally, Ginnie Mae should deobligate the $587,505 in three administrative	09/30/2017

		obligations marked for deobligation during the departmentwide open obligations review	
2017-FO-0003-012-A	PIH	Complete any outstanding validation reviews and transition back as much as $168.3 million in Housing Choice Voucher program funding from PHAs.	03/15/2018
Additional Details To Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, 2016-FO-0003			
2016-FO-0003-002-D	PIH	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.	N/A
2016-FO-0003-004-B	Ginnie Mae	Promptly complete all reconciliation processes to determine the root causes of incorrect balances.	3/21/2017
2016-FO-0003-004-C	Ginnie Mae	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.	3/21/2017
2016-FO-0003-004-D	Ginnie Mae	Review user roles in GFAS and assign additional staff to ensure that proper segregation of duties is maintained.	3/21/2017
2016-FO-0003-006-A	OCFO	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.	7/31/2018
2016-FO-0003-006-B	OCFO	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.	N/A
2016-FO-0003-006-C	OCFO	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.	N/A
2016-FO-0003-006-D	OCFO	Review projects and acquisitions to determine whether the proper accounting treatment was applied and determine whether corrections to HUD's financial statements are needed.	N/A

2016-FO-0003-006-E	OCFO	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.	N/A
2016-FO-0003-006-F	OCFO	Distribute the workload among available accountants when staff is unavailable to ensure that all cash reconciliations are performed in a timely manner.	8/31/2016
2016-FO-0003-006-G	OCFO	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.	8/31/2016
2016-FO-0003-006-H	OCFO	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.	N/A
2016-FO-0003-006-I	OCFO	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.	N/A
2016-FO-0003-006-J	OCFO	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.	3/17/2017
2016-FO-0003-007-A	OCFO	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.	N/A

2016-FO-0003-008-A	CPD	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.	3/16/2017
2016-FO-0003-008-C	CPD	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.	N/A
2016-FO-0003-008-D	CPD	Design and implement a policy to ensure that reconciliations of expenditure activity between HUD's financial management systems and DRGR [Disaster Recovery Grant Reporting system] 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 follow-up and resolution of identified differences.	N/A
2016-FO-0003-008-E	Housing	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.	3/9/2017
2016-FO-0003-008-F	Housing	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.	2/3/2017
2016-FO-0003-008-H	OCIO	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	2/2/2017

		with remaining balances of $1,486,191 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	
2016-FO-0003-008-J	OA	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.	5/21/2017
2016-FO-0003-008-L	EEO	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.	3/22/2017
2016-FO-0003-008-O	Ginnie Mae	Deobligate the $587,198 in eight administrative obligations marked for deobligation during the departmentwide open obligations review.	3/21/2017
2016-FO-0003-013-A	PIH	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.	9/30/2021
Interim Report on HUD's Internal Controls Over Financial Reporting, 2015-FO-0002			
2015-FO-0002-001-A	CPD	Continue to work with CPD's IT 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.	1/31/2017
2015-FO-0002-003-F	CPD	Validate grants payable estimates and any assumptions used to produce the estimates against subsequent grantee reporting.	9/30/2017
2015-FO-0002-003-G	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-0002-005-E	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.	5/6/2016
2015-FO-0002-006-B	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-0002-006-F	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-0002-006-J	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.	3/6/2016
2015-FO-0002-006-U	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.	12/16/2015
2015-FO-0002-007-D	OCFO	Periodically reconcile balances with OCIO subsidiary records and research and resolve any identified differences.	3/31/2016
2015-FO-0002-007-F	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.	4/8/2016
2015-FO-0002-007-I	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
Additional Details To Supplement Our Report on HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements, 2014-FO-0003			
2014-FO-0003-001-A	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-0003-001-B	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-0003-001-C	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-0003-002-A	PIH	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.	12/31/2057[95]
2014-FO-0003-002-C	PIH	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-0003-002-E	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
2014-FO-0003-002-G	OCFO	Ensure that PIH's automation of its cash management process complies with Federal financial management requirements.	12/31/2015
2014-FO-0003-003-A	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-0003-004-G	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

[95] Recommendation is under repayment.

2014-FO-0003-006-C	OCFO	Enforce already existing internal control procedures to ensure proper supervision over accounting for Section 8 FAF receivables.	10/1/2014
2014-FO-0003-006-D	OCFO	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-0003-008-B	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
2014-FO-0003-008-C	CPD	Deobligate $14,425,629 tied to 238 program obligations marked for deobligation during the departmentwide 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.	4/3/2015
2014-FO-0003-008-E	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-0003-008-F	Housing	Review and deobligate at least $26 million tied to 215 inactive and/or expired Section 8 obligations.	4/2/2015
2014-FO-0003-008-K	OCFO	Deobligate the $1,419 tied to three administrative obligations marked for deobligation during the departmentwide 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.	12/31/2014
2014-FO-0003-008-M	OCFO	Design and implement a policy to ensure that 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-0003-008-O	OCIO	Deobligate $7,263,662 tied to 178 administrative obligations marked for deobligation during the departmentwide unliquidated obligations review.	2/13/2015
2014-FO-0003-015-A	CPD	Make changes to IDIS Online, which will require grantees to specifically identify the grant allocation	10/30/2015

		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.	
2014-FO-0003-015-B	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 commitment made within the 24-month period to determine compliance.	10/30/2015
2014-FO-0003-015-C	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-0003-015-D	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-0003-003-C	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 and other significant estimates currently in use to ensure appropriateness.	11/29/2013
2013-FO-0003-004-B	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.	3/31/2016
2013-FO-0003-006-B	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
Additional Details To Supplement Our Report on HUD's Fiscal Years 2010 and 2009 Financial Statements, 2011-FO-0003			

2011-FO-0003-001-A	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-0003-001-B	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-0003-001-C	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-0003-001-D	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
2011-FO-0003-002-C	OCFO	Review the 510 obligations which 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

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use[1]
8B	$348,403
8C	11,477,611
8D	229,327,332
8E	159,437,069
8F	45,423,522
8G	56,435,559
8H	104,131,873
8I	765,000
8J	2,266,017
8K	2,165,769
8L	1,200,679
8M	143,344
8N	279,282
8O	264,476
8P	257,102
8Q	174,132
8R	78,021
8S	34,814,053
13A	329,370,982
Totals	**978,360,226**

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

Schedule of Recommended Deobligations

Invalid obligations identified by HUD but not deobligated as of September 30, 2017[96]						
Program office	**Administrative obligations**		**Program obligations**		**Total**	
	#	$	#	$	#	$
Housing	581	$42,491,202	12	$2,932,320	593	$45,423,522
CPD	10	13,640	189	11,463,971	199	11,477,611
Admin	100	2,266,017			100	2,266,017
FHEO	53	559,569	9	641,110	62	1,200,679
OCFO	46	212,447	1	135,956	47	348,403
PD&R	11	279,282			11	279,282
OCIO	108	264,476			108	264,476
OCHCO	55	257,102			55	257,102
OGC	160	174,132			160	174,132
Field Policy	2	78,021			2	78,021
Total[97]	**1,126**	**46,595,888**	**211**	**15,173,357**	**1,337**	**61,769,245**

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

Obligations marked retained, inactive[98]		
Program office	**#**	**$**
Community Planning and Development	1,110	$229,327,322
Office of Housing	84	56,435,559
Office of Lead Hazard Control and Healthy Homes	14	2,165,769
Office of Public and Indian Housing	1	765,000
Office of Fair Housing Equal Opportunity	7	143,344
Total	**1,216**	**288,836,994**

[96] HUD's departmentwide unliquidated obligation review
[97] Differences due to rounding
[98] No activity for 2 years or more

Appendix C

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

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

MEMORANDUM FOR: Thomas R. McEnanly, Director of Financial Audits Division, HUD, GAH

FROM: Thomas W. Harker, Senior Advisor, HUD OCFO //Signed//

SUBJECT: Response to Additional Details To Supplement Our Fiscal Years 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit

Thank you for the opportunity to review and comment upon the subject report. We hope our responses are considered in OIG's final report and serve as yet another opportunity for coordination toward sound financial management. Overall, we believe that we have made considerable progress toward strengthening the financial management across the Department, although we acknowledge there is more work to do.

Comment 1 Building on information provided in response to OIG's Notification and Findings and Recommendations, OCFO details its position and comments identified in the subject report including material weaknesses and other issues. Detailed comments regarding substantive and technical comments will be provided under separate cover in the coming days.

Finding 1: Weak Internal Controls Over Financial Reporting Led to Errors and Delays in the Preparation of Financial Statements and Notes

Comment 2 Page 7 re opening sentence of HUD not "record budget authority … totaling $5.2 billion of funding in first quarter and $4.2 billion in second quarter" - phrasing makes it sound that the amounts are additive, when they are not. Recommend revision along the lines: "$5.2B, of which $4.2B remained unrecorded in the second quarter."

Finding 2: HUD Assets and Liabilities Were Misstated and Not Adequately Supported

HUD has no comments at this time.

Finding 3: Significant Reconciliations Were Not Completed in a Timely Manner

HUD has no comments at this time.

Finding 4: CPD's Formula Grant Accounting Did Not Comply with GAAP, Resulting in Misstatements on the Financial Statements

Comment 3 The additional IDIS work referenced on page 32: "All additional work still needed to make the system comply with FFMIA requirements is scheduled to deploy in October 2017" and on

Ref to OIG Evaluation

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

page 36: "While CPD plans to complete IDIS system configuration updates in early fiscal year 2018 to address remnants of the first-in, first-out (FIFO) method of accounting for grant disbursements, management's decision to implement appropriate grant accounting for FY15 and forward grants prospectively will impede the department's ability to resolve material weaknesses and comply with FFMIA for a number of years" was implemented in IDIS release 11.15 on October 6, 2017.

Finding 5: HUD's Financial Management System Weaknesses Continued

Comment 4

In response to OIG's statement that, *"specifically, HUD had unresolved data conversion errors and inaccurate funds management reports…"* and *"data conversion errors complicated the analysis and monitoring of balances for funds control purposes and increased the risk of invalid spending transactions and inaccurate financial reporting"*, which relates to *Default Values*, OCFO worked diligently with ARC and resolved **85** out of **181 fund**s that contained default values after conversion. A **fund** with default values, is effectively a data attributes issue, requiring a realignment of data to a greater level of detail in Oracle. The overall amount of budgetary resources is not changed. OCFO is working toward resolving the remaining **fund**s and expect to complete this by end of calendar year 2018.

In response to OIG's statement that, "specifically, *HUD had…. inaccurate funds management reports"* which relates to HUD custom reports, once the data conversion errors have been corrected, OCFO will work with program offices to perform a review of all HUD custom reports and ensure that the reports accurately reflect HUD's financial situation.

In response to OIG's statement that, *"specifically, HUD… lacked a fully functional data reconciliation process"* which relates to data reconciliation, although OCFO Systems continues to work on refining the NCIS reconciliation reports to assist in identifying differences related to transactional activity going through the interface, more time is needed to redesign the reports in order to easily identify differences and to minimize differences that may be caused by timing. Also, additional time is needed to test these reports and migrate them to production.

To mitigate repeat processing errors and reduce the processing time of future yearend closeouts, OCFO Systems has updated FY 2017 year-end close procedures to mitigate repeat processing errors and reduce the processing time of future year end closeouts. In addition, OCFO Systems has developed and implemented an error handling process that assisted with identifying and resolving errors in timely manner. Additionally, OCFO Systems documented lessons learned to reduce repeat processing errors from reoccurring. OCFO Systems is in the process of finalizing management decisions to resolve the remaining issues.

Comment 5

Please change "HUD had completed analysis of only 101 of 181 funds……" to "HUD had completed analysis of only 85 of 181 funds…". Also, OCFO Systems submitted a request to

2

Ref to OIG Evaluation

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

the OIG on July 20, 2017, to extend the Final Action Target Date from December 5, 2017 to December 31, 2018.

Finding 6: HUD's Financial Management Governance Was Ineffective

HUD has no comments at this time.

Finding 7: Weaknesses in HUD's Administrative Control of Funds System and Internal Control Documentation

Comment 6

PIH generally concurs with the finding. However, it fails to mention that PIH completed the corrective actions to cure this deficiency last May 2017 when it was first brought to our attention by the Appropriation Law Staff (ALS). At that time, PIH researched the missing CAM1 codes and as a result, rows were either added to the matrix or the CAM1 code was added to existing rows. PIH's funds control matrix was updated accordingly, was pre-cleared by the CFO's Office, and certified by PIH's Funds Control Officer and General Deputy Assistant Secretary and was approved by the Deputy CFO. Going forward, when requesting new CAM1 codes, PIH is following the CFO's Standard Operating Procedure (SOP) for Requesting System Codes which was issued April, 2017. The SOP requires that Program Budget Officers work with ALS to ensure an approved Funds Control Matrix and corresponding matrix row is approved prior to requesting a CAM1 value.

Finding 8: HUD Continued To Report Significant Amounts of Invalid Obligations

HUD has no comments at this time.

Finding 9: HUD's Computing Environment Controls Had Weaknesses

Comment 7

In regards to the remaining 3 recommendations for EHLP, on September 15, 2017, as requested, OCFO provided HUD's Office of Inspector General, Office of Financial Audit Division, with the final Emergency Home Loan Program (Direct Loans and Substantial Similar States) reconciliation documentations used to perform the reconciliation and support the corrections of the identified differences from the initial clean-up effort and current activities through August 2017. All differences have been reconciled and corrected.

Finding 10: HUD's Financial Management System Did Not Comply with the Federal Financial Management Improvement Act

Comment 8

After OCFO received Ginnie Mae's July 18, 2017 certification, OCFO contacted Ginnie Mae to ask why they re-classified GFAS from non-compliant with FFMIA to compliant. Ginnie Mae notified OCFO that due to their progress in resolving the non-compliance issues with GFAS and working closely with the OIG they believed that all noncompliance issues will be

3

corrected at year end. However, as OIG recommended OCFO will require supporting documentations for material weaknesses and remediation plans from program/support offices.

Finding 11: HUD Did Not Comply With the Debt Collection Improvement Act

HUD has no comments at this time.

Finding 12: HUD Did Not Comply With the Improper Payments Elimination and Recovery Act of 2010, As Amended

HUD has no comments at this time.

OIG Evaluation of Agency Comments

Comment 1 We reviewed management's response to the draft audit report. As of the date of this report, substantive and technical comments were not provided, and therefore we were unable to evaluate these comments.

Comment 2 OIG is in agreement with the OCFO's response stating that the amount for quarter one and two are additive in the context of Finding 1: Weak Internal Controls Over Financial Reporting Led to Errors and Delays in the Preparation of Financial Statements and Notes. We made the changes as suggested and it will be issued with the change "$5.2B, of which $4.2B remained unrecorded in the second quarter" in the final report.

Comment 3 We acknowledge that IDIS release 11.15 was implemented on October 6, 2017. However this date was outside the scope of our audit and therefore we have not had an opportunity to confirm its implementation.

Comment 4 We have changed our report to reflect December 2018 as the expected completion date instead of November 2018.

Comment 5 The NCIS remediation plans that were provided to us as part of our audit indicated that 101 of 181 funds with default values had been resolved. Other than the comments provided to our draft audit report, we have no evidence to confirm that only 85 have been resolved instead of 101 originally reported. Therefore, due to the discrepancy in the number of funds resolved, we have removed the number of funds resolved from the report altogether.

The OCFO did request an extension in July 2017; however, we have not yet agreed to the extension. In our correspondence with the OCFO, we recommended that they extend their dates out as far as they could, in this case December 5, 2017, in order to allow themselves time to determine if the extension request to December 30, 2018 would be a reasonable estimated final action target date. We also noted in the original request that the OCFO didn't provide a detailed timeline explaining why the extension was needed and the steps OCFO planned to take by December 30, 2018. We anticipate that the OCFO will submit another request for an extension before the December 5, 2017 date. However, we have not yet received it.

Comment 6 We acknowledge that the Office of Public and Indian Housing (PIH) completed corrective actions to include missing CAM1 codes in May 2017. However, the communication described between PIH and the Appropriation Law Staff (ALS) is a result of our CAM1 code review completed for disbursement transactions processed in quarters one and two 2017, which was conducted as part of this audit. We notified the Funds Control Assurance Division (FCAD) and ALS indicating that that the results of our review identified a total of 104 CAM1 codes, across all programs, were not included in a matrix. The corrective action completed is a result of our findings in the CAM1 code review and not the internal HUD funds control procedures used by the program offices and OCFO. As such, there will be no changes made to finding 7.

Comment 7 While information was submitted to OIG in September 2017, it was not submitted for closure in HUD's audit resolution and corrective action tracking system (ARCATS), and has not been certified by the responsible audit liaison officer that all actions have been taken in accordance with the management decision concurred. Therefore, the recommendations are still outstanding as of the date of this audit report. Therefore no changes will be made to finding 9.

Comment 8 We noted that HUD's comment accurately reflects the finding and should address recommendations 10A and 10B.