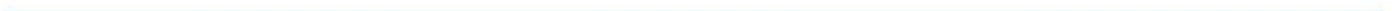




Government National Mortgage  
Association  
Washington, DC  
Audit of Fiscal Year 2021 Financial  
Statements

**Office of Audit  
Financial Audits Division  
Washington, DC**

**Audit Report Number: 2022-FO-0002  
November 16, 2021**





November 16, 2021

## Memorandum

TO: Michael R. Drayne  
Acting Executive Vice President

//signed//

FROM: Kilah S. White  
Assistant Inspector General for Audit, GA

SUBJECT: Transmittal of Independent Public Accountant's Audit Report on the Government National Mortgage Association Fiscal Years 2021 and 2020 Financial Statements

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) results of the audit of the Government National Mortgage Association (Ginnie Mae) fiscal years 2021 and 2020 financial statements and reports on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements.

We contracted with the independent public accounting firm of CliftonLarsonAllen LLP (CLA) to audit the financial statements of Ginnie Mae as of and for the fiscal years ended September 30, 2021, and 2020, to provide reports on Ginnie Mae's internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements in its financial reporting. Our contract with CLA required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget audit requirements, and the Financial Audit Manual of the U.S. Government Accountability Office and the Council of the Inspectors General on Integrity and Efficiency.

In its audit of Ginnie Mae, CLA reported:

- Ginnie Mae's financial statements as of and for the fiscal years ended September 30, 2021, and 2020, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses<sup>1</sup> for fiscal year 2021 in internal control over financial reporting, based on limited procedures performed; and,
- no reportable noncompliance issues for fiscal year 2021 with provisions of applicable laws, regulations, contracts, and grant agreements tested and no other matters.

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<sup>1</sup> A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of Ginnie Mae's financial statements will not be prevented or detected and corrected on a timely basis.

In connection with the contract, we reviewed CLA's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on Ginnie Mae's financial statements or conclusions about 1) the effectiveness of Ginnie Mae's internal control over financial reporting and 2) Ginnie Mae's compliance with laws, regulations, contracts, and grant agreements. CLA is responsible for the attached Independent Auditors' Report, dated November 15, 2021, and the conclusions expressed therein. Our review disclosed no instances in which CLA did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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, appendix 8M, requires that OIG post its reports on the OIG website. Accordingly, this report will be posted at <https://www.hudoig.gov>.

If you have any questions or comments about this report, please call Thomas R. McEnanly, Audit Director, at (202) 740-7085.



## Independent Auditors' Report

Inspector General  
U.S. Department of Housing and Urban Development

Acting Executive Vice President  
Government National Mortgage Association

In our audits of the fiscal years 2021 and 2020 financial statements of the Government National Mortgage Association (Ginnie Mae), a wholly owned government corporation within the U.S. Department of Housing and Urban Development (HUD), we found:

- Ginnie Mae's financial statements as of and for the fiscal years ended September 30, 2021, and 2020, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- no material weaknesses for fiscal year 2021 in internal control over financial reporting based on the limited procedures we performed; and
- no reportable noncompliance for fiscal year 2021 with provisions of applicable laws, regulations, contracts, and grant agreements we tested and no other matters.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI)<sup>1</sup> and other information<sup>2</sup> included with the financial statements; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, grant agreements and other matters, and (4) Ginnie Mae's response to our audit report.

### Report on the Financial Statements

We have audited the accompanying financial statements of Ginnie Mae, which comprise the balance sheets as of September 30, 2021, and 2020; the related statements of revenues and expenses and changes in investment of U.S. Government, and cash flows for the fiscal years then ended; and the related notes to the financial statements.

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<sup>1</sup>The RSI consists of Management's Discussion and Analysis which are included with the financial statements.

<sup>2</sup>Other information consists of A Word from the Secretary of Housing and Urban Development, A Word from Ginnie Mae, Executive Summary, and Ginnie Mae: Modernizing the Mortgage-Backed Securities Platform to Strengthen Affordable Housing.

## INDEPENDENT AUDITORS' REPORT (Continued)

We conducted our audits in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 21-04). We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Management's Responsibility

Ginnie Mae management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditors' report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. *Government Auditing Standards* require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to the RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the auditors' assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit also included performing such other procedures as we considered necessary in the circumstances.

### Opinion on Financial Statements

In our opinion, Ginnie Mae's financial statements present fairly, in all material respects, Ginnie Mae's financial position as of September 30, 2021, and 2020, and its revenues and expenses and changes in investment of U.S. Government, and cash flows for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

## INDEPENDENT AUDITORS' REPORT (Continued)

### Other Matters

#### Required Supplementary Information

OMB Bulletin 21-04 requires that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, OMB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with *Government Auditing Standards*, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditors' inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from OMB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

#### Other Information

Ginnie Mae's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on Ginnie Mae's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

### **Report on Internal Control over Financial Reporting**

In connection with our audits of Ginnie Mae's financial statements, we considered Ginnie Mae's internal control over financial reporting, consistent with our auditors' responsibility discussed below. We performed our procedures related to Ginnie Mae's internal control over financial reporting in accordance with *Government Auditing Standards*.

#### Management's Responsibility

Ginnie Mae management is responsible for (1) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (2) evaluating the effectiveness of internal control over financial reporting based on the criteria established under 31 U.S.C. 3512 (c), (d) (commonly known as the Federal Managers' Financial Integrity Act (FMFIA)); and (3) providing an assurance statement on the overall effectiveness of internal control over financial reporting included in management's discussion and analysis (MD&A), as Systems, Controls and Legal Compliance section.

#### Auditors' Responsibility

In planning and performing our audit of Ginnie Mae's financial statements as of and for the year ended September 30, 2021, in accordance with *Government Auditing Standards*, we considered Ginnie Mae's internal control over financial reporting as a basis for designing audit procedures

## INDEPENDENT AUDITORS' REPORT (Continued)

that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ginnie Mae's internal control over financial reporting or on management's assurance statement on the overall effectiveness on internal control over financial reporting. Accordingly, we do not express an opinion on Ginnie Mae's internal control over financial reporting or on management's assurance statement on the overall effectiveness of internal control over financial reporting. We are required to report all deficiencies that are considered to be material weaknesses or significant deficiencies. We did not consider or evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations.

### Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

### Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies or to express an opinion on the effectiveness of Ginnie Mae's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

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

During our fiscal year 2021 audit, we identified deficiencies in Ginnie Mae's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant Ginnie Mae management's attention. We have communicated these matters to Ginnie Mae management and, where appropriate, will report on them separately.

## INDEPENDENT AUDITORS' REPORT (Continued)

### Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of Ginnie Mae's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of Ginnie Mae's internal control over financial reporting. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

### **Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters**

In connection with our audit of Ginnie Mae's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditors' responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with *Government Auditing Standards*.

### Management's Responsibility

Ginnie Mae management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to Ginnie Mae.

### Auditors' Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to Ginnie Mae that have a direct effect on the determination of material amounts and disclosures in Ginnie Mae's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to Ginnie Mae.

### Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters for fiscal year 2021 that would be reportable under *Government Auditing Standards*. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to Ginnie Mae. Accordingly, we do not express such an opinion.

### Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements and Other Matters

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

## INDEPENDENT AUDITORS' REPORT (Continued)

### Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of Ginnie Mae's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditors' Report, dated November 16, 2020. The status of prior year findings is presented in Exhibit A.

### Ginnie Mae's Response to the Audit Report

Ginnie Mae's response to the audit report is described in Exhibit B. Ginnie Mae's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### CliftonLarsonAllen LLP

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

Greenbelt, MD  
November 15, 2021

**EXHIBIT A**  
**Status of Prior Year Findings and Recommendations**

Our assessment of the current status of the findings related to the prior year audits is presented below:

<b><i>FY 2020 Findings</i></b>	<b><i>Type</i></b>	<b><i>Fiscal Year 2021 Status</i></b>
Organization Structure and Model Risk Governance	Significant Deficiency 2020	Closed

# EXHIBIT B

## Ginnie Mae's Response to the Audit Report



Office of the President  
550 12th Street, SW, Third Floor  
Washington, DC 20024  
(202) 475-4900

DATE: November 15, 2021

MEMORANDUM FOR: Thomas McEnany, Director, Contracted Financial Statement Audits,  
Financial Audits Division, Department of Housing and Urban  
Development (HUD) OIG

FROM: Michael R. Drayne, Acting Executive Vice President, Ginnie Mae

SUBJECT: Management Response to Fiscal Year (FY) 2021 Audit Report

MICHAEL DRAYNE  
Digitally signed by MICHAEL DRAYNE  
DN: cn=MICHAEL DRAYNE,  
o=U.S. Government,  
ou=Department of Housing  
and Urban Development,  
date=2021.11.12 12:10:50-  
0500

The Government National Mortgage Association (Ginnie Mae) appreciates the opportunity to respond to the Independent Auditors' Report for FY 2021, prepared by CliftonLarsonAllen (CLA) for the Office of the Inspector General (OIG). CLA displayed skill and professionalism in its conduct of the engagement, and OIG's supervision of the project was constructive throughout. We continue to appreciate and support the valuable role that OIG plays on behalf of the American taxpayer.

We are proud that the significant investment we have made in financial infrastructure and audit remediation has resulted in an unmodified opinion for a second consecutive year. This validates the effectiveness of the countless hours of work the investment entailed, and reinforces that program participants and the capital markets can have confidence in the integrity of Ginnie Mae and its guarantee.

It is notable also that this audit encompassed a period in which Ginnie Mae continued its extraordinary efforts in response to the COVID-19 pandemic. The Pass-Through Assistance Program (PTAP), which made available support for issuers confronting unprecedented advancing requirements, was perhaps the most visible example of these, but there were numerous others on both the program policy and operational front. Additionally, FY 2021 was a historic year from a security production standpoint, as we issued the largest volume of securities in our history, surpassing the previous record level of issuance set in FY 2020.

We remain dedicated to our core mission of bringing global capital into the housing finance market while minimizing risk to the taxpayer, and will continue to make investments in technology and infrastructure to advance strategic goals. The most prominent of these is our NextGen initiative, a long-term commitment to rebuild the MBS securitization platform to take advantage of the possibilities offered by present-day technology. NextGen will transform Ginnie Mae into a data-driven enterprise with powerful digital capabilities, positioning the MBS program/platform for long-term success by adding value for issuers and investors that will expand the ways in which Ginnie Mae fulfills its mission.

We look forward to the opportunity to continue to work with OIG, our auditors, and other stakeholders to ensure that the Ginnie Mae MBS Program continues to thrive and benefit the homeowners served by the securities we guarantee.