



OFFICE *of*  
**INSPECTOR GENERAL**  
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UNITED STATES DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT

# Audit of Federal Housing Administration's Fiscal Years 2023 and 2022 Financial Statements

Audit Report Number: 2024-FO-0002

November 13, 2023

Date: November 13, 2023

To: Julia R. Gordon  
Assistant Secretary for Housing and the Federal Housing Commissioner, H

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

Subject: Transmittal of Independent Public Accountant's Audit Report on the Federal Housing Administration's Fiscal Years 2023 and 2022 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 Federal Housing Administration's (FHA) fiscal years 2023 and 2022 financial statements and reports on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements and other matters.

We contracted with the independent public accounting firm of CliftonLarsonAllen LLP (CLA) to audit the financial statements of FHA as of and for the fiscal years ended September 30, 2023 and 2022, and to provide reports on FHA's (1) internal control over financial reporting and (2) compliance with laws, regulations, contracts, and grant agreements and other matters. 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 FHA, CLA reported

- That FHA's financial statements as of and for the fiscal year ended September 30, 2023 and 2022, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.
- No material weaknesses<sup>1</sup> for fiscal year 2023 in internal control over financial reporting, based on limited procedures performed.
- One significant deficiency<sup>2</sup> for fiscal year 2023 in internal control over financial reporting, based on the limited procedures performed. The significant deficiency was related to weaknesses in internal controls over loans receivable.

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<sup>1</sup> 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 FHA's financial statements will not be prevented or detected and corrected on a timely basis.

<sup>2</sup> 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.

- No reportable noncompliance issues for fiscal year 2023 with provisions of applicable laws, regulations, contracts, and grant agreements or other matters.

In connection with the contract, we reviewed CLA's reports and related documentation and questioned 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 FHA's financial statements or conclusions about (1) the effectiveness of FHA's internal control over financial reporting and (2) FHA's compliance with laws, regulations, contracts, and grant agreements or other matters. CLA is responsible for the attached Independent Auditors' Report, dated November 13, 2023, 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, as amended, 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 Brittany Wing, Audit Director, at (202) 320-7296.



## Independent Auditors' Report

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

Assistant Secretary for Housing – Federal Housing Commissioner  
Federal Housing Administration

In our audits of the fiscal years 2023 and 2022 financial statements of Federal Housing Administration (FHA), we found:

- FHA's financial statements as of and for the fiscal years ended September 30, 2023, and 2022, are presented fairly, in all material respects, in accordance with United States of America (U.S.) generally accepted accounting principles;
- no material weaknesses and one significant deficiency for fiscal year (FY) 2023 in internal control over financial reporting based on the limited procedures we performed; and
- no reportable noncompliance for FY 2023 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 in the Annual Management Report; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements and other matters; and (4) FHA's response to our findings and recommendations.

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of FHA, which comprise the balance sheets as of September 30, 2023, and 2022; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

In our opinion, FHA's financial statements referred to above present fairly, in all material respects, FHA's financial position as of September 30, 2023, and 2022, and its net cost, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

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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 information included with the financial statements, other than the RSI and the auditors' report.

## INDEPENDENT AUDITORS' REPORT (Continued)

### Basis for Opinion

We conducted our audits in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 24-01) guidance. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of FHA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for (1) the preparation and fair presentation of the 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 the Annual Management Report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) designing, implementing, and maintaining effective 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' Responsibilities for the Audit of the Financial Statements

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (2) issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements conducted in accordance with *Government Auditing Standards* will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to our audit 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 FHA's internal control over financial reporting. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

## INDEPENDENT AUDITORS' REPORT (Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the financial statement audit.

### Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with *Government Auditing Standards*. These procedures consisted of (1) inquiring of management about the methods used to prepare the RSI and (2) comparing the RSI for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audits of the financial statements, in order to report omissions or material departures from FASAB 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

FHA'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. Management is responsible for the other information included in the Annual Management Report. The other information does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In connection with our audits of FHA's financial statements, we considered FHA's internal control over financial reporting, consistent with our auditors' responsibilities discussed below.

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

Our consideration of internal control was for the limited purpose described below 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 FHA's internal control over financial reporting and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our FY 2023 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency, described below and in Exhibit A.

## INDEPENDENT AUDITORS' REPORT (Continued)

### Weaknesses in Internal Controls over Loans Receivable

Several control weaknesses surrounding FHA's loans receivable balance existed specifically relating to (1) due and payable single-family partial claims not referred for collection, and (2) monitoring and servicing of the Home Equity Conversion Mortgage (HECM) loan portfolio. Collectively, these deficiencies present risks regarding several financial statement assertions including existence, accuracy, completeness, rights, obligations, and presentation and disclosure. Further, misstatements caused by these weaknesses were not detected and prevented by FHA's existing internal controls.

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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that even if the control operates as designed the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively. 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 2023 audit, we also identified other deficiencies in FHA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant FHA management's attention. We have communicated these matters to FHA management, and where appropriate, will report on them separately.

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

We performed our procedures related to FHA's internal control over financial reporting in accordance with *Government Auditing Standards* and OMB audit guidance.

### Responsibilities of Management for Internal Control over Financial Reporting

FHA management is responsible for (1) designing, implementing, and maintaining effective internal control over financial reporting 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).

### Auditors' Responsibilities for the Consideration of Internal Control over Financial Reporting

In planning and performing our audit of FHA's financial statements as of and for the fiscal year ended September 30, 2023, in accordance with *Government Auditing Standards*, we considered FHA's internal control relevant to the financial statement audit 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 FHA'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 FHA's internal control over financial reporting or on management's



## INDEPENDENT AUDITORS' REPORT (Continued)

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 internal control over financial reporting 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.

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

The purpose of this report is solely to describe the scope of our consideration of FHA's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of FHA'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 audits of FHA's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditors' responsibilities discussed below.

### 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 FY 2023 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 FHA. Accordingly, we do not express such an opinion.

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

We performed our tests of compliance in accordance with *Government Auditing Standards*.



## INDEPENDENT AUDITORS' REPORT (Continued)

### Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

FHA management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to FHA, including ensuring FHA's financial management systems are in substantial compliance with FFMI requirements.

### Auditors' Responsibilities for Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to FHA that have a direct effect on the determination of material amounts and disclosures in FHA's financial statements and to perform certain other limited procedures. Accordingly, we did not test compliance with all provisions of laws, regulations, contracts, and grant agreements applicable to FHA. We caution that noncompliance may occur and not be detected by these tests.

### 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 and other matters is not suitable for any other purpose.

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

We have reviewed the status of FHA's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditors' Report, dated November 16, 2022. The status of prior year findings is presented in Exhibit B.

### **FHA's Response to Audit Findings and Recommendations**

*Government Auditing Standards* requires the auditor to perform limited procedures on FHA's response to the findings and recommendation identified in our report. FHA's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on the response. In commenting on a draft of this report, FHA agreed with our findings and recommendations. The complete text of FHA's response is reprinted in Exhibit C.

### **CliftonLarsonAllen LLP**



Greenbelt, MD  
November 13, 2023

## EXHIBIT A Significant Deficiency

### Weaknesses in Internal Controls over Loans Receivable

#### 1. Due and Payable Single-Family Partial Claims not Referred for Collection

**Condition:**

FHA's National Servicing Center (NSC) did not timely refer all identified due and payable partial claims for servicing and collection to the Albany Financial Operations Center (FOC). Additionally, all eligible debts were not timely transferred to the U.S. Department of Treasury Bureau of Fiscal Service (BFS) for administrative offset and cross-servicing.

**Criteria:**

GAO-14-704G, *Standards for Internal Control in the Federal Government*:

Principle 16 – Perform Monitoring Controls

16.04 Management monitors the internal control system through ongoing monitoring and separate evaluations. Ongoing monitoring is built into the entity's operations, performed continually, and responsive to change. Separate evaluations are used periodically and may provide feedback on the effectiveness of ongoing monitoring.

*31 USC §3711. Collection and compromise.*

(g)(1) If a nontax debt or claim owed to the United States has been delinquent for a period of 180 days—

(A) the head of the executive, judicial, or legislative agency that administers the program that gave rise to the debt or claim shall transfer the debt or claim to the Secretary of the Treasury; and (B) upon such transfer the Secretary of the Treasury shall take appropriate action to collect or terminate collection actions on the debt or claim.

*31 USC §3716. Administrative offset.*

(c)(6)(A) Any Federal agency that is owed by a person a past due, legally enforceable nontax debt that is over 120 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. (B) The Secretary of the Treasury shall notify Congress of any instance in which an agency fails to notify the Secretary as required under subparagraph (A).

**Cause:**

FHA had a surge in the volume of partial claims during the COVID-19 pandemic. Prior to the pandemic, FHA reported to us that it was averaging just over 435,000 partial claims in its servicing inventory and by the end of September 2023, this inventory had increased to approximately 1,150,000 partial claims. Additionally, favorable market conditions prior to 2023, such as low interest rates, high property values, and increased credit scores, encouraged property sales and refinances, which resulted in larger numbers of partial claims that were not properly paid off at settlement. FHA was unable to manage the additional workload, which caused an overall servicing backlog and prevented FHA from transferring all eligible due and payable partial claims to BFS for administrative offset and cross-servicing.

Additionally, FHA did not have adequate monitoring controls to ensure all due and payable partial claims were transferred to FOC. FHA's monitoring controls did not include documenting and testing the processes to transfer debts to FOC. Further, there were no controls to determine the financial statement impact of not referring due and payable partial claims to FOC and make any adjustments as necessary.

## EXHIBIT A Significant Deficiency

### **Effect:**

Accounts Receivable was understated, and Loans Receivable was overstated by at least approximately \$183 million as of September 30, 2023. Additionally, FHA's ability to timely collect on its due and partial claims was reduced.

### **Recommendation:**

We recommend the NSC and FOC collaborate to:

1A. Develop a plan and a timeline that ensures all due and payable partial claims are transferred to the FOC, and subsequently processed by the FOC.

We recommend that the Deputy Assistant Secretary for Finance and Budget:

1B. Develop and implement procedures to i) monitor the transfer of due and payable partial claims from NSC to the FOC for collection, ii) determine the financial statement impact of not referring due and payable partial claims to the FOC, and iii) decide when FHA will record a reclassification entry to accounts receivable for those due and payable partial claims that are not transferred to the FOC timely.

## **2. Weaknesses in Internal Control over Monitoring and Servicing of the HECM Portfolio**

### **Condition:**

#### HECM Loans Require Servicing

Approximately 30,000 HECM loans, or 17% of the portfolio with a due and payable status, require manual case by case servicing to either call the loan (by demanding the borrower to repay the loan), foreclose on the property, or reinstate the loan as current. Further, FHA identified that its security interest was lost for several HECM loans. Our testing of a statistical sample of 64 HECM loans noted the following: (1) six examples of expired hazard insurance, with expirations as far back as 2017 and (2) one case where delinquent taxes were paid by an outside party via tax certificate sale. Further, FHA did not distinguish \$11 million in delinquent property tax payments from other payments made by FHA during FY2023.

#### Duplicate HECM Advance Transactions

Duplicate advance transactions were related to 2,777 loans and were recorded when these loans were assigned to FHA during FY 2022 and FY 2023.

### **Criteria:**

GAO-14-704G, *Standards for Internal Control in the Federal Government*:

Principle 10 – Design Control Activities

10.01 Management should design control activities to achieve objectives and respond to risks.

Design of Appropriate Types of Control Activities

10.03 Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.

Accurate and timely recording of transactions

Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a

## **EXHIBIT A**

### **Significant Deficiency**

transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

#### Principle 17—Evaluate Issues and Remediate Deficiencies

17.01 Management should remediate identified internal control deficiencies on a timely basis.

#### Attributes

The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Reporting of Issues
- Evaluation of Issues
- Corrective Actions

#### **Cause:**

The large amount of HECM loans currently requiring servicing is mostly due to a lack of key loan functions that were not performed in prior years that created a backlog. FHA is still processing the backlog, in addition to the daily servicing needs of the portfolio. Additionally, there was insufficient training in how to distinguish delinquent tax payments from other payments when system processing.

Due to a system error, duplicate advance transactions were recorded when loans were assigned to FHA for servicing.

#### **Effect:**

Ineffective servicing actions increases the risk for inaccurate existence, accuracy, rights, and valuation assertions of the HECM loans receivable balance.

The gross HECM loans receivable balance is overstated by approximately \$20 million because FHA lost its security interest in HECM loans due to property tax sales. Further, FHA may have lost its security interest in additional HECM loans, however, the amount is not expected to significantly exceed the \$20 million already determined.

The duplicate transactions overstated the gross HECM loans receivable balance by approximately \$44 million as of September 30, 2023.

#### **Recommendation:**

We recommend that the Deputy Assistant Secretary for Finance and Budget:

1C. Consider accounting implications to the gross HECM loans receivable balance for the \$20 million lost in security interests.

1D. Record an adjusting entry to remove the duplicate \$44 million from the gross HECM loans receivable balance as of September 30, 2023.

We recommend that the Director of the Office of Systems and Technology, Office of Finance and Budget:

1E. Identify and remove all duplicate transactions from the accounting module and prevent future occurrences.

**EXHIBIT A**  
**Significant Deficiency**

We recommend the Deputy Director of the Office of Single-Family Asset Management:

1F. Develop and enhance training for servicing the HECM portfolio.

1G. Develop corrective procedures to bring the HECM portfolio servicing current, initiate collection proceedings for due and payable loans, redeem the tax certificates for properties for which FHA lost its security interest, and implement a solution to monitor tax payments to prevent tax delinquencies and avoid FHA's risk of loss in loan security interest.

**EXHIBIT B**  
**Status of Prior Year Findings**

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

<i><b>FY 2022 Findings</b></i>	<i><b>Type</b></i>	<i><b>FY 2023 Status</b></i>
Weakness in Internal Control over Financial Accounting and Reporting A. Weaknesses in Internal Controls over FHA's Borrowing Authority B. Weaknesses in Internal Controls over FHA's Receivables	Material Weakness	A. Closed  B. Modified Repeat – See Exhibit A

# EXHIBIT C

## FHA's Response to Audit Findings and Recommendations



OFFICE OF HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

November 6, 2023

MEMORANDUM FOR: CliftonLarsonAllen, LLP

FROM: Susan A. Betts, Housing, Deputy Assistant Secretary for Finance and Budget, HW

SUBJECT: Response to Draft Audit Report on FHA's Fiscal Years 2023 and 2022 Financial Statements

**SUSAN BETTS** Digitally signed by SUSAN BETTS  
Date: 2023.11.06 16:39:36 -05'00'

On behalf of the Federal Housing Administration (FHA), thank you for the opportunity to respond to FHA's Independent Auditors' Report. We are pleased to have obtained an unmodified opinion on our financial statements and appreciate the efforts of the independent auditors in conjunction with the Office of the Inspector General (OIG) to provide us with actionable recommendations. FHA is committed to making the changes necessary to strengthen controls over financial reporting relating to loans receivable. As you are aware, we have already begun addressing the recommendations. Working collaboratively, we will continue to identify improvements and implement changes needed to address the FY 2023 financial statement findings, as well as to strengthen our overarching system of internal control.

### Report on Internal Control – Significant Deficiency

#### Weaknesses in Internal Controls over Loans Receivable

##### 1: Due and Payable Single Family Claims Not Referred for Collection

FHA agrees with this finding and recommendations. Management has already begun implementing several of the recommendations identified in the finding and will continue to implement the changes necessary to address the remaining recommendations in FY 2024. To address control weaknesses surrounding partial claim referrals, FAB's management will:

- Improve communication and coordination between FHA's Finance and Budget Office and Office of Single Family Housing regarding partial claim referrals for debt collection.
- Develop a plan and timeline that ensures all due and payable partial claims are transferred to the Albany Financial Operations Center (FOC) for debt collection processing.
- Develop and implement procedures to monitor the transfer of due payable partial claims from the National Servicing Center to the FOC for collection and record a reclassification

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[espanol.hud.gov](http://espanol.hud.gov)



## **EXHIBIT C**

### **FHA's Response to Audit Findings and Recommendations**

entry to Accounts Receivable for due and payable partial claims that are not transferred to the FOC timely.

#### **2: Weaknesses in Internal Control Over Monitoring and Servicing of the HECM Portfolio**

FHA agrees with the findings and associated recommendations. To address control weaknesses surrounding loans receivable and oversight of the single-family loan service provider, FHA's management will:

- Evaluate the need for accounting adjustments to the gross HECM loans receivable balance.
- Work with the HERMIT system contractor to correct duplicate activities in the accounting module.
- Develop and enhance training and procedures for servicing the HECM portfolio, including improving controls to monitor HECM tax payments to prevent delinquencies and avoid FHA's risk of loss in loan security interests.