# Office of the Chief Financial Officer, Washington, DC

## Additional Details To Supplement Our Fiscal Year 2019 U.S. Department of Housing and Urban Development Financial Statements Audit

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

**Audit Report Number: 2020-FO-0003**
**February 7, 2020**

**To:** Irving L. Dennis, Chief Financial Officer, F

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**From:** Sarah D. Sequeira, Acting Director, Financial Audits Division, GAF

**Subject:** Additional Details To Supplement Our Fiscal Year 2019 U.S. Department of Housing and Urban Development Financial Statements 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 laws, regulations, 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, 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 do not hesitate to call me at 202-402-3949.

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**Additional Details To Supplement Our Fiscal Year 2019 U.S. Department of Housing and Urban Development Financial Statements 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. Our objectives were to express an opinion on the fair presentation of HUD's consolidated financial statements and report on HUD's internal controls over financial reporting and compliance with select provisions of applicable laws, regulations, contracts, and grant agreements. This report supplements our independent auditor's report on the results of our audit of HUD's consolidated financial statements for the fiscal year ending September 30, 2019.

## What We Found

We expressed a qualified opinion on HUD's consolidated financial statements for fiscal year 2019 because of the significant effects of certain unresolved audit matters, which restricted our ability to obtain sufficient, appropriate evidence about HUD's noncredit reform loans[1] and other liabilities resulting from Ginnie Mae's guaranty asset and guaranty liability. This report provides additional details on one material weakness, three significant deficiencies, and three instances of noncompliance with laws, regulations, contracts, and grant agreements. The most significant finding relates to instances in which HUD's accounting did not always comply with Federal generally accepted accounting principles. We also identified (1) weaknesses in internal controls over financial reporting, (2) weaknesses in the financial management system and computing environment, (3) financial management governance deficiencies, and (4) three instances of noncompliance with laws and regulations. These findings occurred because of insufficient policies and procedures and limitations with HUD's financial management systems.

## What We Recommend

Current recommendations are included after each finding, while outstanding prior-year recommendations are included in the Followup on Prior Audits section of this report. Most significant are those in which we recommend that HUD (1) improve its validation methodology for accrued grant liabilities and (2) develop, implement, and improve policies and procedures.

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[1] HUD's other noncredit reform loans include Ginnie Mae's nonpooled loan asset portfolio, consisting of mortgages held for investment, net; claims receivable, net; and acquired property, net.

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# Background and Objective

We were engaged to audit the U.S. Department of Housing and Urban Development's (HUD) consolidated financial statements in accordance with Government Auditing Standards and the requirements of Office of Management and Budget (OMB) Bulletin 19-03, Audit Requirements for Federal Financial Statements, as required by the Chief Financial Officers Act of 1990 and amended by the Government Management Reform Act of 1994. The objective of our audit was to express an opinion on the fair presentation of these consolidated financial statements and to report on HUD's internal controls over financial reporting and compliance with laws, regulations, contracts, and grant agreements. This report provides additional details to supplement our independent auditor's report on HUD's consolidated financial statements for fiscal year 2019.

In planning our audit of HUD's consolidated financial statements, we considered internal controls over financial reporting and tested compliance with selected provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated financial statements. Providing an opinion on internal controls or compliance with laws, regulations, contracts, and grant agreements was not an objective, and, accordingly, we do not express such an opinion.

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

# Report on Internal Controls Over Financial Reporting

## Material Weakness

### Finding 1: HUD's Accounting Did Not Always Comply With Federal GAAP

HUD did not properly account for or have adequate accounting support for all of its assets, liabilities, and budgetary resources. Specifically, HUD did not (1) use an appropriate method to commit and disburse fiscal year 2014 and prior obligations for the Office of Community Planning and Development's (CPD) formula grant programs; (2) adequately validate CPD's accrued grant liability estimate; (3) use complete and accurate data to estimate the Office of Public and Indian Housing's (PIH) prepayment balance; (4) recognize all financial events resulting from PIH's cash management process; (5) ensure the completeness of or accurately report on accounts receivables; or (6) properly account for property, plant, and equipment (PP&E). These deficiencies occurred because of continued weaknesses in HUD's internal controls and insufficient financial management controls and systems. As a result, several financial statement line items were misstated or at risk of material misstatement as of September 30, 2019.

#### HUD Did Not Use an Appropriate Method To Commit and Disburse Fiscal Year 2014 and Prior Obligations for CPD's Formula Grant Programs

In fiscal year 2016, CPD eliminated the use of the first in, first out (FIFO) method[2] for committing and disbursing obligations for its formula grant programs from the Integrated Disbursement and Information System (IDIS) Online, CPD's grant management system, for fiscal year 2015 and forward grants. CPD did not apply the change to fiscal year 2014 and prior grants; therefore, they were still subject to FIFO during fiscal year 2019. The inability of IDIS Online to provide an audit trail of all financial events affected by the FIFO method prevented us from being able to quantify the direct effects of FIFO on HUD's consolidated financial statements. However, during fiscal year 2019, $541 million in disbursements was susceptible to the FIFO method, and as of September 30, 2019, $511 million in undisbursed obligations remained subject to the FIFO method. Due to the continued use of the FIFO method for the fiscal year 2014 and prior grants, these amounts, which impact the combined statement of

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2 The Federal Accounting Standards Advisory Board (FASAB) Handbook defines FIFO as a cost flow assumption in which the first goods purchased or produced are assumed to be the first goods sold (FASAB Handbook, Version 17, Appendix E: Consolidated Glossary, page 32, dated June 2018). 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. Government 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 CPD'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.

budgetary resources and consolidated balance sheet, were not presented in conformity with generally accepted accounting principles (GAAP).

### HUD's Processes To Estimate and Validate Grant Accrual Liabilities Had Weaknesses

For fiscal year 2019, CPD reported an accrued grant liability of $910.9 million, which accounted for 71 percent of HUD's total accrued grant liabilities. Our review of CPD's estimation and the Office of the Chief Financial Officer's (OCFO) validation processes identified weaknesses, which led us to conclude that there was a high risk of material misstatement regarding the $910.9 million grant accrual liability presented on HUD's fiscal year 2019 consolidated financial statements.

*Weaknesses in OCFO's validation of CPD grant accrual estimate*. Each quarter of the fiscal year, CPD estimates the expense incurred by grantees for which the grantees have not yet requested reimbursement or CPD has not yet provided reimbursement, thereby creating and reporting a grant accrual estimate of the amount owed to grantees. OCFO confirmed the CPD grant accrual estimate by conducting a validation process. However, CPD did not require grantees to submit Standard Form 425, Federal Financial Report, to obtain certain financial information that could be used to estimate the grant accrual amount for the financial statements or complete estimation validation procedures. CPD implemented a systematic waiver, which allowed its grantees to not submit Standard Form 425.

Although OCFO improved its methodology during fiscal year 2019 to validate CPD's grant accrual estimate, it did not have relevant and necessary data from grantees, which would have been obtained if grantees were required to submit the form. Due to the lack of relevant data, OCFO provided online grantee training and conducted a survey to obtain grantee expenditure data and supporting documentation for the statistical validation model. The survey required that grantees certify the data provided. However, OCFO was not always able to reconcile the data (expenditure amounts) to the documentation certified to by the grantees. In those instances in which OCFO was not confident in the amount stated or support provided by the grantee, it issued a revised survey, which requested that the grantee provide expenses incurred as of September 30, 2018, for which it had not yet been reimbursed. However, inconsistent with its stated validation attributes, OCFO collected no documentation to support the revised amounts. These data inputs were used in the validation model to produce a point estimate to validate CPD's estimate of fiscal year 2018 accrued grant liability of $1.2 billion.

OCFO made significant improvements in grant accrual validation with the implementation of its online training methods and automated the data collection processes. However, the lack of consistency in obtaining and properly reviewing grantee survey responses and supporting documentation prevented OCFO from having reasonable assurance that the amounts that were certified and included in its statistical validation model were accurate. Therefore, the extrapolation performed in the validation model included data that were not properly supported. The inclusion of unsupported survey responses in the statistical validation calculation prevented OCFO from producing a reliable point estimate to compare with the estimate recorded in the general ledger and invalidated the statistical integrity of the process.

*Weaknesses in CPD's process to estimate grant accrual.* CPD's accounting estimate for grant accruals expense and liability was not reasonable, resulting in an understated accrued grant expense and liability estimate for the first quarter of fiscal year 2019. We made this determination based on our own independent point estimate.

As a result of the weaknesses identified in OCFO's validation process for CPD's grant accrual estimate, we determined that it was necessary to develop our own point estimate of grant accruals to assess the reasonableness of the $1.1 billion estimate recorded as of December 31, 2018.[3] We selected a statistical sample of 89 grantee disbursements from a sample universe of 114,402 disbursements for which grantees had drawn down the requisite reimbursements from January through June 2019[4] and requested supporting documentation to determine the period in which expenses were incurred. We estimated that CPDs grant accrual liability estimate should have been within a range of $1.7 billion to $2.5 billion. When compared to the $1.1 billion recorded amount in the general ledger and first quarter financial statements, we determined that the estimate was not within that range and was misstated.

The CPD accounting estimation methodology used the historical disbursements of each program's activity multiplied by a percentage; however, this methodology failed to provide the underlying assumptions[5] used to justify the percentage used to determine the accrual amount for each program. Our projection of results from a statistically valid sample indicated that CPD's accrued grant expense and liability estimate for the first quarter of fiscal year 2019 was understated by at least $570 million. Therefore, based on our point estimate, combined with weaknesses in OCFO's grant accrual validation process, there was a high risk of material misstatement of the fiscal year 2019 grant accrual liability of $910.9 million presented on HUD's consolidated financial statements.

### HUD Did Not Use Complete and Accurate Data To Estimate Its PIH Prepayment Balance

OCFO used incomplete and inaccurate data to develop the $410.8 million Housing Choice Voucher Program (HCVP) estimate that was part of the fiscal year 2019 PIH prepayment financial statement line item presented on HUD's balance sheet. The HCVP portion of the PIH prepayment line item represents an estimate of the amounts provided to public housing agencies (PHA) under the HCVP that have not been spent. We identified three deficiencies in the development of the estimate. OCFO did not include 10 CAM 1 codes[6] with disbursements totaling $70.1 million in its PIH prepayment estimate. In addition, HUD's calculation still included data that we identified in fiscal year 2018 as inaccurate and incomplete. In fiscal year

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3 We chose to use December 31, 2018, as the estimation date because HUD issues single-year financial statements rather than the historical comparative financial statements.

4 We selected a 6-month disbursement period after the December 31, 2018, estimation date because in our experience, it is not uncommon for grantees to request reimbursement up to 6 months after actual expenditures occur.

5 Technical Release 12, Accrual Estimates for Grant Programs, paragraph 15, requires that for existing programs, management should ensure that adequate documentation is available for accrual estimates relating to existing grant programs. Typical support documentation may include the support for the calculation of the estimate, including the underlying assumptions used.

6 CAM 1 is an accounting flex field. The accounting flex field 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, U.S. Standard General Ledger (USSGL), budget objects class, internal org, cost pool, CAM 1, category B, program, cohort, CAM 2, and CAM 3. HUD used CAM 1 codes to differentiate among its various HUD programs.

2018, we identified deficiencies in the data OCFO used to calculate disbursements, Moving to Work (MTW) Demonstration program expenses, and MTW administrative fees. While HUD had made corrections to address these deficiencies going forward, it had not adjusted the previous data incorporated into the beginning balance for the fiscal year 2019 estimate.[7] Finally, OCFO did not follow its estimation methodology for its disbursement calculation.[8] According to OCFO's procedures, the third month estimation for the third fiscal quarter is the average of calendar months one through five. However, in its calculation, it averaged only the fourth and fifth months.

We attributed these deficiencies to shortcomings in OCFO's controls over the PIH prepayment estimate. Specifically, as of September 30, 2019, OCFO had not completed a validation against PIH's restricted net position report to ensure that the data fields included in its calculation were accurate and complete. After the fiscal year ended, OCFO reported that it had completed its analysis; however, it could not implement needed changes based on the analysis in time for fourth quarter reporting. In addition, OCFO did not properly review the estimate prepared by its contractors. OCFO was not aware that corrections to the PIH prepayment had not been made retroactively to the data supporting the fiscal year 2019 beginning balance.[9] It also did not know that its contractor did not follow the specified methodology. The contractor was responsible for calculating the PIH prepayment estimate; however, OCFO's review of the contractor's estimate was not sufficient to identify these deficiencies.

Because OCFO's estimate did not include all CAM 1 codes that represented HCVP disbursed prepayments and it did not recalculate the fiscal year 2019 beginning balance to address the deficiencies we identified in fiscal year 2018, the $410.8 million estimate on HUD's yearend financial statements was at risk of misstatement. Due to the multiple deficiencies identified in the methodology and the nature of the estimate, we could not quantify the total net misstatement. However, some impacts of these deficiencies can be quantified. For example, OCFO's yearend PIH prepayment estimate included administrative expenses that should not have been included, which caused an abnormal beginning balance of $(466.5) million[10] (a credit balance) for MTW PHAs. Although this amount was ultimately eliminated because it was negative,[11] the erroneous inclusion of these expenses could mask otherwise positive prepayment balances, which would not be properly included in the estimate. Further, the incorrect disbursement estimate resulted in the improper inclusion of disbursements totaling $33.8 million and $24.4 million in the third quarter and yearend estimate, respectively. As disbursements and expenses fluctuate, these deficiencies could have greater impacts on future PIH prepayment estimate calculations.

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7 Each quarterly estimate includes data for the current quarter and a beginning balance, which incorporates data from the inception of OCFO's calculation (January 1, 2017, to present). OCFO began calculating the PIH prepayment in fiscal year 2018 and used a beginning balance as of January 1, 2017.

8 Due to the timing of the disbursement data and estimate calculation, OCFO estimates the third month disbursement amount for each quarter's calculation.

9 Because OCFO used a beginning balance date of December 31, 2016, January 1, 2017, was the first date under OCFO's new process. As stated in footnote 6, all data dating back to December 31, 2016, are included in the beginning balance of each quarterly estimate.

10 The PIH prepayment is an asset, which has a normal debit balance. While the beginning balance for some PHAs may be slightly negative due to timing differences, large negative balances are abnormal.

11 Any PHAs with a negative balance are eliminated from the estimate because a negative balance does not represent a prepayment.

### HUD Did Not Recognize All Financial Events Resulting From PIH's Cash Management Process

As described above, HUD had weaknesses in its process for calculating the PIH prepayment estimate on its financial statements. The PIH prepayment line item required an estimation methodology because PIH did not have a system capable of determining PHA expenses in real time or automatically calculating the difference between HUD's disbursements and PHA expenses at the PHA level. This issue not only impacted the PIH prepayment calculation, but also inhibited HUD from accurately calculating and recording other transactions resulting from PIH's cash management process. For example, as part of the cash management process, PIH performed cash reconciliations to identify overpayments and underpayments owed to and from PHAs. However, PIH could not complete cash reconciliations in a timeframe that allowed for timely financial reporting. By the time the reconciliations were completed to identify the overpayments and underpayments (receivables and payables), they were likely not representative of the current status of the receivables or payables.

In fiscal year 2013, we recommended that PIH implement an automated cash management system. As of fiscal year 2019, PIH had a project plan in place and was working with a contractor to develop an automated cash management system. PIH indicated that in fiscal year 2020, portions of the cash management system should be complete, which would include the automation of the cash reconciliation process. The automation would use timelier tenant-level data maintained in the PIH Information Center and allow monthly cash reconciliations and offsets or additional payments to occur automatically.[12] These automated improvements should substantially reduce the receivables and payables because of the immediate offset (collection) or payment of additional funds. Despite these automation plans, it was unclear whether or how OCFO planned to recognize these events in its general ledger because it had not completed a review of the entire cash management process to (1) identify all financial events resulting from cash management activity to be recognized in accordance with GAAP and (2) establish procedures for accounting for those financial events properly and in a timely manner in accordance with GAAP. Further, there were no definite plans to interface the PHA expenditure information to the general ledger, which is necessary to recognize the PIH prepayment at the transaction level.

As a result, when PIH determined that it had overpaid PHAs $174.6 million and underpaid other PHAs $133 million as of the December 31, 2018, cash reconciliation, OCFO did not record accounts receivables and payables to recognize HUD's claim to cash for overpayments and liability for underpayments. Also, OCFO did not record overpayments and underpayments of $192.8 million and $94.4 million, respectively, from PIH's June 30, 2019, cash reconciliation. This condition understated both the accounts receivable and accounts payable line items and overstated the PIH prepayment by the amount of the receivable in HUD's quarterly financial statements. The total amount of these misstatements in HUD's fiscal year 2019 financial statements could not be quantified because as discussed above, receivables and payables were not determined until several months after the point of recognition due to the manual processes involved. Further, although OCFO recorded an estimate for the PIH prepayment, financial

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[12] Cash reconciliations are performed semiannually and are based on Voucher Management System (VMS) expense data that are self-reported by PHAs and verified by HUD, which makes them untimely.

transactions were not recognized at the transaction level. When HUD disburses funds to PHAs or PHAs spend funds provided by HUD, the PIH prepayment balance is impacted. However, these HUD disbursements and PHA expenses were not recognized as they occurred at the transaction level in HUD's general ledger. Instead, OCFO recorded manual journal entries quarterly to adjust the balance to agree with its estimate.

### HUD Did Not Ensure the Completeness of or Accurately Report on Its Accounts Receivables

OCFO did not have reasonable assurance that its accounts receivable balance was complete or that the recorded receivables were accurate and represented a valid claim to cash. Additionally, OCFO had not evaluated its accounts receivables for allowance for loss in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 1.[13]

*Completeness of HUD's accounts receivable not assured*. OCFO did not have reasonable assurance that debts owed to HUD were identified, collected, and accurately reported to OCFO in a timely manner by HUD's program offices for establishment in HUD's accounting records. HUD Handbook 1900.25, REV-4, Debt Collection Handbook, assigns these tasks to its program action officials; however, most of HUD's action officials were not aware of their responsibilities and had no procedures in place to execute them. From the OCFO listing of HUD's program action officials, we contacted action officials from HUD's major program offices[14] to ensure that they were aware of their roles and responsibilities according to HUD's Debt Collection Handbook. Of the 11 officials we contacted, 9 did not know that they were identified as debt collection action officials before we contacted them. Further, none of the action officials had standard operating procedures in place to ensure that all debts owed to HUD from their responsible program area were identified, collected, and reported to OCFO in a timely manner.

*Accuracy or existence of recorded receivables not supported*. In fiscal year 2018, we found that HUD's accounts receivable balance included receivables from seven sustained audit findings[15] totaling $159.8 million that were not supported by a claim to cash.[16] In fiscal year 2019, we found that in addition to the seven receivables we questioned in fiscal year 2018,[17] OCFO could not provide the claim to cash for 76 of the remaining 102 sustained audit receivables it had in its general ledger as of August 26, 2019, totaling $59.6 million. Further, all of these receivables were more than 120 days old, and HUD labeled them as restructured nondelinquent debts in the

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13 According to SFFAS 1, losses due to uncollectible amounts should be measured through a systematic methodology. The systematic methodology should be based on analysis of both individual accounts and a group of accounts as a whole.

14 We did not contact anyone from the HCVP office because we know they are working on corrective actions in this area based on our prior-year recommendations. This section refers only to non-HCVP debts.

15 Sustained audit findings are findings that result from Office of Inspector General (OIG) audits.

16 According to SFFAS 1, a receivable should be recognized when a Federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, or goods or services provided. An example of a claim to cash is a repayment agreement or demand letter that establishes the amount to be repaid and a due date.

17 Of the seven debts questioned in fiscal year 2018, OCFO wrote off one debt and reduced another debt after researching the receivables. The reduced debt is now under a repayment agreement.

second and third quarter Treasury Report on Receivables (TROR), although they were from 1 to 13 years old and had not been modified or restructured.[18]

*Weaknesses in allowance for loss methodologies*. OCFO had weaknesses in its allowance for loss methodologies. For example, it did not recognize any allowance for loss on sustained audit receivables in its third quarter or yearend financial statements, although most of these receivables were old and had no collections. Also, OCFO recognized a 100 percent allowance for loss on criminal restitutions totaling $48 million without valid support. OCFO performed an analysis of the total criminal restitution collections over the past 3 years compared to the total receivables balance; however, it did not perform individual account analyses to better assess the collectability of the individual debts. Of the 620 criminal restitutions in HUD's accounts receivable balance, 304 had collections in calendar year 2019; however, HUD's analysis considered only the amount collected versus the total due. Therefore, it did not take this fact into consideration. Further, HUD did not disclose its methodology for the 100 percent criminal restitution allowance in its third quarter notes as required by Federal GAAP.

We attributed these deficiencies to weaknesses in HUD's system for identifying and reporting on debts to HUD. OMB Circular A-129[19] tasks the chief financial officer with implementing a system for debt collection. While OCFO had published the Debt Collection Handbook and implemented some oversight activities, these actions had not led to an effective system for identifying and accurately reporting on debts owed to HUD. We believe this condition is due to (1) decentralization of debt collection activities throughout HUD, (2) weak monitoring procedures within OCFO, and (3) a lack of policies and procedures.

*Debt collection action officials not aware of responsibilities*. HUD's Debt Collection Handbook decentralizes and delegates substantial authority for the performance of debt collection activities to action officials within each program office; however, it does not state by whom and how the action officials should be selected. Recently, OCFO communicated to the General Deputy Assistant Secretaries (GDAS) that they needed to provide a listing of their debt collection action officials to OCFO. However, the GDASs provided a listing of program officials who were not aware that they were designated as action officials. We attributed this condition to program offices' being primarily focused on executing their mission and not being as familiar with the accounting and debt collection requirements as OCFO.

*Weak monitoring procedures.* OCFO had not implemented effective monitoring or control activities to ensure that all debts owed to HUD that could arise from normal HUD business and monitoring activities were identified and reported by the program offices. During fiscal year

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[18] According to the instructional Workbook for Preparing the Treasury Report on Receivables and Debt Collection Activities, A Supplement to TFM [Treasury Financial Manual] Volume 1, part 2, chapter 4100, debts are considered rescheduled when terms and conditions are modified to facilitate repayment of a debt, which includes establishing new terms as a result of changes in authorizing legislation. Rescheduling is also called restructuring, refinancing, and reamortizing. Rescheduled debts are not considered delinquent unless the debtor fails to pay under the rescheduled terms.

[19] OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables, states, "Assign to the agency CFO [chief financial officer], 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."

2019, OCFO implemented a quarterly reconciliation of debts owed to HUD with program office action officials in which action officials were required to report any debts. However, OCFO received only one response. Instead of performing further followup to ensure that all program offices' action officials (1) provided complete reporting, (2) were aware of their responsibilities, and (3) had procedures in place to consistently perform their duties, OCFO assumed that only one program office had a debt to report, which was unrealistic considering the size of HUD's programs, the nature of its activities, and the frequency of Office of Inspector General (OIG) oversight that results in debts owed to HUD.

Further, OCFO did not have controls in place to follow up on delinquent receivables. Although all of the recorded sustained audit receivables were more than 120 days old, OCFO did not follow up with action officials to confirm their validity or determine why collections did not occur. Instead, it incorrectly labeled them as "rescheduled" in the TROR because it had no information on these receivables.

*Lack of policies and procedures.* OCFO did not have accounting policies or procedures in place to ensure that sustained audit receivables were accurately recorded or periodically evaluated to determine an appropriate allowance for loss rate. As a result, it did not maintain source documentation for sustained audit receivables and relied solely on the information provided in OIG audit reports[20] to support the receivable balance. Further, OCFO did not have procedures in place to periodically evaluate criminal restitutions for an appropriate allowance for loss rate in accordance with GAAP.

Due to these deficiencies, HUD's accounts receivable balance was likely misstated. Because OCFO could not readily determine who performed the essential debt collection responsibilities delegated to its action officials and did not have effective monitoring and control activities for this reporting area, HUD had no assurance that its $208 million accounts receivable balance (excluding the Federal Housing Administration and Ginnie Mae) was complete and accurate. Also, because OCFO could not provide the claim to cash for 81 sustained audit receivables,[21] HUD's accounts receivable balance was potentially overstated by $147 million,[22] and HUD's TROR reporting was incorrect. Finally, because HUD's 100 percent allowance for loss rate for criminal restitutions was not supported by the analysis required by GAAP, HUD's accounts receivable balance may not have been reported at its net realizable value and may have been understated. Further, HUD's third quarter note disclosure was not complete and in compliance with GAAP.

### HUD Did Not Properly Account for Its Property, Plant, and Equipment

HUD continued to be unable to account for its PP&E, including leasehold improvements and internal use software (IUS), in accordance with Federal accounting standards.[23] The Offices of

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20 HUD's Fort Worth Accounting Center reported that it did not know what source documentation was used to record these sustained audit receivables. The Fort Worth Accounting Center Director stated that when he took over the accounts receivable function, he adjusted the balances to match the audit reports because he had no support for the amounts that were previously recorded.

21 76 identified in fiscal year 2019 and 5 of the 7 remaining from fiscal year 2018.

22 $59.6 million from fiscal year 2019 and $87.1 million remaining from fiscal year 2018.

23 SFFAS 6, Accounting for Property, Plant, and Equipment and SFFAS 10, Accounting for Internal Use Software.

the Chief Financial Officer, Chief Information Officer, and Administration did not have reliable internal controls and an integrated asset management system. Complementary controls and procedures to share and document acquisition and software cost information among stakeholders[24] were not consistently followed, and oversight from senior management was not performed to detect and correct deficiencies.

*SSFAS 50 not properly implemented for internal use software*. HUD did not properly implement SFFAS 50 when establishing new opening balances for IUS. HUD implemented SFFAS 50[25] in fiscal year 2019 due to its inability to address prior-year weaknesses in its accounting for IUS. This standard allows for the establishment of new opening balances at the beginning of a reporting period and enables the agency to establish sound internal controls and systems to properly account for IUS transactions going forward. Under SFFAS 50, HUD adopted the prospective capitalization method[26] to write down the outstanding balance for its IUS. However, HUD improperly wrote down its $332.2 million in IUS at fiscal yearend (September 30, 2019) instead of at the beginning of the reporting period (October 1, 2018) as required by SFFAS 50. HUD also did not provide auditable documentation to support the application of its prospective capitalization methodology and management's assertion that the IUS zero balance valuation complied with SFFAS 50 and Federal Accounting Standards Advisory Board (FASAB) Technical Release 18.[27] In addition, the implementation of internal controls and systems to account for capitalized PP&E transactions prospectively was not fully implemented during fiscal year 2019. As a result, amounts for IUS transactions that HUD should have capitalized were not included in its fiscal year 2019 financial statements, and HUD did not properly reflect the impact from a change in accounting principle at the beginning of the period in its financial statements as of yearend as required by SFFAS 21.[28]

In November 2019, HUD provided a revised SFFAS 50 implementation plan and corrected the $332 million IUS balance writeoff effective date to the beginning of the fiscal year (October 1, 2018), and recognized $8.9 million in new capitalized IUS in fiscal year 2019 as part of the prospective capitalization method. Also, HUD made significant progress by developing a new end-to-end process, including key controls for its IUS, which if implemented, should address IUS accounting deficiencies. HUD planned to implement the new IUS internal control process

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[24] OCFO was working with the Offices of the Chief Information Officer and Chief Procurement Officer to develop and implement new internal controls and processes for the accounting for IUS.

[25] SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment, amending SFFAS 6, 10, and 23 and rescinding SFFAS 35.

[26] SFFAS 50 states that the reporting entity may choose prospective capitalization of IUS. If the reporting entity elects prospective treatment, it should choose between the following acceptable alternative methods at the opening balance date: (1) exclude all IUS, including that under development at the opening balance date, from the opening balance or (2) exclude IUS in service from the opening balance but include amounts related to IUS under development at the opening date.

[27] Technical Release 18, Implementation Guidance for Establishing Opening Balances.

[28] SFFAS 21, Reporting Corrections of an Error and Changes in Accounting Principle. This standard requires that when a change in accounting principles is adopted, the cumulative effect of the change on prior periods should be made to the beginning balance of cumulative results of operations on the statement of changes in net position for the period in which the change is made.

as of October 1, 2019 (fiscal year 2020) and address the other PP&E accounting deficiencies by December 2019.

*Incomplete financial reporting for property, leasehold improvements, and equipment*. HUD's subsidiary records did not recognize $62.3 million in building renovations and $32.3 million in leasehold improvements completed after 2013 that should have been reported. Additionally, certain building renovations were financed with a $46.8 million capital financing lease that HUD should have reported in its financial statements as a liability starting in fiscal year 2013, when the construction was completed. HUD did not disclose the $46.8 million capital lease principal amount in its financial statements and notes as required by OMB Circular A-136[29] and SFFAS 5, Accounting for Liabilities.[30]

HUD asserted that by following its new PP&E accounting policy developed during fiscal year 2019, the leasehold improvements we identified should have been almost fully depreciated by fiscal yearend, thus having no material impact to the financial statements by the end of the fiscal year. Our review of the PP&E capitalization policy[31] noted that HUD had increased its capitalization threshold to $500,000 for leaseholds and equipment and reduced its amortization period to 3 years. HUD stated that it made these capitalization threshold changes based on the U.S. Department of Defense's (DoD) and 23 other agencies' capitalization threshold policy. After benchmarking, HUD followed the thresholds in place by DoD, the U.S. Department of Health and Human Services, and the U.S. Department of Veterans Affairs, all of which had a larger funding level than HUD. The comparison should have been made with agencies, such as the U.S. Department of Energy or others having the same or similar funding levels or program activities.

Additionally, the HUD accounting policy lacked procedures to follow when a lease agreement was used. SFFAS 6 requires that general PP&E assets be capitalized and depreciated or amortized over the remaining useful life. It further states that entities must consider their own financial and operational conditions in establishing an appropriate capitalization threshold or thresholds. Further, SFFAS 5 requires that liabilities used to finance events, such as acquisitions or services, be recognized in the financial statements and notes. HUD's recently reduced amortization period of 3 years was not adequate for the building renovations and leasehold improvements because the useful life of these capital assets is at least 15 years.

In summary, HUD lacked reasonable assurance that government assets were safeguarded because not all property was accounted for in the subsidiary records and HUD's total PP&E balance remained misstated.

## Conclusion

In fiscal year 2019, HUD did not always properly account for its assets, liabilities, or budgetary resources in accordance with Federal GAAP. This condition occurred because HUD did not have adequate internal controls or financial management controls and systems to ensure accurate accounting. As a result, several line items in HUD's financial statements were unsupported,

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29 OMB Circular A-136, Financial Reporting Requirements, effective June 2019.
30 SFFAS 5, Accounting for Liabilities.
31 HUD revised its PP&E capitalization policy during the third quarter of fiscal year 2019 as part of its corrective action plans.

misstated, or at risk of misstatement. Specifically, HUD's (1) use of FIFO to account for fiscal year 2014 and prior CPD grants led to misstatements of HUD's unobligated balances and related line items, (2) accrued grant liabilities were misstated for CPD, (3) PIH prepayment estimate and accounts receivables were at risk of misstatement, (4) cash management account receivables and payables were not properly recognized, (5) receivables from sustained audit findings were potentially overstated, and (6) capitalized PP&E was misstated.

### Recommendations

Several prior-year recommendations regarding the accounting for cash management activity in the HCVP and PP&E portions of this finding remained open and can be referred to in the Followup on Prior Audits section of this report. We have the following new recommendations.

We recommend that the Chief Financial Officer

1A. Ensure that all of the sampled amounts used for extrapolation in OCFO grant accrual validation estimates are properly supported with documentation that substantiates the amounts certified in the surveys.

1B. Implement a refined accrual validation methodology, to include more comprehensive review procedures to substantiate the amounts certified by the grantee.

1C. Review CPD's grant accrual estimation methodology to ensure that all assumptions and variables used are properly supported and verifiable with the validation procedure.

1D. After PIH prepayment validations are completed, apply all corrections to CAM 1 codes and Voucher Management System (VMS) expenses to all of the data supporting the fiscal year 2019 beginning balance, and recalculate the fiscal year 2019 PIH prepayment estimate. Based on the recalculation, determine whether restatement is needed to the correct errors in the fiscal year 2019 estimate calculation to ensure consistency between comparative statements.

1E. Revise its review of the PIH prepayment estimate calculations performed by contractors to ensure that the contractors are following the established methodology and any changes to the methodology are applied to the data supporting the beginning balance, if appropriate.

1F. Review all duties currently assigned to action officials to determine which duties can be centralized within OCFO or its Federal shared service provider. For any duties that cannot be centralized, (1) provide an explanation as to why they cannot be centralized and (2) assign these duties to appropriate positions within the program offices. Further, update the Debt Collection Handbook to include any changes made as a result of the review.

1G. Implement monitoring and control activities to ensure that all debt collection action officials perform their duties in accordance with the Debt Collection Handbook

1H. In coordination with each program office, identify the possible debts that could arise from normal business and monitoring activities and create a listing of these scenarios. Based on this listing, implement control activities to ensure that all debts that result from these activities are considered in financial reporting, U.S. Department of the Treasury reporting, and debt collection activities.

1I. Develop and implement a procedure that requires OCFO to identify and research all debts that are more than 120 days old to ensure (1) validity, (2) that proper debt collection efforts occur, and (3) that the status reported in the TROR is correct according to Treasury's TROR requirements.

1J. Review the 76 sustained audit receivables not under repayment agreement totaling $59.6 million to determine validity and ensure that debt collection procedures are followed if applicable, to include (1) issuing demand letters, (2) creating repayment agreements if appropriate, and (3) referring delinquent debt or initiating writeoffs as appropriate. For all receivables determined to be valid, ensure that they are accurately reported to Treasury in the quarterly TROR. For all receivables determined to be invalid, remove the receivables from HUD's accounts receivable balance.

1K. Develop and implement standard operating procedures for calculating and reporting HUD's quarterly allowance for loss based on periodic evaluation of each type of HUD's accounts receivables in accordance with GAAP. The procedures should also include steps to ensure proper note disclosure for significant classes of accounts receivables.

1L. Reassess HUD's SFFAS 50 implementation by correcting HUD's IUS PP&E opening balance instead of the yearend balances and recognize capitalized IUS development, maintenance, and enhancement costs incurred during fiscal year 2019. If not reassessed, provide auditable documentation supporting the application of the methodology used supporting HUD's assertion that the IUS zero balance valuation complies with SFFAS 50 and FASAB Technical Release 18 implementation guidance.

1M. Reevaluate capitalization and useful life thresholds included in HUD's PP&E policy to ensure that they are comparable based on HUD's funding level and size of operations and in accordance with capitalization thresholds and useful life requirements for leasehold improvements according to SFFAS 6 PP&E.

1N. Recognize unrecorded assets and liabilities related to leasehold improvements and make proper disclosures regarding HUD's leasehold improvement liability in the financial statements and notes.

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

1O. Collaborate with OCFO to review methodologies used to produce grant accrual estimates, to include testing and verification of the resulting accrual estimates.

# Significant Deficiencies

## Finding 2: HUD's Financial Reporting Controls Were Not Fully Effective To Ensure Correct Financial Statement Classification and Complete Notes

In fiscal year 2019, HUD continued to significantly improve the accuracy and completeness of its financial reporting; however, we still noted errors in its interim financial statements and notes. Specifically, HUD (1) incorrectly classified the Rental Assistance Demonstration Program (RAD)[32] as funds from dedicated collections in its first and second quarter fiscal year 2019 financial statements and (2) reported an incomplete Note 25-Insurance Programs in its third quarter interim financial statements. We attributed these conditions to limitations in HUD's financial reporting controls. As a result, HUD's quarterly consolidated financial statements were misstated and without our review, HUD's yearend financial statements would have been misstated and not fully compliant with GAAP or OMB Circular A-136.[33]

### HUD Incorrectly Classified RAD as Funds From Dedicated Collections

The OCFO Financial Reporting Division (FRD) classified RAD incorrectly on its balance sheet, statement of changes in net position, and Note 17-Funds From Dedicated Collections in its first and second quarter fiscal year 2019 consolidated financial statements. SFFAS 43, paragraph 7, states that funds from dedicated collections must have revenues or other financing sources that are originally provided to the Federal Government by a non-Federal source.[34] Although HUD did not collect any money from non-Federal sources under RAD, it presented RAD as funds from dedicated collections in its financial statements and related note.

FRD stated that its initial interpretation of Public Law 112-55 was that HUD would receive collections from the public. Further, FRD stated that Treasury most likely had a similar interpretation because Treasury established the RAD funds in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) as reporting type code E-Dedicated collections.[35] Periodic evaluation by HUD of its funds from dedicated collections could have detected and corrected or prevented this error. We reviewed HUD's statement of budgetary

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32 Public Law 112-55, Consolidated and Further Continuing Appropriations Act, 2012, created RAD to address the backlog of deferred public housing maintenance. RAD allows PHAs to leverage public and private debt and equity to reinvest in public housing stock. Under RAD, public housing units move to a Section 8 platform, and funds are shifted from public housing to Section 8 accounts as they are converted. While there is a private element, HUD receives no funds from private sources.

33 OMB Circular A-136, Financial Reporting Requirements, issued June 28, 2019. This Circular provides guidance for executive branch entities required to submit audited financial statements, interim financial statements, and performance and accountability reports or agency financial reports (AFR) under the CFO Act as amended.

34 According to SFFAS 43, Funds From Dedicated Collections, amending SFFAS 27, Identifying and Reporting Earmarked Funds, paragraph 7, funds from dedicated collections must have revenues or other financing sources that are originally provided to the Federal Government by a non-Federal source.

35 Reporting Type Code is a GTAS attribute. E is the code used to represent funds from dedicated collections. Although Treasury sets up the data attributes in GTAS, HUD certifies to the accuracy of its data through the monthly certification process.

resources and determined that all of these funds were appropriated and, therefore, included no public funding.

Before we identified this issue, FRD did not have a process implemented to periodically evaluate the reporting, classification, and disclosure of funds from dedicated collections. After FRD confirmed that the classification was an error, it implemented a new review to periodically evaluate these funds to ensure proper classification and reporting.

As a result of the issue described above, HUD's first and second quarter fiscal year 2019 financial statements were misstated. Specifically, funds from dedicated collection and "all other" line items in the statement of changes in net position and balance sheet were overstated and understated, respectively. According to our calculations, the absolute value of the misclassification in the second quarter 2019 financial statements totaled \$214 million. Further, HUD's Note 17-Funds From Dedicated Collections was also overstated because balances for RAD should not have been included.[36] After we brought this matter to HUD's attention, HUD recorded a \$68 million correction of error to its fiscal year 2019 third quarter beginning balance and reported on the balances correctly for third quarter and yearend reporting.

### HUD's Note 25-Insurance Programs Was Incomplete and Not in Compliance With GAAP and OMB Circular A-136

FRD did not ensure that its note on Ginnie Mae's mortgage-backed securities (MBS) guarantee program (Note 25-Insurance Programs) was complete and in compliance with GAAP and OMB requirements.

SFFAS 51, Insurance Programs, became effective in fiscal year 2019. Although HUD implemented this new standard, it's third quarter Note 25-Insurance Programs did not contain the following disclosures that SFFAS 51 required:

- The nature and magnitude of uncertainty of estimated amounts to be paid to settle future claims, including (1) significant risk assumptions and factors, including relevant trend information, and (2) how much risk, if any, is shared by third parties.
- The total amount of coverage provided through insurance-in-force as of the end of the reporting period, which was \$2.1 trillion as of June 30, 2019.[37]
- Events that caused the material change from October 1, 2018, to June 30, 2019, in Ginnie Mae's liability of loss on remaining coverage.

FRD's standard operating procedures state that to ensure compliance with GAAP, FRD performs a review biannually and updates the agency financial report (AFR) as appropriate. However, FRD did not have controls in place to ensure that this action occurred or that the review included all aspects of the new disclosure requirements. FRD had checklists for each of its notes; however, not all of the checklists included an item for determining compliance with SFFAS disclosure requirements or OMB Circular A-136. In response to our finding, FRD noted that the

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[36] On HUD's note 17, the funds from dedicated collections for RAD are labeled "tenant-based rental assistance" and "project-based rental assistance." All of these amounts should have been excluded from this note.

[37] Ginnie Mae notes, "It should be noted, however, that Ginnie Mae's potential loss is considerably less due to the financial strength of its issuers. In addition, the value of the underlying collateral and the insurance provided by insuring or guaranteeing agencies indemnify Ginnie Mae for most losses."

fiscal year 2019 OMB A-136 was not issued until the end of June 2019. However, SFFAS 51, which included the required note disclosures, was issued on January 18, 2017. OMB Circular A-136 was merely including the requirement that was issued in January 2017.

Because HUD's third quarter Note 25-Insurance Programs was not complete, it did not comply with GAAP and OMB Circular A-136. After we communicated this matter to HUD and Ginnie Mae, they updated this note to include the information for the yearend financial statements. The total amount of coverage provided through insurance-in-force is a required disclosure in the Consolidated Financial Report of the U.S. Government. Without our review, this note would have been incomplete. Further, HUD's AFR and the Consolidated Financial Report of the U.S. Government would have been missing information that is important to users of these financial statements.

### Conclusion

HUD continued to make significant improvements to its controls over financial reporting. However, we identified two areas in which there were errors in HUD's interim financial statements that would have gone undetected except for our review. Specifically, HUD incorrectly classified RAD as funds from dedicated collections, and its third quarter note on Ginnie Mae's MBS guarantee program (Note 25-Insurance Programs) was incomplete. HUD and Ginnie Mae, as applicable, corrected these errors for yearend reporting. FRD's controls would not have detected or prevented these errors, and HUD's yearend financial statements would have been misstated and not fully compliant with GAAP or OMB Circular A-136. Further, HUD's AFR and the Consolidated Financial Report of the U.S. Government would have been missing information that is important to users of these financial statements.

### Recommendations

We recommend that the Chief Financial Officer

2A. Implement a procedure to periodically, not less than annually, review HUD's funds from dedicated collections to ensure that those funds fulfill the criteria established by FASAB. Additionally, update HUD's financial reporting standard operating procedures with this new periodic review.

2B. Collaborate with Treasury to correct the reporting type code for the funds associated with RAD to ensure that the reporting type code within HUD's GTAS file reflects the correct reporting type.

2C. Update all financial statement note checklists to include a review for completeness with the accounting standards and OMB Circular A-136.

## Finding 3: Despite Progress, HUD's Financial Management System and Computing Environment Weaknesses Continued

While HUD continued to make progress in its multiyear effort to address financial management system weaknesses and limitations during fiscal year 2019, challenges remained. These challenges remained due to a continued lack of key functionality and critical financial systems to meet financial management needs. Additionally, HUD did not ensure that controls over its computing environment fully complied with HUD policy and Federal guidance. Specifically, we identified weaknesses related to HUD's IBM mainframe general support system (GSS) and the New Core Interface Solution (NCIS). As a result of the shortcomings in HUD's financial management systems, we continued to report on weaknesses in HUD's financial reporting, which increased the risk of a misstatement on HUD's financial statements, as discussed in this audit report. Further, without adequate controls over its computing environment, HUD lacked assurance that financial management applications and the data within them would be adequately protected.

### 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's systems were unable to track loan-level activity in its defaulted issuer portfolio*. During fiscal year 2019, Ginnie Mae implemented a subledger database (SLDB) to address longstanding material weaknesses related to its inability to adequately record and account for the loan accounting and processing of activity in its defaulted issuers' portfolio. These material weaknesses resulted from Ginnie Mae's lack of a financial system capable of recording loan-level transaction details in compliance with GAAP. As part of our audit of Ginnie Mae's fiscal year 2019 financial statements, we attempted to assess whether the SLDB adequately addressed these weaknesses. However, Ginnie Mae could not provide sufficient, appropriate audit evidence for us to assess (1) material asset balances for nonpooled loans and allowance for loan loss account balances, and (2) significant estimates related to Guaranty Asset and Guaranty Liability. Therefore, we are unable to report at this time whether the implementation of the SLDB addressed the longstanding material weaknesses and that Ginnie Mae could support key financial statement line items related to its nonpooled loan assets.

*IDIS did not properly account for formula grant transactions*. As discussed in finding 1, CPD eliminated the use of FIFO for disbursing formula grants in IDIS in fiscal year 2016. However, management's decision to implement appropriate grant accounting only for fiscal year 2015 and forward grants continued to impede HUD's ability to resolve misstatements related to HUD's formula grant accounting and comply with the Federal Financial Management Improvement Act of 1996 (FFMIA). The amount of unpaid obligations susceptible to the FIFO method was approximately $511 million as of September 30, 2019, while disbursements totaling $541 million that were susceptible to FIFO were made during fiscal year 2019.

*Property, plant, and equipment data remained unreliable*. HUD did not have a reliable and integrated asset management system. This condition led to multiple issues in the accounting for HUD's PP&E as described in finding 1. During fiscal year 2019, HUD made significant progress by developing a new end-to-end process, including key controls for its IUS that, if implemented, should address IUS accounting deficiencies. HUD planned to implement the new IUS internal control process and address the other PP&E accounting deficiencies by December 2019.

### 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. Without adequate financial systems in place, HUD was dependent upon costly and time-consuming manual processes to meet financial management needs and often lacked adequate information to make sound information technology (IT) investments and budgetary decisions.

*HUD lacked an effective cost accounting system*. In fiscal year 2006, the U.S. Government Accountability Office (GAO) first reported on a lack of managerial cost accounting functionality within HUD's financial management system.[38] Further, GAO noted the continuing effect of inadequate cost accounting and allocation practices in a fiscal year 2017 report, noting that HUD's cost estimates for IT investments showed significant weaknesses and were generally unreliable.[39] HUD continued to lack an effective cost accounting system during fiscal year 2019, which continued to hinder its ability to produce reliable performance information.

*PIH cash management activities were not fully accounted for*. PIH did not have a system with the capability of determining PHA expenses in real time or automatically calculating the difference between HUD's disbursements and PHA expenses at the PHA level (transaction level), as described in finding 1. Without a system, PIH relied on delayed PHA-reported expense data from VMS, which required time-consuming validation and complex spreadsheets extracted from multiple systems and tracking logs to complete its cash reconciliations. Due to the untimely nature of the expense data and the manual processes involved in the cash reconciliation process, OCFO had to estimate the PIH prepayment instead of recording it at the transaction level in its general ledger. Further, it could not accurately calculate and record other transactions that resulted from PIH's cash management process, such as accounts receivable and payable. Finally, the time spent on the labor-intensive manual processes involved in the VMS validations and cash reconciliation processes could be put to better use. As of fiscal year 2019, PIH had a project plan in place and was working with a contractor to develop an automated cash management system. PIH indicated that it planned to automate the cash reconciliation process in fiscal year 2020.[40]

### HUD's Computing Environment Controls Had Weaknesses

HUD's computing environment, data centers, networks, and servers provide critical support to all facets of its program, mortgage insurance, financial management, and administrative operations. HUD did not ensure that controls over its computing environment fully complied with HUD policy and Federal guidance. Specifically, we identified weaknesses related to HUD's IBM mainframe GSS and NCIS and security weaknesses with CPD's Section 108 Loan

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38 GAO-06-1002R, Managerial Cost Accounting Practices, dated September 21, 2006
39 GAO-17-218, HUD Needs to Address Significant Weaknesses in Its Cost Estimating Practices, February 2017
40 See finding 1 for further details on planned system implementation in fiscal year 2020.

Guarantee program database. Without adequate controls, HUD had no assurance that its financial management applications and the data within them were adequately protected.

*Information system weaknesses were identified with the IBM mainframe GSS*. The IBM mainframe GSS houses many of HUD's applications used to facilitate day-to-day operations. Our review identified weaknesses related to (1) the use of outdated software on the IBM mainframe GSS, (2) improper management of the Top Secret[41] Master Security Control Accessor ID (ACID)[42] (MSCA), (3) improper management of helpdesk user ACIDs, (4) improper user ACID creation, and (5) insufficient annual recertification of IBM mainframe support contractors.

HUD did not ensure that two outdated software products used on the IBM mainframe were upgraded in a timely manner as required by the HUD Infrastructure Support Services-Data Center contract. This condition occurred because the new version of one software product had to be tested for compatibility before being put into production and the Office of the Chief Information Officer (OCIO) assigned the other software product a lower priority for upgrade as it did not negatively impact the HUD environment. By not upgrading to current software versions, HUD increased the risk that its data could be intercepted and accessed by unauthorized individuals.

HUD improperly managed the Top Secret MSCA.[43] At the time of our review, the password for the MSCA did not have an expiration date, there were no specific procedures for monitoring the use of the MSCA, and the concepts of least privilege and segregation of duties were not adequately enforced. The MSCA is typically reserved as a failsafe ID and not used for normal operations, but HUD did not provide sufficient oversight of its use. The MSCA is a privileged account with the highest level of administrative authority over the mainframe, data, and system resources. Therefore, all reasonable measures should be taken to protect it from misuse or abuse. By not properly managing the MSCA, HUD resources were exposed to unnecessary risks.

HUD did not properly manage some helpdesk user ACIDs. The ACIDs and personal datasets of departed helpdesk users were not removed upon their departure, and helpdesk users were provided greater access than required by their job responsibilities. If authorized users have more than the access needed to perform their duties, the risk of inappropriate modification or disclosure of data is increased. Without adequate access controls, unauthorized individuals can read and copy sensitive data and make undetected changes or deletions. In addition, authorized users can modify data or execute changes that are outside their span of authority.

HUD improperly created some new user ACIDs. Specifically, the same user ACID was assigned to multiple users, ACIDs were assigned as profiles rather than user accounts, and user ACIDs were set up with incorrect syntax. These user ACIDs were improperly created due to human error. If the system owner cannot identify the specific user or class of users that is authorized to obtain direct access to each resource for which he or she is responsible, the system owner cannot

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41 Top Secret provides comprehensive security for the mainframe. Top Secret is designed to protect mainframe systems and data by controlling access to system resources.

42 Top Secret uses ACIDs to control access.

43 The MSCA has unlimited scope and administrative authority. Further, the MSCA is not subject to the expiration, facility, source, or terminal checking that is performed by Top Secret.

ensure that user access is limited to individuals with a valid business purpose; that is, least privilege.

OCIO did not conduct an annual IBM mainframe user recertification in accordance with HUD policy. It did not perform a recertification in 2017, and while it initiated an annual recertification in 2018, it did so without documented procedures. OCIO also limited the recertification to privileged[44] users. Additionally, it did not include all IBM support contractors or provide adequate documentation to show that each privileged user's access was reviewed and verified, including access to datasets, facilities,[45] and resources,[46] such as console[47] and DB2[48] granted via Top Secret.[49] When annual recertifications are not conducted as part of the continuous monitoring process, OCIO cannot be sure that those with user accounts and access to the IBM mainframe have a continued, valid need for access and that their level of access is appropriate for their job function. Further, errors in account creation, accounts of departed users, and inappropriate linkages to powerful ACIDs and datasets can go undetected, increasing the risk of inappropriate modification or disclosure of data.

*Information security risks were identified within NCIS.* NCIS supports the interface between HUD and Treasury's Administrative Resource Center (ARC) systems by leveraging the ARC-Oracle standard prebuilt interfaces, reducing the overall effort of interface development. Our review identified weaknesses related to (1) a lack of vulnerability scans for NCIS, (2) untimely remediation of weaknesses, (3) ineffectively implemented contingency planning, (4) the use of outdated software, and (5) inadequately maintained security documentation.

HUD did not conduct a vulnerability scan for NCIS during fiscal year 2019. A scan was not conducted for NCIS in 2019 because OCIO did not have a contractor in place to perform the vulnerability scan. When periodic vulnerability assessments are not conducted to determine security risks that should be mitigated, OCFO cannot (1) identify weaknesses in the information system, system security procedure, internal control, or implementation that could be exploited or triggered by threats; (2) ensure that information resources are adequately protected; and (3) prevent unauthorized access by outsiders as well as insiders.

HUD did not remediate weaknesses with NCIS identified in the plan of action and milestones (POA&M) in a timely manner. POA&M is an IT security weakness tracking document required by OMB. While OCFO reported weaknesses related to NCIS contingency planning 4 years ago in the POA&M, it did not report remediation until August 2019; therefore, these weaknesses were not addressed in a timely manner. This condition was due to the primary and disaster recovery data centers' being moved to new locations, the lack of a dedicated backup SFTP (secure file transfer protocol) server at the disaster recovery data center, and the need to establish

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44 Privileged users are users whose authorized access provides a capability to alter the properties, behavior, or control of the information system or network. This access allows more rights and permissions than those given to standard business users.

45 A facility is a way of grouping options associated with a particular service to which users sign on.

46 A resource is any component of the computing or operating system required by a task.

47 A console is a basic computer or monitor and keyboard that is connected to another computer, server, or mainframe over a network. It is used to maintain or monitor the status of the network or computer.

48 DB2 is a family of relational database management system products from IBM that serve a number of different operating system platforms.

49 Top Secret controls how, when, and which resources a user can access.

a secure connection between ARC and HUD. The POA&M process is compromised when policies and procedures to manage and mitigate IT risks are not followed.

HUD did not have an effective contingency planning process for NCIS. Specifically, the latest NCIS business impact analysis, dated May 29, 2019, listed the wrong software tool being used to transfer files. In addition, the NCIS contingency plan did not include information required by HUD's contingency plan template, nor did it include the test results of the most current disaster recovery exercise held in August 2019. These conditions existed because OCFO did not ensure that its contractor updated the NCIS contingency plan as needed, updated its business impact analysis to reflect the most current information, and uploaded it into HUD's centralized information security management tool. In addition, OCIO did not ensure that its IT contingency plan template was accurate and current. When the IT contingency plan is not accurate, NCIS management cannot rely on it to reflect the degree of restoration required for NCIS to achieve the level of continuity of operations desired. Further, the contingency plan also addresses other security-related events, resulting in a reduction in mission or business effectiveness, such as malicious attacks compromising the confidentiality or integrity of NCIS.

HUD's SFTP server, which provides secure file access, file transfer, and file management capabilities for NCIS, used an outdated version of a software product. The most current version of the software was released in April 2019; however, NCIS used software released in October 2009. The server is maintained by the OCIO. Older versions of software do not contain the latest security mitigations. Therefore, using older versions of software increases the impact of vulnerabilities, making exploitation more likely to succeed and detection of any exploit more difficult.

The NCIS configuration management (CM) plan and system security plan (SSP) were not properly maintained. The latest version of the NCIS CM plan (August 2015) was outdated and did not include a complete and up-to-date system component inventory. We also identified 14 security controls in the June 2018 SSP that contained missing, outdated, or inaccurate information. OCFO updated the CM plan in May 2019 and addressed SSP issues with the issuance of the July 2019 NCIS SSP for each of the items we brought to its attention. The SSP and CM plan help ensure that controls operate as intended and provide effective security while supporting compliance with policies and procedures. When the system component inventory is not complete, accurate, and up to date, OCFO cannot ensure that its inventory will provide a means of managing NCIS IT assets.

*HUD lacked adequate security controls over the Section 108 Loan Guarantee program database.* CPD's Section 108 loan guarantee database was not configured to restrict access based upon the principle of least privilege. Specifically, the database was not configured to adequately prevent or detect the addition, deletion, or modification of data that could be unauthorized or erroneous. As a result, the risk of unauthorized entries or errors going undetected was increased. CPD planned to implement a database with security enhancements, which was in development as of September 30, 2019, to address the risks posed by the current environment.

*Previously identified information system control weaknesses remained unresolved.* In March 2019, we reported that HUD did not ensure that controls over the internet server GSS fully complied with Federal requirements and its own internal policies. Specifically, (1) outdated security protocols were in use within HUD's computing environment, and cryptographic settings were disabled without proper approvals; (2) duties for privileged users with access to servers hosting two of HUD's major financial applications were inadequately segregated; (3) account management and access controls over privileged users were inadequate; and (4) disaster recovery capabilities were not fully tested. Without effective controls, HUD could not ensure that the systems and network would perform as intended to support its mission and generate accurate financial statements. HUD had completed the actions needed to close 1 of the 15 recommendations made in March 2019.

In March 2018, we reported that HUD did not ensure that controls over the intranet GSS fully complied with Federal requirements and its own internal policies.[50] Specifically, (1) weaknesses within the intranet GSS were not properly tracked or remediated in a timely manner, (2) GSSs were not reauthorized to operate, (3) offline backup storage for HUD's data centers did not exist, (4) unauthorized changes in asset and device inventory could not be identified, (5) an unsecured file transfer protocol was used, and (6) access controls were inadequate. Without effective controls, HUD could not ensure that the systems and network would perform as intended to support its mission and generate accurate financial statements. HUD had completed actions needed to close 13 of the 18 recommendations made in March 2018.

Older recommendations from previously issued audit reports that were related to HUD's transition to a Federal shared service provider also remained open. HUD had completed actions to address 4 of 6 recommendations we made in September 2016[51] as well as 10 of 13 made in February 2017[52] and 5 of 6 made in September 2017.[53]

## Conclusion

Complete and reliable information is critical to HUD's ability to accurately report on the results of its operations to internal and external stakeholders. During fiscal year 2019, system weaknesses and limitations continued to contribute to the possibility that a misstatement of HUD's financial statements would not be prevented or detected and corrected in a timely manner. Additionally, without adequate controls, HUD had no assurance that its financial management applications and the data within them were adequately protected. While HUD had made progress in addressing system issues, more work is needed to resolve them.

## Recommendations

Prior-year recommendations regarding this finding remained open and are identified in the Followup on Prior Audits section of this report. Additional recommendations related to our fiscal year 2019 information systems audits will be included in separate OIG audit reports. We have the following new recommendation.

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[50] Audit Report 2018-DP-0003, issued March 9, 2018
[51] Audit Report 2016-DP-0004, issued September 20, 2016
[52] Audit Report 2017-DP-0001, issued February 1, 2017
[53] Audit Report 2017-DP-0003, issued September 28, 2017

We recommend that the Assistant Secretary for Community Planning and Development

3A. Implement information security controls over the Section 108 loan guarantee database that prevent and detect unauthorized changes to program data (or implement an updated Section 108 loan guarantee database with information security controls that prevent and detect unauthorized changes to program data).

## Finding 4: HUD's Financial Management Governance Had Progressed, But Financial Management Processes Had Not Fully Matured

During fiscal year 2019, HUD experienced progress with its financial management governance; however, several areas remained unaddressed or require further improvements to fully address weaknesses and reach maturity of financial management processes. Specifically, as of September 30, 2019, (1) risk mitigation responsibilities for enterprise risk management (ERM) were not assigned, (2) organizational assessments found weaknesses with financial management and internal control, (3) management reviews and assessments were not performed, and (4) program offices did not implement internal controls, including funds control for key operations. Weaknesses in program and component internal controls, which impacted financial reporting, developed, in part, due to a lack of fully matured financial management processes. These financial management maturity weaknesses contributed considerably to the (1) significant deficiencies in internal controls over financial reporting, (2) instances of noncompliance with laws and regulations, and (3) consecutive years of identifying and recording correction of errors that impacted prior-year balances. Further, these weaknesses allowed for identified risks to continue and not be managed. While financial management leadership continued to provide direction and priorities to ensure proper oversight and implementation of robust financial management practices, HUD continued to experience challenges in significant areas, indicative of HUD's continued growth toward financial management maturity.

### HUD Had Not Assigned Risk Mitigation Responsibilities for Enterprise Risk Management

OCFO did not (1) ensure that all Risk Management Council (RMC) members assigned risk owners with risk mitigation responsibilities or (2) provide evidence to confirm that additional internal controls were implemented based on the completion of the agencywide risk profile. According to HUD's timeline tasking guidance, mitigation strategies would not be completed for all risks and risk appetite[54] until sometime in fiscal year 2020. As of September 30, 2019, 61 of the 173 active risks did not have proposed risk responses; therefore, no further internal controls were implemented to mitigate those risks. Additionally, for the top 10 risks,[55] OCFO proposed residual risk responses for the target program offices, but it did not provide evidence of progress being made to address the risks. While assessing the financial impact of those without a risk response, we found that 16 of those risks were categorized as level I risk category – reporting, which have a direct impact on financial reporting agencywide. Further, OCFO was primarily responsible for 19 risks associated with financial, operational, and compliance-based risks. Of

[54] According to OMB Circular A-123, risk appetite is the broad-based amount of risk an organization is willing to accept in pursuit of its mission or vision. It is established by the organization's most senior level leadership and serves as the guidepost to set strategy and select objectives.

[55] The top 10 risks identified in the fiscal year 2019 risk profile refresh included (1) ability to resource and hire staff with appropriate skill sets, (2) ability to execute timely procurement actions, (3) inadequate staffing or ability to justify staffing level, (4) ability to retain skilled employees, (5) lack of ability to provide appropriate IT investment and development, (6) data reliability and availability, (7) ability to provide oversight of vendors and third-party service providers, (8) training for staff specializations, (9) ability to implement appropriate financial controls, and (10) cybersecurity and the safeguarding of information.

the 19 active risks belonging to OCFO, only 10 had been assigned a risk owner and had a risk response.

HUD was integrating ERM into the internal control framework under the leadership of the Chief Risk Officer and OCFO. While we found that HUD made progress with refreshing the ERM risk profile in 2019, RMC members did not always assign risk owners to implement mitigation strategies, including enhancing internal controls for reporting, operations, and compliance. HUD's limited progress in addressing risks and improving its accountability and effectiveness across its program offices resulted from the volume of risks identified in the risk profile, limited staff assigned to executing ERM requirements, and a decision to focus primarily on the top 10 risks identified in the risk profile.[56] Based on OCFO's plan, the assignment of risk owners and mitigation strategies had begun at HUD's Offices of the Chief Procurement Officer (OCPO) and Chief Human Capital Officer (OCHCO); however, neither of these offices provided evidence that controls had been implemented. Further, no strategy was provided for how the agency planned to address the remaining risks identified in the profile in future periods.

Additionally, OCFO and the Chief Risk Officer provided limited guidance[57] to program offices for completing the risk profile refresh. The guidance provided the initial instructions for completing HUD's annual risk refresh; however, OCFO did not establish standard operating procedures or internal policy for risk owners to reference when executing mitigating risk strategies through internal control implementation. While fiscal year 2019 reflects the third year in which HUD had been implementing ERM, management indicated that an ERM policy framework, which would provide additional guidance to the program offices for completing mitigation strategies from the risk profile, would not be issued until sometime in fiscal year 2020.

As a result of OCFO's not ensuring that all RMC members assigned risk owners with risk mitigation responsibilities, there were limited mitigation strategies being performed to effectively manage HUD's identified risks. Further, the lack of designation of risk owners and a policy framework providing guidance to execute strategies limited OCFO's and program offices' ability to respond to risks in a timely manner through implementing and strengthening internal controls for financial reporting. Without assigning mitigation responsibilities, unmitigated risks could impact HUD's financial reporting and fraudulent activity could go undetected.

### OMB Circular A-123 Reviews Found Weaknesses With HUD's Financial Management and Internal Controls

Since fiscal year 2018, HUD has demonstrated improvements in its commitment to addressing internal control risks by completing an updated ERM risk profile and executing OMB Circular A-123, Appendix A, Internal Control Over Reporting, reviews for (1) data completeness, (2) funds control compliance, (3) complementary controls, (4) payroll disbursement analysis, and (5)

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[56] As part of the fiscal year 2019 risk profile refresh, HUD identified top tier risk based on occurrence and impact agency-wide. OCFO decided to begin ERM mitigation strategies with the 10 highest risks in the current fiscal year. The remaining risks would be evaluated over a multiyear plan.

[57] HUD developed a presentation, A Guide to Completing the Enterprise Risk Profile for Your Office, to serve as a guide for completing the risk profile refresh.

travel charge card analysis. The results of the reviews indicated that HUD management must continue to improve internal controls over financial reporting through its governance structure.

The OMB A-123 reports concluded that HUD conducted only a limited assessment of the effectiveness of internal control over financial reporting and, therefore, did not perform a complete review in accordance with the requirements of appendix A of OMB Circular A-123. Further, in the fiscal year 2019 assurance statement,[58] issued June 1, 2019, HUD provided no assurance regarding its internal control over financial reporting. Specifically, HUD concluded that "Overall, HUD's current internal controls are not likely to prevent or detect errors or potential misstatements in its financial reports; therefore, reasonable assurance on internal controls over reporting cannot be achieved" in this assurance statement. Based on the A-123 reviews conducted, we found limited progress in the following areas:

> Complementary user entity controls. HUD had improved from 38 to 50 percent of the complementary user entity controls passing design and operating effectiveness testing. However, 50 percent, or 21, of the controls failed,[59] including significant controls for the budget execution processes relating to the statement of budgetary resources and headquarters funding. While the review determined that HUD's complementary financial reporting controls passed, HUD's financial reporting process is complex and continues to change and be refined as it matures. For the majority of fiscal year 2019, HUD FRD was in the process of incorporating some of our prior-year recommendations into its financial reporting procedures, and the updated procedures had not been implemented at the time HUD had its OMB A-123 testing conducted. Further, OCFO's Office of Financial Management released a supplemental OMB A-123 report for the operating effectiveness of 20 controls originally tested from the first report. The results indicated that 16 of the 20, or 80 percent, of the controls were operating effectively. Although HUD had progressed by completing operating effectiveness testing, 50 percent of the key complementary controls that failed design testing were not included in the supplemental assessment.
>
> Funds control matrix verification. HUD's funds control matrices did not adequately follow the documentation requirements established in GAO's Standards for Internal Control in the Federal Government and OMB Circular A-11, Budget Execution. Additionally, OCFO did not follow HUD's internal guidance within Handbook 1830.2, REV-6, Administrative Control of Funds Policies, or its Standard Operating Procedure for Requesting System Codes because it did not include all CAM1 codes in funds control matrices. HUD's review of CAM1 codes used for disbursing transactions in the first and second quarter identified 49[60] disbursing non-Salaries and Expenses (S&E) CAM1 codes

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[58] Each fiscal year, HUD OCFO is required to submit an assurance statement in accordance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) to state whether it complies with requirements of appendix A of OMB Circular A-123. The assurance statement is HUD's statement communicating compliance or noncompliance with these laws and regulations.

[59] HUD's OMB A-123 Review Report on Complementary User Entity Controls included 42 key controls of design testing. Of the 42 key controls tested, 21 were found to be designed effectively.

[60] On October 31, 2019, OCFO provided additional analysis regarding the OMB A-123 review results, which originally identified 57 nondisbursing S&E CAM1 codes as not being included in a funds control matrix. Eight CAM1 codes were removed from the total because it was determined that they were S&E codes.

with an open obligation balance of $184.4 million identified as missing from a related program office's funds control matrix. Conversely, there were 553 nondisbursing codes that were incorrectly included in a funds control matrix.

OCFO did not ensure that all disbursement transactions recorded to the Oracle general ledger had a corresponding funds control matrix for properly disbursing and recapturing funds. Specifically, OCFO did not effectively monitor the program offices' compliance with the HUD Administrative Control of Funds Policies handbook. This led to CPD's and the Office of Housing's not updating their funds control matrix in a timely manner to include current CAM1 codes.

Additionally, we determined that OCFO budget officers and program budget officers did not follow the Standard Operating Procedure for Requesting System Codes. According to the operating procedures, a new CAM 1 code that is established by a program office must be supported by documentation to show that the CAM1 code is covered by an approved funds control matrix. In these instances, the CFO system code coordinator did not maintain the appropriate documentation to indicate whether the CAM1 code should be included in or excluded from a funds control matrix. As noted in the condition above, any new code identified as disbursing non-S&E CAM1 codes should be included in the program offices' funds control matrix, whereas nondisbursing CAM1 codes, solely used for budgetary purposes, should be excluded. OCFO Systems and appropriations law staff (ALS) continued to lack oversight of the program offices' proper exclusion or inclusion of these codes.

While the internal control assessments described above provide essential information to management to improve financial management maturity, the effectiveness of HUD's RMC will be limited if HUD does not make the RMC and its responsibilities a priority and does not take timely action to address the internal control weaknesses noted in its OMB Circular A-123 reviews and other organizational assessments. These results from the A-123 assessments, coupled with longstanding material weaknesses, prompted OCFO to provide a statement of no assurance regarding the effectiveness of internal controls over financial reporting, which contributed to HUD's overall modified statement of assurance[61] regarding its internal controls over operations, reporting, and compliance, reported in its 2019 AFR. The OMB A-123 assessment statement of modified assurance portrays challenges that continue to face HUD as it attempts to address unresolved material weaknesses, significant deficiencies, and instances of noncompliance with laws and regulations.

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[61] HUD's overall modified statement of assurance considers agency-wide compliance with OMB Circular A-123 by each individual program office. All program offices complete a statement of assurance that is reviewed by the RMC. After considering the statement of assurance from the program offices, the RMC determined that the no assurance from OCFO financial reporting and unresolved material weaknesses and significant deficiencies led to an overall modified statement of assurance in the 2019 AFR.

## HUD Had Not Performed Management Reviews and Assessments

During fiscal year 2019, HUD did not conduct routine management control reviews (MCR),[62] nor did it conduct front-end risk assessments (FERA)[63] for its program areas. These reviews and assessments were not performed because HUD expected to replace the MCRs in fiscal year 2020 with an alternative internal control review process and, while HUD has a policy for program offices to conduct FERAs, OCFO had no authority to enforce the requirement.

The nonperformance of MCRs and FERAs or any other form of an ongoing internal control review hinders management's ability to detect conditions that may adversely affect the achievement of program objectives in a timely manner and to provide reasonable assurance regarding financial reporting. Without consistent MCRs and FERAs, HUD may be unable to detect conditions that could adversely impact achievement of program objectives, including effectiveness and efficiency of operations, in a timely manner. The lack of reviews prevented OCFO from being informed of risks in specific program areas that could impact the reliability of HUD's financial reporting and its ability to comply with applicable laws and regulations. For example, MCRs and FERAs provide a basis for the HUD Secretary to report annually to the President and Congress, as required by FMFIA, on the adequacy of management controls within HUD. Insufficient performance and monitoring of this process for all of HUD's program offices could prevent the HUD Secretary from having an adequate basis when reporting on FMFIA.

In a prior year audit, we recommended that HUD revise its MCR policies and procedures to include clearer and more specific requirements, including accountability for nonperformance.[64] As of September 30, 2019, HUD had not completed the revision of policies for MCRs, and as a result, the agency did not have effective internal guidance for conducting them or other similar reviews. In October 2019, OCFO stated that HUD Handbook 1840.1, Internal Control Policy, was going to be revised with an alternative internal control review process that would replace MCRs in fiscal year 2020. The revision was in the preliminary stages as of September 30, 2019, and, therefore, OCFO could not provide additional details of the alternative review process. Further, HUD issued a revised FERA policy in July 2019; however, it had completed only one pilot FERA[65] as of September 30, 2019. We asked OCFO whether there were plans to complete additional FERAs in fiscal year 2020, and it stated that while there was a departmental policy in place that required the completion of FERAs, OCFO did not hold the authority to enforce the requirement for program offices to conduct the reviews. Therefore, there was no assurance that routine FERAs would be completed in later years, despite revising the policy.

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62 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.

63 A FERA is a formal, documented review by management to determine the susceptibility of a new or substantially revised program or administrative function to waste, fraud, abuse, and mismanagement. Its purpose is to detect conditions that may adversely affect the achievement of program objectives and to provide reasonable assurance that the following goals will be met: (1) safeguarding of assets, (2) effectiveness and efficiency of operations, (3) reliability of financial reporting, and (4) compliance with applicable laws and regulations.

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

65 On September 30, 2019, the PIH Lead-Based Paint Capital Fund completed its FERA using the revised policy.

## Program Offices Did Not Implement Internal Controls for Key Operations

HUD program offices' management continued to not document significant business processes and implement internal controls in accordance with OMB Circular A-123, which led to unsupported balances in HUD's financial system of record, Oracle. Specifically,

_Multifamily Housing management incrementally obligating Section 8 project-based funds_. HUD's Office of Multifamily Housing Programs did not maintain documented policies and procedures for incrementally obligating project-based Section 8 funds (incremental obligation process). In fiscal year 2019, we found that Multifamily Housing followed its funds control matrix procedures by executing both the (1) Tenant Rental Assistance Certification System (TRACS)- Automated Renewal and Amendment Management Subsystem (ARAMS) "in clearance" reservations list signed by the Multifamily Housing regional or field office director and (2) the housing assistance payments basic renewal. However, Multifamily Housing had not documented the process to determine the amounts on the TRACS-ARAMS "in clearance" reservation lists. While Multifamily Housing had internal contract renewal requirements, this process was not aligned with the documentation it used to support its obligations. In our review of obligations incurred and disbursement transactions from October 1, 2018, through March 31, 2019, we identified the following:

- All of the obligating documents used to support a sample of 37 transactions, including 24 obligations incurred of $5.9 million and 13 disbursements of $2.8 million, were not adequately supported. Multifamily Housing used TRACS-ARAMS "in clearance" reservations lists as the obligating document; however, it had not documented the methodology it used to determine the incremental obligation amounts in these lists.

- The inclusion of the TRACS-ARAMS "in clearance" reservations lists in the approved funds control matrix, despite its undocumented incremental obligation process, was not in accordance with GAO Standards for Internal Control in the Federal Government for documenting internal controls over financial reporting and obligating funds.

Multifamily Housing told us that the incremental amounts in the TRACS-ARAMS "in clearance" reservations lists were determined based on the rate of program expenditures, which varied from year to year based on housing project needs for multiyear contracts. According to the internal contract renewal requirements, depending on the type of Section 8 housing assistance payments contract renewal, various rent rates, utility allowances, and expenditure analyses should be performed to support the amount of funding available for the project. Despite Multifamily Housing's having internal contract renewal requirements, there was no evidence that it used these analyses to determine and support the incremental obligations. Further, for the alternative process developed by Multifamily Housing (TRACS-ARAMS "in clearance" reservations list), there were no documented procedures supporting how (1) the field offices determined the incremental obligation amounts and (2) field office directors or approving officials reviewed and approved the obligation amounts in the TRACS-ARAMS "in clearance" reservations list.

_OCPO interagency agreement execution process._ Since fiscal year 2018, we have reported that OCPO did not have controls in place to ensure that Forms 7600A and 7600B were reviewed before the modification was approved by the contract officer in ARC's PRISM. In fiscal year 2019, OCPO began proposing officewide responses to risks identified by HUD's RMC, including defining process flows for each job position, rotational programs for OCPO staff, and standard operating procedures for OCPO policies. These corrective actions, if linked to interagency agreement (IAA) reporting, would mitigate the issues discussed above. Although OCPO had proposed preliminary efforts, there was no evidence of corrective action plans being completed for IAA execution and documentation.

As a result of mitigation strategies being delayed, OCPO continued to not maintain adequate records for IAAs in its procurement system of record, PRISM. The recorded obligation amounts were not always supported by authorized and signed IAA contracts and modifications. In a review of 20 sampled active IAAs in 2019, we identified 5, or 25 percent, with an $87.2 million obligated balance that did not have modifications or Forms 7600A and 7600B signed by the servicing agency maintained in PRISM. We also determined that not all documented IAA activity, including modifications, was properly reviewed and approved by the contract officers in accordance with the Acquisition Instruction 13-07 for Interagency Acquisitions and HUD's Handbook 2210.3, REV-10, Procurement Policies and Procedures.

OCPO confirmed that contract officers had a continuous issue of getting the servicing agency to sign both the Forms 7600A and 7600B[66] and return the agreement to HUD. Further, according to the OCPO internal procedure for administering IAA modifications,[67] the contract officers were required to wait until both signatures were in the file before approving the IAA or contract. However, OCPO management failed to comply with the internal procedure[68] for executing, authorizing, and recording IAAs. This noncompliance likely occurred because OCPO used a self-approval approach for IAA activity in PRISM. Specifically, an initiator of an IAA and later modifications had the ability to self-approve and release the change on the modifications up to $150,000. In these instances, there was no segregation of duties between the initiator of the change and the contract officer approving the modification. Although PRISM has a peer review mechanism within the system, this peer review process did not effectively prevent the authorization issues noted above in our sample selections.

As a result, $1 billion in awarded funds and $901.1 million in obligation balances from IAAs with HUD's trading partners were susceptible to risks of errors, fraud, and unsupported balances

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66 All IAAs and modifications are required to have signatures by both the servicing and requesting agencies.

67 Acquisition Instruction 13-07, Interagency Acquisitions, and HUD's Procurement Policies and Procedures Handbook (2210.3, REV-10). Acquisition Instruction 13-07, Interagency Acquisitions, requires that HUD's contracting officer ensure that (1) a proposed interagency acquisition (IA) complies with the Federal Acquisition Regulation, Part 7, Acquisition Planning and Departmental Policies on Planning, including the preparation of an individual acquisition plan (IAP); (2) for assisted and direct IAs exceeding the established threshold, the proposed acquisition strategy is reviewed by the Acquisition Review Council; (3) the appropriate determinations are executed (see section 9); (4) for direct IAs, any applicable justification is completed and approved; and (5) for assisted IAs, the servicing agency provides the HUD contracting officer with a copy of all documents supporting the resulting contract, including preaward and award documents.

68 Acquisition Instruction 13-07, Interagency Acquisitions, HUD Contracting Officers and IAA Preparation. The IAA must be executed before the servicing agency can proceed with the IA. It is very important that the proper authority be cited on the IAA as it may result in an Antideficiency Act (ADA) violation should the incorrect authority be cited.

due to OCPO's not maintaining documentation and the lack of segregation of duties between the initiator and control approver of interagency activity.

### OCFO's Appropriations Law Staff Did Not Maintain Adequate Documentation To Support Antideficiency Act Investigative Actions

OCFO's ALS did not maintain adequate documentation of its investigative processes, conclusions reached, and actions taken, if any, regarding investigations of potential Antideficiency Act (ADA)[69] violations. OMB, GAO, and Treasury issue instructions, procedures, and guidelines for executive branch agencies to follow in properly controlling their budget authority. According to OMB Circular A-11,[70] the ADA requires that each agency set up an administrative funds control system. HUD's Administrative Control of Funds Policies handbook[71] represents HUD's policies and procedures for the administrative control of funds. Chapter 12, Responding to ADA Violations, requires ALS to maintain a file containing appropriate ADA referrals that require investigation and to include an analysis of the potential ADA violation found, if any, and actions taken to address the issue.

Since fiscal year 2018, we have reported that OCFO's ALS did not provide documentation to support the status of ongoing ADA investigations. ALS agreed to provide evidence during fiscal year 2019, supporting its 14 ongoing investigations of potential ADA violations. In June and September 2019, ALS provided us with case binders containing supporting documentation, such as communications, analyses, and draft reports of results for 14 open cases. Based on our review of the cases, we found that ALS had made progress in documenting most cases opened in prior years but did not consistently and sufficiently document evidence to (1) demonstrate that the internal control or process analysis causing the potential ADA violation was conducted or (2) support the basis for conclusions on whether a violation had occurred if applicable. In addition, ALS working papers were not properly supported by supervisory reviews. Therefore, OCFO's ALS did not maintain adequate documentation to support the processing and investigation of its 14 open investigations of potential ADA violations as of September 30, 2019.

Additionally, ALS did not have standard operating procedures describing its investigative process and documentation requirements, including procedures describing the assessment methodology to evaluate each case, roles and responsibilities, timeframes, and documentation requirements to ensure that investigations were executed and documented properly and in a timely manner as required by OMB Circulars A-11 and A-123 and GAO internal control standards.[72] ALS concluded that maintaining detailed case documentation was not necessary because it was a small group of personnel that could track its investigations internally.

Despite progress made in documenting most cases opened in prior years, improvements are still needed to ensure that ADA investigations are properly documented and executed in a timely manner as required by Federal requirements and its own handbook. ALS has committed to providing standard operating procedures for ADA investigations by April 2020.

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69 The ADA serves as the primary foundation for the Federal Government's administrative control of funds system.
70 OMB Circular A-11, Preparation, Submission, and Execution of the Budget.
71 HUD Handbook 1830.2, REV-6, Administrative Control of Funds Policies.
72 GAO Standards for Internal Control in the Federal Government (Green Book).

### HUD's Financial Management Systems Had Improved, but Limitations Remained

HUD had improved its financial management systems, but still faces challenges. The Chief Financial Officers Act of 1990 (CFO Act) states that the responsibilities of an agency chief financial officer include developing and maintaining adequate accounting and financial systems and implementing agency asset management systems, including systems for cash management, debt collection, and property and inventory management and control. In fiscal year 2019, we continued to report a deficiency related to HUD's financial management system and noncompliance with FFMIA. While progress had been made, many manual processes continued to exist because HUD legacy accounting systems that program offices depend on do not always have the functionality required to comply with current financial reporting requirements.

HUD's governance culture was supported by initiatives to improve its financial management, but there continued to be weaknesses in data technology governance. HUD must implement and maintain financial systems in accordance with CFO Act requirements by collaborating effectively, addressing governance weaknesses, and remediating financial management system issues. As part of OCFO's transformation strategy, it had begun to address challenges with financial management systems by working with HUD's Chief Information Officer on an IT strategy to address OCFO data needs. The preliminary progress of this initiative indicated that HUD management had made financial system improvements a priority.

### HUD's Efforts To Address Internal Control Deficiencies Had Progressed

In prior years, we have reported that HUD did not address 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 Standards for Internal Control in the Federal Government. While a significant number of prior-year recommendations remained open, we noted improvements during fiscal year 2019.

As of September 30, 2019, 38 of 71, or 53 percent of, open OIG recommendations from prior-year financial statement audit reports were past the agreed-upon dates for final action, which is a decrease compared to the prior year. HUD management had also not established corrective action plans for eight recommendations. Further, prior-year recommendations regarding deobligations with amounts totaling $226.6 million were outstanding, which had decreased from the prior year. Therefore, HUD's unobligated balance from prior-year budget authority on the statement of budgetary resources related to prior-year unimplemented recommendations was potentially understated by $226.6 million. Refer to table 1 below.

**Table 1**

**Prior-year recommended deobligations not implemented as of September 30, 2019**

| Office | Program | Amount |
|---|---|---|
| CPD, PIH | Open obligations review (OOR) – retained inactive obligations | $160.1 million |
| CPD | Homeless assistance | 22.2 million |
| Ginnie Mae | Program contracts | 44.3 million |
| **Total:** | | **226.6 million** |

## Conclusion

HUD's financial management governance progressed during fiscal year 2019; however, more work is needed to advance HUD's financial management maturity and substantially address the financial management weaknesses currently challenging HUD.

HUD leadership had implemented an OMB A-123 ERM risk appetite into its annual risk assessment; however, management had not completed the appropriate actions to address identified weakness by assigning risk mitigation owners, which could put the agency at risk of noncompliance with laws and regulations, and unmitigated risks could impact HUD's financial reporting. In addition, while HUD's OMB A-123 assessments were limited in nature, they continued to identify limited progress in internal controls that were designed and operating effectively. Further, HUD management continued to not perform critical management reviews and assessments, including MCRs and FERAs, which impacted the assurance of program efficiency and operational effectiveness. Finally, HUD program offices' management continued to not document significant business processes and implement internal controls in accordance with OMB Circular A-123 and funds controls in accordance with OMB Circular A-11, which led to unsupported balances in HUD's financial systems.

## Recommendations

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

We recommend that the Chief Risk Officer

4A. Develop a formal enterprise risk management policy for program offices' risk owners, including guidance for completing the annual risk profile refresh, requirements for completing risk mitigation strategies, and reporting risk mitigation progress to the Risk Management Council

4B. Execute system code requests, including new program-level class and code, CAM 1 codes, in accordance with internal OCFO system standard operating procedures. Specifically, the CFO system code coordinator should verify that OCFO budget officers and program budget officers provide adequate documentation showing that the new CAM1 code is covered by an approved funds control matrix or sufficient justification for not requiring a funds control matrix.

We recommend that the Deputy Assistant Secretary for Multifamily Housing

4C. Develop and implement policy and procedures for the incremental obligation process used for project-based Section 8 funds, including documentation for determining the incremental amounts and controls to review the amounts for accuracy.

We recommend that the Chief Procurement Officer

4D. Assign independent, contract officers to review and certify the initiating contract buyer’s compliance with policies for initiating and authorizing interagency agreements and later modifications for all amounts in accordance with Acquisition Instruction 13-07, HUD Contracting Officers.

4E. Ensure that contracting officers and OCPO field offices review and follow the records management policies and procedures, including completing and signing Forms 7600A and 7600B, to ensure consistency among contract officers approving interagency agreements in the procurement system of record.

# Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements

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, and provisions of contracts and grant agreements that could have a direct and material effect on the financial statements. In fiscal year 2019, 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 noncompliance with other laws and regulations identified for testing in OMB audit guidance.

Our consideration of HUD’s internal controls and testing of its compliance with laws, regulations, contracts, 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, contracts, and grant agreements. A description of the scope of our testing of compliance with laws, regulations, contracts, and grant agreements is included in the Scope and Methodology section of this report.

## Finding 5: HUD's Financial Management System Did Not Comply With the Federal Financial Management Improvement Act

As it has for more than a decade, HUD's FFMIA noncompliance continued in fiscal year 2019. We noted a number of instances of FFMIA noncompliance within HUD's financial management system. HUD's continued noncompliance with FFMIA was due to ineffectively designed and operating key internal controls over financial reporting and unimplemented recommendations from longstanding issues related to component and program offices' system weaknesses. The system deficiencies identified as instances of FFMIA noncompliance and their impacts are referenced throughout this report as contributing to a number of findings.

### HUD's FFMIA Noncompliance Continued in Fiscal Year 2019

HUD did not comply with the three section 803(a) elements of FFMIA. Section 803(a) requires CFO Act 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) the U.S. Standard General Ledger (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, 2019, 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 A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996.[73] HUD also concluded that the agency and its financial management system did not comply with each element of FFMIA as of September 30, 2019. Refer to table 2 below for details.

| Table 2<br>Compliance with section 803(a) of the<br>Federal Financial Management Improvement Act | | |
|---|---|---|
| | Agency | Auditor |
| System requirements | Lack of compliance noted | Lack of compliance noted |
| Accounting standards | Lack of compliance noted | Lack of compliance noted |
| USSGL - transaction level | Lack of compliance noted | Lack of compliance noted |

73 OMB Memorandum M-13-23 (OMB Circular A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996)

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.[74] These details will be included in HUD's 2019 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.[75] The details about systems not in compliance with FFMIA, responsible parties, primary causes, recommendations, and HUD's intended remedial actions are included below by FFMIA section 803(a) element(s).

*Systems That Did Not Comply With Federal Financial Systems Requirements*

**New Core Interface Solution**

NCIS did 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's Oracle Federal Financials (general ledger). OCFO is responsible for NCIS, a key interface between HUD's legacy systems and the general ledger. In fiscal year 2018, OCFO resolved the interface weaknesses, and in fiscal year 2019, OCFO resolved remaining default value data conversion issues. However, OCFO reported in its OMB Circular A-123 Appendix D/FFMIA systems compliance review memorandum for fiscal year 2019 that NCIS was not substantially compliant with FFMIA. OCFO anticipated that NCIS would comply with FFMIA in fiscal year 2020.

**Integrated Pool Management System**

Ginnie Mae's Integrated Pool Management System (IPMS) was not in full compliance with Federal information system control requirements. Our 2018 audit of Ginnie Mae's financial statements[76] identified deficiencies with (1) transaction security within the utility software of the transaction server of IPMS, (2) privileged accounts' password controls, and (3) contractor employees' access controls, and the review process for incompatible duties was not documented. Ginnie Mae's remedial actions included developing and implementing policies and procedures to review user roles, providing training, and updating system configurations. Ginnie Mae planned to have remedial actions taken to address the weaknesses by December 31, 2019.

*Systems That Did Not Comply With Federal Financial Systems Requirements and Federal Accounting Standards*

**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 did not comply with Federal financial system requirements and Federal accounting standards due to open audit recommendations related to significant delays in billing noncompliant lenders for partial claims for which the promissory note was not provided within

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[74] OMB Circular A-136, Revised, Financial Reporting Requirements.
[75] OMB Bulletin 19-03, Audit Requirements for Federal Financial Statements.
[76] Audit Report 2019-FO-0001, Audit of Fiscal Years 2018 and 2017 Financial Statements, issued November 13, 2018.

60 days. Housing had one open recommendation left to resolve to bring SMART back into compliance with FFMIA. To address the remaining recommendation, Housing was requesting reimbursement of the partial claim and incentive fee from lenders that had not provided the original note within the prescribed deadline. Housing planned to have its remedial actions completed by March 31, 2020.

*Systems That Did Not Comply With Federal Accounting Standards and the USSGL at the Transaction Level*

**Integrated Disbursement and Information System Online**

IDIS Online did not comply with applicable Federal accounting standards and the USSGL at the transaction level. CPD is responsible for IDIS. IDIS was noncompliant with FFMIA due to the use of the FIFO method to account for block grant disbursements. We previously recommended that HUD modify IDIS to account for block grant disbursements by the specific identification method and configure the system to record transactions in compliance with USSGL. While the use of FIFO was eliminated in fiscal year 2016 for fiscal year 2015 and forward grants, CPD's decision not to eliminate FIFO retroactively for fiscal year 2014 and prior grants resulted in lingering noncompliance until the amounts subject to FIFO become immaterial.

*Systems That Did Not Comply With Financial System Requirements, Federal Accounting Standards, and the USSGL at the Transaction Level*

**Disaster Recovery Grant Reporting System**

CPD is responsible for the Disaster Recovery Grant Reporting (DRGR) system, an internet-based system supporting the Community Development Block Grant Disaster Recovery (CDBG-DR) program and other special appropriations. DRGR did not comply with Federal financial system requirements, Federal accounting standards, and the USSGL at the transaction level due to system weaknesses and insufficient monitoring of invalid and expired obligations. We recommended that CPD make changes to the DRGR application and make additional process improvements to address issues related to disaster grant activity. CPD was reviewing the obligations identified in our recommendations and anticipated that DRGR would be FFMIA compliant by December 31, 2019.

**Tenant Rental Assistance Certification System**

A 2017 FFMIA compliance review noted that TRACS was not compliant with Federal financial management system requirements, applicable Federal accounting standards, and the 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) for project-based programs. TRACS issues included noncompliance with funds control policies and procedures, weaknesses in monitoring unliquidated obligations, and a failure to comply with improper payment requirements related to HUD's Rental Housing Assistance Programs. Housing addressed the issues related to funds control and unliquidated obligations and was working to implement two system enhancements to track the dollar impact of rent discrepancies and the resolution of such errors and to report on repayments to address the issues related to improper payments. Housing was working on its remedial actions to bring TRACS back into compliance by September 2020.

**Federal Asset Management Enterprise System**

The Federal Asset Management Enterprise System (FAMES) was noncompliant with the three section 803(a) elements of FFMIA and was not auditable as of September 30, 2019. While the Office of Administration (OA) is responsible for FAMES, poor coordination among HUD program offices and competing priorities had left HUD without a working property management system since 2012. We previously recommended that HUD address property system and process weaknesses that rendered the former system, Facilities Integrated Resource Management System, inoperable in 2012 and that HUD establish and maintain a complete and accurate property inventory. A remediation plan had been established; however, during fiscal year 2019, OA was unable to establish and maintain a property inventory in FAMES and implement an Oracle fixed-asset module through its shared service provider to accurately account for IUS.

**Ginnie Mae Financial and Accounting System**

In prior years, Ginnie Mae's Financial and Accounting System (GFAS) was noncompliant with the three section 803(a) elements of FFMIA. Ginnie Mae is responsible for the GFAS application, and noncompliance stemmed from material weaknesses, which included an inability to properly account for nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio. Ginnie Mae implemented a loan-level accounting subledger database module to address the material weaknesses in fiscal year 2019. As part of our audit of Ginnie Mae's fiscal year 2019 financial statements, we attempted to assess whether this subledger database module adequately addressed its longstanding inability to properly account for the indicated nonpooled loan assets; however, Ginnie Mae could not provide sufficient, appropriate audit evidence for us to assess material asset balances for nonpooled loans and allowance for loan loss account balances. These unresolved matters resulted in a scope limitation in our audit work, and as a result, we were unable to validate that the related material weakness was resolved and GFAS remained noncompliant with the three section 803(a) elements of FFMIA.

## Conclusion

HUD's financial management system did not comply with FFMIA as of September 30, 2019. We noted instances in which HUD did not comply with the three section 803(a) elements of FFMIA. The impact of HUD's system limitations was greater than noncompliance with the FFMIA framework. The system deficiencies identified as instances of FFMIA noncompliance and their impacts were referenced throughout this report as contributing to a number of findings.

## 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 6: HUD Did Not Always Comply With the Improper Payments Elimination and Recovery Act of 2010

Our Improper Payments Elimination and Recovery Act (IPERA) audit[77] found that fiscal year 2018 marked the sixth consecutive year in which HUD did not always comply with IPERA. Specifically, it did not always (1) publish improper payment estimates for all required programs and (2) report an improper payment rate of less than 10 percent. These conditions occurred because HUD was continuing to revamp its program to address prior-year IPERA compliance issues. Until all of the prior- and current-year IPERA issues have been remediated, HUD will likely continue to miss opportunities to prevent, identify, reduce, and recover improper payments.

### HUD's Improper Payment Estimates Were Not Published or Valid for Two Programs

HUD did not comply with the requirement to publish an improper payment estimate for all of its programs that were susceptible to significant improper payments. Specifically, HUD did not produce and publish an improper payment estimate for the Multifamily Housing Project-Based Rental Assistance Program due to its limited resources. It also did not publish a valid improper payment estimate for the Office of Public Housing's Tenant-Based Rental Assistance (PIH-TBRA) program due to limited resources. For the PIH-TBRA program, HUD conducted testing at one public housing site based on an OMB-approved alternative plan. While we recognize HUD's effort, we do not believe this approach was a fair representation of the universe, which hindered HUD's ability to establish appropriate corrective actions to address the possible root causes.

### HUD Reported a Gross Improper Payment Rate That Exceeded OMB's Required Threshold

HUD reported a gross improper payment rate of 22.65 percent for the Ginnie Mae contractor payment program. This rate was more than double the OMB-required threshold of 10 percent. HUD stated that this condition occurred because there was insufficient documentation to validate the accuracy of the payment identified in the improper payment testing sample. As a result, HUD had no assurance that it properly used program funds.

### Conclusion

HUD remained noncompliant with IPERA in fiscal year 2018 as it was revamping its program to meet OMB requirements. As a result, HUD's programs continued to be vulnerable to the adverse effects of improper payments. Until all prior- and current-year IPERA issues have been remediated, HUD will likely continue to miss opportunities to prevent, identify, and recover improper payments.

### Recommendations

New recommendations were not made because prior-year audit recommendations that remain open will help HUD remediate repeat findings identified in our fiscal year 2018 IPERA audit report if implemented. Therefore, no recommendations are reported here.

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[77] Audit Report 2019-AT-0001, Compliance With the Improper Payments Elimination and Recovery Act, issued June 3, 2019.

## Finding 7: HUD Did Not Comply With the Debt Collection Improvement Act

HUD did not comply with the Debt Collection Improvement Act (DCIA) as amended. HUD had 81 sustained audit receivables,[78] dating back to 2006, for which it had not established a repayment agreement or received reasonable collections.[79] Without repayment agreements, HUD could not determine whether these receivables were in delinquent status,[80] nor could it maximize collection efforts. In addition, HUD did not have reasonable assurance that its accounts receivable records included all debts owed to it. Similar to the lack of repayment agreements and collections, without assurance that it had recorded all debts owed to it, HUD could not ensure that it serviced and took necessary steps to collect all debts. We attributed these conditions to weaknesses in HUD's management system for debt collection, as OCFO's debt collection efforts had not led to an effective system for identifying and servicing debts or maximizing collections. As a result, HUD was hampered in its ability to comply with DCIA and to recoup money owed to it that could have been used to serve the public.

### HUD Did Not Establish Repayment Agreements and Did Not Have Reasonable Assurance Regarding Debt Collection Activities

As discussed in finding 1, HUD did not have repayment agreements in place for 81 sustained audit receivables totaling $146.7 million. Because no repayment agreement was in place, HUD had not established a repayment date for each of these receivables, which was necessary for servicing the debts and ultimately transferring them for debt collection. According to OMB Circular A-129,[81] agencies must service and collect debts in a manner that best protects the value of the assets. Mechanisms must be in place to collect and record payments and provide accounting and management information for effective stewardship. Further, DCIA and the Digital Accountability and Transparency Act, collectively, require agencies to report delinquent debts to the Treasury for offset within 120 days after the debts become delinquent.[82] DCIA also states that agencies are to maximize collection of delinquent debts owed to the Government.[83]

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78 Sustained audit receivables are receivables that result from HUD OIG audits.

79 HUD collected money on 12 of the 81, totaling $2.6 million of $146.7 million owed.

80 OMB Circular A-129, Policies for Federal Credit Programs and Non-tax Receivables, states that overpayments to contractors, grantees, employees, and beneficiaries; fines; fees; penalties; and other debts are delinquent when the debtor does not pay or resolve the debt by the date specified in the agency's initial written demand for payment (which generally should be within 30 days from the date the agency mailed notification of the debt to the debtor).

81 OMB A-129, Policies for Federal Credit Programs and Nontax Receivables, prescribes policies and procedures for justifying, designing, and managing Federal credit programs and for collecting nontax receivables. Section IV, Managing the Federal Government's Receivables, references DCIA.

82 Public Law 104-134, April 26, 1996, 110 STAT. 1321, section 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. Further, effective May 9, 2014, the Digital Accountability and Transparency Act of 2014 changed this requirement to 120 days after the debt become delinquent.

83 DCIA states that one of its purposes it to maximize collections of delinquent debts owed to the Government by ensuring quick action to enforce recovery of debts and the use of all appropriate collection tools.

The 81 receivables with no repayment agreement and date ranged from 1 to 13 years old and had minimal collections.[84] In addition to inadequate servicing of these recorded receivables, OCFO did not have reasonable assurance that its accounts receivable records included all debts owed to HUD. We determined that the majority of program action officials tasked with debt collection activities were not aware that they were designated as debt collection officials, nor did they have standard operating procedures in place to ensure that all debts owed to HUD relative to their program area were identified and reported to OCFO in a timely manner. If debts are not recorded in HUD's accounts receivable records, OCFO cannot actively service them, determine delinquency, or take steps to maximize collections.

### HUD Did Not Implement an Effective Debt Management System

HUD's system for identifying and servicing debts owed to it to maximize collections had weaknesses. OMB Circular A-129[85] tasks the chief financial officer with implementing a management system for debt collection. While OCFO had published the Debt Collection Handbook[86] and implemented some oversight activities, these actions had not led to an effective system for identifying and servicing debts owed to HUD. As described in finding 1 regarding completeness and accuracy of accounts receivable, we believe this condition was due to (1) decentralization of debt collection activities throughout HUD and (2) weak monitoring procedures within OCFO.

### Conclusion

HUD did not comply with DCIA. Specifically, HUD had 81 sustained audit receivables that were not serviced properly because HUD had not established a repayment agreement and date. HUD also did not have reasonable assurance that its accounts receivable records included all debts owed to it. This condition occurred because the debt collection efforts taken by OCFO had not led to an effective management system for identifying and servicing debts. Until an effective system is implemented, HUD will be challenged in its ability to comply with DCIA and will continue to forgo money due HUD that could be used to serve the public.

### Recommendations

See Finding 1, HUD's Accounting Did Not Always Comply With GAAP, for recommendations related to debt collection and accounts receivable.

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[84] See footnote 81 regarding the amount collected.

[85] OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables, requires agencies to assign to the agency chief financial officer, in accordance with the 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.

[86] HUD Handbook 1900.25, REV-4, CHG-2, Debt Collection Handbook.

# Scope and Methodology

We are required by the Chief Financial Officers Act of 1990, as amended, to audit HUD's consolidated financial statements, which consist of the consolidated balance sheet as of September 30, 2019; the related consolidated statements of net costs, changes in net position, and combined statement of budgetary resources for the fiscal year 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 consolidated financial statements. We also evaluated the internal controls in place at HUD's Federal shared services provider, ARC, by reviewing its Statement on Standards for Attestation Engagements Number 18[87] report for the current period to determine whether the Federal shared service providers' internal controls could be relied upon. Our objective was not to provide an opinion on internal control, and, therefore, we do not express such an opinion.

We tested compliance by identifying and obtaining an understanding of provisions of applicable laws, regulations, contracts, and grant agreements that may materially affect the consolidated financial statements and performing tests of compliance with the provisions we identified as significant to HUD's relevant transactions and balances. Our objective was not to provide an opinion on compliance with provisions of applicable laws, regulations, contracts, and grant agreements, and, therefore, we do not express such an opinion.

We considered HUD's internal controls over required supplementary stewardship information reported in HUD's fiscal year 2019 AFR by obtaining an understanding of the design of HUD's internal controls, determining whether these internal controls had been placed into operation, assessing control risk, and performing limited testing procedures, as required by the American Institute of Certified Public Accountants' U.S. Auditing Standards, AU-C, Section 730, Required Supplementary Information. The tests performed were not to provide assurance on these internal controls, and, accordingly, we do not provide assurance or an opinion on such controls.

With respect to internal controls related to performance measures reported in HUD management's discussion and analysis and its fiscal year 2019 AFR, we obtained an understanding of the design of significant internal controls relating to HUD's assertions of existence and completeness. We also performed limited testing procedures as required by AU-C, Section 730, Required Supplementary Information, and OMB Bulletin 19-03, Audit Requirements for Federal Financial Statements. Our procedures were not designed to provide

[87] Statement on Standards for Attestation Engagements Number 18, Attestation Standards: Clarification and Recodification, establishes requirements and provides guidance for performing and reporting on attestation engagements.

assurance on internal controls over reported performance measures, and, accordingly, we do not provide assurance or an opinion on such controls.

To fulfill our responsibilities, we

- Obtained an understanding of internal controls over financial reporting (including safeguarding assets) and compliance with laws, regulations, contracts, and grant agreements (including the execution of transactions in accordance with budget authority).
- Assessed the accounting principles used and the significant estimates made by management.
- Tested and evaluated the design and operating effectiveness of relevant internal controls over significant cycles, classes of transactions, and account balances based on the level of significance and risk determined from our financial statement line item risk assessment.
- Tested HUD's compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 19-03,[88] including the requirements referred to in FMFIA.
- Examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements.
- Performed other procedures we considered necessary in the circumstances.
- Evaluated the overall presentation of the consolidated financial statements.

Further, we considered compliance with the process required by FMFIA for evaluating and reporting on internal controls and accounting systems. However, we did not evaluate the internal controls relevant to operating objectives as broadly defined by FMFIA. We limited our internal control testing to those controls that we deemed 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 material weaknesses or significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a deficiency in internal control over financial reporting 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 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. 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.

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[88] OMB Bulletin 19-03, Audit Requirements for Federal Financial Statements.

Our work was performed in accordance with generally accepted government auditing standards and OMB Bulletin 19-03. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Followup on Prior Audits

The recommendations made after each finding in this report do not include recommendations from prior-year HUD financial statement audits that have not been fully implemented as of September 30, 2019, according to the Audit Resolution and Corrective Action Tracking System.

We identified 71 unimplemented (open) recommendations, dating back to the audit of the fiscal year 2010 financial statements. As of September 30, 2019, management had established corrective action plans for 63 of the 71 unimplemented recommendations, of which 38, or 53 percent, were past agreed-upon dates for final action. HUD did not have established action plans for eight recommendations. Each of these open recommendations and its status is shown below.

| Followup on prior audits | | | |
|---|---|---|---|
| **Audit rec #** | **Program office** | **Open recommendations** | **Final action target date** |
| **Additional Details To Supplement Our Fiscal Years 2018 and 2017 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, 2019-FO-0003, November 15, 2018** | | | |
| 2019-FO-0003-001-I | OCFO | Determine whether HUD's FSSP, ARC, has resources available to enhance HUD's cost allocation methodology to identify, trace, and allocate costs directly to program activities periodically and at yearend. | 03/19/2020 |
| 2019-FO-0003-002-A | OCFO | Evaluate the impact of the DRGR weaknesses identified in audit memorandum 2018- FW-0802 during the improper payment risk assessment process. | 09/30/2021 |
| 2019-FO-0003-002-C | OCFO | Work with CPD on remediation plans to address application control weaknesses within DRGR identified by audit memorandum 2018-FW-0802 that have contributed to continuing FFMIA noncompliance. | 06/30/2020 |
| 2019-FO-0003-002-G | OCFO | Develop and implement standard operating procedures for recording and periodically evaluating sustained audit receivables to ensure that (1) all receivables are supported by a claim to cash and (2) an allowance for loss is recorded that reasonably estimates uncollectible amounts to reduce the gross amount of receivables to its net realizable value. | 09/30/2019 |
| 2019-FO-0003-002-H | OCFO | Develop and implement procedures that require action officials to certify the validity of accounts receivables periodically, at least quarterly. | 09/30/2019 |

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| | | OCFO should use this information to assess the reasonableness of the allowance for loss estimate. | |
| 2019-FO-0003-002-J | OCFO | Perform a validation, comparing the data used in OCFO's PIH prepayment estimate calculation to the data used by PIH in its RNP reports to ensure that all CAM 1 codes and VMS fields are appropriately included. If it is determined that CAM 1 codes or VMS codes are missing or not properly included, OCFO should update the standard operating procedure and all estimates made to ensure that they are included. | 11/15/2019 |
| 2019-FO-0003-002-L | OCFO | Review FMC's final December 31, 2016, balances and update the PIH prepayment beginning balance accordingly. | 07/12/2019 |
| 2019-FO-0003-002-M | PIH | Design and implement a policy or procedure that ensures the accuracy of all information provided to HUD OCFO related to the PIH prepayment estimation methodology. | 02/26/2020 |
| 2019-FO-0003-004-E | OCFO | Assign and communicate the responsibility of the MCR program policy, implementation, and oversight to ensure that program offices routinely conduct reviews to support a compliant internal control framework. | 9/30/2019 |
| 2019-FO-0003-005-E | CPD | Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $7,517,486 in 187 program obligations and $62,183 in 9 administrative obligations marked for deobligation as of September 30, 2018. | 1/31/2020 |
| 2019-FO-0003-005-F | CPD | Review the 473 identified inactive retained obligations with remaining balances totaling $43,005,703 and close out and deobligate amounts tied to obligations that are no longer needed. | 1/31/2020 |
| 2019-FO-0003-005-G | Housing | Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $51,396,319 in 735 administrative obligations and $5,350,112 in 68 program obligations marked for deobligation as of September 30, 2018. | 11/30/2019 |
| 2019-FO-0003-005-I | PIH | Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $588,694 in 12 administrative obligations marked for deobligation as of September 30, 2018. | 03/12/2020 |

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| 2019-FO-0003-005-J | PIH | Review the three identified retained inactive obligations with remaining balances totaling $78,069 and close out and deobligate amounts tied to obligations that are no longer valid or needed. | 03/12/2020 |
| 2019-FO-0003-005-K | FHEO | Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $168,198 in 29 obligations marked for deobligation as of September 30, 2018. | 02/20/2020 |
| 2019-FO-0003-005-M | OCHCO | Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $574,511 in 79 administrative obligations marked for deobligation as of September 30, 2018. | 11/19/2019 |
| 2019-FO-0003-005-N | ODEEO | Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $106,962 in 30 administrative obligations marked for deobligation as of September 30, 2018. | 03/24/2020 |
| 2019-FO-0003-005-P | PDR | Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $54,909 in 13 administrative obligations marked for deobligation as of September 30, 2018 | 02/25/2020 |
| 2019-FO-0003-009-A | Housing | Develop technical reestimates for the EHLP [Emergency Homeowners' Loan Program] direct loan portfolio annually in accordance with the requirements in OMB Circular A-11, section 185, and submit the reestimates to OCFO and ARC for recording. | 10/30/2019 |
| 2019-FO-0003-010-A | OCFO | Implement a process to ensure that ongoing ADA violation investigations are properly documented as the investigation progresses to enable timely review of open cases. | 04/15/2020 |
| **Additional Details To Supplement Our Fiscal Years 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, 2018-FO-0004, November 15, 2017** | | | |
| 2018-FO-0004-006-A | OCFO | 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 | 6/30/2018 |

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| | | communicate user complementary controls roles and responsibilities. | |
| 2018-FO-0004-007-E | OCPO | Ensure that originating base IAAs and modifications are maintained in HUD's procurement system of record, PRISM, including manual documentation and records from HIAMS [HUD Integrated Acquisition Management System]. | N/A |
| 2018-FO-0004-008-C | CPD | 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. | 3/12/2019 |
| 2018-FO-0004-008-D | CPD | 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. | 3/12/2019 |
| 2018-FO-0004-008-E | CPD | Close out and deobligate the remaining balances on 2,741 expired homeless assistance contracts of $159,437,069. | 11/10/2018 |
| 2018-FO-0004-008-F | Housing | 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. | 9/30/2018 |
| 2018-FO-0004-008-L | FHEO | 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. | 1/4/2019 |
| 2018-FO-0004-008-M | FHEO | 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. | 12/7/2018 |
| 2018-FO-0004-008-O | OCIO | 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. | 2/7/2019 |

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| 2018-FO-0004-008-Q | OGC | 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. | 9/29/2018 |
| 2018-FO-0004-008-S | Ginnie Mae | 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. | 6/30/2018 |
| 2018-FO-0004-011-A | PIH | 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. | 10/31/2019 |
| 2018-FO-0004-011-E | OCFO | 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. | 4/13/2019 |
| 2018-FO-0004-013-A | OCFO | 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. | 9/30/2021 |
| **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** | | | |
| 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. | 12/31/2019 |
| 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. | 12/31/2019 |

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| 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. | 12/31/2019 |
| 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. | 11/10/2018 |
| 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. | 3/27/2018 |
| 2017-FO-0003-008-H | OCFO | Deobligate the $83,501 in 124 administrative obligations marked for deobligation during the departmentwide open obligations review. | 1/19/2018 |
| 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-P | Ginnie Mae | 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. | 9/30/2017 |
| 2017-FO-0003-008-Q | Ginnie Mae | 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 obligations marked for deobligation during the departmentwide open obligations review. | 9/30/2017 |
| **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-0003-006-B | OCFO | Develop a process to ensure that issues and recommendations from all evaluations and audits, including those performed by third parties like NAPA [National Academy of Public | N/A |

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| | | Administration], 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. | |
| 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-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-0003-008-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-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. | 02/02/2017 |

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| | | Additionally, HUD should review the 17 obligations with remaining balances of $1,486,191 and close out and deobligate amounts tied to obligations that are no longer valid or needed. | |
| 2016-FO-0003-008-K | FHEO | Deobligate $140,165 in 41 administrative and $125,166 in 3 program obligations marked for deobligation during the departmentwide open obligations review. | 12/08/2016 |
| 2016-FO-0003-008-L | ODEEO | 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. | 03/22/2017 |
| 2016-FO-0003-008-O | Ginnie Mae | Deobligate the $587,198 in eight administrative obligations marked for deobligation during the departmentwide open obligations review. | 03/21/2017 |
| 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. | 09/30/2021 |
| **Interim Report on HUD's Internal Controls Over Financial Reporting, 2015-FO-0002, December 8, 2014** | | | |
| 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-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 | 12/16/2015 |

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| | | remaining balances totaling $26,711 and close out and deobligate amounts tied to obligations that are no longer valid or needed. | |
| 2015-FO-0002-007-D | OCFO | Periodically reconcile balances with OCIO subsidiary records and research and resolve any identified differences. | 12/31/2019 |
| 2015-FO-0002-007-I | OCIO | Develop a subsidiary system to accumulate the capitalized cost and related depreciation expense for each software project under development or placed into production. | 12/31/2019 |
| **Additional Details To Supplement Our Report On HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements, 2014-FO-0003, December 16, 2013** | | | |
| 2014-FO-0003-002-A | PIH | Transition the PHA NRA [net restricted assets] 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 [89] |
| 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-0003-006-C | OCFO | Enforce already existing internal control procedures to ensure proper supervision over accounting for Section 8 FAF [financing adjustment factor] 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 [Homelessness Prevention and Rapid Rehousing Program] grants and forward all | 9/30/2014 |

[89] Recommendation is under repayment.

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| | | grant closeout agreement certifications to OCFO for recapture. | |
| 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 |
| **Additional Details To Supplement Our Report on HUD's Fiscal Years 2012 and 2011 Financial Statements, 2013-FO-0003, November 15, 2012** | | | |
| 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 |
| **Additional Details To Supplement Our Report on HUD's Fiscal Years 2010 and 2009 Financial Statements, 2011-FO-0003, November 15, 2010** | | | |
| 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 |

# Appendix

## Appendix A

### Auditee Comments and OIG's Evaluation

**Ref to OIG Evaluation** | **Auditee Comments**

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

CHIEF FINANCIAL OFFICER

**HUD OCFO MEMO 20-17**

DEC 6 2019

**MEMORANDUM FOR:** Sarah Sequeira, Director of Financial Audits Division, HUD, GAH

**FROM:** Irving Dennis, Chief Financial Officer, HUD, F 12/6/19

**SUBJECT:** Response to Fiscal Year 2019 Financial Statement Audit – Transmittal of Draft Interim Report on HUD's Internal Controls Over Financial Reporting and Compliance with Laws, Regulations, Contracts, and Grant Agreements

**Comment 1**

HUD is steadfast in its commitment to fulfill its mission to create strong, sustainable, inclusive communities and quality affordable housing for all. Within the Office of the Chief Financial Officer (OCFO), we recognize the role that HUD's Office of Inspector General (OIG) should contribute to the continued improvement of HUD's programs, which enables our employees to successfully accomplish the department's mission.

**Comment 2**

Over the course of Fiscal Year 2019, we concentrated on the weaknesses having the most substantial impact on HUD's financial condition and began to put in place business processes changes to address all weaknesses over the next year. This work was guided in large part by OIG reporting. In order to obtain a clean audit opinion, it is key that OCFO and OIG continue to work together collaboratively. We have identified items in the report that we dispute, and request OIG review the evidence attached, for consideration in revising the report to make it more accurate.

My office will continue to work jointly with the OIG to address and improve the way we do business. However, our business process improvements will be driven by OCFO's assessment of materiality and will pursue only meaningful changes based on allocated resources. Our focus will be on improving internal controls throughout the department, continuing to enable the remediation of HUD's material weaknesses, and using intelligent automation to allow our employees to work more efficiently and effectively for high risk areas.

Through the efforts of the OCFO Financial Transformation, HUD will continue to make progress and restore sound financial management and stability throughout the department. The entire HUD team is committed to serving America's communities in everything that we do. It is our goal to do so in the most effective and efficient way possible—and we acknowledge the contributions the OIG attempts to make towards our efforts. We continue to be concerned about the level of effort spent to address immaterial and insignificant items that create barriers to success.

We understand the OIG's commitment to HUD's mission, and will work with OIG to help provide actionable recommendations and resolution flexibility that management deems relevant and important in aiding operational improvements.

## OIG Evaluation of Auditee Comments

**Comment 1** This report was initially issued to HUD in draft, as an interim report, before the planned issuance of our related Independent Auditor's Report on HUD's Fiscal Year 2019 Financial Statements, so that HUD could begin working to address our concerns identified in other areas of the consolidated financial statement audit. We intended to issue the final interim report soon thereafter. However, due to completing the independent auditor's report sooner than initially planned, we elected to issue both reports at the same time, updating the title of the initial interim report to better reflect the final product.

**Comment 2** On December 6, 2019, HUD's Chief Financial Officer responded to our draft report, including providing detailed comments and documentation regarding disputed areas HUD wanted us to reconsider. Overall, management focused on progress made in restoring sound financial management and stability to the Department, and its commitment to working with our office to continue to improve the way HUD does business. Management did not disagree with the reported findings, but disputed certain statements made in the draft report. We considered management's entire response and made appropriate adjustments to the final report.

We recognize the considerable improvement the Department has made in its internal controls over financial reporting and compliance with requirements, and appreciate its cooperation and coordination with our office. We look forward to working with the Department during the audit resolution process.