Office of the Chief Financial Officer
Washington, DC

Interim Report on HUD's Internal Controls Over Financial Reporting

Office of Audit, Financial Audits Division, Washington DC

Audit Report Number: 2015-FO-0002
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To: Bradford Huther, Chief Financial Officer, F

/s/

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

Subject: Interim Report On HUD's Internal Controls Over Financial Reporting

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) interim assessment of HUD's internal controls over financial reporting.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 202-402-8216.

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Interim Report On HUD's Internal Controls Over Financial Reporting

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 evaluate HUD's internal controls over financial reporting and compliance with applicable laws, regulations, and government wide policy requirements and provisions of contracts and grant agreements. OMB granted HUD an extension to March 1, 2015 to issue its financial report. At the time the extension was granted, our review of the objectives was nearly complete. We determined it would be beneficial to modify the report's scope, and therefore, we are issuing this audit report to provide an interim assessment of HUD's internal controls over financial reporting and compliance. Our final report on HUD's internal controls over financial reporting and compliance, and our opinion on the fair presentation of HUD's principal financial statements will be issued by March 1, 2015.

What We Found

Our interim assessment disclosed 11 findings. The most significant findings relate to (1) CPD's formula grant accounting not in compliance with GAAP, (2) continued weaknesses in PIH's cash management process, (3) lack of validation of grant accrual estimates, and (4) HUD's continued financial management system weaknesses. This report is an interim report on internal controls over financial reporting.

The findings have root causes stemming from weaknesses in HUD's internal controls which have been identified and reported in previous years. These weaknesses are due to HUD's inability to establish a compliant control environment, implement adequate systems, recognize required changes, and identify appropriate accounting principles and policies.

What We Recommend

Current and prior-year recommendations are included after each finding and in the Followup on Prior Audits section of this report. Most significant are those in which we recommend that HUD (1) transition at least $423 million in excess Section 8 funding held in public housing agencies' net restricted asset accounts to HUD, (2) validate its grant accrual estimates to ensure reasonable and accurate financial reporting, and (3) review and if necessary deobligate $237.8 million in excess obligations.

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Background and Objectives

HUD OIG is required by law and OMB regulation[1] to audit the U.S. Department of Housing and Urban Development's (HUD) and its component agencies, the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) principal financial statements. Our objectives of the financial statement audits are to express an opinion on the fair presentation of HUD's principal financial statements and provide a report on internal controls over financial reporting. We are also required to provide a report on compliance with selected provisions of applicable laws, regulations, and government policies that may materially affect the consolidated principal financial statements.

On November 4, 2014, OMB granted HUD an extension to March 1, 2015 so Ginnie Mae could complete preparing its records for audit and HUD could finalize its consolidating financial reporting after the Ginnie Mae audit was completed. At the time the extension was granted, our review of HUD's internal controls over financial reporting and compliance was nearly complete and a draft report on internal controls over financial reporting and compliance had been issued to HUD. OIG, after consultation with HUD, determined it would be beneficial to modify the report's scope to allow HUD staff to begin working on the audit resolution process. Therefore, we are issuing this audit report to provide an interim assessment of HUD's internal controls over financial reporting. Our final report on HUD's internal controls over financial reporting and compliance, and our opinion on the fair presentation of HUD's principal financial statements will be issued by March 1, 2015.

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

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[1] Chief Financial Officers (CFO) Act of 1990, as amended by the Government Management Reform Act of 1994 and implemented by Office of Management and Budget (OMB) Bulletin 14-02, Audit Requirements for Federal Financial Statements.

Results of Audit

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

HUD's Office of Community Planning and Development's (CPD) formula grant program accounting continued to depart from GAAP due to its use of the first in, first out (FIFO) method for disbursing obligations. As reported in fiscal year 2013, the information system used, Integrated Disbursement Information System (IDIS) Online, a grants management system, was not designed to comply with Federal financial management system requirements. Further, HUD's plan to eliminate FIFO from IDIS Online would apply only to fiscal year 2015 and future grants and not fiscal years 2014 and earlier. As a result, budget year grant obligation balances continued to be misstated, and disbursements made using an incorrect U.S. Standard General Ledger (USSGL) attribute resulted in additional misstatements. Due to the inability of IDIS Online to provide an audit trail of all financial events affected by the FIFO method, the financial affects of FIFO, which were applied to its consolidated financial statements, could not be quantified. Further, the amount and pervasiveness of the funds susceptible to the FIFO method and the noncompliant internal control structure in IDIS Online, the combined statement of budgetary resources and the consolidated balance sheet were not prevented from being materially misstated. The effects of not removing the FIFO method retroactively will continue to have implications on future years' financial statement audit opinions until the impact is assessed to be immaterial.

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

Due to inadequate budget controls and a disregard for USSGL attributes at the transaction level when making disbursements for CPD's formula grant disbursements, the use of the FIFO method was

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

During fiscal years 2014 and 2013, $4.8 billion and $5.1 billion, respectively, in disbursements were susceptible to this FIFO method and were reported in HUD's consolidated financial statements. Also during this time, $10.1 billion and $10.4 billion, respectively, in undisbursed obligations were impacted. These material amounts, which impact the combined statement of budgetary resources and consolidated balance sheet, were not presented in conformity with GAAP.

CPD Has Taken Steps To Eliminate the Use of FIFO for Fiscal Year 2015 and Future Grants

Steps to eliminate the FIFO logic from IDIS Online are nearing completion. According to CPD and its information technology services contractor, the required changes to IDIS would be applied only to fiscal year 2015 and future grants during a three-phase process. Phases one and two were scheduled to be completed by October 1, 2015. The first phase would eliminate the FIFO method for fiscal year 2015 formula grants. By the end of the second phase, the reengineering of IDIS by applying a non-FIFO method to future grants and by addressing the receipt of grant funds and program income that could span multiple activities and grant years will be completed. Phase three would involve the programmatic implementation of the system changes, during which the program offices would work with the grantees. This phase was expected to be completed by October 2017.

While CPD has taken steps to eliminate the FIFO logic for future grants, these steps would not be sufficient to eliminate this deficiency as a material weakness and clear the basis for qualification reported in the independent auditor's report for fiscal year 2013 and future independent auditor's reports. Specifically, since the plan did not address fiscal year 2014 and prior grants, there would continue to be a material amount of funding susceptible to FIFO logic. The effects of not removing the FIFO methodology retroactively will have implications for future years' financial statement audit opinions until the impact is assessed to be immaterial.

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

Conclusion

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

During fiscal year 2014, $4.8 billion in disbursements was susceptible to this FIFO method, which is not in accordance with GAAP and will be reported in HUD's consolidated financial statements. Due to this material amount, the combined statement of budgetary resources and the consolidated balance sheet were prevented from conforming to GAAP.

Recommendations

We recommend that the Assistant Secretary for Community Planning and Development

1A. Continue to work with CPD's information technology services contractor and OCFO to ensure that all three phases of the plan to bring IDIS into compliance with GAAP and applicable Federal system requirements are completed as scheduled.

1B. Conduct a formal analysis to determine (project) when the amount of disbursements for fiscal years 2014 and earlier grants that are subject to FIFO will no longer materially impact the financial statements.

Finding 2: Weaknesses in PIH's Cash Management Process Continued To Effect Financial Reporting and HUD's Compliance With Treasury Requirements

In fiscal year 2014, HUD attempted to bring its cash management process for the Section 8 Housing Choice Voucher program into compliance with GAAP and U.S. Department of the Treasury requirements; however, weaknesses in the process continued to impact HUD's compliance with the requirements. To attempt compliance in fiscal year 2014, OCFO began reporting financial activity related to the cash management process, but the activity was not recorded in the general ledger completely, accurately, or in a timely manner. Additionally, the Office of Public and Indian Housing (PIH) had begun transitioning most of the pre-cash-management net restricted asset (NRA) funds; however, since it did not perform cash reconciliations, public housing agencies (PHA) accumulated new NRA funds in excess of their immediate disbursement needs. These issues were the result of HUD's weak internal controls over the cash management process, including the lack of an automated process. Since HUD's general ledger did not sufficiently capture cash management events and PHAs continued to hold funds in excess of their immediate disbursement needs, HUD remained in violation of Treasury cash management regulations, and the PIH prepayment financial statement line item reported on HUD's balance sheet was at high risk for misstatement.

HUD Did Not Recognize Significant Financial Events in the General Ledger Consistently, Completely, Accurately, or in a Timely Manner

In fiscal year 2013,[2] we first reported that HUD failed to properly account for significant financial events arising from cash management in the general ledger. The most significant event was the decision to transition pre-cash-management NRA back to HUD's control. When we brought this issue to HUD's attention, it adjusted its 2012 and 2013 financial statements by recording beginning and ending prepaid balances in 2012 and 2013 and recognizing the difference as an expense.

In fiscal year 2014, we found that while HUD recorded some of the financial events resulting from cash management in the general ledger and financial statements, HUD recorded them through periodic manual adjustments to the general ledger, which were not performed consistently or in a timely manner in accordance with Statements of Federal Financial Account Standards (SFFAS) concepts 1 and 5, and SFFAS 1, Accounting for Selected Assets and Liabilities. This resulted in the financial statements not accurately presenting the activity from cash management as it occurred during the year. Further, HUD's general ledger did not capture these events at the transaction level in accordance with Federal Financial Management Improvement Act (FFMIA). The financial events impacted are described below.

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

HUD offsets of pre-cash-management NRA to transition funds back to HUD. HUD performed offsets against PHAs' monthly Housing Choice Voucher program funding in fiscal year 2014 to transition pre-cash-management NRA accumulations to HUD-held reserves. These adjustments to the general ledger to account for the activity were not consistent or timely. PIH began performing monthly offsets on June 1, but adjustments in the general ledger and financial statements totaling $413 million were not performed until August 2014. PIH also performed an offset of $29 million on September 1, but OCFO did not record this activity in the general ledger and financial statements until after the close of the fiscal year.[3]

HUD offsets of post-cash-management NRA to transition funds back to HUD. Starting in fiscal year 2012, PIH performed quarterly cash management reconciliations to identify new excess accumulations held in PHA NRA accounts, which were collected through offsets against future monthly Housing Choice Voucher program disbursements. If PIH identifed a shortage, it netted an additional disbursment with the monthly disbursement, assuming that the PHA had the budget authority to cover the shortage. However, HUD did not adjust its general ledger to reflect these financial events. As of September 30, 2013, PIH had identified an excess of $33 million and a shortage of $27 million; however, OCFO did not adjust the general ledger and financial statements to reflect these transactions.

PHA expenditures and accumulations during fiscal year 2014. HUD allowed PHAs to spend excess funds held in their NRA accounts on eligible housing assistance payment expenses during fiscal year 2014. However, these expenditures were not recorded in HUD's general ledger or balance sheet in a timely manner as a reduction of the advance. Further, in fiscal year 2014, PHAs accumulated additional excess funding in their NRA accounts because PIH did not perform cash reconciliations to identify and offset the new excess accumulations. OCFO did not recognize this increase in the general ledger and financial statements as it occurred throughout the year, which netted to a $314 million increase.

HUD's Internal Controls Over the Cash Management Process Remained Weak

In fiscal year 2013, we reported that HUD failed to implement adequate internal controls over the cash management process for $16.3 billion in annual disbursements to the Housing Choice Voucher program to ensure complete, accurate, and reliable financial reporting as required by OMB Circular A-123. In fiscal year 2014, the same internal control deficiencies existed for the $17.3 billion disbursed.

[3] This amount was included in the $343.8 million postclosing adjustment.

Reliance on PHAs and manual processes. PIH's complex cash management process remained manual because (1) the HUD Central Accounting and Program System (HUDCAPS) operates on the U.S. Government fiscal year, while PHA funding is based on calendar years and (2) PIH relied on PHAs to report their monthly Housing Assistance Payment (HAP) expenses. The system limitation of HUDCAPS prevents HUD from automating the cash management reconciliation process to identify accounts receivables and accounts payables. Further, HUD could not determine PHA HAP expenses on its own. Relying on PHAs is problematic because it does not allow for real-time reporting. For example, the June 30, 2014, NRA report, which estimated HUD's advance balance using PHA-reported HAP expenses, was not complete and available for review until the beginning of September. Since the information was delayed, PIH had to use extensive manual processes to calculate expenditures, new excess fund accumulations, and offsets. PIH performed these manual calculations outside HUD's financial systems using Excel spreadsheets and data from the Financial Assessment Subsystem (FASS), HUDCAPS, and the Voucher Management System (VMS) for approximately 2,200 PHAs. Further, the Excel spreadsheets were maintained on a shared drive, leaving the data unprotected.

HUD's reliance on PHAs also complicated the 2014 transition of pre-cash-management funding back to HUD because it could not rely on its calculations and demand that the funds be transitioned. Instead, HUD had to work with many PHAs to agree upon a balance to be transitioned back. This process further delayed the offset process and prevented PIH from immediately establishing repayment agreements when PHAs could not provide the funds it requested.

As a result of its reliance on PHAs, HUD had to use manual processes to account for all cash management transactions, which did not allow it to record individual cash management transactions in the general ledger at the transaction level, an FFMIA requirement. We recommended that this process be automated in our prior-year report, and management generally concurred. HUD was working on implementing a new system, the Next Generation Management System (NGMS), which would contain a "Housing Choice Voucher Payment Processing - Payment Calculation" module that may allow HUD to calculate PHA expenses on its own. The NGMS team was working on a contract action that would bring in a developer; however, HUD did not know how long this process would take or whether it would be successful. PIH was also concerned with the availability of funding and, therefore, would not propose a plan to address the recommendation without a commitment from HUD's senior management to ensure adequate funding. As of the date of this report, management had not provided a sufficient action plan for how the recommendation would be implemented.

Lack of Communication Between PIH and OCFO. PIH did not consult with OCFO before implementing the cash management process or perform a front-end risk assessment[4] before implementation. PIH was drafting a front-end risk assessment. Since PIH and OCFO had not established a basic understanding of the business process and the financial transactions impacted by the cash management process, significant delays between the occurrence and recognition of the financial events in the general ledger and financial statements continued. While PIH attempted to provide transparency to OCFO during fiscal year 2014, OCFO did not record adjustments recommended by PIH due to a lack of understanding of the business process, the extensive manual processes involved, and the lack of transparency in the methods used.

HUD Did Not Complete Cash Management Reconciliations or Transition Previously Accumulated Moving To Work Funds, Allowing PHAs To Hold Funds in Excess of Their Immediate Disbursing Needs

Since the cash reconciliation process was completely manual and PIH was already transitioning pre-cash-management NRA, it did not have the resources to perform cash management reconciliations. While PIH transitioned $443 million in pre-cash-management funds during fiscal year 2014, new accumulations identified through cash reconciliations were not completed and offset, allowing PHAs to continue holding substantial excess funds. Therefore, the yearend balance was $423 million, only $129 million less than the reclassified fiscal year 2014 beginning balance.[5]

Additionally, as we reported last year, HUD did not perform cash reconciliations for Moving To Work (MTW) PHAs because HUD does not require them to report non-housing-assistance expenses or funding. Due to the Paperwork Reduction Act, PIH reported that it could not require such reporting. HUD planned to submit the Paperwork Reduction Act exemption to OMB. In addition to its lack of reconciliations, HUD did not transition pre-cash-management accumulations from MTW PHAs. In fiscal year 2014, HUD's 39 MTW PHAs received $3.1 billion in Housing Choice Voucher program disbursements; however, HUD did not require them to report excess accumulations. Therefore, HUD could not quantify, monitor, or track excess accumulations for these PHAs. Although MTW PHAs are allowed to comingle funds, any funds that are advanced to PHAs are subject to Treasury's cash management rules, which do not allow advances in excess of immediate disbursement needs. HUD agrees with this concept, and reports it is now working to determine the best approach to ensure that MTW PHAs are not holding funds in excess of their immediate disbursement needs. HUD had implemented only one cash management tool for its MTW PHAs, basing monthly disbursements on previous-quarter expenses instead of disbursing all of the annual funds in 12 monthly disbursements. While this measure would reduce future accumulations, it would not transition previous MTW PHA accumulations back to HUD or allow for the monitoring of future accumulations.

[4] Required element of HUD's management controls program to ensure that new or changed programs have taken into consideration financial management requirements in designing their program's operations

[5] HUD planned to restate its 2013 ending balance as $552 million. This restatement is further explained later in this report.

Since HUD did not monitor the accumulation of excess funds at MTW PHAs and did not perform cash reconciliations, PHAs held funds in excess of their immediate disbursement needs, which was a violation of Treasury's cash management rules. Further, HUD could not ensure that government funds were properly safeguarded against fraud, waste, and abuse and were used by PHAs for eligible expenses.

HUD's Financial Reporting Was Inadequate

In the cash management process, when approved transactions were recorded in HUDCAPS, corresponding entries were not generated and posted to the appropriate general ledger accounts. Consequently, HUD had to make significant manual adjustments to the general ledger that were not recorded in a timely manner or easily traceable to the transaction source, resulting in an inadequate audit trail and financial statements that did not accurately reflect the financial events occurring from PIH's cash management process as they occurred.

Further, since the cash management process was not automated and relied on PHA-reported expenses, HUD had to estimate PHA HAP expenses for 2 months to determine its fiscal yearend prepayment balance on the financial statements. This situation was problematic because since PHAs spent more than $1 billion each month, even a slight deviation in spending patterns would result in a significant impact on the final advance balance. In fiscal year 2014, OCFO planned to perform a restatement of the balance sheet to reflect an increase in the PIH prepayment line item for fiscal year 2013 in the amount of $100 million. Since there were approximately 2,200 PHAs in the program, it was likely that there would always be deviations among monthly expenses so estimating fourth quarter expenses to determine this balance would likely lead to similar restatements if the NRA balance remained material.

Lastly, since HUD did not track MTW PHA accumulations, OCFO could not properly account for them in its general ledger and financial statements as a prepayment. As a result, the PIH prepayment financial statement line item reported on HUD's balance sheet was at high risk for misstatement.

Conclusion

HUD's internal controls over the cash management process remained inadequate to ensure complete, accurate, and reliable financial reporting as required by OMB Circular A-123. As a result, in fiscal year 2014, HUD did not record significant financial activity in the general ledger and financial statements completely, consistently, accurately, or in a timely manner. HUD's yearend PIH prepayment balance was also at risk of misstatement. Further, HUD's cash management process remained inadequate to ensure compliance with Treasury's cash management rules because while PIH transitioned pre-cash-management accumulations, it did not perform cash reconciliations to prevent new accumulations. Non-MTW PHAs held $423 million in advances, and HUD could not quantify the amount held.

Recommendations

We recommend that the Assistant Secretary for Public and Indian Housing, in coordination with the Chief Financial Officer,

2A. Establish procedures and a schedule for recording in a timely manner all events in the cash management process that provide an adequate audit trail until HUD implements a new system that automatically captures these events.

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

2B. Reinstate cash reconciliations as soon as possible and transition as much as $423 million that accumulated in PHA NRAs during fiscal year 2014.

2C. Complete the transition process for the remaining PHAs with pre-cash-management NRA funds, including establishing repayment agreements if needed.

2D. Submit the Paperwork Reduction Act request to OMB for consideration to allow the collection of information needed to monitor and track MTW accumulations. If approved, make necessary changes to policies to require PHAs to report the information needed to monitor and track accumulations.

2E. For MTW PHAs, develop a plan to quantify and aggressively transition back to HUD funding that exceeds PHAs' immediate disbursement needs.

2F. Establish procedures to track and monitor MTW accumulations to ensure that PHAs do not hold excess funds in advance of their immediate disbursement needs, to include the completion of cash reconciliations or a comparable tool.

2G. Issue guidance to MTW PHAs explaining Treasury's cash management rules and require them to report their unspent funds in the MTW annual report.

We recommend that the Chief Financial Officer

2H. Reclassify prepayments to accounts receivable once PIH determines the amount of the prepayment that PIH cannot offset because PHAs have insufficient funds.

Finding 3: HUD's Grant Accrual Estimates Were Not Validated

The Department did not validate its grant accrual estimates and CPD did not include grants that were recorded and tracked in the Disaster Recovery Grant Reporting (DRGR) System in its estimate. This was due to a lack of proper validation procedures in the Department's estimation methodologies, CPD excluding DRGR system grants in its methodologies, and a lack of relevant grantee reporting. As a result, CPD's fiscal year 2013 grant accrual estimate was materially understated by at least $733 million. In addition, PIH and the Office of Housing could not provide reasonable assurance that their assumptions were accurate.

HUD's Fiscal Year 2013 Financial Statements Were Materially Misstated

In our report on HUD's fiscal years 2013 and 2012 (restated) financial statements,[6] we reported a significant deficiency regarding HUD not recognizing liabilities arising from unpaid amounts due from grant and entitlement programs. To address this deficiency, HUD implemented a grant accrual policy during fiscal year 2014 and for the first time, prepared grant accrual estimates by program area. Upon preparing estimates for fiscal year 2013 for inclusion in the comparative fiscal years 2014 and 2013 financial statements, HUD determined that the necessary adjustments to the fiscal year 2013 financial statements were material and agreed to restate its previously issued financial statements.

CPD's Grant Accrual Estimate Was Materially Understated

Our review of the CPD's grant accrual estimate methodologies for its major grant programs found that CPD did not include steps to validate its fiscal year 2013 grant accrual estimate against subsequent grantee reporting as required by FASAB Technical Release 12, Accrual Estimates for Grant Programs. To estimate its accrual, CPD used a key assumption, that its grant accruals for the end of any reporting period were equal to the amount drawn down in IDIS for the month following the reporting period. Specifically, the grant accruals reported on the financial statements for the year ending September 30, 2013, equaled the IDIS drawdowns processed in October 2013. CPD did not validate the accuracy of its estimate and the underlying assumption for grant accruals. Our projection of results from a statistically valid sample indicated that accruals should have been recorded for more than 1 month's worth of disbursements. Additionally, CPD did not include in its estimate disaster grants and Neighborhood Stabilization Program grants that were recorded and tracked in the Disaster Recovery Grant Reporting system (DRGR).

[6] 2014-FO-0003, Additional Details To Supplement Our Report on HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statement, issued December 16, 2013

CPD did not validate its estimate or include grants reported in DRGR because these steps were not included in its grant accrual estimation policy. In addition, grantees did not report relevant information that would allow CPD to perform a validation. CPD indicated that it will consider attaining adequate information from grantees; however, CPD noted that it would place an additional burden on grantees citing the Paperwork Reduction Act. Since this was the first year CPD had estimated accruals for grants, there was a high inherent risk that the estimate would be inaccurate; however, CPD could have mitigated this risk by validating its fiscal year 2013 estimate.

As a result, CPD's fiscal year 2013 grant accrual estimate of $333 million was materially misstated. Based on a statistical sample of disbursements, we estimated that CPD's grant accrual estimate should have been at least $1,066 million.[7] This misstatement resulted in a minimum of $733 million in underreporting of liabilities on the balance sheet, program costs on the statement of net cost, and appropriations used on the statement of changes in net position as of the reporting date. CPD followed the same methodology to estimate its fiscal year 2014 grant accruals. We were unable to test the validity of its fiscal year 2014 estimate; however, because the same assumptions and data sources were used, we believe there is a high risk that it was misstated as well based on the results of our review of the fiscal year 2013 estimate.

PIH and Housing Did Not Validate Their Grant Accrual Estimates

Our review of PIH grant accrual estimate methodologies found that PIH also did not sufficiently validate its grant accrual estimates. PIH used three separate validation methods; however, these methods were not sufficient to satisfy the requirements of FASAB Technical Release 12 because[8]

- The data used did not allow PIH to account for all potential grant accruals as of HUD's fiscal yearend.
- The methods did not take into account when expenses were incurred by the grantee, which is necessary to determine an accrual.

Additionally, the Office of Housing did not perform procedures to validate its estimate with subsequent grantee reporting. PIH and Housing did not sufficiently validate their estimates because they did not include effective validation procedures in their grant accrual estimation methodologies.

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[7] Our grant accrual estimate has a one-sided confidence interval of 95 percent.

[8] The reasons listed apply to one or more of the three methods; however, no one method has all of the reasons applied to it.

As a result of not sufficiently validating their estimates PIH and Housing could not provide reasonable assurance that the assumptions used were accurate and would result in a reasonably accurate estimate. Both offices' estimates were based on two major assumptions: (1) accruals were based on the average monthly disbursement and were not affected by seasonal spending patterns, and (2) there was a 30-day processing time for eligible expenses; therefore, accruals represented 1 month of disbursements.

This was the first year either office had estimated grant accruals. Therefore, there was a high inherent risk that the estimates would not be reasonably accurate, especially if primary assumptions were not validated. PIH and Housing could have mitigated this risk by validating their fiscal year 2013 estimates. If one or both of the assumptions were inaccurate, it could have a significant impact on PIH's and Housing's estimates, which were $247 million and $249.6 million as of September 30, 2013, and $39 million and $45.6 million as of June 30, 2014.

Conclusion

CPD, PIH, and Housing did not validate their grant accrual estimates. In addition, CPD did not include grants in DRGR in its estimation methodology. As a result, CPD's grant accrual estimate was materially understated. This misstatement resulted in a minimum of $733 million in underreporting of liabilities on the balance sheet, program costs on the statement of net cost, and appropriations used on the statement of changes in net position as of the reporting date. Additionally, PIH and Housing could not provide reasonable assurance that the assumptions they used to produce their estimates were accurate, resulting in a high risk that their estimates could be misstated as well.

Recommendations

We recommend that the Office of the Chief Financial Officer

3A. Promptly communicate the restatement to those charged with governance, oversight bodies, funding agencies, and others that are likely to rely on the financial statements. This includes communication (1) in writing to the Congress, OMB, Treasury, and GAO, and (2) to the public on the Internet pages where the agency's previously issued financial statements that were affected by the material misstatement are published.

3B. Restate the fiscal year 2013 consolidated balance sheet and statement of net cost and disclose the restatement and its effects on the previously issued financial statements in the notes to the financial statements.

3C. Record an adjusting entry to report the revised amount of CPD's grants payable accrual based on the estimate produced in recommendation 3E.

3D. Review assumptions used to produce grants payable accrual estimates and validate the input to the models used by each program office as stated in its grant accrual policy.

We recommend that the Assistant Secretary for Community Planning and Development

3E. Determine the amount of adjustments needed to correct its misstated grants payable accrual to ensure that the amount reported on the financial statements is a reasonable estimate.

3F. Validate grants payable estimates and any assumptions used to produce the estimates against subsequent grantee reporting.

3G. Incorporate into their grants payable accrual estimation methodologies steps to appropriately validate grant accrual estimates and assumptions used to produce the estimates against subsequent grantee reporting.

We recommend that the Assistant Secretary for Housing

3H. Validate grants payable accruals and any assumptions used to produce the estimates in accordance with the provisions of FASAB Technical Release 12.

3I. Incorporate into their grants payable accrual estimation methodology steps to appropriately validate grants payable estimates and assumptions used to produce the estimates.

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

3J. Validate grants payable accruals and any assumptions used to produce their estimates in accordance with the provisions of FASAB Technical Release 12.

3K. Incorporate into their grants payable accrual estimation methodology steps to appropriately validate grants payable estimates and assumptions used to produce the estimates.

Finding 4: Financial Management System Weaknesses Continued To Challenge HUD

Although efforts were underway in fiscal year 2014 to address our concerns, HUD's financial management system limitations and deficiencies remained a material weakness. Existing financial systems lack key functionality and in some cases, HUD does not have financial systems in place to meet financial management needs. As a result of HUD's inherent system limitations and weaknesses, its financial management systems could not be readily accessed and used by financial and program managers without extensive manipulation and excessive manual processing. This situation negatively impacted management's ability to perform necessary financial management functions and efficiently and effectively manage financial operations of the agency, resulting in lost opportunities for achieving mission goals and improving mission performance.

HUD's Financial Systems Lacked Key Functionality

Since fiscal year 1991, we have reported on the lack of an integrated core financial system. With its September 2013 issuance of appendix D to Circular A-123, OMB made substantial changes to the FFMIA framework that took effect in 2014, eliminating the term "core financial system." While the requirement for an integrated core financial system had changed, HUD's financial system weaknesses and limitations remained.

HUD's financial statement consolidation process was costly and inefficient. To produce auditable financial statements, HUD relied on extensive, costly, labor-intensive, and inefficient procedures. These procedures caused errors in the consolidation process and did not support management's need for timely and accurate information. Due to a lack of system functionality in HUD's general ledger, HUDCAPS, HUD extracts data from HUDCAPS into the Financial Datamart and then used a financial tool, Hyperion, to manipulate HUDCAPS accounting data from the Financial Datamart to produce the agencywide financial statements. This process required the extensive and time-consuming manual reconciliation procedures of three different systems (HUDCAPS, Financial Datamart, and Hyperion).

Additionally, to prepare and consolidate component entities' financial statements and notes, the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) submitted financial statement information on spreadsheet templates, which were entered into a software application. Consolidating notes and supporting schedules had to be manually posted, verified, reconciled, and traced. To overcome these system deficiencies when preparing its annual financial statements, HUD relied on extensive compensating procedures that were costly and inefficient. Because of the limitations of HUD's legacy financial systems, errors in the consolidation process occurred, and HUD's financial systems did not support management's need for timely and accurate information.

CPD's system configurations limited its ability to properly account for formula grant transactions and comply with FFMIA. CPD uses IDIS Online to manage its formula grant programs. IDIS Online does not comply with FFMIA system requirements due to system configurations and limitations rendering the system unable to comply with Federal accounting standards or USSGL at the transaction level.

CPD did not account for formula grant transactions using the specific identification method in accordance with Federal accounting standards. Rather, IDIS Online was configured to use the FIFO method to account for and disburse formula grant obligations. CPD's use of FIFO did not comply with Federal accounting standards and had a significant impact on the accuracy of HUD financial statements.

Additionally, due to a lack of key data elements within the system, data from IDIS Online were not posted to the general ledger system with required USSGL[9] accounts. IDIS was not configured to comply with USSGL requirements and post transactions to accurate general ledger accounts.

HUD did not have a working property inventory system in place. HUD did not have a functional, automated property management system during fiscal year 2014 (as required by Title 40 of the United States Code), which set forth executive agencies' responsibilities to maintain adequate inventory controls and accountability systems. HUD implemented the Facilities Integrated Resource Management System (FIRMS) to consolidate, automate, and provide reports on furniture, equipment, personal property, and space and lease processes. While we have reported on FIRMS' FFMIA noncompliance since 2010, technical issues caused by a lapsed maintenance contract have rendered FIRMS nonfunctional since 2012. Although HUD had planned to validate the completeness and accuracy of its property inventory, it had not completed an inventory as of September 30, 2014, due to resource constraints. HUD hoped to complete the inventory by December 31, 2014. To achieve eventual FFMIA compliance and meet business requirements regarding property management, HUD planned to decommission FIRMS and use shared services provided by the Federal Aviation Administration.

Legacy procurement applications did not meet FFMIA requirements and could not be decommissioned due to longstanding data migration challenges. The HUD Procurement System (HPS) and Small Purchase System (SPS) are legacy procurement applications that do not meet Federal financial system requirements. We have reported on the FFMIA noncompliance of HPS and SPS since 2006. The Office of the Chief Procurement Officer (OCPO) worked to improve those applications and implement the HUD Integrated Acquisition Management System (HIAMS) as a replacement application

[9] The Department of Treasury publishes standard general ledger accounting requirements in the USSGL supplement to the Treasury Financial Manual (TFM)

between fiscal years 2007 and 2011. OCPO began a phased implementation of HIAMS in October of 2011. While the HIAMS implementation was completed in 2012, HUD had been unable to decommission HPS and SPS as of September 30, 2014, due to technical issues associated with the transfer of data from the legacy procurement applications.

<u>*HIAMS and HUDCAPS did not interface for data related to payment processing functions.*</u> In an audit conducted in fiscal year 2013,[10] we found that HUD's use of the HIAMS application, as part of its integrated financial management system, did not provide the agency with the data necessary to automate certain payment processing functions. HIAMS and HUDCAPS did not interface to share data that allowed the automation of a process to match invoices to obligations, receiving reports, and acceptance data in HIAMS. Data should be used by both the financial and acquisition systems to perform edits and validations in support of the payment process. Without sharing these data, HUD could not automate processes to capture receipt document data; record full or partial receipt and acceptance of goods and services by document line item; match invoices to obligations, receiving reports, and acceptance data; validate for duplicate invoices; or validate invoice period of performance and invoice delivery and performance dates. While Federal requirements allow automated and manual processes for certain functions, the manual processing of these functions was inefficient.

<u>*HUDCAPS did not have access to real-time SAM data on contractors.*</u> In an audit conducted in fiscal year 2013,[11] we identified internal control weaknesses in the way in which HUDCAPS completed payment management functions. HUDCAPS did not import or update vendor data directly with the General Services Administration's System for Award Management (SAM) application. Instead, users were required to review vendor data through HUD's Financial DataMart application. SAM is a Federal Government computer system that combines Federal procurement systems and the Catalog of Federal Domestic Assistance into one system. SAM includes the functionality from the Central Contractor Registry (CCR). Both current and potential government vendors are required to register in the CCR to be awarded contracts by the government. The CCR validates the vendors' information and electronically shares the data with the Federal agencies' finance offices to facilitate paperless payments through electronic funds transfer. In addition, government contracting and grants officials responsible for activities with contracts, grants, past performance reporting and suspension and debarment activities utilize SAM to obtain up to the minute information. The Financial DataMart interfaces with SAM daily, Monday through Friday, to receive and process the

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[10] 2014-DP-0005, Information Systems Controls in Support of the Financial Statements Audit, issued April 30, 2014. This was a limited distribution report due to the sensitive nature of the information reported and was, therefore, not made available to the public.
[11] 2014-DP-0003, Information Systems Control Weaknesses for Housing and Urban Development Accounting and Programs System Audit, issued January 15, 2014. This was a limited distribution report due to the sensitive nature of the information reported and was, therefore, not made available to the public.

various data files that update the CCR data. As a result, the interface between the Financial DataMart and SAM is not real time and modifications to SAM are not reflected in the Financial DataMart until the next day. Therefore, users of HUDCAPS did not have access to real-time contractor data including information regarding the contractor status to establish obligations and the validate payments. In addition, HUDCAPS did not have an interface with the Financial DataMart that would allow HUDCAPS users to obtain the information without exiting the application.

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 its financial management needs.

HUD Lacked an effective cost accounting system. In fiscal year 2006, the U.S. Government Accountability Office (GAO) reported[12] that HUD's financial systems did not have the functionality to provide managerial cost accounting across its programs and activities. HUD lacked an effective cost accounting system that was capable of tracking and reporting the costs of HUD's programs in a timely manner to assist in managing its daily operations. This lack of functionality resulted in the lack of reliable and comprehensive managerial cost information on HUD's activities and outputs. This condition rendered HUD unable to produce reliable, cost-based performance information.

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

HUD did not adequately design or implement financial systems for the Section 108 and Section 184 loan guarantee programs. Program offices relied on Excel spreadsheets and Access databases to account for more than $2 billion in CPD loan guarantees and approximately $4.1 billion in PIH loan guarantees. Without a financial system to record detailed program transactions, HUD could not adequately monitor loan guarantee programs. HUD was unable to monitor loan commitments and note issuances and

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[12] GAO-06-1002R, Managerial Cost Accounting Practices, dated September 21, 2006

repayment amounts, which could result in unreliable data affecting the financial statements.

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

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

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

HUD used five separate financial management systems to accomplish financial system functions. We have reported on the lack of an integrated financial management system annually since 1991. In 2013 with the issuance of appendix D, OMB made substantial changes to the FFMIA framework, noting the need to transition from a burdensome framework that often led to costly, ineffective, or inefficient technology solutions. OMB's stated goal with the new framework was to reduce the cost, risk, and complexity of financial system modernizations and to provide agencies additional flexibility in their financial system modernizations. While we have long reported on HUD's lack of an integrated "core financial system," the requirement to use an integrated "core financial system" was removed, and with the issuance of appendix D, OMB eliminated the term. Like many Federal agencies attempting to modernize their legacy financial systems under the old framework, HUD's attempts to implement a new financial system had failed.

HUD had been working to replace its primary financial systems since fiscal year 2003. The previous project, the HUD Integrated Financial Management Improvement Project (HIFMIP), was based on plans to implement a solution that replaced two of the applications currently used. In March 2012, work on HIFMIP was stopped, and the project was later canceled. HUD spent more than $35 million on the failed HIFMIP project. In the fall of 2012, the New Core project was created to move HUD forward in implementing a new financial system. The project would migrate HUD's financial transactions and systems to the U.S. Department of the Treasury, Bureau of Fiscal Service's Administrative Resource Center (ARC). Specifically, ARC would provide support for (1) funds management, (2) purchasing, (3) accounts payable, (4) accounts receivable, (5) cash management, (6) cost accounting, (7) the financial system, (8) the general ledger, (9) financial reporting, (10) grants management, and (11) loans management. The project includes three phases. Phase 1 of the project was separated into four different releases. Each release defined a particular function that would be transferred to Treasury's shared services platform.

- Release 1 transferred the travel and relocation functions to Treasury on October 1, 2014.
- Release 2 would cover time and attendance and was scheduled for implementation on February 8, 2015.
- Release 3 was scheduled to start in the fourth quarter of fiscal year 2015 or the first quarter of fiscal year 2016 and would cover migration of the key financial services of OCFO. This process would include the migration of accounting system services associated with budget execution, accounting, finance, data warehouse reporting, and an interface solution.
- Release 4 will address HUD's grant and loan accounting systems. Details regarding this release have not been finalized and there is no scheduled date for implementation.

Phase 2 of the project would address managerial cost accounting, budget formulation, and a fixed assets system. Phase 3 would address the consolidation of FHA and Ginnie Mae as well as the migration of the functionality of HUD's Line of Credit Control System (LOCCS). Details regarding phases 2 and 3 had not been finalized, and there was no scheduled date for implementation.

Conclusion

Complete and reliable financial information is critical to HUD's ability to accurately report on the results of its operations to both internal and external stakeholders. During fiscal year 2014, as in prior years, HUD made limited progress in modernizing its legacy financial systems. HUD requires financial systems that can generate reliable, useful, and timely information for managing current operations to make fully informed decisions and ensure accountability on an ongoing basis.

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

Recommendations

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

Finding 5: Weaknesses in HUD's Administrative Control of Funds System Continued

HUD did not have a fully implemented and complete administrative control of funds system that provided oversight of both obligations and disbursements. Our review noted instances in which (1) disbursements were made before the legal point of obligation[13] documented in the funds control plan, which authorized the use of funds, (2) program offices did not follow HUD's administrative control of funds, (3) program codes were not included in funds control plans, and (4) funds control plans were out of date or did not reflect the controls and procedures in place. These conditions existed because of decisions made by HUD OCFO, failures by HUD's allotment holders to update their funds control plans and notify OCFO of changes in their obligation process before implementation, a lack of compliance reviews in prior years, and timing issues related to the issuance of obligating documents. As a result, HUD could not ensure that its obligations and disbursements were within authorized budget limits and complied with the Antideficiency Act (ADA).

Disbursements Were Made Before the Documented Point of Obligation

HUD used funds control plans to describe and document its administrative control of funds. Our prior-year audit found that disbursements were made before the documented point of obligation[14] required to legally contract and authorize the use of Section 8 tenant-based program funds. Our review of disbursements at HUD's Financial Management Center during fiscal year 2014 noted that the condition still existed. We found that 50 disbursements totaling $634 million occurred before the legal point of obligation documented in the applicable funds control plan.

According to the approved funds control plans for the Section 8 programs, the point of legal obligation is the generation and signing of the PHA notification letter. However, obligations were recorded in HUDCAPS before the notification letters were generated, reviewed, and approved. Once obligations were recorded in HUDCAPS, disbursements could be made without authorization. Our prior-year audit found that the disbursements were made before the point of obligation because of delays in approving either the allotments or the distributions to the PHAs. Due to the delays, the Financial Management Center did not have time to generate and mail the PHA notification letters before the disbursement due dates. Rather than delay the payments to the PHA's, the Financial Management Center processed the disbursements before generating the PHA notification letters.

[13] GAO's Principles of Federal Appropriation Law, Volume II, Chapter 7, provides legal requirements for recording an obligation for contract. Specifically, it states there must be documentary evidence of a binding agreement between an agency and another person (including an agency) that is in writing, for a purpose authorized by law, executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided. The agreement must be legally binding (offer, acceptance, consideration, made by authorized official).

[14] The point of obligation represents when an agreement has been reviewed and approved by a government official certifying that the legal requirements for using the funds were met.

PIH was implementing changes and updating its funds control plans to address this issue. It planned to issue PHAs a notice of funding letter signed by the approving official before processing disbursements, followed by a second notification letter with the funding enclosures once the obligations were posted and verified. As of the date of this report, these changes had not been implemented.

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

HUD's Office of Multifamily Housing Programs did not ensure that it complied with OCFO's administrative control of funds policies and procedures[15] in administering its Section 8 project-based rental assistance program. The Office of Multifamily Housing (1) implemented substantial changes to the Section 8 project-based program obligation process in fiscal year 2011 without the Chief Financial Officer's approval[16] and (2) could not provide the appropriate obligating documents as stated in its 2011 funds control plan to support obligations and disbursements complied with legal authorization and contract requirements.

A fiscal year 2011 funds control plan states that the program offices may use the "Funding Notification for Field Office – S8 Budget Authority Change" (Section 8 budget authority change) form or the "Funding Notification Letter" to notify the recipients. It states that the funding notification letter is the point of obligation. This was a substantial change to the Section 8 Based program obligation process from prior years. However, there was no evidence to support the plan had been approved by the OCFO. The OCFO had no record of either reviewing or approving the plan. Neither Housing nor OCFO could provide evidence that the funds control plan had gone through the legal and financial management analysis required and performed by OCFO before a funds control plan is approved. Further, we found that the program office was not following the 2011 funds control plan regarding the required documentation to support the point of obligation. Instead of utilizing the funding notification letter, the program offices used only the Section 8 budget authority change form to support the obligations. Without evidence of OCFO's review and approval, there is no assurance that the "S8 – Budgetary Authority Change" form meets the minimum legal requirements to record and support an obligation as these documents were not reviewed or signed by an authorized HUD official.

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

[16] Under Section 902 of the CFO Act of 1990, the agency CFO is charged with overseeing all financial management activities relating to the programs and operations of the agency; developing and maintaining an integrated agency accounting and financial management system, including financial reporting and internal controls; and directing, managing, and providing policy guidance and oversight of agency financial management personnel, activities, and operations.

We found that 146 obligations and disbursements (66 obligations and 80 disbursements) from a sample of 247 (130 of obligations and 117 disbursements), or 58 percent, were not supported with proper obligating documentation as prescribed in HUD's administrative control of funds requirements. These 146 obligations and disbursements had amounts totaling $22.3 million and $9.5 million, respectively. The Office of Housing did not have required documentation to demonstrate that the funds were obligated or disbursed in accordance with legal requirements, such as (1) a signed notification of funding of Section 8 contract rents and funding form for budgetary increases on HUD-administered contracts,[17] (2) a signed transaction annual contributions contract amendment for budgetary increases on project-based contract-administered contracts,[18] or (3) a signed agreement to enter into a housing assistance payments contract renewal (if any) and the attached notification of funding.[19]

This condition occurred because Housing misunderstood the use of the Section 8 budget authority change form as the obligation point. The funds control plans specifically stated that "…funding notification may be in the form of the Funding Notification Letter, which is the obligating document, or the Funding Notification for Field Office – S8 Budgetary Authority Change." The funds control plan went on to state that the signed funding notification letter was the point of obligation.

Consequently, we were not able to validate multiple obligation and disbursement samples to determine whether obligations incurred and disbursements made were properly supported by the legal point of obligation. Therefore, there was no assurance that obligations and disbursements for the Section 8 Project Based program were properly reviewed and authorized for accuracy and that each project was funded within authorized budget limits and complied with the ADA.

Not All HUD Programs Had a Funds Control Plan

Our review of HUD's funds control plans found that all of HUD's activities and program codes were not included in a plan. Specifically, we identified 115 program codes that were not documented in a funds control plan. HUD's program codes are used to identify funds obligated and expended for specific programs and activities in its financial systems. During fiscal year 2014, expenditures of $599 million and obligations of $980 million were made from these program codes.

This condition existed as a result of factors that have been reported in prior years. First, in the past, HUD decided not to create funds control plans for programs or accounts that were only expending funds and not incurring new obligations. However, OMB Circular A-11, section 150,

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

Administrative Control of Funds, states that the purpose of an agency's funds control system is to restrict both obligations and expenditures from each appropriation of fund account to the lower of the amount apportioned by OMB or the amount available for obligation or expenditure in the appropriation or fund account. Additionally, HUD Handbook 1830.2, REV-5, Administrative Control of Funds, states that proper execution of a funds control plan should provide reasonable assurance that obligations and expenditures will not exceed the authorized limits of the allotted funds. It goes on to state that funds control plans must contain detailed information for the program line item or other activity included in the allotment, broken down to the lowest level of any corresponding assignment of funds, and list the hierarchy of accounting codes associated with each funded activity covered in the allotment to show how funded activities are controlled and rolled up to the allotment level as a required element of a funds control plan.

Second, the Chief Financial Officer did not have controls over the process for establishing new program codes in HUD's accounting system. Program offices were able to request a new program code without the review and approval of the respective funds control officer, allotment holder, or OCFO. Therefore, program codes were established without confirmation that an adequate funds control plan had been approved, resulting in decreased assurance that HUD's funds were obligated and disbursed in compliance with applicable laws and regulations. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) states that internal accounting and administrative controls of each executive agency must be established in accordance with standards prescribed by the Comptroller General and must provide assurance that obligations and costs comply with applicable law.

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

Funds Control Plans Were Not Kept Up to Date

We previously reported that all of HUD's funds control plans were not updated in a timely manner. This condition continued in fiscal year 2014. Specifically, we noted the following:

- 25 salaries and expenses funds control plans were not updated to reflect the implementation of HIAMS, which occurred during fiscal year 2012.
- The salaries and expenses funds control plans did not reflect the December 2012 rescission of forms HUD-718, Funds Reservation and Contract Authority, and HUD-720, Requests for Contract Services, formerly used to request contract actions through HUD OCPO.
- The funds control plan for the Office of the Chief Human Capital Officer (OCHCO) had not been updated since its reorganization and renaming from the Office of Administration in fiscal year 2009; thus, the plan referenced divisions and offices no longer in existence. Revisions to these plans were in process during fiscal year 2014.

- The funds control plans for the Section 184 Loan Guarantee program were inconsistent with the procedures in use. Revisions to these plans were in process during fiscal year 2014.
- Of a total of 212 plans, 9 needed updates to the allotment holder, 11 needed updates to the funds control officer(s), and 66 had not been recertified as of the date of our review.
- Documentation indicating the removal of a funds control officer or allotment holder was not available for two funds control plans.

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

Another factor leading to the out-of-date funds control plans was OCFO's lack of oversight and monitoring of the program offices' compliance with their funds control plans in prior years. The CFO Act of 1990 states that the responsibilities of an agency chief financial officer include directing, managing, and providing policy guidance and oversight of all agency financial management personnel, activities, and operations. Because of the lack of oversight and monitoring, OCFO was not aware that changes within the program offices were going unreported and, thus, could not correct the behavior. During fiscal year 2013, OCFO's Funds Control Assurance Division began performing reviews of program office compliance with the funds control plans and completed its first year of a 5-year cycle in fiscal year 2014.

Conclusion

HUD did not have a fully implemented and complete administrative control of funds system during fiscal year 2014. As a result, it did not have adequate assurance that its obligations and disbursements complied with applicable laws and limitations. HUD's ability to determine the responsible parties in the event of an Antideficiency Act violation was also hindered as a result of its incomplete funds control system. In addition, processing disbursements before the documented point of legal obligation may lead to violations. Statistically projecting our results for the PIH and Multifamily Section 8 Rental Housing Assistance disbursements in fiscal year 2014, we can be 95 percent confident that at least $11.3 billion were processed without the proper review and approval of authorizing officials. Further, statistically projecting the Multifamily Section 8 Rental Housing Assistance obligations, we can be 95 percent confident that at least $6.1 billion in obligations were processed without properly authorized supporting documentation.

We have reported on HUD's administrative control of funds in our audit reports and management letters since fiscal year 2005, and several prior-year recommendations remained unimplemented.

Recommendations

We recommend that the Chief Financial Officer

5A. Amend HUD Handbook 1830.2, REV-5, Administrative Control of Funds, to require funds control officers and the OCFO Financial Management Division to review and approve the request for establishing new program codes before submitting the request to OCFO systems.

5B. For program codes created before the requirement for creating funds control plans, request that the responsible funds control officers provide a certification documenting the program name, the authorizing law, and the budgetary provision restricting the use of funds to ensure that internal controls over the program codes are maintained and available.

5C. Work with the Office of Multifamily Housing Programs to evaluate its obligation process for the Section 8 project-based program to ensure that it complies with HUD, OMB, and GAO legal requirements to have a legal point of obligation.

5D. Develop procedures for documenting the results of funds control plan reviews to ensure that all sections comply with OMB Circular A-11, part 3, section 150, Administrative Control of Funds, and part 7, appendix H, Checklist for Funds Control Regulation Plans, and that OCFO has approved each plan.

We recommend the Assistant Secretary for Housing

5E. Work with OCFO to revise the funds control plans for the Section 8 project-based programs to ensure that the obligation process in place is sufficient to support a legally binding point of obligation and is reviewed and authorized by designated officials.

Finding 6: HUD Continued To Report Significant Amounts of Invalid Obligations

Deficiencies in HUD's process for monitoring its unliquidated obligations and deobligating balances tied to invalid obligations continued to exist. Specifically, three program offices did not complete their obligation reviews and verifications, which had a total of $952.7 million in obligations that went unreviewed. Additionally, we identified $210.5 million[20] in invalid obligations not previously identified by HUD and $27.3 million in obligations that HUD determined needed to be closed out and deobligated during the fiscal year that remained on the books as of September 30, 2014. These deficiencies were attributed to ineffective monitoring efforts and the inability to promptly process contract closeouts. We also noted that as of September 30, 2014, HUD had not implemented prior-year recommendations to deobligate funds totaling $135.4 million. As a result, HUD's unpaid obligation balances on the statement of budgetary resources were potentially overstated by a total of $373.2 million. Additionally, HUD lacked an established process to reconcile the subsidiary and general ledger obligation controlling accounts, causing differences up to $466.1 million to not be identified on a timely basis or at all, resulting in balances within the general ledger that were at risk of being unsupported or incomplete.

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

Expired Homeless Emergency and Rapid Transition to Housing – Continuum of Care (Hearth CoC) grants were not closed within the 90-day period after the expiration date as required by the program's funds control plans or the Code of Federal Regulations[21]. The Office of Special Needs Assistance Programs did not implement or enforce policies and procedures to ensure that expiring contracts were closed within the 90-day period. The expired grants with an available balance report as of October 7, 2014,[22] showed that approximately 2,743 contracts, which expired between July 1, 2013, and June 30, 2014, were not closed within the 90-day period and the remaining undisbursed obligation balances of approximately $119.9 million had not been recaptured.

Newly drafted procedures to automate and expedite the deobligation and recapture process were not consistently implemented or enforced due to competing priorities, employee turnover, and insufficient communication between HUD headquarters and field offices. The newly drafted procedures are included in the annual review of homeless assistance grants, which was drafted during fiscal year 2013 and included in the funds control plan signed in June 2014.

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[20] $119.9 million in Homeless Assistance funds, $46.1 million in administrative obligations, and $44.6 million in other HUD program obligations.

[21] 24 CFR 84.71(b) Unless HUD authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in HUD instructions.

[22] We used the report, dated October 7, 2014, because it accounted for transactions made within the 7 days during which the accounting system was held open for any remaining yearend transactions.

The field offices had been overwhelmed with running the fiscal years 2013 and 2014 funding competitions simultaneously due to the October 2013 government shutdown. Employee turnover had also been an issue due to a number of field staff retirements. In addition, field staff and grantees had not been adequately trained or had requirements clearly communicated to them by headquarters to ensure compliance with the new procedures regarding the Hearth CoC program and the process for closing out expired contracts.

In addition, a task force was established in fiscal year 2013 to research and resolve outstanding audit findings, especially those related to necessary recaptures and expired grants. The task force was disbanded as it had been established to function temporarily. Its members moved on to work in other program areas.

As a result, $119.9 million in grant funds was not recaptured and reallocated to be used to further the purposes of the program or returned to Treasury. Additionally, HUD's unpaid obligation balances were overstated on the statement of budgetary resources.

Several Program Offices Did Not Complete Their Obligation Reviews or Deobligate Invalid Obligations by Fiscal Yearend

The annual departmentwide obligation review and certification process is an essential part of HUD's internal controls over its funding and accurate financial reporting. This review gives OCFO assurance that its fiscal yearend obligation balance is valid and accurately valued. To ensure adequate time for the deobligation of any invalid obligations by the end of the fiscal year, OCFO required program offices to review and certify their obligations by June 27, 2014. However, the Offices of Housing, PIH, and the Office of the Chief Information Officer (OCIO) missed this deadline and did not complete their review of all required obligations[23] by the end of the 2014 fiscal year. As of October 1, 2014, 868 obligations totaling $952.7 million had not been reviewed by all three offices. As a result, any of these obligations that were invalid were not deobligated by September 30, 2014. Consequently, HUD's fiscal year 2014 unpaid obligation balance on the statement of budgetary resources may have been overstated because obligations were not reviewed.

[23] For the departmentwide obligation review, OCFO establishes thresholds to ensure that at least 95 percent of HUD's obligations are reviewed. For fiscal year 2014, the review required all program offices to review all program obligations over $243,000 and all administrative obligations over $23,000.

Table 1		
Uncertified obligations as of October 1, 2014		
Office	**# of obligations**	**$**
Housing	172	$121,175,734
PIH	548	$756,623,476
OCIO	148	$74,904,026
Total	**868**	**$ 952,703,236**

In addition, several offices did not complete the deobligation of the invalid obligations they identified. During the fiscal year 2014 review, offices marked 2,177 obligations with remaining balances totaling $37 million for deobligation. Of these, 1,354 obligations with remaining balances totaling $27.3 million were not closed out and deobligated by the end of the fiscal year[24]. We attributed HUD's inability to process all of the closeouts and deobligations by the end of the fiscal year to a continued lack of monitoring of obligations throughout the year. Several HUD program offices relied on the annual OCFO-coordinated open obligations review to review all of their obligations and deobligate any invalid obligations. As we have reported in prior years, while the OCFO-coordinated review is an important internal control, it was not designed to be the sole control over open obligations because (1) the period for review and deobligation is limited and (2) only obligations above the threshold are required to be reviewed.

Since several offices did not monitor their obligations throughout the year, they struggled to complete their review by the deadline that OCFO required. Further, since the offices did not monitor and effectively deobligate during the year, many obligations were marked for deobligation but could not be processed by fiscal yearend. Therefore, all 1,354 obligations remaining on HUD's books at yearend had not been forwarded from the program offices to the appropriate office, either to OCPO for administrative and program contract obligations or OCFO for program grant obligations, for closeout and deobligation. Consequently, HUD's unpaid obligation balances on the statement of budgetary resources were overstated by $27.3 million. HUD was working to close and deobligate these obligations, and the associated funding should be recaptured during fiscal year 2015.

HUD's Administrative Obligations Were Not Effectively Monitored

HUD's administrative obligations are a result of contracts entered into for the goods and services necessary to operate, such as employee training, printing services, subscriptions, information technology support, and other service contracts. Most of these administrative obligations are made using annual appropriations that must be used to meet a bona fide need of the fiscal year in which they were appropriated. After the year passes, and the terms of the contract have been

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

fully executed, the remaining balances are invalid[25]. HUD did not effectively monitor these obligations to determine that a bona fide need still existed and the obligations were still valid. Our review identified 893 inactive obligations on HUD's books with remaining balances totaling $46.1[26] million as of September 30, 2014.

Several of HUD's program offices relied on the OCFO-coordinated unliquidated obligations review to monitor their administrative obligations. Those that fell under $23,000 were not required to be reviewed during the fiscal year 2014 review. Of the obligations identified as inactive, 718 were under the $23,000 threshold and not reviewed. Additionally, since the OCFO-coordinated review was performed annually, any obligations that became invalid during the period between the end of the review and the end of the fiscal year were not identified until the following fiscal year.

As a result, HUD's September 30, 2014, unpaid obligation balances on the statement of budgetary resources were potentially overstated by $46.1 million. Additionally, because most of HUD's administrative obligations are made using annual appropriations, by not periodically reviewing their validity throughout the fiscal year, HUD may lose the opportunity to use funds tied to obligations that become invalid during the year.

Other HUD Obligations Were Inactive, Expired, or Unidentified

As of September 30, 2014, we noted $23.5 million in Section 235 and 236 funds that were identified to be deobligated but were not. We also identified an additional $17.6 million in obligations under the Emergency Homeowner's Loan Program (EHLP) that represent terminated loans or State programs which are no longer disbursing. Lastly, we identified $3.5 million related to other Housing programs,[27] representing obligations that were potentially invalid due to inactivity, expired contracts, or funds that were no longer needed and could also be deobligated. We found that HUD did not adequately monitor and deobligate unliquidated balances from these obligations, resulting in the unpaid obligation balance on HUD's statement of budgetary resources being potentially overstated by $44.6 million.

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[25] In our review we considered an obligation invalid if it had not had a disbursement in the last 2 years. We assume that if the obligation has not had a disbursement in 2 years, the contract has been fully executed and it is unlikely that future adjustments would be needed.
[26] Refer to Appendix B – Departmentwide Obligation Review – Schedule of Recommended Deobligations
[27] Other HUD programs include Sections 202 and 811, and project-based Section 8.

Table 2		
Invalid HUD Obligations		
	$	**#**
Section 235/236	$23,500,000	36
Section 202/811 and Project-Based Section 8	$3,458,166	76
EHLP (HUD-Administered	$13,025,983	1,532
EHLP (Substantially Similar States)	$4,576,896	10
Total Invalid Housing Obligations Recommended for Deobligation	$44,561,045	1,654

The Subsidiary Ledger Was Not Reconciled to the Obligation Balances in the General Ledger for All of HUD's Open Appropriations Accounts

In fiscal year 2013, we reported that HUD's obligation controlling accounts were not reconciled to the supporting records for HUD's open appropriations accounts. This condition continued in fiscal year 2014. Management continued to lack a formal process to ensure that a periodic reconciliation between the subsidiary ledgers and the general ledger took place and was formally reviewed. Reconciliations were performed only when we requested them during routine audit procedures. As a result, differences between the two ledgers were not identified and resolved in a timely manner.

The Accounting Monitoring and Analysis Division in OCFO did not have a reconciliation process that included verifying that HUD's monthly, quarterly, and annual obligation reports to Treasury and OMB agreed with HUD's obligation control accounts for each open appropriation account as required by GAO Title 7, chapter 3.7. Our review of the reconciliations noted several deficiencies: (1) material differences between the systems were not explained or reconciled and required extensive research, (2) supporting files did not agree with the reconciliation, (3) reconciliations were not completed in a timely manner as they were performed no earlier than 46 days after the period closing, and (4) there was no evidence of a supervisory review.

Our review of the reconciliations performed identified the following differences as of June 30, 2014[28]:

[28] Our review of obligation balance reconciliations was complete as of June 30, 2014. We requested yearend reconciliations as of September 30, 2014, but HUD was not able to provide them in time to be considered for this report.

Table 3[29]		
Program	**Appropriation**	**Differences**
Community Development Block Grant	0162	$90.7 million
HOME Investment Partnerships Program	0205	$40.7 million
Hearth CoC	0192	$15.2 million
Neighborhood Stabilization Program	0344	$248 million
Indian Housing Block Grant	0313	$71.5 million
Total		**$466.1 million**

We requested reconciliations of obligation balances for a sample of appropriations as of September 30, 2014, from the Accounting Monitoring and Analysis Division but they were not provided in time to allow us to fully review them as originally planned. Explanations provided indicated a lack of staff resources and competing priorities with fiscal yearend closing.

We reported in fiscal year 2013 that the Accounting Monitoring and Analysis Division planned to hire a contractor and work with the OCFO Systems Division to determine the appropriate system reports needed to complete the reconciliations and create and document reconciliation policies and procedures. However, due to budget and staffing limitations, no action had been taken as of the date of this report.

Without formal procedures to require the completion of periodic reconciliations, the differences between the subsidiary and general ledger systems may not be identified and resolved in a timely manner. When differences are not identified in a timely manner, the number of transactions and time and research needed to reconcile the differences increases.

Prior-Year Recommendations Had Not Been Implemented

We noted that as of September 30, 2014, prior-year recommendations regarding deobligation amounts totaling $135.4 million were outstanding. Therefore, HUD's unpaid obligations on the statement of budgetary resources related to prior-year unimplemented recommendations were overstated by $135.4 million.

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[29] Differences presented as absolute values

Table 4		
Office	**Program**	**$**
CPD	Homeless assistance	$46.2 million
	American Recovery and Reinvestment Act	$4.9 million
PIH	Public Housing Operating Subsidy	$11 million
Housing	Emergency Homeowner Loan Program	$73.3 million
Total:		**$135.4 million**

Conclusion

HUD's processes for (1) monitoring the validity and need for its unliquidated obligations and (2) timely closeout of expired grants continued not to be fully effective during fiscal year 2014. As a result, we identified $210.5 million tied to expired or inactive obligations or grants that had not completed the closeout process. Additionally, HUD did not close out all of the obligations identified as invalid by the end of the fiscal year, resulting in $27.3 million in invalid obligations remaining on HUD's books at yearend. In total, HUD's unliquidated obligation balance on the statement of budgetary resources was potentially overstated by $237.8 million. We also noted that as of September 30, 2014, HUD had not implemented prior-year recommendations totaling $135.4 million.

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

Recommendations

We recommend that the Assistant Secretary for Community Planning and Development

6A. Review the status of the 2,743 expired contracts, which make up the $119.9 million in Homeless Assistance funds; close out the contracts; and recapture the excess funds.

6B. 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.

6C. Increase its communication with HUD field offices and grantees to ensure that the field offices are aware of and comply with updated deobligation and recapture policies for expired grants.

6D. Reestablish a task force to ensure adequate tracking of the status of expiring grants and timely recapture of funds from expired grants.

We recommend that the Federal Housing Commissioner and Assistant Secretary for Housing

6E. Deobligate all obligations marked for deobligation during the departmentwide open obligations review, including as much as $4,988,326 in 613 administrative obligations and $6,395,922 in 79 program obligations marked for deobligation as of September 29, 2014. Additionally, review the 269 obligations with remaining balances totaling $19,624,446 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

6F. Deobligate the 76 expired or inactive Sections 202 and 811 and project-based Section 8 projects totaling $3,458,166.

6G. Review and if necessary deobligate $4,576,896 in 10 obligations related to HUD's Emergency Homeowner Loan Program substantially similar states program.

6H. Develop and implement policies and procedures, including contingency plans to ensure that Housing meets all future deadlines for the departmentwide unliquidated open obligations review.

6I. Deobligate the 36 inactive or expired Sections 235 and 236 funding lines totaling $23.5 million.

We recommend that the Chief Information Officer

6J. 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.

6K. Complete the fiscal year 2014 obligation review and certification process as soon as possible.

6L. Work with OCFO and the government technical representatives to develop a submission process that allows adequate review of open obligations and ensures that OCIO meets all future deadlines for the departmentwide unliquidated open obligation review.

We recommend that the Assistant Secretary for Policy Development and Research

6M. Review the 1,532 HUD-administered EHLP loan obligations with remaining balances totaling $13,025,983 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

6N. Deobligate $136,391 in two administrative obligations and 8,507 in two program obligations marked for deobligation during the departmentwide open obligations review. Additionally, review the 10 obligations with remaining balances totaling $76,642 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

We recommend that the Chief Administrative Officer

6O. Deobligate $89,237 in 46 administrative obligations marked for deobligation during the departmentwide open obligations review. Additionally, review the 199 obligations with remaining balances totaling $4,146,234 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

We recommend that the Chief Human Capital Officer

6P. Deobligate the $366,348 in 99 administrative obligations marked for deobligation during the departmentwide open obligations review. Additionally, review the 65 obligations with remaining balances totaling $1,383,565 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

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

6Q. Deobligate all obligations marked for deobligation during the departmentwide open obligations review, including as much as $160,998 in 73 administrative obligations and $1,182,645 in 24 program obligations marked for deobligation as of September 29, 2014. Additionally, review the 34 obligations with remaining balances totaling $151,963 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

6R. Develop and implement oversight procedures to ensure that the level one representative (1) completes all responsibilities related to the departmentwide unliquidated open obligation review within the timeframe required, (2) monitors the status of the review, and (3) executes a contingency plan if problems are identified to allow the review to be completed by the established deadline.

We recommend that the Chief Financial Officer

6S. Deobligate $785 in one administrative obligation marked for deobligation during the departmentwide open obligations review. Additionally, review the six obligations with remaining balances totaling $332,888 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

We recommend that the Assistant Deputy Secretary for Field Policy and Management

6T. Review the 50 obligations with remaining balances totaling $308,793 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

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

6U. Deobligate $5,210 in two administrative obligations and $109,500 in one program obligation marked for deobligation during the departmentwide open obligations review. Additionally, review the 17 obligations with remaining balances totaling $26,711 and close out and deobligate amounts tied to obligations that are no longer valid or needed.

We recommend that the Assistant Secretary for Public Affairs

6V. Deobligate $85,006 in 12 administrative obligations marked for deobligation during the departmentwide open obligations review.

We recommend that the Chief Executive Officer, Office of the Secretary,

6W. Deobligate $68,828 in 16 administrative obligations marked for deobligation during the departmentwide open obligations review.

Finding 7: HUD's Financial Management Governance Structure and Internal Controls Over Financial Reporting Were Ineffective

While HUD took steps in fiscal year 2014 to address some of the weaknesses in its financial management governance structure and internal controls over financial reporting, deficiencies continued to exist. Specifically, stronger direction and involvement with program accounting was needed from the Office of the Chief Financial Officer, front end risk assessments were not completed in a timely manner, and while accounting policies were developed during fiscal year 2014, there were deficiencies in their implementation. These conditions stemmed from HUD's inadequate implementation of the CFO Act of 1990 and the lack of a Senior Management Council that limited the ability of the CFO to facilitate and stress the importance of financial management and internal control over financial reporting throughout the Department. Additionally, as we have reported in prior-year audits, HUD did not have reliable financial information for reporting, did not have an integrated financial management system, and had not replaced its outdated legacy financial systems. As a result, multiple deficiencies existed in HUD's internal controls over financial reporting, resulting in misstatements on the financial statements and instances of noncompliance with laws and regulations.

HUD Had Begun To Address Deficiencies in Its Financial Management Governance Structure, But Additional Progress Was Needed

During fiscal year 2014, HUD took steps to address several of the weaknesses in its financial management governance structure that were identified in our report last year.[30] Specifically, vacancies in OCFO and three of the four assistant chief financial officer positions had been filled, and the process of hiring additional staff with responsibilities for drafting accounting policies and procedures had started.

Additionally, a study was procured on September 30, 2014 to identify potential changes across the agency that could be implemented to improve HUD's compliance with the CFO Act and resolve this significant deficiency. HUD decided not to make any organizational changes until the study was completed. Accordingly, many of the issues that we discussed last year remained. Specifically, HUD lacked a senior management council and senior assessment team or equivalent committees responsible for (1) assessing and monitoring deficiencies in internal control resulting from the FMFIA assessment process, (2) advising the HUD Secretary of the status of corrections to existing material weaknesses, and (3) apprising the Secretary of any new material weaknesses that may need to be reported to the President and Congress through the annual financial report. While establishment of a senior management council and senior assessment team is not required by OMB Circular A-123, Management's Responsibility for Internal Control, it is recommended and is a best business practice. According to OMB Circular A-123, the chief financial officer should be a member of the senior management council, and the senior assessment team should report to the chief financial officer. The senior assessment team

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

provides oversight and accountability for the agency's internal controls over financial reporting and should include executives from areas responsible for maintaining controls over key processes and systems. OMB Circular A-123 also recommends that agencies evaluate and document their understanding of internal control over financial reporting. The evaluation of internal control at the process or transaction level includes the adequate documentation of the financial reporting process. It is important for management to document the financial reporting process to identify where errors could occur and what controls can be implemented. We have noted opportunities for improvement in HUD's evaluation and documentation of its financial reporting processes and will work with HUD management going forward to discuss the potential to implement improvements where possible.

Without an appropriate focus on internal controls, HUD had difficulties in fully implementing the CFO Act and creating an effective financial management governance structure and system of internal controls over financial reporting. While the lack of a senior management council and senior assessment team or equivalents were not the sole cause of the deficiencies in the structure of HUD's OCFO and financial management systems, HUD's ability to identify the need for and make significant changes was impaired.

Stronger Direction and Involvement With Program Accounting Was Needed From OCFO
Due to the size and nature of HUD, its Chief Financial Officer delegated and relied on the program offices for several key financial management functions. This situation created an environment in which program-related needs and concerns were assigned higher priority than financial management and reporting requirements. We noted the following instances in which this environment, combined with a lack of communication, led to deficiencies.

First, CPD used the FIFO method to obligate and disburse funds for its formula grants program. This method disregarded USSGL attributes at the transaction level when obligating and making disbursements, causing a departure from GAAP. This deficiency will exist for several years because the programing changes to the CPD formula grant programs system will be on a prospective basis for fiscal years 2015 going forward and not apply to prior-year grant funds. We will continue to report on this area until the effects of the misstatements caused by FIFO are assessed at less than a material amount.[31]

Second, in last year's report,[32] we noted that HUD did not account for transactions resulting from a congressional requirement to implement Treasury regulations on cash management for the Section 8 Housing Choice Voucher program. This condition occurred because OCFO was not consulted when PIH implemented the cash management process in fiscal year 2012. Since a basic understanding of the business processes and financial transactions impacted by the cash management process was not established and continued in fiscal year 2014, significant delays

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[31] See finding 1 for more detail.
[32] Audit report 2014-FO-0003, Additional Details To Supplement Our Report on HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements, issued December 16, 2013

between the occurrence and recognition of financial events in the general ledger continued in fiscal year 2014.[33]

Third, three of HUD's program offices did not complete reviews and certify their open obligations during the departmentwide open obligations review and certification process despite reminders from OCFO. There were multiple reasons cited for this deficiency, including personnel changes and a lack of familiarity with the process on the part of new personnel. As a result, HUD did not have assurance that 868 obligations with remaining balances totaling $952.7 million were valid.[34]

Finally, OCIO did not provide sufficient information to allow OCFO to accurately account for certain software projects. Specifically, we found that OCFO was not provided adequate documentation to support an analysis resulting in $103 million in software costs that were written off. This condition occurred because OCFO and the OCIO lacked adequate internal controls to ensure the timely exchange of information needed for accurate financial reporting. OCIO did not have procedures to analyze the status of software projects and determine when they were placed into service or discontinued and HUD did not have an adequate subsidiary ledger for software projects. As a result, HUD could not ensure the accuracy of the balances for its internal use software in the general ledger and financial statements.

The lack of adequate OCFO oversight of these and other financial management functions contributed to five deficiencies. The lack of oversight was the result of OCFO's not having a position or division with responsibility for overseeing and coordinating financial management functions handled by the program offices.

Front-End Risk Assessments Were Not Completed in a Timely Manner

HUD did not review and approve front-end risk assessments in a timely manner. As of September 30, 2014, there were nine incomplete assessments in various stages of development and review. These assessments ranged from 1 to 8 years since their initiation. OCFO Handbook 1840.1, Departmental Management Control Program, requires that front-end risk assessments be conducted for new or substantially revised programs or administrative functions with an increase or decrease in annual funding or cost of more than $10 million and a 5 percent change in the affected budget line item. It further states that, regardless of these requirements, the application of the front-end risk assessment concept should be applied to any significant program change as a matter of good management and business practice. The assessment's purpose is to detect conditions that may adversely affect the achievement of program objectives and provide reasonable assurance that the goals of safeguarding assets, effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations are met.

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[33] See finding 2 for more detail.
[34] See finding 6 for more detail.

While it stated that front-end risk assessments must be completed, Handbook 1840.1 did not provide periods for completion of the assessments by the program offices or completion of the review process by OCFO. Additionally, the handbook lacked an escalation process to address program offices that were nonresponsive to requests to complete assessments. Therefore, OCFO did not have the authority to enforce the timely completion of the assessments, resulting in the program offices completing them at their convenience.

In an attempt to address this issue, the Deputy CFO issued a memorandum in August 2012 to HUD's principal staff for all program areas. The memorandum required that "FERA's must be performed on all functions that meet the aforementioned requirements within one year from the time the apportionment is first made available." Despite the prescribed timeframe outlined in the memorandum, the FERAs still have not been completed timely.

Untimely completion of front-end risk assessments can lead to undetected conditions that may adversely affect whether HUD's assets are sufficiently safeguarded and financial reporting is reliable. For example, an assessment was not completed when HUD was required to implement Treasury's cash management regulations for the Section 8 Housing Choice Voucher program. As a result, OCFO was not consulted or made aware of the changes and could not evaluate their impact on HUD's financial reporting. This was a major cause for the material weakness in PIH's cash management processes.[35]

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

HUD took steps during fiscal year 2014 to provide policy guidance for all agency financial management personnel, activities, and operations as required by the CFO Act. As of September 30, 2014, policies for estimating accruals for goods and services received but not invoiced, estimating accruals for purchase card expenses, and consolidating HUD's financial statements were being developed and were in the departmental clearance process. Additionally, OCFO had issued a policy for estimating accruals for HUD's grant programs. These policies were created to address findings in last year's report.[36]

While a policy to estimate grant accruals was implemented during fiscal year 2014, we noted a material misstatement in CPD's fiscal year 2013 estimate and a lack of proper validations of the estimates for other program offices. This situation stemmed from inadequate methodologies developed by the program offices in response to the issuance of the grant accrual policy.[37]

Similarly, a consolidation policy was being developed. Through discussions with OCFO, FHA, and Ginnie Mae, we determined that short sale claims receivable due to Ginnie Mae from FHA were not eliminated during consolidation. As a result, HUD's other noncredit reform loans and

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[35] See finding 2 for more detail on the PIH cash management weaknesses.
[36] Audit report 2014-FO-0003, Additional Details To Supplement Our Report on HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements, issued December 16, 2013
[37] See finding 3 for additional detail.

loan guarantee liability were overstated by as much as $62 million on its fiscal year 2013 balance sheet. HUD agreed to eliminate the short sale claims receivable balance for fiscal year 2014.

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

Adequate Accounting and Financial Systems Were Not Implemented and Maintained

The CFO Act states that the responsibilities of an agency chief financial officer include developing and maintaining adequate accounting and financial systems and implementing agency asset management systems, including systems for cash management, debt collection, and property and inventory management and control. Ideally, financial systems should provide complete, reliable, timely, and useful financial management information efficiently and effectively. HUD was not able to develop or implement newer, more efficient systems to replace the multiple legacy financial systems required to perform key financial system functions. Consequently, the Chief Financial Officer did not maintain integrated accounting and financial systems or implement agency asset management systems as required by the CFO Act. Specifically, we noted the following:

- In fiscal year 2012, OCFO's efforts to replace its noncompliant primary financial system failed due to poor planning and a lack of consideration of components' functional needs;
- OCFO did not ensure that program office systems, such as IDIS Online, were designed to provide compliant financial information;
- OCFO did not ensure that adequate systems were in place for credit-granting programs;
- A cash management system that properly recognized accounts receivable or payable or ensured that assets were properly protected had not been implemented;
- Contrary to CFO Act requirements, OCFO did not ensure property management control over accountable assets. HUD's property inventory management and control system, FIRMS, was found to be noncompliant with requirements for Federal systems and was not able to produce accurate accounting reports.
- The Loan Accounting System (LAS) did not contain complete and reliable information for the Emergency Homeowners' Loan Program (EHLP), therefore, it did not support the loans receivable balance for the EHLP.

HUD's inability to complete its primary financial system implementation project; implement asset management, cash management, and credit management systems; and ensure program system compliance resulted in its inability to routinely provide reliable financial information consistently, accurately, and uniformly.

Conclusion

Despite the progress made during fiscal year 2014, deficiencies in HUD's financial management governance structure continued. Specifically, the lack of a senior management council limited the ability of the Chief Financial Officer to facilitate and stress the importance of financial management and internal controls over financial reporting throughout HUD. Deficiencies in HUD's implementation of the CFO Act also contributed to this condition. Specifically, OCFO did not oversee all agency financial management activities and operations and did not see to the proper implementation of financial and asset management systems. The lack of oversight combined with breakdowns in communications between OCFO and the program offices led to multiple significant deficiencies in HUD's internal controls and material weaknesses.

Recommendations

We recommend that the Office of the Chief Financial Officer

7A. Revise its policies and procedures to include a period of completion for front-end risk assessments by program offices and the review process by OCFO. Further, OCFO should ensure that an escalation process is included to address untimely completion of the assessment process.

7B. Work with the Chief Financial Officer of Ginnie Mae and Comptroller of FHA to determine the amount of short sale claims receivable due to Ginnie Mae from FHA and eliminate them on the consolidated financial statements.

7C. Develop and implement procedures requiring OCIO to provide timely and reliable information needed to accurately account for HUD's internal use software in accordance with SFFAS 10.

7D. Periodically reconcile balances with OCIO subsidiary records and research and resolve any identified differences.

We recommend that the Assistant Secretary for Housing

7E. Increase efforts to quickly complete outstanding front-end risk assessments and coordinate with OCFO to finalize the review and approval process even in the absence of policies and procedures with specific deadlines in this area.

We recommend that the Assistant Secretary for Community Planning and Development

7F. Increase efforts to quickly complete outstanding front-end risk assessments and coordinate with OCFO to finalize the review and approval process even in the absence of policies and procedures with specific deadlines in this area.

We recommend that the Assistant Secretary for Public and Indian Housing

7G. Increase efforts to quickly complete outstanding front-end risk assessments and coordinate with OCFO to finalize the review and approval process even in the absence of policies and procedures with specific deadlines in this area.

We recommend the Office of Chief Information Officer

7H. Develop and implement procedures to ensure that the cost of newly acquired or developed software and historical projects is analyzed in a timely manner to determine whether cost should be capitalized or expended based on SFFAS requirements and that information is communicated to OCFO in a timely manner.

7I. Develop a subsidiary system to accumulate the capitalized cost and related depreciation expense for each software project under development or placed into production.

Finding 8: Weaknesses in HUD's Rental Housing Assistance Program Monitoring Continued

While weakness in HUD's rental assistance program continued, HUD was working through previous Office of Inspector General (OIG) recommendations to improve monitoring of its more than 2,200 PHAs to ensure that they (1) report accurate financial data in a timely manner; (2) utilize their funds and leasing capacity; (3) comply with statutory objectives; and (4) verify tenant data to reasonably ensure correct housing subsidy payments. Although HUD had improved some aspects of its internal controls from previous years, more improvements are needed to ensure that these objectives are met. PIH does not have adequate assurance that VMS self-reported data is accurate, PHAs did not fully utilize their funding, we could not evaluate compliance with MTW statutory requirements, and PHAs continued to make significant amounts of improper payments. We attribute the majority of these shortcomings to agency priorities and the effects of sequestration.

The Quantity of Quality Assurance Division Monitoring Reviews Continued To Be Insufficient

VMS collects PHA data that enable HUD to fund, obligate, and disburse voucher funding to PHAs in the Section 8 Housing Choice Voucher program. Since HUD uses VMS data to determine annual funding allocations, calculate quarterly PHA disbursements under the new cash management process, and determine PHA NRA excess funds, it is critical that the data it contains be reliable. To provide timely validation of PHA program and financial information and ensure compliance with voucher program requirements, in 2003, a congressional committee recommended that HUD establish a Quality Assurance Division (QAD) for the Section 8 Housing Choice Voucher program.

In fiscal year 2013,[38] we noted that due to HUD priorities, the Quality Assurance Division was not given adequate staffing or funding to fulfill its mission or act as an internal control over PHA reporting as intended by the congressional committee. Therefore, we recommended that PIH allocate resources so that all of the reviews determined necessary in a full PHA risk assessment could be performed and clearly documented to show the qualitative and quantitative findings. In response to this recommendation, PIH reported that it planned to hire seven program analysts and two supervisory program analysts and expected that they would be in place by December 31, 2014. As of September 30, 2014, the Quality Assurance Division had hired six new staff members.[39] In addition, PIH must complete corrective action on a related recommendation from our fiscal year 2013 audit report, in which we recommended that PIH develop a risk assessment process that evaluates risk for all PHAs to reasonably ensure that VMS data are accurate and expenses are valid. The final action date for this recommendation is also December 31, 2014.

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

[39] The Quality Assurance Division informed us that two new staff members came on board in June, and four came on board at the end of September.

PIH was developing an enterprisewide risk assessment that would evaluate PHA risk at four different levels: entity, project, program, and enterprise. PIH planned to have the Office of Risk Management and PIH Risk Committee coordinate information from all levels so that best practices could be shared throughout PIH and review efforts would not be duplicated. The entity segment of this risk assessment was nearly complete, while the project, program, and enterprise sectors were still in process. PIH expected the entire model to be completed at the end of fiscal year 2015.

In fiscal year 2013, we also recommended that PIH develop and implement a mechanism to track the resolution process for all Quality Assurance Division reviews and require field offices to use this system during their followup. To address this recommendation, the Quality Assurance Division agreed to establish SharePoint links with the Office of Field Operations and field offices so field offices could easily view and close pending actions on corrective action plans. This measure would also allow one location to store all Division reviews and results. The final action date for this plan is April 20, 2015.

In fiscal year 2014, we noted that the conditions reported on in prior years still existed; however, the corrective action plans to address the three recommendations discussed above had not been fully implemented. While PIH worked to implement these recommendations, VMS data were not adequately validated, making the Section 8 program more susceptible to fraud, waste, and abuse.

Opportunities Exist To Improve the Use of Housing Choice Voucher Program Funds

In fiscal year 2013, we reported that due to funding reductions amounting to $975 million for the Housing Choice Voucher program,[40] PHAs were using their budget authority and drawing down NRA funds to cover their costs more quickly than in prior years. In fiscal year 2014, PHAs experienced the opposite problem. They scaled back their leasing in 2013 to meet the funding restrictions and were notified late in March[41] that they would receive regular funding levels in 2014. Therefore, the use of funds as of June 30, 2014, was low because PHAs were still trying to lease additional units to meet the funding increase. PIH data indicated that as of June 30, 2014, 739 PHAs, or 33 percent of the 2,207 PHAs[42], had the budget authority to lease additional units but did not reach their goal of more than 95 percent. HUD's calculations estimated that these PHAs could have leased an additional 30,214 units in June. HUD also estimated that 472,

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[40] The fiscal year 2013 third quarter consolidated financial statements listed an across-the-board rescission and sequestration rescission totaling more than $975.5 million. The across-the-board rescission was stated in the Consolidated and Further Continuing Appropriations Act, 2013, Public Law 113-6, issued March 26, 2013. Sequestration cuts were ordered in a presidential order, issued March 1, 2013. The across-the-board rescission Treasury warrant date was May 29, 2013, and sequestration rescission Treasury warrant date was August 24, 2013.
[41] HUD operated under a continuing resolution until an appropriation bill was passed January 17, 2014. This situation delayed HUD's funding process and caused notification letters to PHAs to be delayed.
[42] This does not include the 39 MTW PHAs because HUD does not perform this analysis for these PHAs since funds may be used on non-HAP expenses.

or 21 percent of the PHAs, that used their budget authority but could have leased 10,876 units with NRA that was not used. Using HUD's data and threshold for under leased PHAs[43], we determined that from January through June 2014 these PHAs did not use $150 million in current year budget authority and NRA that was available to them. Only 80 PHAs, or 3 percent, were at risk of a shortfall, which was down from 19.6 percent in fiscal year 2013.

Before the effects of the rescissions, PIH implemented the Housing Choice Voucher program InfoPath system and 2-year forecasting tool to improve the use of program funds and decrease shortfalls. The InfoPath system flags PHAs with potential shortfalls to alert field offices and ensure that they work with the PHA to avoid shortfalls. The 2-year forecasting tool projects program leasing,[44] spending, and funding over a 2-year period to allow field offices to monitor unit and fund use. Due to the unique situation in 2014, it was difficult to determine the effectiveness of these tools; however, they appeared to increase communication between the field offices and PHAs, which is essential in reducing shortfalls and increasing use.

Not all PHAs Submitted Financial Statements in FASS

In fiscal year 2013, we reported that not all PHAs submitted financial statements and due to HUD priorities, HUD was not penalizing these PHAs. In fiscal year 2014, we noted that this problem continued to exist. In our prior-year report, we recommended that PIH develop and implement standard operating procedures for addressing PHAs that had not submitted financial statements, including a process for assessing and collecting late penalties in a consistent and timely manner. PIH agreed to include an update to Notice PIH 2012-21,[45] which would provide for specific penalties or sanctions to be imposed upon PHAs that fail to submit required financial statements in FASS and required financial information in VMS by required deadlines. Additionally, PIH planned to establish related internal standard operating procedures to ensure consistent and timely assessment and collection of stated penalties. The target action date is December 31, 2014.

MTW Program Statutory Objectives Were Not Measured

In prior years, OIG and GAO[46] reported that HUD's internal controls were not sufficient to capture and evaluate MTW PHAs' performance and use of funds to determine HUD's compliance with the program statutory objectives.[47] To address this concern, in fiscal year 2013, HUD revised its standardized reporting framework by restructuring its annual MTW plan and report to include standard metrics for each of the statutory objectives. HUD also began requiring

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[43] HUD considers a PHA to have additional leasing potential if their excess funding (current year funding and NRA) is over 8.5 percent of the PHA's current year budget authority. HUD believes amounts under this threshold are necessary to prevent shortfalls.

[44] Leasing is considered maximized at 95 percent.

[45] Financial Reporting Requirements for the Housing Choice Voucher Program Submitted Through the Financial Assessment Subsystem for Public Housing and the Voucher Management System

[46] GAO-12-490, Opportunities Exist To Improve Information and Monitoring, issued April 19, 2012

[47] OMB Circular A-123, section I, states, "The proper stewardship of Federal resources is an essential responsibility of agency managers and staff. Federal employees must ensure that Federal programs operate and Federal resources are used efficiently and effectively to achieve desired objectives."

all MTW agencies to report in FASS. Starting in June 2013, HUD required MTW PHAs to use the revised plan and report format for all new proposed activities with report submission due on or after March 2014.[48] When we contacted the MTW office at the end of August, it stated that it was reviewing the first submission of these new reports.[49]

While the new report and plan appeared to capture the statutory objectives and provide HUD with information necessary to assess the program, we were unable to determine its effect on program monitoring.

Significant Improper Payments in Rental Housing Assistance Programs Continued

HUD's rental housing assistance programs[50] spent more than $32 billion in fiscal year 2014 and were at risk of significant improper payments.[51] In these programs, tenants generally pay up to 30 percent of their adjusted income as rent, and HUD pays the remainder of the rental cost (or the operating cost in the case of public housing). These programs are administered by PHAs and multifamily housing owners or management agents on HUD's behalf. Since 2000, HUD had made substantial progress in reducing incorrect payments in these programs, from an estimated $3.2 billion to $1.23 billion in fiscal year 2011 and $1.32 billion in 2012. However, in fiscal year 2013, the programs continued to exceed the Improper Payments Elimination and Recovery Act of 2010 (IPERA) significance threshold of 1.5 percent of program outlays. Therefore, HUD needs to monitor its program administrators and tenants and follow IPERA requirements that agencies with significant improper payments develop effective corrective action plans.

HUD's most recent contracted quality control study[52] of fiscal year 2013 estimated that program administrator error contributed to gross incorrect payments of approximately $177.9 million in public housing, $324.2 million in PHA-administered Section 8, and $105 million in owner-administered Section 8 programs, amounting to approximately $607.8 million. The study also estimated that tenants intentionally not reporting income contributed to improper payments of approximately $87.5 million in PHA-administered public housing, $153.8 million in PHA-

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[48] PHAs were given 75 days after the end of their fiscal year to submit their reports, therefore, each MTW PHA's submission due date depended on their fiscal year start date, with the first submissions in March.
[49] The first submissions for PHAs with December 31 fiscal yearends were submitted in March 2014. PHAs will continue to submit reports based on their fiscal years through 2014.
[50] HUD's rental assistance programs consist of (1) public housing operating subsidy, (2) Section 8 (Housing Choice Voucher and Modern Rehabilitation) and (3) Multifamily owner-administered project-based programs.
[51] An improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. IPERA considers improper payments to be significant when they total $10 million of all program or activity payments made during the fiscal year reported and are 1.5 percent of program outlays or $100 million.
[52] Quality Control for Rental Assistance Subsidy Determination, issued September 26, 2014. This report was produced for HUD by ICF International. Errors in this study are a combination of program administrators' entering incorrect data into PIH's Information Center system and HUD's Tenant Rental Assistance Certification System and program administrators' not verifying tenant-reported information. The study was based on analyses of a statistical sample of tenant files, tenant interviews, and third-party documents verifying income.

administered Section 8 programs, and $73.9 million in owner-administered project-based Section 8 programs totaling $315.2 million in improper payments. HUD did not conduct a study to estimate administrator billing errors for fiscal year 2013 but used a previously estimated $106 million billing error to arrive at the total gross error amount of $1.03 billion in improper payments.

Conclusion

In fiscal year 2014, HUD was working to implement previous Office of Inspector General (OIG) recommendations to improve monitoring of its more than 2,200 PHAs that received $17.3 billion to ensure that they (1) report accurate financial data in a timely manner; (2) utilize their funds and leasing capacity; (3) comply with statutory objectives; and (4) verify tenant data to reasonably ensure correct housing subsidy payments. HUD has improved some aspects of its internal controls from previous years; however, more improvements are needed to ensure that these objectives are met. Until the controls related to these recommendations are fully implemented, PIH does not have adequate assurance that VMS self-reported data is accurate and we cannot evaluate Section 8 program compliance for the MTW programs. Further, HUD remained at risk of improper payments, and the Section 8 program was susceptible to fraud, waste, and abuse.

Recommendations

Prior-year recommendations regarding this finding remain 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 9: HUD Did Not Substantially Comply With the Federal Financial Management Improvement Act

In fiscal year 2014, we noted instances in which HUD's financial management system did not substantially comply with FFMIA. HUD's continued noncompliance was largely due to a reliance on legacy financial systems and information security weaknesses. While HUD continued to work toward financial management system modernization and FFMIA compliance, significant challenges remained.

OIG and Agency FFMIA Compliance Determinations

In fiscal year 2014, OIG and HUD noted instances of substantial noncompliance with FFMIA. While HUD made moderate progress toward FFMIA compliance during 2014, further actions will be necessary to achieve future FFMIA compliance. To assess FFMIA compliance during 2014, we used OMB Circular A-123, appendix D, dated September 20, 2013.[53]

FFMIA requires that CFO Act agencies and their auditors make an annual determination as to whether an agency's financial management systems comply with the requirements of section 803(a) of FFMIA. Section 803(a) requires the implementation and maintenance of financial management systems that substantially comply with (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) USSGL at the transaction level. For areas of FFMIA noncompliance, agencies must identify remediation activities that are planned and underway, describing target dates and offices responsible for bringing systems into substantial compliance with FFMIA.[54]

In fiscal year 2014, HUD determined that the agency and its financial management system did not substantially comply with FFMIA. HUD reported that 4 of 40 financial systems did not comply with the requirements of FFMIA. Specifically, HUD noted that FIRMS, HPS, SPS, and IDIS did not comply with FFMIA. HUD and the OIG both noted a lack of substantial compliance with federal financial system requirements, federal accounting standards, and USSGL at the transaction level. Refer to Table 5 below. Refer to Appendix C for additional details.

[53] OMB Memorandum M-13-23 (OMB Circular A-123, appendix D) (October 21, 2013, accessed October 9, 2014); http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-23.pdf
[54] OMB Circular No. A-136, Revised (October 21, 2013, accessed October 9, 2014); http://www.whitehouse.gov/sites/default/files/omb/assets/OMB/circulars/a136/a136_revised_2013.pdf

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

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

FISMA Results

The fiscal year 2014 independent evaluation of the HUD information technology security program found significant deficiencies in practices and component parts of the program. The Federal Information Security Management Act (FISMA) requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. The heads of agencies and offices of inspectors general are required to annually report on the compliance and effectiveness of the agency program. "Significant deficiencies" identified under FISMA must be reported by management as material weaknesses under FMFIA and as a lack of substantial compliance under FFMIA if related to financial systems. The deficiencies identified were pervasive, impacting both financial and nonfinancial systems. Therefore, the findings of the FISMA evaluation constituted a lack of substantial compliance under FFMIA.[55]

[55] OMB Bulletin 14-02, Audit Requirements for Federal Financial Statements, (October 21, 2013); http://www.whitehouse.gov/sites/default/files/omb/bulletins/2014/b-14-02.pdf

Financial System Inventory Completeness and Accuracy

During fiscal year 2014, HUD's financial system[56] inventory, used by the agency to assess compliance with FFMIA, was incomplete. Three Ginnie Mae systems were incorrectly excluded from the financial system inventory due to communication issues between OCFO and HUD's components. The practice of program offices self-reporting systems without independent review or evaluation also contributed to the incomplete inventory.

The maintenance of a comprehensive financial system inventory is essential to ensure complete and accurate FFMIA reporting.

Conclusion

We reviewed HUD's compliance with Section 803 of FFMIA as of September 30, 2013, and found that HUD's financial systems were not substantially FFMIA compliant. Despite moderate progress toward compliance during 2014, we continued to report that HUD's financial systems did not substantially comply with FFMIA as of September 30, 2014.

Recommendations

We recommend that the Ginnie Mae Chief Financial Officer and HUD's Assistant Chief Financial Officer for Systems

9A. Enhance communication to appropriately identify mixed systems and include them in the inventory of financial systems and

9B. Add the Integrated Pool Management System, Unclaimed Funds System, and Reporting and Feedback System to the inventory of FFMIA financial and mixed systems.

We recommend that the Chief Financial Officer

9C. Implement a periodic review process to independently evaluate system classifications.

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[56] To include financial systems and mixed systems that compose the financial management system as defined by OMB Memorandum M-13-23 (OMB Circular A-123, appendix D) (October 21, 2013, accessed October 9, 2014); http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-23.pdf

Finding 10: Despite Substantial Progress, HUD Did Not Fully Comply With the Antideficiency Act

In fiscal year 2014, HUD made demonstrable progress in moving older Antideficiency Act[57] cases out of OCFO[58] to OMB for review and approval. However, for the sixth consecutive year, no Antideficiency Act violation was reported to the President, Congress, and the Comptroller General at the end of fiscal year 2014 as required. Of the 12[59] cases that had been open at least 1 year on September 30, 2014, 9 probable violations were at OMB for review, and 3 potential violations were still under review at HUD. Untimely disposition of Antideficiency Act cases could delay the implementation of corrective actions, including any needed safeguards required to prevent recurrence of the same violations. While HUD management had committed to reporting all violations when the HUD and OMB clearance processes are complete, the lack of timeliness led us to conclude that HUD did not fully comply with the Act.

Progress Had Been Made, But Full Compliance Had Not Been Achieved

Although considerable progress had been made, older Antideficiency Act cases associated with probable violations had not been reported to the President, Congress, and the Comptroller General as of September 30, 2014.

Since fiscal year 2009,[60] we have reported on HUD's slow-moving progress in conducting, completing, and closing the investigation of potential Antideficiency Act violations. During the audit, we noted that HUD had made substantial headway in reviewing old cases. Of the 12 open cases as of September 30, 2013, 4 cases, or 33 percent of cases open at least 1 year, had been sent to OMB for review and approval, and 8 cases, or 67 percent of cases open at least 1 year, were under HUD review. By September 30, 2014, nine cases, or 75 percent of cases open at least 1 year, had been sent to OMB for review and approval, and three cases, or 25 percent of cases open at least 1 year, were under HUD review.

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[57] 31 U.SC. (United States Code) 1341, 1342, 1350, 1517, and 1519; Once it has been determined that there has been a violation of 31 U.S.C 1341(a), 1342, or 1517(a), the agency head "shall report immediately to the President and Congress all relevant facts and a statement of actions taken" in accordance with 31 U.S.C. 1351, 1517(b)

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

[59] Two additional potential cases were opened during 2014 but were excluded from analysis because HUD's investigation timeline policy allows up to 1 year for the completion of HUD's investigation process.

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

Table 6				
As of:	Total cases open at least 1 year	Under HUD review	At OMB for review and approval	Percentage at OMB for review and approval
September 30, 2013	12	8	4	**33%**
September 30, 2014	12	3	9	**75%**

HUD's Antideficiency Act case processing timeframe policy is to complete the end-to-end review within 1 year of referral or notification. However, HUD had not implemented its policy for three cases as of September 30, 2014.

Conclusion

HUD did not fully comply with the Antideficiency Act. Although HUD sent five cases to OMB during 2014 and increased the percentage of cases over 1 year old under OMB review from 33 to 75 percent, the clearance processes had not been completed as of September 30, 2014. Therefore, the cases had not been reported to the President and Congress. As a result, HUD was unable to achieve full Antideficiency Act compliance. HUD had exceeded its processing timeframe for three cases as of September 30, 2014.

Recommendations

Prior-year recommendations regarding this finding remain 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 11: HUD Did Not Comply With the HOME Investment Partnership Act

HUD continued to not comply with section 218(g) of the HOME Investment Partnership Act (also known as the HOME Statute) regarding grant commitment requirements. HUD's misinterpretation of the plain language in the Act, the implementation of the cumulative method and the FIFO technique, and the current recapture policies resulted in HUD's noncompliance with HOME Statute requirements. Further, HUD's corrective action to assess compliance on a grant-by-grant basis would only apply to fiscal year 2015 grants. Consequently, HUD incorrectly permitted some jurisdictions to retain and commit HOME Investment Partnerships Program grant funds beyond the statutory deadline. Additionally, HUD will continue to be noncompliant with related laws and regulations until the cumulative method is no longer used to determine whether grantees meet commitment deadlines required by the HOME Statute.

HUD Policies Did Not Comply With the HOME Statute

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

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

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

The use of a noncumulative method would result in a number of grantees that would not meet the 24-month commitment deadline, resulting in grant funds that could possibly have been recaptured and reallocated.

In fiscal year 2013, CPD agreed to implement changes to IDIS Online to eliminate the FIFO method for fiscal year 2015 CPD formula grants (including the HOME program) beginning September 30, 2014, using a three-phase process, which was scheduled to be completed by October 2017. According to CPD, the system changes would allow HOME participating jurisdictions to identify the grant year to which a specific HOME commitment should be attributed for grants obligated after the change is implemented. Also, according to CPD, the system would ensure that each specific HOME commitment would be counted only toward 1 year’s 24-month commitment requirement and within the 24-month overlapping allocation period.

CPD stated that once the applicable changes are made to the HOME regulations and IDIS Online, HUD will stop using the cumulative method for determining compliance with the HOME 24-month commitment requirement for fiscal year 2015 grants and will be compliant with section 218(g) of the HOME Statute for grants obligated after the system changes are implemented. Compliance with the 24-month statutory commitment requirement for funds obligated before the system and regulatory changes will still be determined on a cumulative basis. Compliance with the 24-month statutory commitment requirement for funds obligated after the system and regulatory changes will be determined on a grant-specific basis.

We took issue with CPD’s plan to continue determining compliance using a cumulative method for funds obligated before the system and regulatory changes are made. HUD will continue to be noncompliant with section 218(g) of the HOME Statute and other laws and regulations until the cumulative method is no longer used (prospectively and retroactively) to determine whether commitment deadlines required by the Statute are met by the grantees. OIG formally communicated this position to HUD.

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

Conclusion

While system changes to IDIS Online were in process for grants in fiscal year 2015 and forward, HUD will continue to be noncompliant with the HOME Statute until the cumulative method is no longer used to determine whether commitment deadlines required by Statute are met by the grantees. We will continue to report that HUD is noncompliant with related laws and regulations until the cumulative method is no longer used.

Recommendations

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

Scope and Methodology

This interim report is intended as a limited review of internal controls over financial reporting and compliance with significant laws and regulations that impact the preparation of HUD's financial statements as part of HUD's annual financial statement audit. The control deficiencies noted in this report will also be reported in our fiscal year 2014 independent auditor's report on HUD's consolidated financial statements. In performing this audit, we considered internal controls over financial reporting by obtaining an understanding of the design of HUD's internal controls, determined whether these internal controls had been placed into operation, assessed control risk, and performed tests of controls to determine our auditing procedures for the purpose of expressing our opinion on the principal financial statements. However, we did not intend to provide assurance regarding the internal controls over financial reporting and we are not providing an opinion on internal controls. Likewise, review of HUD's compliance with selected provisions of laws, regulations, and government policies is an objective of the audit but we are not providing an opinion on HUD's compliance.

As this review was performed in support of HUD's consolidated financial statement audit, to fulfill our responsibilities, we

- Examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated principal financial statements;
- Assessed the accounting principles used and the significant estimates made by management;
- Evaluated the overall presentation of the consolidated principal financial statements;
- Obtained an understanding of internal controls over financial reporting (including safeguarding assets) and compliance with laws and regulations (including the execution of transactions in accordance with budget authority);
- Tested and evaluated the design and operating effectiveness of relevant internal controls over significant cycles, classes of transactions, and account balances;
- Tested HUD's compliance with certain provisions of laws and regulations; governmentwide policies, noncompliance with which could have a direct and material effect on the determination of financial statement amounts; and certain other laws and regulations specified in OMB Bulletin 14-02, including the requirements referred to in FMFIA;
- Considered compliance with the process required by FMFIA for evaluating and reporting on internal controls and accounting systems; and
- Performed other procedures we considered necessary.

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

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be significant deficiencies.

Our work was performed in accordance with generally accepted government auditing standards and OMB Bulletin 14-02. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Followup on Prior Audits

Not included in the recommendations listed after each finding are recommendations from prior-year reports on HUD's financial statements that have not been fully implemented based on the status reported in the Audit Resolution and Corrective Action Tracking System (ARCATS). Specifically, we identified 88 unimplemented recommendations from prior year reports dating back to the audit of the fiscal years 2009 and 2008 financial statements. 40 of the 88 unimplemented recommendations were overdue for final action as of the date of this report. HUD should continue to track these recommendations under the prior-year report numbers in accordance with departmental procedures. Each of these open recommendations and its status is shown below. Where appropriate, we have updated the prior recommendations to reflect changes in emphasis resulting from recent work or management decisions.

Additional Details To Supplement Our Report on HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements, 2014-FO-0003

With respect to CPD's formula grant accounting noncompliance with GAAP, we recommended that the Assistant Secretary for Community Planning and Development

1A. Develop and implement a detailed remediation action plan to ensure that grant management systems eliminate the FIFO methodology in its entirety. The plan should (1) explain how the budget fiscal year-TAFS [Treasury appropriation fund symbols] for each accounting transaction (project and activity setup, commitment, disbursement, etc.) will be recorded, remain constant, and be maintained, (2) reference Federal system requirements and criteria, and (3) include resources, specific remedies, and intermediate target dates necessary to bring the financial management system into substantial compliance. (Final action target date was September 30, 2014; reported in ARCATS as 1A.)

1B. Establish controls within the system, which provide an audit trail of the use of the funds by the budget fiscal year-TAFS. (Final action target date was September 30, 2014; reported in ARCATS as 1B.)

With respect to CPD's formula grant accounting noncompliance with GAAP, we recommended that the Chief Financial Officer

1C. Provide oversight of CPD's system implementation or modification to ensure that Federal financial management accounting standards are embedded into the system so that the information transferred from grant management systems to HUD's core financial systems comply with these standards, are recorded in HUD's consolidated financial statements in accordance with Federal GAAP, and ensure that compliant administrative control of funds for its formula grant programs is established. (Final action target date is October 30, 2015; reported in ARCATS as 1C.)

With respect to PIH's Housing Choice Voucher program's cash management process departing from GAAP and Treasury requirements, we recommended that the Assistant Secretary for Public Housing, in coordination with the Chief Financial Officer,

2A. Transition the PHA NRA excess funds, which are as much as $643.6 million as of June 30, 2013, to HUD's control as soon as possible to safeguard the program resources. (Final action target date is December 31, 2014; reported in ARCATS as 2A.)

2B. Identify PHAs with insufficient cash to cover their NRA and order the repayment of funds. (Final action target date is December 31, 2014; reported in ARCATS as 2B.)

2C. Implement a cost-effective method for automating the cash management process to include an electronic interface of transactions to the standard general ledger. (Final action target date not listed; reported in ARCATS as 2C.)

With respect to PIH's Housing Choice Voucher program's cash management process departing from GAAP and Treasury requirements, we recommended that the Chief Financial Officer

2D. 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. (Final action target is date April 8, 2015; reported in ARCATS as 2E.)

2E. Ensure that PIH's automation of its cash management process complies with Federal financial management requirements. (Final action target date is December 31, 2015; reported in ARCATS as 2G.)

With respect to HUD's inability to overcome weaknesses in the financial management systems, we recommended that HUD's Chief Financial Officer, in coordination with the Assistant Secretary for Public and Indian Housing,

3A. Design and Implement a loan guarantee system that complies with the Guaranteed Loan System Requirements. Ensure that the implemented loan guarantee system should be integrated with HUD's financial management systems and be included in its financial management system plans. (Final action target date is December 31, 2015; reported in ARCATS as 3A.)

With respect to HUD's inability to overcome weaknesses in the financial management systems, we recommended that HUD's Chief Financial Officer, in coordination with Ginnie Mae's Chief Financial Officer, 3B. Develop and implement plans to ensure that Ginnie Mae's core financial system is updated to include functionality in the system to perform budgetary accounting at a transaction level using the USSGL to comply with FFMIA requirements. (Final action target date was November 30, 2014; reported in ARCATS as 3B.)

With respect to HUD's weaknesses in the preparation and reporting processes for the consolidated financial statement, we recommended that HUD's Chief Financial Officer, in coordination with Ginnie Mae's Chief Financial Officer,

4A. Determine the amount of adjustments needed to correct the accounting and reporting errors identified in Ginnie Mae's Statement of Budgetary Resources for fiscal years 2012 and 2013 and provide its analysis and support for its determination. (Final action target date was November 30, 2014; reported in ARCATS as 4E.)

With respect to HUD's weaknesses in the preparation and reporting processes for the consolidated financial statement, we recommended that the Chief Financial Officer

4B. Establish an appropriate accounting and financial reporting governance structure within OCFO with the appropriate level of accounting, experience, and training to support the size and complexity of HUD's and its component entities' financial reporting requirements. (Final action target date is March 11, 2015; reported in ARCATS as 4G.)

4C. Provide instructions to the component entities, such as the applicable GAAP and accounting policies to be applied for external reporting. (Final action target date is November 21, 2014; reported in ARCATS as 4H.)

With respect to HUD's noncompliance with accruals under GAAP, we recommended that the Chief Financial Officer, in conjunction with each of the program offices,

5A. Develop GAAP-compliant policies and procedures that require the development and recordation of an accrual estimate for goods and services received and charge card purchases incurred but not yet billed to ensure that HUD's financial statements are complete and properly stated in accordance with GAAP. (Final action target date was October 1, 2014; reported in ARCATS as 5D.)

5B. Implement the GAAP-compliant policies and procedures developed under 5A above and develop a methodology that accurately estimates accrual of expenses incurred by HUD for goods and services received and charge card purchases incurred but not yet billed. (Final action target date was October 1, 2014; reported in ARCATS as 5E.)

With respect to HUD's weakness in the reporting of accounts receivable, we recommended that the Chief Financial Officer

6A. Enforce already existing internal control procedures to ensure proper supervision over accounting for Section 8 FAF receivables. (Final action target date was October 1, 2014; reported in ARCATS as 6C.)

With respect to HUD's weakness in the reporting of accounts receivable, we recommended that the Chief Financial Officer, in conjunction with the Assistant Secretary for the Office of Housing

6B. Perform a thorough analysis of outstanding FAF [financing adjustment factor] 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. (Final action target date is March 4, 2015; reported in ARCATS as 6D.)

With respect to HUD's administrative control of funds system weaknesses, we recommended that the Assistant Secretary for Public and Indian Housing

7A. Work with the Office of the Chief Financial Officer to review the Section 8 tenant-based programs' funds control plans and ensure that the proper point of obligation is documented. (Final action target date is December 31, 2014; reported in ARCATS as 7B.)

7B. Review the procedures in use for the Section 184 Indian Housing Loan Guarantee Program to ensure that they provide assurance that obligations and expenditures do not exceed limitations and update the funds control plans accordingly. (Final action target date is April 1, 2015; reported in ARCATS as 7C.)

With respect to HUD's continuation of reporting significant amounts of invalid obligations, we recommended that the Assistant Secretary for Community Planning and Development

8A. Review the status of these 1,855 expired contracts, which make up the $50.9 million; close out the contracts; and recapture the excess funds. (Final action target date was September 30, 2014; reported in ARCATS as 8A.)

8B. Complete the closeout of any remaining CDBG-R [Community Development Block Grant-Recovery Act] and HPRP [Homelessness Prevention and Rapid Re-Housing Program] grants and forward all grant closeout agreement certifications to OCFO for recapture. (Final action target date was September 30, 2014; reported in ARCATS as 8B.)

8C. Deobligate $14,425,629 tied to 238 program obligations marked for deobligation during the department wide unliquidated obligations review. Additionally, OCFO should review the 93 obligations with remaining balances totaling $316,935 and close out and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of appropriations at 31

U.S.C.(United States Code) 1301 or the criteria for recording obligations at 31 U.S.C. 1501. (Final action target date is April 3, 2015; reported in ARCATS as 8C.)

With respect to HUD's continuation of reporting significant amounts of invalid obligations, we recommended that the Assistant Secretary for Housing

8D. Deobligate $12,755,325 tied to 165 administrative obligations and $2,734,967 tied to 25 program obligations marked for deobligation during the department wide unliquidated obligations review. Additionally, the Office of Housing should review the 429 obligations with remaining balances totaling $5,764,905 and close out and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of appropriations at 31 U.S.C. 1301 or the criteria for recording obligations at 31 U.S.C. 1501. (Final action target date is April 2, 2015; reported in ARCATS as 8D.)

8E. Research and deobligate at least $9.3 million tied to the 115 inactive and/or expired Section 202/811 funding lines. (Final action target date is April 2, 2015; reported in ARCATS as 8E.)

8F. Review and deobligate at least $26 million tied to 215 inactive and/or expired Section 8 obligations. (Final action target date is April 2, 2015; reported in ARCATS as 8F.)

With respect to HUD's continuation of reporting significant amounts of invalid obligations, we recommended that the Assistant Secretary for Public and Indian Housing

8G. Deobligate $5,555 tied to 17 administrative obligations marked for deobligation during the department wide unliquidated obligations review. Additionally, the Office of Public Housing should review the 299 obligations with remaining balances totaling $1,331,460 and close out and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of appropriations at 31 U.S.C. 1301 or the criteria for recording obligations at 31 U.S.C. 1501. (Final action target date is December 31, 2014; reported in ARCATS as 8G.)

8H. Review and, if necessary, recapture all 212 operating subsidy (0163) funding lines with remaining balances totaling $11 million. (Final action target date was November 30, 2014; reported in ARCATS as 8H.)

8I. Develop formal procedures to annually determine which PHAs require a recapture based on operating subsidy actual allocation figures and recapture the funds immediately. (Final action target date is January 31, 2015; reported in ARCATS as 8I.)

With respect to HUD's continuation of reporting significant amounts of invalid obligations, we recommended that the Chief Human Capital Officer

8J. Deobligate the $2,483,254 tied to 12 administrative obligations marked for deobligation during the department wide unliquidated obligations review. Additionally, OCHCO should review the 730 obligations with remaining balances totaling $10,227,309 and close out and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of appropriations at 31 U.S.C. 1301 or the criteria for recording obligations at 31 U.S.C. 1501. (Final action target date is December 31, 2014; reported in ARCATS as 8J.)

With respect to HUD's continuation of reporting significant amounts of invalid obligations, we recommended that the Chief Financial Officer

8K. Deobligate the $1,419 tied to three administrative obligations marked for deobligation during the department wide unliquidated obligations review. Additionally, OCFO should review the 42 obligations with remaining balances totaling $3,115,954 and close out and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of appropriations at 31 U.S.C. 1301 or the criteria for recording obligations at 31 U.S.C. 1501. (Final action target date is December 31, 2014; reported in ARCATS as 8K.)

8L. Design and implement a policy to ensure those reconciliations between the subsidiary ledgers (supporting records) and the obligation balances in the general ledger (controlling accounts) are periodically performed for all HUD appropriations. The policy should also address the follow-up and clearance of identified differences and the responsibilities for the preparers and reviewers. (Final action target date is March 4, 2015; reported in ARCATS as 8M.)

8M. Work with the program offices to determine the ARRA funds that were not spent by September 30, 2013; implement the manual process identified; and recapture, to the extent permitted by law, the unspent ARRA funds and return them to Treasury, including at least $4.7 million and $2.6 million in unspent grant funds for the CDBG-R and HPRP programs, respectively. (Final action target date was October 17, 2014; reported in ARCATS as 8N.)

With respect to HUD's continuation of reporting significant amounts of invalid obligations, we recommended that the Chief Information Officer

8N. Deobligate $7,263,662 tied to 178 administrative obligations marked for deobligation during the department wide unliquidated obligations review. (Final action target date is February 13, 2015; reported in ARCATS as 8O.)

With respect to HUD's continuation of reporting significant amounts of invalid obligations, we recommended that the Director of the Office of Departmental Equal Employment Opportunity

8O. Deobligate $2,244 tied to 10 administrative obligations marked for deobligation during the department wide unliquidated obligations review. Additionally, the Office should review the 10 obligations with remaining balances totaling $83,300 and close out and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of appropriations at 31 U.S.C. 1301 or the criteria for recording obligations at 31 U.S.C. 1501. (Final action target date is December 31, 2014; reported in ARCATS as 8P.)

With respect to HUD's continuation of reporting significant amounts of invalid obligations, we recommended that the Office of Departmental Operations and Coordination

8P. Deobligate $12,277 tied to 19 administrative obligations marked for deobligation during the department wide unliquidated obligations review. Additionally, the Office should review the seven obligations with remaining balances totaling $76,327 and close out and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of appropriations at 31 U.S.C. 1301 or the criteria for recording obligations at 31 U.S.C. § 1501. (Final action target date is December 18, 2014; reported in ARCATS as 8R.)

With respect to HUD's continuation of reporting significant amounts of invalid obligations, we recommended that the Director of the Office of Healthy Homes and Lead Hazard Control

8Q. Deobligate $3,488,009 tied to 23 program obligations marked for deobligation during the Department wide Unliquidated Obligations Review. (Final action target date is January 30, 2015; reported in ARCATS as 8T.)

With respect to HUD's continuation of reporting significant amounts of invalid obligations, we recommended that the Assistant Secretary for Fair Housing and Equal Opportunity

8R. Review the 52 obligations with remaining balances totaling $145,060 and closeout and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of appropriations at 31 U.S.C. 1301 or the criteria for recording obligations at 31 U.S.C. 1501. (Final action target date is January 30, 2015; reported in ARCATS as 8U.)

With respect to HUD's continuation of reporting significant amounts of invalid obligations, we recommended that the Office of the Secretary

8S. Review the 41 obligations with remaining balances totaling $132,080 and close out and deobligate amounts tied to obligations that are no longer valid, either based on the criteria defining the availability of appropriations at 31 U.S.C. 1301 or the criteria for recording obligations at 31 U.S.C. 1501. (Final action target date is October 31, 2014; reported in ARCATS as 8Y.)

With respect to HUD's ineffective financial management governance structure and internal controls over financial reporting, we recommended that the Deputy Secretary of HUD

9A. Conduct a study on what improvements could be made in HUD OCFO to increase compliance with the CFO Act agency requirements. (Final action target date is December 17, 2014; reported in ARCATS as 9A.)

9B. After conclusion of the study, issue a directive or memorandum to HUD, reemphasizing the Chief Financial Officer's authority and responsibility for department wide financial management and internal controls over financial reporting and changes in any financial management governance. (Final action target date is December 17, 2014; reported in ARCATS as 9B.)

9C. Create and chair a Senior Management Council or equivalent to ensure that HUD remains committed to implementing and operating the recommendations made in the study and ensure that an appropriate system of internal controls is in place. (Final action target date is December 17, 2014; reported in ARCATS as 9C.)

With respect to HUD's ineffective financial management governance structure and internal controls over financial reporting, we recommended that the Chief Financial Officer

9D. Initiate and complete the selection process to fill vacant Assistant Chief Financial Officer positions. (Final action target date is December 17, 2014; reported in ARCATS as 9D.)

9E. Implement a function to monitor issuances of accounting standards and other related guidance, determine the issuances' impact on HUD, and develop and issue new or updated policies and procedures as needed. (Final action target date was October 24, 2014; reported in ARCATS as 9E.)

9F. Ensure that documented policies and procedures are in place for all of HUD's accounting processes and that they are periodically evaluated for necessary updates. (Final action target date is June 30, 2016; reported in ARCATS as 9F.)

With respect to HUD's weakness in rental housing assistance program monitoring, we recommended that the Assistant Secretary for Public Housing

10A. Develop a risk assessment process that evaluates risk for all PHAs. Based on the risk assessment determine which PHAs need to be reviewed within the fiscal year to reasonably ensure VMS data is accurate and expenses are valid. (Final action target date is December 31, 2014; reported in ARCATS as 10A.)

10B. Allocate resources so that all of the reviews determined as necessary in the risk assessment can be performed and clearly documented to show the qualitative and quantitative findings. (Final action target date is December 31, 2014; reported in ARCATS as 10B.)

10C. Develop and implement a mechanism to track the resolution process for all Quality Assurance Division reviews and require field offices to use this system during their follow-up. (Final action target date was April 30, 2015; reported in ARCATS as 10D.)

10D. Develop and implement standard operating procedures for addressing PHAs that have not submitted financial statements, including a process for assessing and collecting late penalties in a consistent and timely manner. (Final action target date is December 31, 2014; reported in ARCATS as 10E.)

With respect to the weakness of the financial and program management controls over the Emergency Homeowner's Loan Program, we recommended that the Office of Policy Development

11A. Develop and implement procedures that establish internal controls over the SSS EHLP to ensure compliance with program objectives through the duration of the program. (Final action target date is December 31, 2014; reported in ARCATS as 11B.)

11B. Review the HUD-administered assistance obligations with remaining balances totaling $24.3 million and close out and deobligate amounts tied to obligations that are no longer valid or needed. (Final action target date is April 6, 2015; reported in ARCATS as 11C.)

11C. Review the SSS assistance obligations for each State and deobligate as much as $47.9 million tied to obligations that are no longer valid or needed. (Final action target date is April 2, 2015; reported in ARCATS as 11D.)

11D. Develop and implement procedures to routinely evaluate the assistance and administrative obligation balances for the HUD-administered and SSS subcategories of EHLP to determine whether a valid need still exists and if not, deobligate those balances. (Final action target date is April 6, 2015; reported in ARCATS as 11E.)

With respect to HUD's noncompliance with the Antideficiency Act, we recommended that the Office of the Chief Financial Officer

12A. Make the review of ADA [Antideficiency Act] cases a priority by enforcing HUD's ADA case processing timeframe policy going forward and commit to a firm deadline for finalizing the review of the remaining old ADA cases. (Final action target date was December 1, 2014; reported in ARCATS as 14A.)

With respect to HUD's noncompliance with the HOME Investment Partnership Act, we recommended that the Office of Community Planning and Development

13A. Make changes to IDIS Online, which will require grantees to specifically identify the grant allocation year to which the commitment should be assigned and include the commitment dates. The system should also allow HUD to ensure that commitments made during overlapping allocations and periods are counted toward only 1 year's compliance requirements. (Final action target date is October 30, 2015; reported in ARCATS as 15A.)

13B. Stop using the cumulative method and the deadline compliance report for determining compliance with the 24-month commitment requirement in the HOME Investment Partnership Act and use only the commitments made within the 24-month period to determine compliance. (Final action target date is October 30, 2015; reported in ARCATS as 15B.)

13C. In accordance, with the GAO legal decision and opinion, take steps to identify and recapture funds that remain uncommitted after the statutory commitment deadline and reallocate such funds in accordance with the Act. (Final action target date is October 30, 2015; reported in ARCATS as 15C.)

13D. Recapture funds from allocations during the 24-month overlapping period only for grantees that do not comply with the 24-month commitment requirement. (Final action target date is October 30, 2015; reported in ARCATS as 15D.)

Additional Details To Supplement Our Report on HUD's Fiscal Years 2012 and 2011 Financial Statements, 2013-FO-0003

With respect to the material weakness that achieving substantial compliance with FFMIA continued to challenge HUD, we recommended that OCFO

14A. Ensure that Section 108 Loan Guarantee program financial management system requirements are incorporated into HUD's core financial system improvement program to get more transparent and complete information for financial and management reports. (Final action target date is December 31, 2014; reported in ARCATS as 1C.)

With respect to the significant deficiency that there were weaknesses in the monitoring of PIH and the Office of Multifamily Housing Programs' program funds, we recommended that the Assistant Secretary for Public and Indian Housing

15A. Ensure that the staffing and funding levels for the MTW program office are adequate to provide proper oversight of the program. (Final action target date is December 31, 2014; reported in ARCATS as 2F.)

With respect to the significant deficiency that HUD's internal control over financial reporting had serious weaknesses, we recommended that OCFO

16A. Revise HUD's Debt Collection Handbook 1900.25, REV-4, to include comprehensive procedures to ensure that amounts to be repaid from program monitoring findings, repayment agreements, and other binding documents are communicated to the accounting center for timely accrual of receivables. (Final action target date was November 29, 2013; reported in ARCATS as 3B.)

16B. 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. (Final action target date was November 29, 2013; reported in ARCATS as 3C.)

With respect to the significant deficiency that CPD's information and communication systems had weaknesses, we recommended that CPD

17A. Develop internal controls to review field office compliance more frequent than every 4 years, especially when findings have been identified in the past, and to ensure that action plans operate effectively and have addressed the deficiencies noted so that noncompliance is not repeated during the next quality management review. (Final action target date was February 14, 2014; reported in ARCATS as 4B.)

With respect to the significant deficiency that HUD's oversight of the administrative control of funds process had weaknesses, we recommended that OCFO

17B. In coordination with the Office of the Deputy Secretary, emphasize the importance of financial management for the administrative control of funds. (Final action target date was March 15, 2014; reported in ARCATS as 5A.)

With respect to the significant deficiency that deficiencies existed in the monitoring of HUD's unliquidated obligations, we recommended that CPD

18A. Review the status of these expired contracts, which make up the $50.6 million, and recapture excess funds for the contracts that have not been granted extensions. (Final action target date was October 18, 2013; reported in ARCATS as 6A.)

18B. Review the 270 obligations with remaining balances totaling $432,147 and close out and deobligate amounts tied to obligations that are no longer valid or needed. (Final action target date was September 30, 2014; reported in ARCATS as 6B.)

With respect to the significant deficiency that deficiencies existed in the monitoring of HUD's unliquidated obligations, we recommended that the Office of the Chief Human Capital Officer

18C. Review the 714 obligations with remaining balances totaling $8,428,808 and close out and deobligate amounts tied to obligations that are no longer valid or needed. Additionally, the $448,022 in five obligations marked for deobligation should be deobligated. (Final action target date was April 7, 2014; reported in ARCATS as 6E.)

With respect to the significant deficiency that deficiencies existed in the monitoring of HUD's unliquidated obligations, we recommended that the Office of the Chief Information Officer

18D. Review the 357 obligations with remaining balances totaling $6,832,833 and close out and deobligate amounts tied to obligations that are no longer valid or needed. Additionally, the $618,560 in 45 obligations marked for deobligation should be deobligated. (Final action target date is December 12, 2013; reported in ARCATS as 6F.)

With respect to the significant deficiency that deficiencies existed in the monitoring of HUD's unliquidated obligations, we recommended that the Office of Housing

18F. Review the 588 obligations with remaining balances totaling $1,912,078 and close out and deobligate amounts tied to obligations that are no longer valid or needed. Additionally, $10,565,965 in 209 administrative obligations and $145,006 in eight program obligations marked for deobligation should be deobligated. (Final action target date was March 21, 2014; reported in ARCATS as 6L.)

18G. Review the 69 inactive or expired obligations with $1,202,207 in remaining balances and coordinate with OCFO to deobligate any funds that are determined to be expired or inactive after review. (Final action target date was March 19, 2014; reported in ARCATS as 6O.)

18H. Deobligate the $2 million in remaining loan obligations for ineligible borrowers under the Emergency Homeowners' Loan Program. (Final action target date was March 20, 2014; reported in ARCATS as 6P.)

With respect to HUD's substantial noncompliance with the Antideficiency Act, we recommended that OCFO

19A. Establish policies and procedures for ensuring that investigators and all individuals involved in the review or concurrence process do not have any personal or external impairment that would affect their independence and objectivity in conducting ADA reviews and investigations. (Final action target date was March 15, 2014; reported in ARCATS as 9A.)

19B. For current and future investigations, determine the qualifications and independence of personnel used at each stage of the investigation. (Final action target date was March 15, 2014; reported in ARCATS as 9B.)

19C. Issue a legislative request for funding for additional staffing or to have ADA investigations conducted by an independent external organization. (Final action target date was November 29, 2013; reported in ARCATS as 9C.)

Additional Details To Supplement Our Report on HUD's Fiscal Years 2011 and 2010 Financial Statements, 2012-FO-0003

With respect to the significant deficiency that HUD needs to improve the process for reviewing obligation balances, we recommended that CPD

20A. Review the status of each of its homeless assistance contracts that make up the $32 million OIG identified as excess funding and recapture excess funds for expired contracts that have not been granted extension. (Final action target date was February 6, 2013; reported in ARCATS as recommendation 2B.)

With respect to the significant deficiency that HUD needs to improve its administrative control of funds, we recommended that OCFO

21A. Establish and implement procedures to ensure that all program codes that disburse HUD's funds have complete and approved funds control plans before the funds can be disbursed. (Final action target date was April 27, 2013; reported in ARCATS as recommendation 4A.)

21B. Establish and implement procedures to ensure that the funds control plans are updated to include the new program codes and new appropriation requirements. (Final action target date was April 27, 2013; reported in ARCATS as recommendation 4B.)

With respect to the significant deficiency that HUD needs to continue improving its oversight and monitoring of subsidy calculations, intermediaries' performance, and use of Housing Choice Voucher and operating subsidy program funds, we recommended that PIH

22A. Office of Housing report on income discrepancies at the 100 percent threshold level as a supplemental measure; assign staff to review the deceased single-member household and income discrepancy reports at least quarterly and follow up with owners and management agents (O-A) listed on these reports; and include in the contract between HUD and O-As a provision for improper payments that requires to resolve in a timely manner income discrepancies, failed identity verifications, and cases of deceased single-member households. (Final action target date was April 1, 2014; reported in ARCATS as recommendation 5B.)

Additional Details To Supplement Our Report on HUD's Fiscal Years 2010 and 2009 Financial Statements, 2011-FO-0003

With respect to the significant deficiency that HUD's financial management systems need to comply with Federal financial management system requirements, we recommended that CPD

23A. Cease the changes being made to IDIS for the HOME program related to the FIFO rules until the cumulative effect of using FIFO can be quantified on the financial statements. (Final action target date is June 15, 2015; reported in ARCATS as recommendation 1A.)

23B. Change IDIS so that the budget fiscal year source is identified and attached to each activity from the point of obligation to disbursement. (Final action target date is June 15, 2015; reported in ARCATS as recommendation 1B.)

23C. Cease the use of FIFO to allocate funds (fund activities) within IDIS and disburse grant payments. Match outlays for activity disbursements to the obligation and budget fiscal source year in which the obligation was incurred and in addition, match the allocation of funds (activity funding) to the budget fiscal year source of the obligation. (Final action target date is June 15, 2015; reported in ARCATS as recommendation 1C.)

23D. 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. (Final action target date is June 15, 2015; reported in ARCATS as recommendation 1D.)

With respect to the significant deficiency that HUD needs to improve the process for reviewing obligation balances, we recommended that OCFO, in coordination with the appropriate program offices

24A. Review the 510 obligations that were not distributed to the program offices during the open obligations review and deobligate amounts tied to closed or inactive projects, including the $27.5 million we identified during our review as expired or inactive. (Final action target date was October 31, 2011; reported in ARCATS as recommendation 2C.)

With respect to the significant deficiency that HUD needs to improve the process for reviewing obligation balances, we recommended that the OCFO, in coordination with PIH

24B. Recapture the full amount of obligations from these 434 PIH low-rent grants totaling $174 million and return to the U.S. Treasury the total balance of budgetary resources from invalid grants. (Final action target date was June 30, 2012; reported in ARCATS as recommendation 2N.)

With respect to the significant deficiency that CPD needs to improve its oversight of grantees, we recommended that CPD

24C. Review the status of each of its homeless assistance contracts that make up the $97.8 million OIG identified as excess funding and recapture excess funds for expired contracts that have not been granted extensions. (Final action target date was March 16, 2012; reported in ARCATS as recommendation 4A.)

With respect to the significant deficiency that HUD needs to improve its administrative control of funds, we recommended that OCFO

24D. Establish and implement procedures to ensure accuracy and completeness of ARRA [American Recovery and Reinvestment Act] funds control plans. (Final action target date was December 30, 2011; reported in ARCATS as recommendation 5B.)

With respect to HUD's substantial noncompliance with ADA, we recommended that OCFO, in coordination with the appropriate program offices

25A. Complete required steps on the six known potential ADA issues and report those determined to be violations immediately to the President, Congress, and GAO as required by 31 U.S.C. (United States Code) and OMB Circular A-11. (Final action target date was December 30, 2011; reported in ARCATS as recommendation 6A.)

25B. Investigate the potential ADA violation and other interagency agreements that were similarly executed. If the investigation determines that an ADA violation occurred, immediately report it to the President, Congress, and GAO as required by 31 U.S.C. and OMB Circular A-11. (Final action target date was December 30, 2011; reported in ARCATS as recommendation 6B.)

Additional Details To Supplement Our Report on HUD's Fiscal Years 2009 and 2008 Financial Statements, 2010-FO-0003

With respect to HUD's substantial noncompliance with ADA, we recommended that OCFO, in coordination with the appropriate program offices

26A. Complete the investigations and determine whether ADA violations have occurred and if an ADA violation has occurred, immediately report to the

President, Congress, and GAO. (Final action target date was March 11, 2011; reported in ARCATS as recommendation 5A.)

26B. Report the six ADA violations immediately to the President, Congress, and GAO, as required by 31 U.S.C. and OMB Circular A-11, upon receiving OCFO legal staff concurrence with the investigation results. (Final action target date was March 16, 2011; reported in ARCATS as recommendation 5B.)

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use 1/
2B.	$423,000,000
6A.	$119,900,000
6B.	$10,408,513
6E.	$31,008,694
6F.	$3,458,166
6G.	$4,576,896
6I.	$23,500,000
6J.	$23,291,833
6M.	$13,025,983
6N.	$221,540
6O.	$4,235,471
6P.	$1,749,913
6Q.	$1,495,606
6S.	$333,673
6T.	$308,793
6U.	$141,421
6V.	$85,006
6W.	$68,828
Totals	**$660,810,336**

1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.

Appendix B

Departmentwide Obligation Review – Schedule of Recommended Deobligations

	OIG Review of Inactive Administrative Obligations		HUD's Departmentwide Unliquidated Obligation Review – Invalid Obligations Identified by HUD but Not Deobligated as of 9/30/14					
Program Office	Recommended for Review		Administrative Obligations		Program Obligations		Total	
	#	$	#	$	#	$	#	$
Housing	269	$19,624,446	613	$4,988,326	79	$6,395,922	692	$11,384,248
PIH	34	151,963	73	160,998	24	1,182,645	97	1,343,643
OCIO	171	19,730,791	64	3,561,042	0	0	64	3,561,042
OCHCO	65	1,383,565	99	366,348	0	0	99	366,348
FHEO	17	26,711	2	5,210	1	109,500	3	114,710
PD&R	10	76,642	2	136,391	2	8,507	4	144,898
OCFO	6	332,888	1	785	0	0	1	785
CPD	72	313,419	5	174,168	308	9,920,926	313	10,095,094
Chief Executive Officer, Office of the Secretary	0	0	16	68,828	0	0	16	68,828
Office of Administration	199	4,146,234	46	89,237	0	0	46	89,237
Public Affairs	0	0	12	85,006	0	0	12	85,006
FPM	50	308,793	0	0	0	0	0	0
Total	893	**$46,095,453**	933	$9,636,339	414	$17,617,500	1347	**$27,253,839**

Appendix C

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

This appendix provides details required under FFMIA reporting requirements. We noted instances in which HUD's systems did not substantially comply with FFMIA requirements. We noted instances that resulted in a lack of substantial compliance with (1) Federal financial system requirements, (2) Federal accounting standards, and (3) USSGL at the transaction level.

The organizations responsible for FFMIA noncompliant systems are as follows:

Responsible office	Number of compliant systems	Nonconforming systems
Office of Housing	18	0
Office of the Chief Financial Officer	12	0
Office of the Chief Human Capital Officer	1	1
Office of the Chief Procurement Officer	1	2
Office of Community Planning and Development	2	1
Office of Public and Indian Housing	1	0
Government National Mortgage Association	1	0
Totals	36	4

We have summarized HUD's plan to correct instances of FFMIA noncompliance as submitted to us as of September 30, 2014.

Systems That Do Not Comply With Federal Financial Systems Requirements

Facilities Integrated Resources Management System – The FIRMS application does not comply with Federal financial management systems requirements. While HUD had identified FIRMS as FFMIA noncompliant since 2010, technical issues, including a lapsed maintenance contract, rendered FIRMS nonfunctional. OCHCO is responsible for FIRMS. We previously recommended improvements to system interfaces with the financial system and the acquisition system. While HUD had initially hoped to remediate FIRMS and perform a property inventory by February 2014, resource constraints resulted in significant delays. To achieve eventual FFMIA compliance and meet business requirements regarding property management, HUD planned to decommission FIRMS and transition to a shared service provider, the Federal Aviation Administration.

HUD Procurement System and Small Purchase System – HPS and SPS are legacy procurement applications that do not comply with FFMIA because they do not meet Federal financial system requirements. HPS and SPS do not meet system requirements because as older systems, they lack important functionality. OCPO is responsible for HPS and SPS. We previously recommended the replacement of HPS and SPS, and in fiscal year 2012, OCPO began implementing a new procurement system, HIAMS, to replace HPS and SPS. While HUD had planned to decommission HPS and SPS, technical issues related to data migration delayed decommissioning of the systems. HUD planned to decommission the HPS and SPS procurement applications once technical issues associated with the migration were addressed and the data transfer was complete.

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

Integrated Disbursement and Information System Online - IDIS does not comply with applicable Federal accounting standards or USSGL at the transaction level. CPD is responsible for IDIS Online. IDIS does not comply with Federal accounting standards because it was configured to account for grant disbursement using the FIFO method and lacked key data elements and controls essential to properly track or account for grant disbursement by the conforming specific identification method. IDIS does not comply with USSGL because the system was not configured to post transactions to appropriate general ledger accounts. We previously recommended that HUD modify IDIS to account for grant disbursements by the specific identification method and configure the system to record transactions in compliance with USSGL. In addition to eliminating FIFO for fiscal year 2015 and the future, HUD planned to add new data elements and configure new automated controls and accounting logic to achieve FFMIA compliance.

Appendix D

Auditee Comments and OIG's Evaluation

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

CHIEF FINANCIAL OFFICER

NOV 25 2014

MEMORANDUM FOR: Thomas R. McEnanly, Director, Financial Audits Division, GAF

FROM: Brad Huther, Chief Financial Officer, F

SUBJECT: Management Comments on Draft Report on Additional Details To Supplement Our Report on HUD's Fiscal Years 2014 and 2013 Financial Statements

I appreciate the opportunity to review your draft report and provide comments. The Department values the Office of the Inspector General's (OIG) independent reviews of our operations and we carefully consider each of your reports. Of particular note is the recognition that our corrective actions have led the OIG to eliminate the material weakness on HUD's consolidated reporting. This was achieved through collaborative work among FHA, Ginnie Mae, and HUD financial report teams.

Comment 1

Your finding that the Office of Community Planning and Development's (CPD) formula grant accounting does not comply with Generally Accepted Accounting Principles (GAAP) has been addressed by implementation of a new module for the Integrated Disbursement and Information System (IDIS) that disburses formula grant funds. As your report notes, this new module will eliminate the First-In First-Out (FIFO) methodology of accounting for FY 2015 disbursements and out years. It is not feasible for CPD to address prior year funds. HUD cannot apply new requirements retroactively to funds that the grantees committed in accordance with the program regulations in affect at the time. While amendments can be made, they are not binding on the grantee until the effective date of those amendments.

Comment 2

In response to the finding on weaknesses in Public and Indian Housing's (PIH) cash management process, PIH has begun implementing new cash management processes that have transitioned $443 million back to HUD control. This effort is in its beginning stages and will expand to include Moving-To-Work (MTW) Public Housing Agencies (PHA) that were not addressed in FY 2014 due their special designation and rules. The report's assertion that HUD believes MTW agencies are not subject to cash management rules and that it would not be cost beneficial to quantify any excess accumulations is inaccurate and should be removed. This finding contains other mischaracterizations we address in the attachment.

Comment 3

Your report contends that grant accrual estimates lack validation resulting in misstatement. CPD has revised its methodology for estimating grant accruals after consultation with OIG's subject matter expert. A recalculation indicates the accrual amount for FY 2013 should be $1.9 billion. CPD has started validation procedures and will adjust their methodology as necessary to improve the accuracy of the estimate. PIH disagrees that their validation methodology was not sufficient. Detailed information refuting this is included in the attachment.

HUD is addressing the OIG noted financial management systems weaknesses challenge. This

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Comment 4

weakness will be obviated with the conversion to a Federal shared service provider. This effort, known as New Core, began a phased implementation in FY 2015. To ensure proper implementation, New Core will be constantly reevaluated. We object to the characterization of our consolidation process as costly and inefficient. Detailed comments in the attachment address other aspects of New Core the OIG should consider when finalizing their report in particular acknowledging the resolution of much of the current financial management system weakness. With respect to our legacy systems we provide detailed comments in the attachment listing processes, software modifications and updates completed during FY 2014 improving operation. A redundant section of this finding concerning the problem with CPD's formula grant accounting system that was detailed in Finding 1 should be removed or merely referenced.

Comment 5

With respect to administrative control of funds, we will examine the findings regarding:

- PIH and the Section 8 Tenant-Based program to determine if disbursements are made before the point of obligation.
- Multi-family's Section 8 Project-Based program to determine if they are using the proper document as the point of obligation and whether their funds control plan has been approved by the CFO.

As noted in the draft report, not all HUD Programs have funds control plans because OCFO made a decision not to require plans for old programs that were only disbursing funds and had no new funds available for obligation. As previously communicated, system controls in our core accounting system prevent a disbursement from being made unless a valid obligation exists. The report also discusses program codes stating that CFO does not have sufficient controls over establishing new codes. Program codes are used by program offices for their internal reporting purposes and they are not part of the funds control structure. Also, the last paragraph in the finding erroneously notes a lack of oversight and monitoring of program offices' compliance with funds control plans and should be removed. We disagree with this statement because an OIG-approved plan exists to perform compliance reviews on all funds control plans over a 5-year period and we have completed the first two years of the plan.

Comment 6

OIG continues to note that weaknesses existed in HUD's monitoring of the Rental Housing Assistance Program. The finding states that PIH must complete actions to develop a risk assessment process that evaluates all PHAs. PIH has developed and implemented a risk model to identify high-risk PHAs. This statement should be removed. PIH has controls in place and have performed numerous reviews and validations on VMS data. Of note is the OIG performed a limited validation review of VMS data during FY 2014 which resulted in no findings.

Comment 7

OIG also noted that HUD did not comply with the HOME Investment Partnership Act (HOME). The draft report states that use of a non-cumulative method of accounting for HOME commitments would result in a number of grantees not meeting the 24 month commitment deadline resulting in recaptured and reallocated funds. CPD disagrees with this statement saying that grantees would adjust their commitment methodology to commit funds from the grants subject to the deadline rather than lose the funds due to the failure to meet the requirement. CPD also disagrees with OIG's statement that the non-compliance issue will remain until the cumulative method of accounting for commitments is no longer used (prospectively and retrospectively). CPD states that the GAO

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Auditee Comments

decision regarding this issue did not require or even encourage HUD to implement its opinion retroactively to more than 20 years of HOME grants, as is suggested by the OIG's statement. GAO simply states that "HUD must take steps to identify and recapture funds that remain uncommitted after the statutory commitment deadline and reallocate such funds in accordance with the Act."

Comment 8

We have attached detailed comments regarding substantive and technical corrections and requests for clarifications and reconsiderations. This includes comments on your noted material weaknesses, significant deficiencies, and noncompliance issues.

If you have any questions or concerns please contact me or Jerry Vaiana on extension 8106.

Attachment

OIG Evaluation of Auditee Comments

Comment 1 Preparing accurate and complete financial statements was a HUD management responsibility that has been delegated to the OCFO. Due to HUD's continued use of the FIFO methodology for prior year formula grant programs it was HUD's financial reporting that were materially misstated, inaccurately presented, out of compliance, and will continue to be a departure from GAAP. If OCFO does not ensure that HUD takes the steps to quantify the misstatement, OIG will have to continue to take exception to the presentation, accuracy, and compliance with GAAP on HUD's financial statements until the effects are determined to be immaterial. This was consistently communicated to OCFO and HUD management throughout the audit.

Comment 2 OIG acknowledges PIH's progress to date on this issue and we will evaluate the progress made in fiscal year 2015 in next year's report. We have reviewed PIH's other comments. The finding contains statements PIH management made to the OIG in meetings, interviews, and other correspondence during the course of field work and was documented in our work papers. Any changes in position were not reported to us until after the draft report was issued. Therefore no changes will be made to the finding.

Comment 3 OIG recognizes CPD's willingness to review and make improvements to their grant accrual estimation methodology and estimates; however, the $1.9 billion grant accrual estimate was outside of our statistically valid estimate. We estimated the upper limit of CPD's fiscal year 2013 grant accrual to be nearly $1.54 billion. Due to timing we were unable to test CPD's revised methodology and estimate. We will review and evaluate CPD's validation procedures during the fiscal year 2015 audit.

In evaluating PIH's detailed comments we reaffirmed our position that PIH did not sufficiently validate their grant accrual estimate. The procedures described are deficient because of both of the reasons listed in the report (1) The data used did not allow PIH to account for all potential grant accruals as of HUD's fiscal year end, and (2) the methods did not take into account when expenses were incurred by the grantee which is necessary to determine an accrual. The accounting standards are clear that subsequent grantee reporting is to be used to validate grant accrual estimates. Accordingly, the validation procedures were not sufficient to satisfy the requirements of FASAB TR-12.

Comment 4 HUD acknowledged the substance of the finding, noting that the current financial management systems framework needs to be re-engineered in order to improve processes. Ultimately, management's disagreement is inconsequential as they proceed with the New Core process to enhance effectiveness and efficiency of their financial systems and processes. Additionally, due to the continued phased implementation time table, it we cannot conclude that the New Core project will resolve all of HUD's noncompliance issues at this time.

We are required to report on HUD's compliance with FFMIA. The use of the FIFO methodology in CPD's formula grant accounting system was another indication of HUD's lack of substantial compliance with FFMIA. Therefore, it will not be removed.

Comment 5 OMB Circular A-11, part 4 and 6 requires that all fund transactions accounted for are properly identified. Funds control plans provide the reference to the legislation that authorizes the use of funds and budgetary restrictions imposed by Congress. Without a funds control plan or alternative document, HUD cannot properly account for the utilization of the funds at the transaction level. Further, program codes that do not have a corresponding funds control plan were considered unsupported.

HUD began implementing compliance reviews of funds control plans in fiscal year 2013. No reviews were completed for several years prior to this time. Therefore, a full cycle was not completed and therefore, was not sufficient to conclude that the risks have been mitigated. Further, these reviews were not being conducted on program codes that do not have a funds control plan, therefore a comprehensive review program was not in place in fiscal year 2014.

Comment 6 The PIH risk assessment model has not been fully implemented. As mentioned in our report, PIH management has stated they do not expect it to be completed until the end of fiscal year 2015.

In regards to reviews of VMS data, the language in the conclusion was revised to provide clarification that while OIG did not find significant discrepancies in our limited VMS review, until the recommendations are fully implemented, PIH does not have adequate assurance that VMS self-reported data was accurate. We do not believe the statement made about controls should be deleted in its entirety because the Quality Assurance Division (QAD) was an important control over VMS data and the division was understaffed the last few years. Congress originally recommended in the fiscal year 2005 HUD appropriations to establish a QAD to better monitor Section 8 spending and to be able to better control future budget requirements. HUD was directed to provide a minimum of 75 Full Time staff. While we understand that due to funding constraints and agency priorities, it may be difficult to dedicate 75 staff to QAD reviews, QAD's staffing levels in the past couple of years was significantly lower than this, and many QAD staff were used for shortfall prevention instead. We considered this a deficiency in the control because QAD can only review VMS and NRA data for a very small percentage of the PHA population. Therefore, the control was not fully implemented and cannot function as an adequate internal control. Further, while

HUD does validate VMS data using outlier testing, it does not ensure the accuracy of the data, which is the objective of QAD reviews. As a result, the risk of inaccurate VMS and NRA data increases. Consequently, PIH needs to ensure that QAD has sufficient staff to conduct a reasonable amount of reviews to be considered an adequate internal control. We discuss in the report that QAD will have 7 new staff in FY 2015, we believe that the addition of 7 staff could improve this control, however; these staff were not in place in 2014.

Comment 7 In addition to preparing accurate and complete financial statements; OCFO and HUD managements were also responsible for ensuring that its programs were compliant with financial management statutes, regulations and grant provisions. Likewise, in addition to opining on HUD's financial statements completeness, accuracy and compliance with GAAP, we were also charged with determining compliance with significant laws and regulations. Due to the current use of the cumulative method for determining compliance with the HOME Statue, all HOME grants awarded prior to fiscal year 2015 are at significant risk of noncompliance with the statute as well as various aspects of Appropriation Law. Further, it was management's decision to not change the method of determining compliance with the statute for fiscal year 2014 grants and prior. Therefore, it is our responsibility to continue to report this issue as an instance of noncompliance.

Comment 8 We have reviewed the Department's detailed comments and made changes throughout the final report as appropriate.