



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Office of Inspector General

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WASHINGTON, D.C. 20410-4500

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Audit Memorandum No.
2002-DP-0801

MEMORANDUM FOR: Angela M. Antonelli, Chief Financial Officer, F
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FROM: Benjamin K. Hsiao, Director, Information Systems Audit Division, GAA

SUBJECT: Review of HUD's Multi-Year Information Technology (IT) Plan

INTRODUCTION

This memorandum is in response to a congressional request that the HUD Office of Inspector General determine whether the HUD's Multi-Year IT Plan (FY01-FY03) addresses previously reported computer system weaknesses and whether the most critical weaknesses have been assigned sufficient funding priority.

We found that management was well aware of the weaknesses that required corrective action. However, the Department sometimes initiated system projects before the prerequisite Enterprise Architecture Plan, business processes, and system functionality were fully identified. In addition, we found the Plan did not fully address OIG and GAO open report recommendations to correct long-standing material weaknesses in the computer systems supporting major HUD activities. The weaknesses inadequately addressed included the Department's financial systems, Section 8 rental subsidies, FHA business processes, and FHA funds control. Our comments on those recommended system projects that were excluded from the Plan are provided under the "Results of Review" section. Also, we have included comments on two large projects listed in the Plan that we believe can be deferred until later. Although HUD's submission is called a Multi-Year IT Plan, we believe that strategic resource planning should entail budget planning for the succeeding five-year period. Our comments on this issue are discussed under the "Other Concerns" subsection.

BACKGROUND

Federal Government Criteria for HUD's Multi-Year IT Plan. The requirement for HUD's Multi-Year IT Plan is contained in two House Reports – Conference report 107-272, dated October 2001, and the Appropriations Committee report 107-159, dated July 25, 2001. In the July report, the committee had requested a two-year (FY01-FY02) Plan addressing the OIG and GAO identified system weaknesses to support the committee's reconsideration of HUD's FY02 appropriation request for the Working Capital Fund (WCF). This Plan was submitted by the August 22, 2001 deadline. In the October conference report, the committee required an updated Plan to include next year's project listing to support the FY03 appropriation request.

HUD's IT project funding requests (and Multi-Year IT Plan) must also conform with its Enterprise Architecture Plan for IT systems and budget guidance from the Office of Management and Budget (OMB). The Enterprise Architecture Plan requirement was established for the major federal agencies from the enactment of the "Clinger Cohen Act" of 1996. The Act requires that the Chief Information Officer (CIO) of each agency develop an Enterprise Architecture Plan to guide an agency's selection decisions of IT hardware, software, and communications. The Architecture Plan is based upon an analysis and derivation of desired business processes, data needs and corresponding system functionality. The goal of the Plan is to define the "To Be" or target IT architecture that will help identify and prioritize those projects that comply with the Plan.

The OMB budget guidance consists of agency documentation requirements to support their IT project funding requests. During October 2001, OMB announced a federal government-wide initiative (referred to as either "E-Government" or "Quicksilver" project) involving 24 government activities, which use or will use Internet-related technologies to accelerate and streamline service delivery to citizens, to eliminate redundancy, and to improve government operating efficiency. The 24 initiatives are to be performed by multi-agency teams led by different federal agencies. OMB might deny funding requests for an agency IT project that conflicts with one of these government-wide initiatives.

HUD's Process for Preparing its Multi-Year IT Plan. HUD has established various IT capital planning procedures in arriving at and supporting its annual budget requests to OMB and Congress. A Technology Investment Board (TIB) makes formal project selection decisions based upon recommendations by the Board's working group (TIBWG) through the Senior Review Board. The IT capital planning process incorporates the Department's "System Development Methodology" manual in requesting/initiating, defining, designing, and developing IT projects. In addition, the Department uses an annual questionnaire, to be completed by its program offices, to obtain answers to uniform questions to help in its project select decision process. Out of the 26 questions for the FY02/FY03 select process, one question pertained to whether the project request addressed an OIG or GAO identified material weakness in system controls. A different questionnaire now being used for the FY03/FY04 select process also contained this question, as well as, a question on whether the project request duplicates a "Quicksilver" effort. The TIBWG scores each of the answers to the questionnaires, and a software system, called Expert Choice, is used to arrive at overall priority scores for each of the project requests. Information on the scores received, the selection decision, project descriptions, funding request details,

OMB 300B submissions for major projects, and other project information is all included in the Department's Information Technology Investment Portfolio System (I-TIPS) database.

Material Weaknesses in System Internal Controls. The material weaknesses in the internal controls identified by the OIG in its fiscal year 2001 financial statement audit report related to the need to:

1. Complete improvements to the Department's financial systems;
2. Improve oversight and monitoring of housing Section 8 subsidy determinations;
3. Ensure that Section 8 rental subsidies are based on correct tenant income;
4. Improve Federal Housing Administration's (FHA) controls over budget execution and funds control; and
5. Enhance FHA information technology systems to more effectively support FHA's business processes.

METHODOLOGY AND SCOPE

Objectives of our Review. The objective of our review is to verify that: (i) the HUD IT Plan addresses the OIG and GAO identified material system weaknesses, and (ii) the project listing includes, in priority order, those projects that address the most critical weaknesses within available funding.

Review Methodology. The scope of our review included: (i) obtaining the universe of all open (unimplemented) recommendations; (ii) reading the audit reports to gain a better understanding on how those recommendations relate to needed system development or enhancements; and (iii) comparing those needs against the list of projects included under the Multi-Year IT Plan. Where the Multi-Year IT Plan project descriptions lacked sufficient information on project scope, we reviewed the more detailed narrative descriptions contained in the ITIPS database. Our "Results of Review" section discusses those needed projects, relating to material weaknesses that were not found in the Plan. The excluded project needs only include IT projects, as defined in the Department's System Development Methodology manual and the TIB's WCF funding criteria definitions where applicable. Establishing or improving IT policies and processes are not included in the scope of this Memorandum; however, we have made some comments (but no recommendations) regarding the Multi-Year IT Plan process. See the "Other Concerns" section.

Limitations of our Review. The relatively quick timeframe precluded our discussion with project managers or review of contract scope of work documents to determine whether listed Plan projects would, in fact, implement the open recommendations and eliminate the identified weaknesses. The timeframe also precluded our review of whether any of the projects in the Plan may duplicate or conflict with E-government ("Quicksilver") project efforts. We identified that 19 projects on the Plan referenced E-government initiatives. Our review also excluded reviewing the mathematical algorithms of the Expert Choice project scoring system.

RESULTS OF REVIEW

Summary. Our review identified several project needs that were either not listed in the Multi-Year IT Plan or were inadequately funded. The excluded project needs discussed below consist of the Enterprise Architecture Plan, Section 8 rental subsidies, excess unexpended fund balances, FHA operations and funds control, and the Departmental financial systems. All projects are associated either directly or indirectly with the OIG identified material weaknesses in the Department's financial and system internal controls. Some projects represent unimplemented actions needed to address existing open OIG and GAO recommendations, while others represent recent OIG recommendations from the FY 2001 financial statement audit.

Excluded projects from open GAO and OIG recommendations.

Enterprise Architecture Plan. Both the GAO [GAO Report 02-44, 10/24/01] and the OIG have reported that HUD's target (i.e., "To Be") Enterprise Architecture (EA) Plan has yet to be derived even though derivation of this Plan is a necessary prerequisite for undertaking new major system developments. HUD's OMB 300B shows funding for the target Architecture Plan project (scheduled for completion by 9/30/02) at only \$421,000. We believe this funding may be too low. According to the recently issued GAO report, "Enterprise Architecture Use across the Federal Government Can Be Improved" (GAO-02-6), additional costs to complete the target EA plan (for 32 agencies providing estimates) ranged from \$100,000 to \$25.3 million. Generally, the variability in the reported EA costs can be attributed, at least in part, to differences in the respective agencies' size and complexity. Among the larger agencies/bureaus, GSA (an agency smaller than HUD) had the lowest estimated costs (\$898,000) for completing the EA.

The HUD Multi-Year IT Plan also included \$2.1 million budgeted for another project -- the initial feasibility, cost-benefit and other initiate-phase studies for the Departmental General Ledger project. The project was budgeted for FY 2001 but has not yet started. The total FY02/FY03 funding request, including additional phases, was \$14.2 million. We believe that the target Architecture Plan should be completed prior to or in conjunction with the initiate-phase studies for the Departmental General ledger, as the latter is a major system project for the agency. The remaining funding request for the additional phases of the Departmental General Ledger project should, therefore, be deferred.

Management's Comments: This is the one area where OIG acknowledges the subject is included in the IT Plan, but questions if the level of funding, \$421,000, might be too low to complete the project, based on a comparison to the cost of other agency efforts. We find that the OIG draft report does not fully consider and reflect all of the IT Plan funding provided for the EA. The total planned EA spending for FY 2002, as submitted to OMB on September 10, 2001, was \$1.9 million rather than the \$421,000 amount reflected in the OIG draft report. It appears that OIG only considered the "Full Acquisition" part of the OMB 300B estimate and did not consider the "Maintenance" part. HUD's Multi-Year IT Plan has \$3.1 million planned for the EA in FY 2003, under project number 303820. The total life-cycle cost for EA is currently estimated at \$17.7 million. While OIG quotes costs for other agencies to implement EA between \$100,000 and \$25.3 million, the comparability of the other agency data is not known, as the OIG does not indicate whether the other agency costs reflect life-cycle costs or some other basis. While we don't think other agency efforts have much relevancy to HUD, we do believe the total EA funding in our IT Plan is adequate to continue our work on the target EA through FY 2003.

In the context of the pending nature of HUD's target EA, the OIG takes issue with the IT Plan's provision of funding for the Departmental General Ledger Project (DGL) and systems enhancements in support of the operations of the Office of Housing Homeownership Centers, until the target EA is complete. Systems activities in both these areas will be closely coordinated with the on-going target EA effort, however, we do not believe it is prudent to wait to pursue these important initiatives. The target EA is being developed in segments and the work on the financial segment will be done in conjunction with planning for the DGL Project. The initiate-phase study for the DGL project will support the completion of the target EA for the financial segment.

OIG Response: The \$421,000 figure (for completing the EA target and migration strategy) came from the ITIPS database information. The remaining funding for maintenance (about \$1.5 million) was primarily for updating current systems and business process documentation, such as updating: the system/business process inventory system Enterprise Architect Management System, the System Development Methodology manual, reference standards, business process reinvention, and performance measures. Whether some of this other funding can be classified as target EA development is debatable; however, the primary intent of our recommendation is to encourage that sufficient resources and priority be assigned to completing the target EA. According to the GAO report (GAO-02-6), 14 federal agencies have already completed the target EA.

We are concerned by management's comments that the target EA is being developed in segments. The existing OMB guidance on Enterprise Architectures (M97-16, June 18, 1997) states that "various aspects of the [EA] can be developed at the agency or sub-agency level. However, self-contained sub-agency level architectures should be integrated and consistent with an agency-wide [EA]." Therefore, completion of the Departmental General Ledger as a self-contained project, without completion of an agency-wide EA, increases the risk that it would be incompatible with the other major HUD systems. We are recommending that the target EA should be completed prior to the General Ledger initiate phase. If that is not possible, then the target EA and the General Ledger initiate phase should be done in conjunction with each other, but in no case, should the General Ledger development decisions (software selection and hardware platforms) be made prior to target EA completion.

Office of Housing Homeownership Centers. The GAO [GAO Report 02-44] also recommended that thorough define phase work, including a functional requirements document with associated business processes/rules and data requirements, be completed for the Office of Housing Homeownership Centers for input into HUD Enterprise Architecture Plan prior to undertaking major new system development and enhancements for these Centers. However, \$11.62 million has been budgeted in the Plan for three ongoing FY2002 and FY2003 system development/enhancement projects related to the Centers' operations [Neighborhood Watch (PCAS No. 251370), Single Family Data Warehouse (PCAS No. 251380, and CHUMS (PCAS No. 251400)]. The Multi-Year IT Plan project to cover the design phase (PCAS No. 663400 -- "Integration of Single Family Systems") has not been started and funds have not been requested until FY 2003. Identifying and defining the new business processes and functional requirements for this system was included under an ongoing Department-wide business process improvement (BPI) project. The Homeownership Centers portion of this project needs to have high priority. If feasible, the other three ongoing projects should not proceed on a course that might conflict with the recommended business processes from the define-phase project being completed.

Management's Comments: *The scheduling of the "Integration of Single Family Systems" project was moved to FY 2003 specifically in response to the OIG-cited GAO finding and recommendation that a Business Process Improvement (BPI) review be completed prior to undertaking any significant effort to modernize and replace the now aging CHUMS system. The business analysis has proceeded in FY 2002 and the result will be included along with other material relating to the requirements for an effective, efficient, and better-integrated system environment for Single Family Housing. However, there is an immediate business need for existing systems enhancements to address risks in the FHA single family program area. This is a GAO-designated high risk area with reportable*

conditions disclosed by the OIG financial statement audit work. Management will ensure that the cited three ongoing projects (Neighborhood Watch, Single Family Data Warehouse, and CHUMS) will not conflict with the recommended business processes from the define-phase project, when completed.

OIG Response: We have rechecked the ITIPS information database and found that the BPI portion of the define-phase of Integration of Single Family Systems project was included under an enterprise-wide BPI project for FY02 Plan funding. Therefore, we have removed the first half of our recommendation. The other half of our recommendation (ensuring that ongoing projects will not be in conflict), which you have agreed with, is being retained.

Excess Unexpended Funds. GAO stated that HUD needs to review unexpended and unobligated balances for Section 8 housing subsidies (Housing Certificate Fund) and the Public Housing Capital Fund to determine accurate balances [GAO Testimony 01-663T]. HUD also needs to enhance current IT systems in order to capture additional data for this determination. GAO provided some specific system enhancement recommendations related to the Public Housing Capital Fund, which had a FY2002 budget of \$2.8 billion: "For example, for the Public Housing Capital Fund, HUD should (1) develop information systems to aggregate data on the obligation status of individual housing agencies' capital fund projects, (2) use that information to reallocate funds among public housing agencies as needed, and (3) adjust its budget request for the Public Housing Capital Fund accordingly." We could not find this project in HUD's IT Multi-Year IT Plan.

Management's Comments: While HUD continues to take actions to better assure the timely obligation and expenditure of HUD program funds, this is viewed as more of a program management and enforcement issue than an IT systems issue. HUD believes its existing systems are adequate for reporting on the extent of unobligated and unexpended funds in HUD's programs, and HUD has been working with the third party intermediaries that administer its programs to improve the timeliness of their utilization of HUD funds. The OIG's audit of HUD's FY 2001 consolidated financial statements acknowledges some HUD progress in this area. The GAO did focus on this issue in its review of HUD's FY 2002 Budget Justifications, but the draft report's references to that work need to be put in proper context. In the GAO's October 10, 2001 transmittal of the data sheets documenting the review of HUD's FY 2002 budget request, the GAO stated that: "We agree that no new systems are necessary, but we reiterate the central point of our recommendation, which was that HUD needs to aggregate information from existing systems to determine the availability of unexpended funds for recapture and the effect of those funds on future funding needs."

The IT Plan's provision of maintenance funding for HUD's financial management systems is sufficient to improve systems reporting on this issue, where it is necessary and beneficial to do so. For example, funding for the maintenance of "e-LOCCS" is planned to be used for systems enhancements to capture increased PHA data on the utilization of Public Housing Capital Funds. Furthermore, there are alternatives to the addition of costly information systems and monitoring efforts advocated in the OIG draft report, such as the enforcement of or addition of provisions that require that recipients use their funds within a specified time or lose them.

OIG Response: From reviewing GAO's testimony and transmittal documents regarding the grantee or contracted programs funded under the Public Housing Capital Fund, it is clear that GAO is recommending that the Department's systems be enhanced to account for obligations and unexpended balances on an "Activity" basis. The Department has successfully developed and used an activity-based control system in its Integrated Disbursement and Information System (IDIS). We believe that the Capital Fund related systems need to be enhanced to account for transactions similarly – that is, by program, then by grantee or contracted entity, and then by individual activities established by those entities. We could not find in the ITIPS database where the e-LOCCS plan includes activity-based accounting for the Capital Fund.

In regards to the Housing Certificate Fund, in particular expired project-based Section 8 contracts, the OIG has consistently reported on the need to better manage those unexpended balances in its annual financial audit reports. Our recommendation in this regard includes both better process management and enhanced IT systems. We could not find this project in the HUD's Multi-year IT Plan that addresses this issue.

FHA Funds Control. The OIG has consistently reported on the inadequate funds control associated with many of the 19 subsidiary systems and the FHA general ledger system. Over the years, FHA has developed a series manual or PC desktop systems to provide some level of funds control. However during FY01, FHA has informed HUD and OMB officials that it may have violated the Anti-Deficiency Act for one of its appropriations during FY00. Because of the deficiencies in its financial systems, FHA has had difficulty in establishing the exact nature and amount of the anti-deficiency. During FY00, FHA purchased a JFMIP compliant commercial off-the-shelf (COTS) general ledger and other core financial systems (including payment and receivable systems) to replace the current system. FHA anticipates completing the general ledger system by October 1, 2002; however, the payment system with the mechanism for funds control at the time of the obligation and payment transactions is not planned for completion until FY06 at the earliest. These plans may also be contingent upon the Department's plans to change its general ledger and payment systems (see Departmental General ledger project discussed earlier). In the interim, FHA intends on upgrading the functionality of its manual and PC desktop systems. We are concerned that upgrading the manual systems would not be sufficient to adequately control funding, since it is highly prone to errors and omissions. We believe that FHA should also consider additional interim fund control measures such as automating/upgrading the transaction repository from the one-way interface being developed (financial operation systems to the general ledger) to a two-way interface to provide fund control at the transaction level.

***Management's Comments:** Despite the general conclusion that this weakness is "excluded" from HUD's IT Plan, the OIG discussion on page 5 of the draft report clearly indicates that the FHA General Ledger Project is "included" in the IT Plan as HUD's basis for addressing prior OIG audit issues associated with inadequate funds control with many of the 19 FHA financial operations systems and the FHA general ledger. However, OIG takes further issue with the timing of the project and the need to continue reliance on interim manual and PC desktop systems processes for funds control until the FHA General Ledger Project is fully completed in 2006. The reference to the FY 2000 Anti-Deficiency Act violation as support for the OIG concerns is not appropriate, as the contributing causes of that violation were not systems oriented and would not have been precluded by an improved automated system for funds control. HUD believes its current interim processes are adequate until the FHA General Ledger Project is completed to provide a better-integrated and more efficient organization-wide solution. Nevertheless, we will consider OIG suggestion to revisit the current project plan to see if ready opportunities exist for interim funds control solutions using the new system, such as the suggested two-way interface between the transaction repository and the new general ledger.*

OIG Response: Developing and completing the FHA general ledger project is a step in the right direction for funds control, but detailed real-time funds control at the point of obligation and payment transactions is not scheduled until FY06 or later. Currently, FHA uses a manual procurement log and a PC-based funds control database for much of its subsidiary systems funds control. In addition, some funds control over certain transactions is provided by the HUDCAPS and a supplemental HUD procurement system (HPS). The comprehensiveness or applicability of each of these systems varies depending upon the transaction type and fund category. To get an accurate accounting of total procurement (obligation) transactions, one or more of these systems may have to be reviewed and reconciled. Although the Anti-deficiency Act violation was reportedly caused by errors in charging the appropriate FHA fund obligations or expenditures, the independent auditors, contracted to derive the exact amount and nature of the violation, have had a difficult time in its attempts because of the existing system inadequacies.

Section 8 Rental Subsidies. With respect to the material weakness on tenant income verification in Section 8, GAO recommended that HUD tenant subsidy verification system be enhanced to interface with: financial institution databases, other third party databases (such as credit report vendors), and PHA systems so that the PHAs can better verify tenant income at the time of application [GAO Report HEHS-00-119 and OIG Financial Statement Audit Reports]. Section 8 rental subsidies provide rent subsidy amounts up to the 30% income limit maximum. The Multi-Year IT Plan includes funding for the verification system [PCAS No. 307790 -- Tenant Eligibility Assessment Subsystem (TASS)]. TASS enables large-scale Computer Matching Income Verification (CMIV) to identify differences between tenant Federal tax data and tenant reported/Public Housing Authority, owner, or management agent (collectively referred to as POAs) verified income. Although the TASS project objectives include some of the other recommendations from the report (such as, the Directory of New Hires database), they did not mention the financial institution, 3rd party and PHA databases. Interfaces with these database sources (if all legal requirements, such as the Right to Financial Privacy Act, are met) should be addressed in the Plan.

***Management's Comments:** On page 6 of the draft report, OIG incorrectly implies that the IT Plan does not properly provide for the automated sharing of various sources of tenant income data recommended to address material weaknesses in the verification of tenant income upon which rental housing assistance payments are based. The draft report focuses on a comparison of the IT Plan provisions for the Tenant Assessment Subsystem (TASS) and the GAO recommendation that the system be enhanced to interface with: financial institution databases, other third party data bases (such as credit report vendors), and PHA systems so that PHAs can verify tenant income at the time of application. However, subsequent to issuance of the referenced GAO report, HUD established the Rental Housing Integrity Improvement Project (RHIP) to develop and implement a comprehensive strategy for reducing the high incidence of erroneous subsidy payments. Improved "up-front" income data sharing is a key element of the RHIP strategy. The RHIP strategy calls for the up-front income data sharing with PHAs and owners/agents to occur through PIH and Housing program systems interfaces via PIC/MTCS or TRACS, rather than TASS. PIH is currently arranging five State pilot efforts to share State wage and private income data sources, in addition to the SSA retirement and SSI benefit data HUD already shares. HUD is also seeking statutory authority to access and share the HHS National Directory of New Hires Database, with both PHAs and private owners/agents. PIC/MTCS funds in the IT Plan are earmarked for income data sharing; however, Housing needs statutory authority to share income data with private owners/agents before earmarking TRACS funds for such purposes.*

OIG Response: Neither GAO nor the OIG imply that tenant income sharing is not done. We are reporting that the three system enhancements recommended by GAO were not found in the Plan. We searched the ITIPS database and could not locate any information regarding the three enhancements recommended by GAO or discussion of the "RHIP strategy" under the PIC, MTCS, and TRACS system projects.

Single Family Acquired Asset Management System (SAMS). The OIG recommended in its Audit report 98-DP-166-0004, dated 9/30/98, on SAMS that HUD purchase and install the contract's module to provide funds control over obligations and payments made to contractors managing foreclosed single family properties. The Plan project (PCAS No. 251360) did not include implementation of this recommendation. Because the FHA lacks adequate funds control over its operations, the purchase and installation of this module will help improve, at least, a portion of needed funds control and should be included in the Plan.

***Management's Comments:** On page 6 of the draft report, OIG continues discussion of the FHA funds control issue with a recommendation that HUD implement a September 30, 1998, OIG recommendation from Audit Report No. 98-DP-166-0004, that HUD purchase and install the contract's module of the Single Family Acquired Asset Management System (SAMS) to provide funds control over obligations and payments made to contractors managing*

foreclosed single family properties. That recommendation pre-dates significant changes in the operation of the FHA Single Family Real Estate Owned (REO) processes. Single Family Housing has competitively contracted for private sector professional management and sales services for the REO properties. The Management and Marketing contractors are responsible for controlling and justifying expenses to maintain and secure the properties. They are also responsible for the marketing and sale of each property. Further changes in the areas of loss mitigation, legislation to establish the Section 601 accelerated claims processing, and other business process reviews are moving Single Family in the direction of a substantially reduced REO activity. FHA is on schedule with the Subsidiary Ledger project to provide a single, integrated budgetary and funds control solution. This will avoid the needless creation of another standalone process, focused on a single business activity requiring its own interface effort to the FHA accounting processes.

OIG Response: SAMS, one of the FHA's 19 subsidiary systems, lacks a funds control module, but the FHA does not plan on establishing funds control at the subsidiary system level until FY06. Although the SAMS system is not as significant as other FHA systems in terms of funding, total expenditures are still about \$250 million per year. The Department has substantially reduced the number of payees through use of middlemen – the Management and Marketing contractors – and a payment contractor to process and pay for HUD's single-family home maintenance and disposition expenses but also pass-through expenses on HUD's behalf, such as real estate taxes, appraisal fees, homeownership association fees, title fees, and so forth. Although the number of payees has been reduced, the number of distinct obligations remains the same and are numerous. These obligations are not timely recorded because of the lack of the funds control contract module. As recently as March 22, 2002, in a memorandum to the OIG IS Audit Director, the Deputy Assistant Secretary for Single Family Housing admitted that the contract module will further enhance the level of management controls and that plans still exist to build the module as funding becomes available.

Excluded projects representing recommendations from our recent financial statement audit for FY 2001

Federal Grants Accounting. Enhancements to the Integrated Disbursement and Information System (IDIS) and related development of a HUDCAPS general ledger interface are needed for HUD to properly account for its grants payments in accordance with the June 2000 JMFIP. These enhancements are needed to properly recognize unrecorded HUD liabilities (accounts payable to grantees for expenditures not yet submitted for reimbursement) and accounts receivables for unexpended grant advances. We believe that the cost estimate for this project would be relatively low to moderate. [OIG Financial Statement Audit Report 2002-FO-0003]

***Management's Comments:** On the first issue, HUD has purposely excluded funding for the OIG-recommended IDIS and HUDCAPS systems changes because management disagrees with the OIG over the cost-benefit of changing HUD's longstanding grant accounting policy and practice. Grantees are only permitted to draw down obligated grant funds to meet immediate cash needs to pay bills in-hand or expected to be received and paid within 3 days. HUD expenses all funds drawn down. Citing JFMIP guidelines, OIG wants HUD to alter systems and impose additional reporting burdens on grantees to provide a precise accounting of how much of the draw down was for either: (1) reimbursement of an actual expense paid, (2) an advance to cover an accrued expense, or (3) an advance of funds for an anticipated expense for which an accrual has not yet occurred. In addition, OIG appears to want grantees to report accrued grant expenses for which they have not yet drawn down funds.*

HUD does not believe that the burden and cost of the recommended additional accounting precision is warranted. The year-end adjustments advocated by the OIG would generally be off-set by the corresponding impacts on opening balances at the beginning of each year, so there would be no material impact on the presentation of HUD's annual financial statements. Furthermore, JFMIP guidelines allow for the use of estimation methods in lieu of an actual accounting in this area. In general, HUD, OMB and Congressional decisions on grant program funding levels focus primarily on prior levels of obligations, with the expectation that all obligated funds will eventually be fully expended by grantees. While large levels of unexpended program funds for long periods of time can be a

concern, decisions on such concerns are not going to require an exact accounting down to the impact of the last couple days of grantee operations. A precise final accounting is only required in conjunction with grant close-outs, at which time HUD records any adjustments needed.

OIG Response: Management's non-concurrence with this recommended project has not changed from its response to the financial audit. The JFMIP accounting requirements regarding this issue is very clear and all OIGs must disclose departures from the federal accounting standards (such as, Statement of Federal Financial Accounting Concepts And Standards No. 5 covering accrual of grantee expenditures) in their financial audits. In the Department's case, its existing systems do not account for grantee advances or accrued grantee expenditures (accounts payable). The Department also provides no estimates for these balances. Failure to account for these transactions understates both assets and liabilities, and hinders adequate asset and funds control. The financial statement ending equity balance will be overstated if the unrecorded accounts payable balance exceed the unrecorded advance balance, and would be understated if advances exceeded the accounts payable. Although OMB desires that federal agencies establish policies to keep advance grantee payments under 3 days of estimated expenditures, the Department's HOME grant program allows 15 days of advances. Therefore, grant advances might involve significant amounts. To be compliant with federal accounting standards and adequate internal control, the Department should plan for system enhancements to properly account for federal grant transactions.

Hyperion Financial Statement Reporting System. Enhancements to the Hyperion financial statement reporting system are needed so that HUD can automatically generate the annual, semiannual, and quarterly financial statements. New Hyperion crosswalks have to be developed, and the processing of FHA and GNMA account balance transfer files has to be improved. We believe that the cost estimate for this project would be relatively low. [OIG Financial Statement Audit Report 2002-FO-0003]

Management's Comments: HUD has provided for coverage of the second issue(Hyperion) in the maintenance funding in the IT Plan for HUDCAPS.

OIG Response: In responding earlier to this recommendation in our FY01 financial audit, management disagreed with the need to enhance Hyperion. Although the ITIPS information lacks sufficient detail for us to confirm a revised position, we are encouraged by management's response here and look forward to reviewing any completed actions during next year's financial statement audit.

Included low priority projects. The Multi-Year IT Plan for FY02 submitted to the Committee contained an OMB (per Passback) cancelled project for FY03 -- The Departmental Grants Management System (DGMS). The development of this project has failed twice recently. Although the Multi-Year IT Plan included no funds for FY03, the FY02 plan had budgeted and placed into reserve \$6.577 million until the strategic direction of the grants management system is reevaluated. After considering previous FY02 committed amounts for this project, a net \$5.8 million can be freed for other projects if this project is removed from the Plan.

Management's Comments: OIG discusses one project, the Departmental Grants Management System (DGMS), as a low-priority project that should be removed from the FY 2002 IT Plan to free-up the remaining \$5.8 million DGMS "reserve" for other projects. While the "Background" section of OIG's draft report references OMB's 24 government-wide "E-Government" initiatives, the draft report does not recognize that the "E-Grants" initiative is one of the 24 OMB initiatives. HUD staff are participating in the "E-Grants" initiative. Although we generally agree with the OIG's position that these reserved funds could be freed for other HUD projects, we are awaiting further input on the direction of the OMB "E-Grants" initiative before making a decision on the remaining DGMS reserve.

OIG Response: The Department is not the lead agency for this initiative. From our limited review of the Department's responsibilities in this endeavor, we found that they were related to assisting in data gathering, verification, standardization, and other operational efforts, but not related to any grant system development projects.

Other Concerns. According to its audit recommendation tracking system, HUD still shows an open GAO policy recommendation from 1994 regarding improving the Information Resources Management (IRM) Strategic Plan (GAO Report AIMD-94-34). Federal IRM regulations at the time required federal agencies to plan and budget for IT projects over the next five years. Although the Strategic IRM Plan is still required by law, regulations specifically requiring five year budgeting no longer exist. The OMB Circular A-11 requires agencies to submit funding estimates (OMB 300Bs) for IT projects for the succeeding five years; however, this requirement covers only "major" projects and not all projects. We believe that the Department needs to plan and budget for all of its IT projects on a five-year basis in order to achieve the benefits available from long-range strategic planning.

Management's Comments: We share the OIG's belief that the Department needs to plan and budget for all of its IT projects on a five-year basis in order to achieve the benefits available from long-range strategic planning. We are committed to establishing a five-year Information Resources Management (IRM) Strategic Plan in conjunction with the formulation of our Fiscal Year 2004 budget submission.

The TIB project funding decision relies heavily on whether a project is defined as either a "maintenance" of an existing system or as a "development or enhancement" of a new or existing system. The maintenance projects are considered to have higher priority since an existing system must be maintained to support the existing program missions. From the inherent nature of system project work, there is substantial judgment in deciding how to classify the funding requests between the two categories. For example, the project "Line of Credit Control System" (LOCCS, PCAS No. 202540) was all classified as "maintenance" even though a portion of the project was clearly an enhancement, as it involved moving part of LOCCS from a hierarchical to a relational database environment and migrating LOCCS from the Voice Response System (VRS) architecture to a WEB-based system. Eleven of the 14 CFO projects were classified as "maintenance" projects.

Management's Comments: We further agree that our strategic planning needs to carefully consider the costs, benefits and timing of investments in the "maintenance" of existing systems versus the costs, benefits and timing of replacement systems or other related major "development" efforts. Factored into all of HUD management's systems decisions are the immediacy of the business need, external drivers for change, impacts on HUD's business partners and beneficiaries, and HUD's capacity to support the efforts.

We did find some errors in the Multi-Year IT Plan schedules but they did not affect the overall funding request. For example, in "Unbudgeted Priority Projects" spreadsheet, we found an error in the summary formula that resulted in an understatement in the total unbudgeted projects by \$5.02 million. We also found some project priority scores from the Expert Choice spreadsheets (these spreadsheets were not part of the Multi-Year IT Plan congressional package) that were not carried forward to the Multi-Year IT Plan. (*Management had no comments on these items*).

RECOMMENDATIONS

New Recommendations. We recommend that the CFO and CIO work together to:

1. Complete the Enterprise Architecture Plan prior to or in conjunction with the initiate-phase studies for the Departmental General Ledger (DGL). Adequate funding should be allocated for these projects; however, the remaining funding request for implementing the DGL should be deferred until studies are completed.
2. Ensure that the three ongoing Housing projects (Neighborhood Watch, Single Family Data Warehouse, and CHUMS) will not conflict with the recommended Single Family Homeownership Centers business processes being identified during the define-phase of "Integration of Single Family Systems" project.
3. Increase the automation of the FHA current funds control system.
4. Eliminate the DGMS project reserve, which has a remaining uncommitted FY02 balance of \$5.8 million from the FY02 Plan. (See Appendix A).

Open Recommendations. We are providing below, a synopsis of the following recommendations, which according to the Department's audit recommendation tracking systems have not been implemented:

5. Initiate planning for a project to enhance Public Housing Capital Fund system. [GAO Testimony 01-663T]
6. Improve systems and procedures to facilitate timely contract closeout and identification and recapture of excess budget authority on expired project based Section 8 contracts. This process should occur periodically during the fiscal year rather than after fiscal year-end. [OIG 00-FO-177-0003]
7. Include a project to fund the initiate and define phases for the TASS system to interface with financial institution, third party, and PHA databases. [GAO Report HEHS-00-119]
8. Include a project to purchase and install the SAMS contracts module. [OIG 98-DP-166-0004]
9. Enhance the Integrated Disbursement and Information System (IDIS) and the HUDCAPS general ledger interfaces to properly account for the Department's grant transactions. [OIG Financial Statement Audit Report 2002-FO-0003]
10. Create crosswalks in Hyperion to accept GNMA and FHA SGL data and improve the GNMA and FHA account balance transfer process. [OIG Financial Statement Audit Report 2002-FO-0003]

APPENDIX A

SCHEDULE OF QUESTIONED COSTS AND FUNDS PUT TO BETTER USE

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u>		<u>Funds Put to Better Use</u> <u>3/</u>
	<u>Ineligible</u> <u>1/</u>	<u>Unsupported</u> <u>2/</u>	
4			\$ 5.8 million

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract or Federal, State or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

3/ Funds Put to Better Use are costs that will not be expended in the future if our recommendations are implemented. (Discuss the types of Funds Put to Better Use which include:

Costs not incurred, de-obligation of funds, Withdrawal of Interest, Reductions in Outlays Avoidance of Unnecessary Expenditures, Loans and Guarantees not Made, and Other Savings (see DAAMS user's manual Appendix D-73 for definitions).

APPENDIX B

Auditee Comments



U. S. Department of Housing and Urban Development
Washington, D.C. 20410

APR 16 2002

MEMORANDUM FOR: Benjamin K. Hsiao, Director, Information Systems Audit
Division, GAA

FROM: Angela M. Antonelli, Chief Financial Officer, F

Gloria Parker, Chief Information Officer, Q

SUBJECT: Comments on Draft OIG Report on Review of HUD's Information
Technology (IT) Multi-Year Plan

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) review of HUD's Information Technology (IT) Multi-Year Plan, before you brief the House Appropriations Subcommittee Staff that requested the review. Given the limitations on the timeframe and methodology for conducting this review, it is important that HUD management's perspectives on your initial review results be fully considered and properly reflected in completing and presenting any final documented results or briefings from this review.

Comments on Review Objectives, Methodology and Reporting Mechanism

We understand that the objective of the review requested by the House Appropriations Subcommittee Staff was to verify that HUD's Multi-Year IT plan: (i) addresses material system weaknesses identified by OIG and GAO, and (ii) assigns sufficient funding priority to addressing those weaknesses. We further understand that the methodology and scope of the review was limited to a comparison of documentation on open OIG and GAO audit recommendations to the project descriptions in the IT Plan and the supporting Information Technology Investment Portfolio System (ITIPS) database. The short timeframe allowed for the review appears to have generally precluded discussions of the OIG's observations and conclusions with responsible project and program managers. HUD management was only provided three working days to review and comment on OIG's review results. Given that this limited review was requested for Congressional Staff information, and that the review was not conducted in accordance with normal HUD audit protocols that provide for proper development and vetting of audit findings and recommendations with responsible HUD managers, we request that the results of this review be issued directly to the requesting Congressional

Staff without recommendations, with a copy to HUD for consideration and discussion with Congressional Staff.

General OIG Concerns Raised About the IT Plan

We share the OIG's belief that the Department needs to plan and budget for all of its IT projects on a five-year basis in order to achieve the benefits available from long-range strategic planning. We are committed to establishing a five-year Information Resources Management (IRM) Strategic Plan in conjunction with the formulation of our Fiscal Year 2004 budget submission. We further agree that our strategic planning needs to carefully consider the costs, benefits and timing of investments in the "maintenance" of existing systems versus the costs, benefits and timing of replacement systems or other related major "development" efforts. Factored into all of HUD management's systems decisions are the immediacy of the business need, external drivers for change, impacts on HUD's business partners and beneficiaries, and HUD's capacity to support the efforts. We ask that OIG also consider these relevant factors in this and future assessments of HUD's IT Plans. Since a documented long-range HUD IT plan does not exist, and since OIG did not have the benefit of interviewing project and/or program managers to ascertain our long-term strategies, HUD management's forward thinking on the material systems weakness issues raised in the OIG's preliminary review results is provided below, where applicable.

"Excluded Project" Issues Raised By OIG

The draft OIG report concludes that five material systems weakness areas disclosed by prior OIG or GAO audits were "excluded" from the IT Plan in terms of either not being listed or not having adequate funding. We disagree with the broad inference that HUD's IT Plan "excludes" coverage of any of these five acknowledged weakness areas. The below captioned sections provide HUD management's response to each of those five issues, including additional information that may not have been apparent to OIG from its review of the limited information in the IT Plan and ITIPS database.

Enterprise Architecture (EA) Plan

This is the one area where OIG acknowledges the subject is included in the IT Plan, but questions if the level of funding, \$421,000, might be too low to complete the project, based on a comparison to the cost of other agency efforts. We find that the OIG's draft report does not fully consider and reflect all of the IT Plan funding provided for the EA. The total planned EA spending for FY 2002, as submitted to OMB on September 10, 2001, was \$1.9 million rather than the \$421,000 amount reflected in the OIG draft report. It appears that OIG only considered the "Full Acquisition" part of the OMB 300B estimate and did not consider the "Maintenance" part. HUD's Multi-Year Plan has \$3.1 million planned for the EA in FY 2003, under project number 303820. The total life-cycle cost for EA is currently estimated at \$17.7 million. While OIG quotes costs for other agencies to implement EA between \$100,000 and \$25.3 million, the

comparability of the other agency data is not known, as the OIG does not indicate whether the other agency costs reflect life-cycle costs or some other basis. While we don't think other agency efforts have much relevancy to HUD, we do believe the total EA funding in our IT Plan is adequate to continue our work on the target EA through FY 2003.

In the context of the pending nature of HUD's target EA, the OIG takes issue with the IT Plan's provision of funding for the Departmental General Ledger Project (DGL) and systems enhancements in support of the operations of the Office of Housing Homeownership Centers, until the target EA is complete. Systems activities in both these areas will be closely coordinated with the on-going target EA effort, however, we do not believe it is prudent to wait to pursue these important initiatives. The target EA is being developed in segments and the work on the financial segment will be done in conjunction with planning for the DGL Project. The initiate-phase study for the DGL project will support the completion of the target EA for the financial segment.

The scheduling of the "Integration of Single Family Systems" project was moved to FY 2003 specifically in response to the OIG-cited GAO finding and recommendation that a Business Process Improvement (BPI) review be completed prior to undertaking any significant effort to modernize and replace the now aging CHUMS system. The business analysis has proceeded in FY 2002 and the result will be included along with other material relating to the requirements for an effective, efficient, and better integrated system environment for Single Family Housing. However, there is an immediate business need for existing systems enhancements to address risks in the FHA single family program area. This is a GAO-designated high risk area with reportable conditions disclosed by the OIG's financial statement audit work. Management will ensure that the cited three ongoing projects (Neighborhood Watch, Single Family Data Warehouse, and CHUMS) will not conflict with the recommended business processes from the define-phase project, when completed.

Excess Unexpended Fund Balances

While HUD continues to take actions to better assure the timely obligation and expenditure of HUD program funds, this is viewed as more of a program management and enforcement issue than an IT systems issue. HUD believes its existing systems are adequate for reporting on the extent of unobligated and unexpended funds in HUD's programs, and HUD has been working with the third party intermediaries that administer its programs to improve the timeliness of their utilization of HUD funds. The OIG's own audit of HUD's FY 2001 consolidated financial statements acknowledges some HUD progress in this area. The GAO did focus on this issue in its review of HUD's FY 2002 Budget Justifications, but the draft report's references to that work need to be put in proper context. In the GAO's October 10, 2001 transmittal of the data sheets documenting the review of HUD's FY 2002 budget request, the GAO stated that: "We agree that no new systems are necessary, but we reiterate the central point of our recommendation, which was that HUD needs to aggregate information from existing systems to determine the availability of unexpended funds for recapture and the effect of those funds on future funding needs."

The IT Plan's provision of maintenance funding for HUD's financial management systems is sufficient to improve systems reporting on this issue, where it is necessary and beneficial to do so. For example, funding for the maintenance of "e-LOCCS" is planned to be used for systems enhancements to capture increased PHA data on the utilization of Public Housing Capital Funds. Furthermore, there are alternatives to the addition of costly information systems and monitoring efforts advocated in the OIG draft report, such as the enforcement of or addition of provisions that require that recipients use their funds within a specified time or lose them.

FHA Funds Control

Despite the general conclusion that this weakness is "excluded" from HUD's IT Plan, the OIG discussion on page 5 of the draft report clearly indicates that the FHA General Ledger Project is "included" in the IT Plan as HUD's basis for addressing prior OIG audit issues associated with inadequate funds control with many of the 19 FHA financial operations systems and the FHA general ledger. However, OIG takes further issue with the timing of the project and the need to continue reliance on interim manual and PC desktop systems processes for funds control until the FHA General Ledger Project is fully completed in 2006. The reference to the FY 2000 Anti-Deficiency Act violation as support for the OIG's concerns is not appropriate, as the contributing causes of that violation were not systems oriented and would not have been precluded by an improved automated system for funds control. HUD believes its current interim processes are adequate until the FHA General Ledger Project is completed to provide a better integrated and more efficient organization-wide solution. Nevertheless, we will consider OIG's suggestion to revisit the current project plan to see if ready opportunities exist for interim funds control solutions using the new system, such as the suggested two-way interface between the transaction repository and the new general ledger.

On page 6 of the draft report, OIG continues discussion of the FHA funds control issue with a recommendation that HUD implement a September 30, 1998 OIG recommendation from Audit Report No. 98-DP-166-0004, that HUD purchase and install the contracts module of the Single Family Acquired Asset Management System (SAMS) to provide funds control over obligations and payments made to contractors managing foreclosed single family properties. That recommendation pre-dates significant changes in the operation of the FHA Single Family Real Estate Owned (REO) processes. Single Family Housing has competitively contracted for private sector professional management and sales services for the REO properties. The Management and Marketing contractors are responsible for controlling and justifying expenses to maintain and secure the properties. They are also responsible for the marketing and sale of each property. Further changes in the areas of loss mitigation, legislation to establish the Section 601 accelerated claims processing, and other business process reviews are moving Single Family in the direction of a substantially reduced REO activity. FHA is on schedule with the Subsidiary Ledger project to provide a single, integrated budgetary and funds control solution. This will avoid the needless creation of another standalone process, focused on a single business activity requiring its own interface effort to the FHA accounting processes.

Section 8 Rental Subsidies

On page 6 of the draft report, OIG incorrectly implies that the IT Plan does not properly provide for the automated sharing of various sources of tenant income data recommended to address material weaknesses in the verification of tenant income upon which rental housing assistance payments are based. The draft report focuses on a comparison of the IT Plan provisions for the Tenant Assessment Subsystem (TASS) and the GAO recommendation that the system be enhanced to interface with: financial institution databases, other third party data bases (such as credit report vendors), and PHA systems so that PHAs can verify tenant income at the time of application. However, subsequent to issuance of the referenced GAO report, HUD established the Rental Housing Integrity Improvement Project (RHIIP) to develop and implement a comprehensive strategy for reducing the high incidence of erroneous subsidy payments. Improved "up-front" income data sharing is a key element of the RHIIP strategy. The RHIIP strategy calls for the up-front income data sharing with PHAs and owners/agents to occur through PIH and Housing program systems interfaces via PIC/MTCS or TRACS, rather than TASS. PIH is currently arranging 5 State pilot efforts to share State wage and private income data sources, in addition to the SSA retirement and SSI benefit data HUD already shares. HUD is also seeking statutory authority to access and share the HHS National Directory of New Hires Database, with both PHAs and private owners/agents. PIC/MTCS funds in the IT Plan are earmarked for income data sharing, however, Housing needs statutory authority to share income data with private owners/agents before earmarking TRACS funds for such purposes.

Departmental Financial Systems

OIG raises two systems issues from its FY 2001 financial statement audit as being "excluded" from the IT Plan, consisting of: (1) accounting for grant advances and expenses, and (2) automated generation of financial statement reporting. HUD disagrees that the first issue should be included in the IT Plan, as discussed below, and has provided for coverage of the second issue in the maintenance funding in the IT Plan for HUDCAPS.

On the first issue, HUD has purposely excluded funding for the OIG-recommended IDIS and HUDCAPS systems changes because management disagrees with the OIG over the cost-benefit of changing HUD's longstanding grant accounting policy and practice. Grantees are only permitted to draw down obligated grant funds to meet immediate cash needs to pay bills in-hand or expected to be received and paid within 3 days. HUD expenses all funds drawn down. Citing JFMIP guidelines, OIG wants HUD to alter systems and impose additional reporting burdens on grantees to provide a precise accounting of how much of the draw down was for either: (1) reimbursement of an actual expense paid, (2) an advance to cover an accrued expense, or (3) an advance of funds for an anticipated expense for which an accrual has not yet occurred. In addition, OIG appears to want grantees to report accrued grant expenses for which they have not yet drawn down funds.

HUD does not believe that the burden and cost of the recommended additional accounting precision is warranted. The year-end adjustments advocated by the OIG would generally be off-set by the corresponding impacts on opening balances at the beginning of each year, so there would be no material impact on the presentation of HUD's annual financial statements. Furthermore, JFMIP guidelines allow for the use of estimation methods in lieu of an actual accounting in this area. In general, HUD, OMB and Congressional decisions on grant program funding levels focus primarily on prior levels of obligations, with the expectation that all obligated funds will eventually be fully expended by grantees. While large levels of unexpended program funds for long periods of time can be a concern, decisions on such concerns are not going to require an exact accounting down to the impact of the last couple days of grantee operations. A precise final accounting is only required in conjunction with grant close-outs, at which time HUD records any adjustments needed.

Included Low Priority Projects

OIG discusses one project, the Departmental Grants Management System (DGMS), as a low-priority project that should be removed from the FY 2002 IT Plan to free-up the remaining \$5.8 million DGMS "reserve" for other projects. While the "Background" section of OIG's draft report references OMB's 24 government-wide "E-Government" initiatives, the draft report does not recognize that the "E-Grants" initiative is one of the 24 OMB initiatives. HUD staff are participating in the "E-Grants" initiative. Although we generally agree with the OIG's position that these reserved funds could be freed for other HUD projects, we are awaiting further input on the direction of the OMB "E-Grants" initiative before making a decision on the remaining DGMS reserve.

We are available to meet with you and your staff to further discuss our comments and your review, before you brief the requesting Subcommittee Staff. Should you have any questions, please contact us.

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