

U.S. DEPARTMENT *of* HOUSING *and* URBAN DEVELOPMENT



AGENCY FINANCIAL REPORT

FISCAL YEAR 2013

How This Report Is Organized

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Message from the Secretary

December 16, 2013

I am pleased to present the U.S. Department of Housing and Urban Development's Agency Financial Report (AFR) for Fiscal Year (FY) 2013. It shows that 5 years after the housing bubble burst—working closely with partners on the ground—we are making great progress in building ladders of opportunity that reach all communities.

In HUD's Strategic Plan for FY 2010–FY 2015, we outlined a series of strategic goals aimed at achieving a core mission: creating strong, sustainable, inclusive communities and quality, affordable homes for all. In the years since, we have worked tirelessly to fulfill this charge—efforts that are making a positive impact for families across the country.

This report demonstrates that, even in this tough fiscal environment, HUD continues to meet and exceed many of the goals it has outlined for itself. The following pages detail HUD's financial results for FY 2013 and performance results as of the end of the 3rd quarter—with a specific focus on the Department's internal 2-year (FY 2012–FY 2013) Agency Priority Goals.

The corresponding measures and results through June 30, 2013, the 3rd quarter of the second year of those goals, are briefly described below.

Helping Families Stay in Their Homes: HUD assisted 374,083 homeowners, exceeding its annual goal of helping 350,000 homeowners avoid foreclosure through early delinquency intervention and loss mitigation programs. HUD also exceeded by 17 percent its FY 2012–FY 2013 combined goal of serving 700,000 homeowners.

Revitalizing Distressed Communities: To redevelop vacant homes in the neighborhoods hardest hit by the foreclosure crisis, the second round of Neighborhood Stabilization Program (NSP) funding provided through the American Recovery and Reinvestment Act of 2009 has successfully brought the vacancy rate of Neighborhood Investment Clusters below the rate in comparable neighborhoods 74 percent of the time through the end of the 3rd quarter, exceeding HUD's goal of 70 percent.

Increasing Access to Affordable Housing: HUD served 38,812 families through its affordable rental housing programs, exceeding its full-year goal of serving an additional 21,135 families. These programs seek to preserve affordable rental housing for the more than 5.4 million families assisted. In FYs 2012–2013, HUD surpassed its 2-year goal of serving 61,000 additional families by 40 percent.

Reduce Homelessness: HUD continues to make progress in reducing homelessness, including a 24 percent decline in Veteran homelessness since 2009. In partnership with the Department of Veterans Affairs, through the end of the 3rd quarter, HUD assisted 42,179 Veterans, already exceeding the combined FY 2012–FY 2013 goal of serving 35,500 Veterans. The HUD-Veterans Affairs Supportive Housing Program served 26,142 homeless Veterans with other contributing programs serving 16,037 Veterans. Data for contributing programs in the Office of Community Planning and Development



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are reported annually and are not yet available. Full-year results will appear in the Annual Performance Report available in February 2014.

Sustainable Housing: HUD has completed energy retrofits for 118,474 units, making significant strides toward its combined FYs 2012–2013 goal of upgrading 159,000 units. Over FYs 2010–2011, HUD exceeded the combined 2-year goal by more than 35,000 units, and exceeded the first half of the goal by over 7,000 units. As of the end of the 3rd quarter of FY 2013, all but one subgoal was met, Energy Performance Contracting (EPC), which suffered from construction and financing delays.

Award Funds Fairly and Quickly: In FY 2013, HUD obligated 32 percent of programs within 180 days of budget passage, which is short of the goal of 90 percent. The Department has made substantial progress in transforming its business operations and is in the process of automating the notice of funding availability (NOFA) process. HUD has also contracted with a vendor to build a communications portal for its NOFA stakeholders and has made other strategic advances toward this goal.

In addition to making considerable progress towards these six goals, HUD continues to help families in other ways. For example, at the depths of the economic crisis, when financial institutions stopped lending, the Federal Housing Administration (FHA) was forced to step up to keep credit flowing. In the midst of the recession, the agency more than quadrupled its activity. In the last 5 years, FHA has helped 7 million families buy or refinance their home.

Recognizing that such expanded activity in the midst of a recession would strain a program already in need of adjustments, early in my tenure as Secretary, we began taking a number of actions to strengthen our balance sheet and better protect FHA for the future. Despite our ongoing efforts toward these ends, the substantial role FHA was forced to play—coupled with the strain of legacy loans made prior to 2010 that have generated significant losses—put considerable stress on the MMIF. As a result, at the end of FY 2013, HUD was required to take a mandatory appropriation to ensure that the Fund had sufficient reserves to pay expected claims over the next 30 years on this newly expanded book.

Yet, in spite of these short-term challenges, the long-term finances of the Fund have improved substantially, reflecting the clear impact of the steps we have taken. HUD continues to work with partners and Congress to strengthen the FHA so it can continue to provide access to credit for creditworthy buyers, and support the housing market for generations to come.

In addition to helping homebuyers, HUD is also working to assist those who rent. HUD has taken innovative steps to preserve affordable options for families. HUD's new Rental Assistance Demonstration (RAD) is a central part of the Department's rental housing preservation strategy. RAD allows access to private funding sources by allowing PHAs and owners of Moderate Rehabilitation, Rent Supplement, and Rental Assistance Payment developments to convert to long-term Section 8 rental assistance contracts.

Since beginning to fully accept applications at the end of 2012, the Department has approved or given initial approval to more than 30,000 units of housing in need of recapitalization, while having in hand applications for nearly 110,000 units of conversions relative to the demonstration's 60,000-unit cap for public housing. Plus, initial projections indicate that public housing conversions under RAD just up to the 60,000-unit cap are likely to support, on average, more than \$45,000 in rehabilitation costs per unit, potentially generating around \$2.7 billion in private sector investment and thousands of construction jobs

Management's Discussion and Analysis

Message From The Secretary

in communities across the country. This is an enormously promising first step in addressing the estimated \$25 billion capital backlog facing the public housing program.

The Department also played a major role in disaster recovery during FY 2013, directing \$16 billion to Hurricane Sandy relief in January 2013 (\$15.18 billion after the sequester). HUD is also supporting recovery efforts in Oklahoma from tornado damage and in Chicago due to spring flooding, helping families both recover and rebuild for the future.

As this AFR shows, HUD continues to make great progress in advancing its core mission. However, there is always room for improvement. In the FY 2013 audit, HUD's Office of Inspector General identified four material internal control weaknesses: (1) some formula grant and budgetary accounting was not in compliance with generally accepted accounting principles (GAAP), resulting in misstatements on financial statements; (2) the Housing Choice Voucher program's cash management process departed from GAAP and Treasury requirements; (3) financial management systems have inherent limitations and weaknesses (initially identified last year); and (4) a weakness in HUD's consolidated financial statement preparation and reporting process resulted in a need to restate previously issued statements. In accordance with the Federal Managers Financial Integrity Act of 1982, HUD recognized two additional material weaknesses: (1) in Strategic Management of Human Capital Operations, which continues from last year, and (2) in failure to comply with the Federal Information Security Management Act. HUD management will continue to work to correct these weaknesses and to improve internal controls in identified areas.

HUD management will also continue to adjust to operating in these tight fiscal times. The Department is currently closing 16 small field offices that are not directly responsible for the management of program delivery. Doing so will allow the Department to better support program delivery, maintain effective customer service, and realize significant operational savings. When the effort is fully implemented, savings are projected to be nearly \$100 million over a 10-year period.

Except for the material weakness areas noted above, I can provide reasonable assurance that the performance and financial data in this report are reliable and complete. A complete statement of assurances is contained in the Management's Discussion and Analysis section of this report. Data limitations are discussed in Appendix C.

Looking ahead, HUD will continue to work with Congress, public stakeholders, citizens, and state and local governments to find innovative ways to successfully create strong, sustainable, inclusive communities and quality, affordable homes for all. Even in these difficult budget times, we remain committed to providing assistance to those in need, ensuring responsible families have access to credit, increasing affordable rental options in every neighborhood and strengthening the overall housing market. In doing so, we will help ensure that ladders of opportunity are available to every community today and far into the future.



Shaun Donovan
Secretary

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About This Report

The Department of Housing and Urban Development (HUD) has chosen to produce both an Agency Financial Report (AFR) and an Annual Performance Report (APR). HUD will include its Fiscal Year (FY) 2013 APR with its Congressional Budget Justification and will post it on the Department's web site at www.hud.gov.

This AFR provides financial and summary performance information to the President, the Congress, and the American people. The report allows readers to assess HUD's performance relative to its mission, priority goals and objectives, and stewardship of public resources. The AFR is divided into three sections:

Section I – Management's Discussion and Analysis (MD&A). This section provides an overview of HUD's FY 2013 results, and includes the following categories:

- Mission, Organizations and Major Program Activities, and Strategic Plan;
- Priority Goals, including 3rd quarter FY 2013 year-to-date program results;
- Analysis of Financial Condition and Results for FY 2013;
- Management Assurances concerning compliance with laws and regulations; and
- Summary of progress in eliminating and recovering improper payments.

Section II – Financial Information. This section presents HUD's consolidated financial statements and accompanying notes for FY 2013 and the independent auditor's report on those

financial statements. This section also contains Required Supplementary Stewardship Information and Required Supplementary Information.

Section III – Other Information. This section presents other required or Agency-deemed important information such as Improper Payments Reporting Details, the Secretary's Audit Resolution Report, and the HUD Office of Inspector General's (OIG) independent assessment of the Department's major management and performance challenges, as well as progress in addressing those challenges.

Appendices – Contains a list of defined acronyms, web sites for the endnotes referenced within the document, and data sources, limitations and advantages, and validation

HUD receives the Association of Government Accountants Certificate of Excellence in Accountability Reporting award for its FY 2012 Annual Report

FY 2012 marked the seventh year that HUD participated in the CEAR review process, and it is a tribute to all those involved in the annual reporting process that HUD has received this prestigious award for the seventh consecutive year.

The CEAR program was established in 1997 in conjunction with the Chief Financial Officers Council and the Office of Management and Budget to improve financial and program accountability by streamlining reporting and improving the effectiveness of such reports. The Certificate is awarded to agencies that have demonstrated excellence in presenting performance and accountability information in an integrated and user-friendly format.



Management's Discussion and Analysis

What Do The Following People Have In Common

What do the following people have in common?



A single mother in California was approved for the FHA-HAMP (Home Affordable Modification Program). She made all of her trial payments on the plan timely; however, she was having difficulty with her lender in obtaining the final documents to bring her loan current. The borrower contacted the National Servicing Center in Oklahoma City who stepped in to escalate the case. Within 30 days, the borrower had received, signed, and returned her documents to the lender. Her account was brought current, and she is now able to keep her family in the home with a payment she can afford.

Future residents of Hickory Glen Apartments in Houston, Texas, celebrated the beginning of construction of this affordable housing project by the Village Learning and Achievement Center. Funded in part through HUD's Section 811 Supportive Housing for Persons with Disabilities program, the Hickory Glen Apartments will give people with special needs and their families an affordable place to stay.



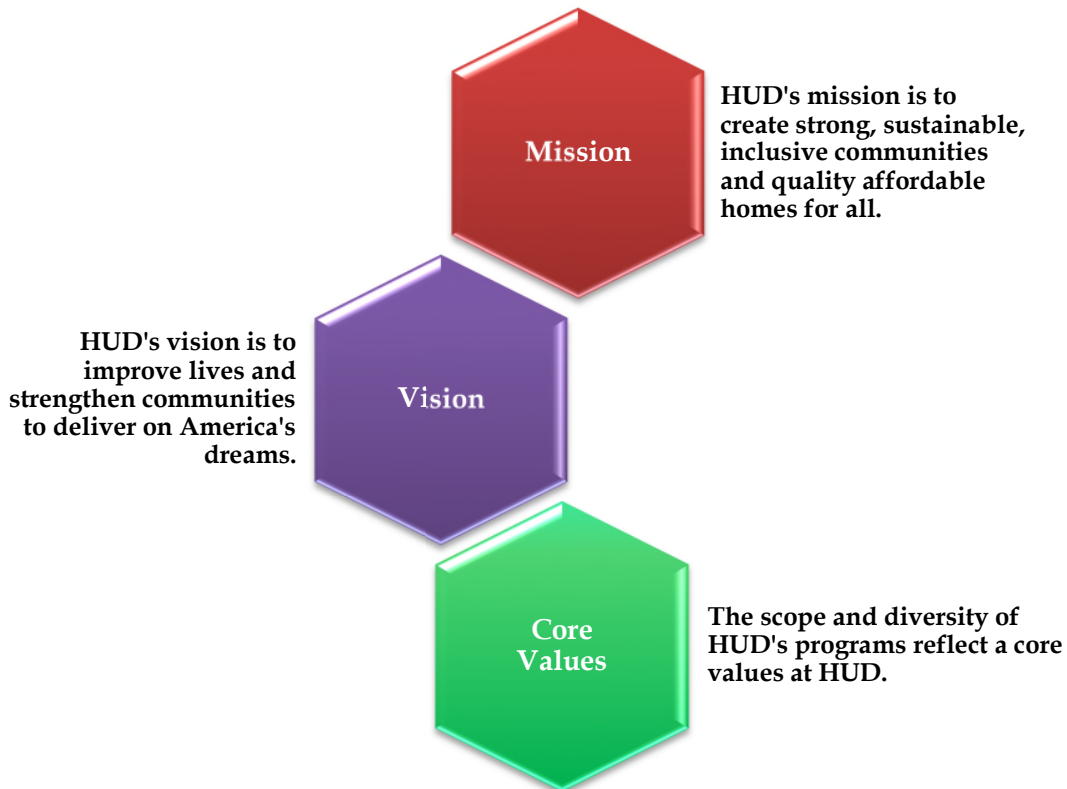
Since 2008, a total of 58,250 vouchers have been awarded and 43,371 formerly homeless Veterans, many of whom are living with chronic disabling conditions, are currently in homes because of the [HUD-Veterans Affairs Supportive Housing \(HUD-VASH\) Program](#). The HUD-VASH partnership between HUD and the U.S. Department of Veterans Affairs (VA) combines rental assistance from HUD with case management and clinical services provided by the VA to assist local public housing agencies across the country to provide permanent supportive housing to homeless Veterans.

Megan and Joshua Pollitt purchased and now live with their two children in a new home, made affordable through HUD HOME Investment Partnerships Program. "It's so wonderful and it helps us save a lot. Josh is so much closer to work now and our utility bill was just \$38 last month," said Megan Pollitt. The small utility bill is part of the design of Ever Green, the premier development of People's Self Help Housing (PSHH), a non-profit housing organization in Kentucky and a HUD-funding recipient. PSHH is experimenting with home design and green development. The Pollitts' home was designed to ensure good ventilation so that energy efficiency features do not result in inside air being stuffy and uncomfortable. With 22 lots targeted as affordable housing for families with low to moderate incomes, Ever Green homes feature durable, energy-efficient construction, ENERGY STAR-rated appliances and other amenities, and are 50 percent more efficient than traditional homes.



HUD's story is the story of real people, families, and communities that benefit from HUD programs. These include millions of families who receive rental assistance, millions who obtain insured mortgages, thousands of Veterans and families who are no longer homeless, occupants of thousands of dwellings made safer and more energy efficient, thousands protected from discrimination, and hundreds of communities injected with new life. Through HUD programs, all Americans are enriched by helping to improve the quality of life for others.

Mission, Vision, & Core Values



Organizational Structure

HUD accomplishes its mission through component organizations and offices that administer place-based programs (outlined on the following pages), which are carried out through a network of regional offices and smaller field offices, as well as through grantees, contractors, and other business partners. A detailed map of HUD's regions is shown to the right, and contact information for the field offices is located [on HUD's main web site](#).



Management's Discussion And Analysis

Organization Structure

HUD's major organizations and an overview of their missions are identified below.

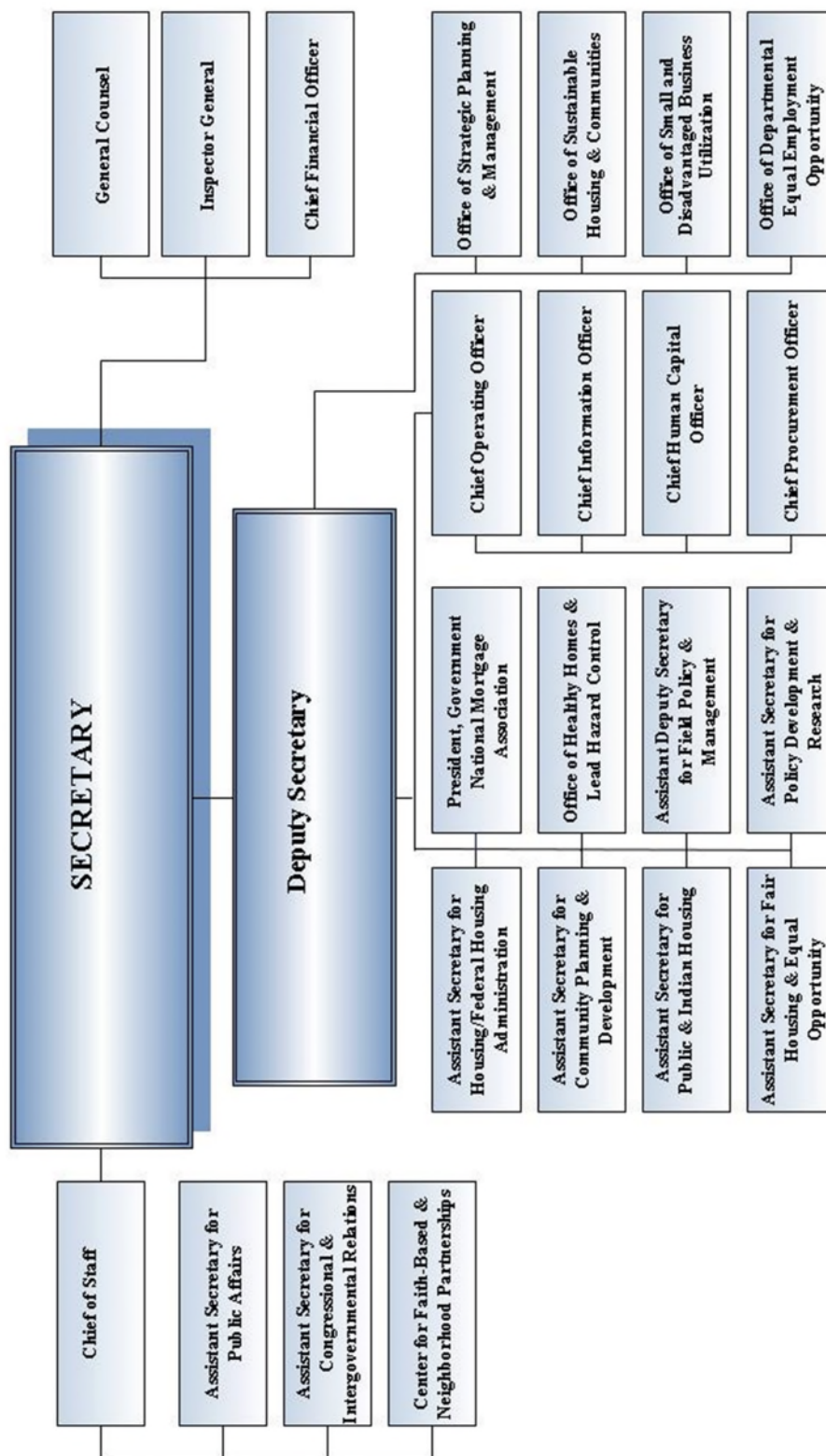
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (Ginnie Mae)	OFFICE OF HOUSING
FUNCTION	FUNCTION
<ul style="list-style-type: none"> Channels global capital into the nation's housing markets. Its mission is to expand affordable housing in America by linking global capital markets to the nation's housing markets. Specifically, the Ginnie Mae guaranty allows mortgage lenders to obtain attractive and abundant funding for their mortgage loans in the secondary market. Guarantees investors the timely payment of principal and interest on mortgage-backed securities (MBS) backed by federally insured or guaranteed loans. Does not buy or sell loans or issue MBS; therefore, Ginnie Mae's balance sheet does not use derivatives to hedge or carry long-term debt. 	<ul style="list-style-type: none"> Insures mortgages for single family homes, multifamily properties, hospitals, and health care facilities and regulates housing industry business. It oversees the Federal Housing Administration (FHA), one of the largest mortgage insurers in the world. The Office of Housing also delivers rental assistance and grants, oversees properties which provide affordable rental housing to low-income, elderly, and disabled households, and provides Housing Counseling services for both renters and homebuyers through a national network of providers.
OFFICE OF PUBLIC AND INDIAN HOUSING (PIH)	OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT (CPD)
FUNCTION	FUNCTION
<ul style="list-style-type: none"> Responsible for overseeing and monitoring a range of programs for low-income families. The mission of PIH is to ensure safe, decent, and affordable housing for low-income families; create opportunities for residents' self-sufficiency and economic independence; assure fiscal integrity by all program participants; and support mixed income developments to replace distressed public housing. <p>Within PIH are three primary business areas:</p> <ul style="list-style-type: none"> Housing Choice Voucher Programs Public Housing Program Office of Native American Programs (ONAP) 	<ul style="list-style-type: none"> Provides funding to a broad array of state and local governments, non-profit and for-profit organizations to administer a wide range of housing, economic development, homeless assistance, infrastructure, disaster recovery and other community development activities in urban and rural areas across the country. In partnership, CPD and its local funding recipients develop viable communities by providing decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons. <p>Within CPD are three primary business areas:</p> <ul style="list-style-type: none"> Community Development Block Grant (CDBG) HOME Investment Partnerships Program Office of Special Needs Assistance Programs (SNAPS)

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OFFICE OF FAIR HOUSING AND EQUAL OPPORTUNITY (FHEO)		OFFICE OF HEALTHY HOMES AND LEAD HAZARD CONTROL (OHHLHC)	
FUNCTION		FUNCTION	
<ul style="list-style-type: none"> Works with partnering state and local governments as well as non-profit grantees to administer and enforce the Fair Housing Act, substantially equivalent state and local fair housing laws, and other federal laws. Establishes policies that ensure all Americans have equal access to the housing of their choice. Educates the public on fair housing issues and enhances economic opportunity. 		<ul style="list-style-type: none"> Seeks to eliminate lead-based paint hazards, particularly in America's privately-owned and low-income housing, and to lead the Nation in addressing other housing-related health hazards that threaten vulnerable residents. 	
OFFICE OF SUSTAINABLE HOUSING AND COMMUNITIES (OSHC)		OFFICE OF STRATEGIC PLANNING AND MANAGEMENT (OSPM)	
FUNCTION		FUNCTION	
<ul style="list-style-type: none"> Helps manage its relationships with other Cabinet agencies to provide communities with the support they need to ensure housing, transportation, energy, and green building investments are working together to build strong neighborhoods. 		<ul style="list-style-type: none"> Responsible for driving organizational, programmatic, and operational change across the department, in order to maximize agency performance. 	
OFFICE OF POLICY DEVELOPMENT AND RESEARCH (PD&R)		CENTER FOR FAITH-BASED AND NEIGHBORHOOD PARTNERSHIPS	
FUNCTION		FUNCTION	
<ul style="list-style-type: none"> Conducts research on priority housing and community development issues, provides objective program evaluation, data and analysis to make informed policy decisions and improve program results, and maintains a repository of resources on housing needs, market conditions, and existing programs. 		<ul style="list-style-type: none"> Supports internal and interdepartmental special event planning and execution, programs and projects that are cross-programmatic, and outreach to constituents for Secretarial priorities. 	

HUD's Organization and Reporting Structure (FY 2013)



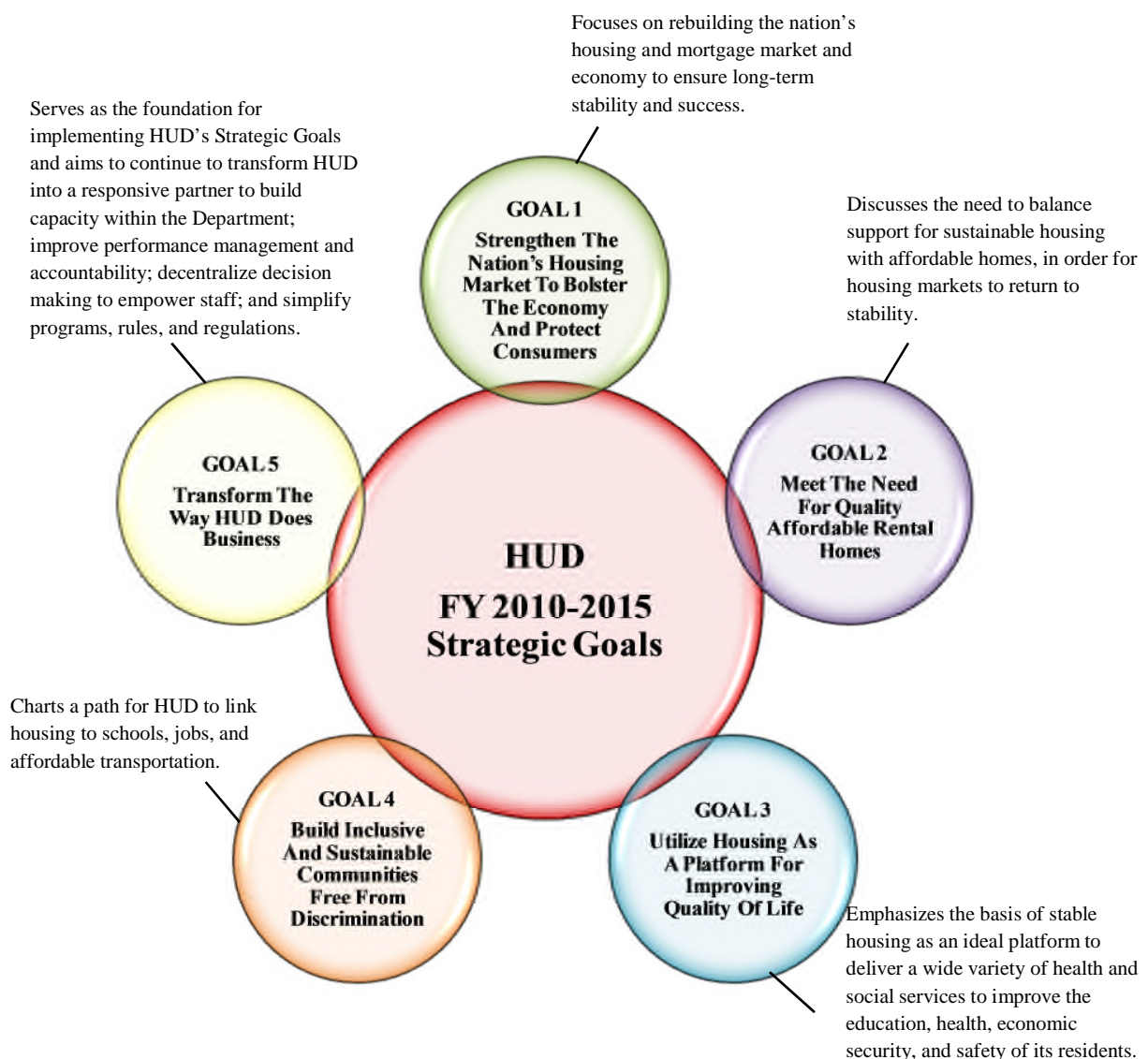
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Performance Overview

HUD's [Strategic Plan](#) addresses the economic, financial, and community development issues the nation continues to endure. In 2010, the Department established five overarching Strategic Goals that have been guiding the transformation of HUD into a 21st century organization capable of implementing place-based policies; overseeing a balanced, comprehensive national housing policy that supports sustainable homeownership and affordable rental homes alike; and building the strong, inclusive communities necessary to make the home the foundation of stability and opportunity.

An introduction to these Strategic Goals is provided below.

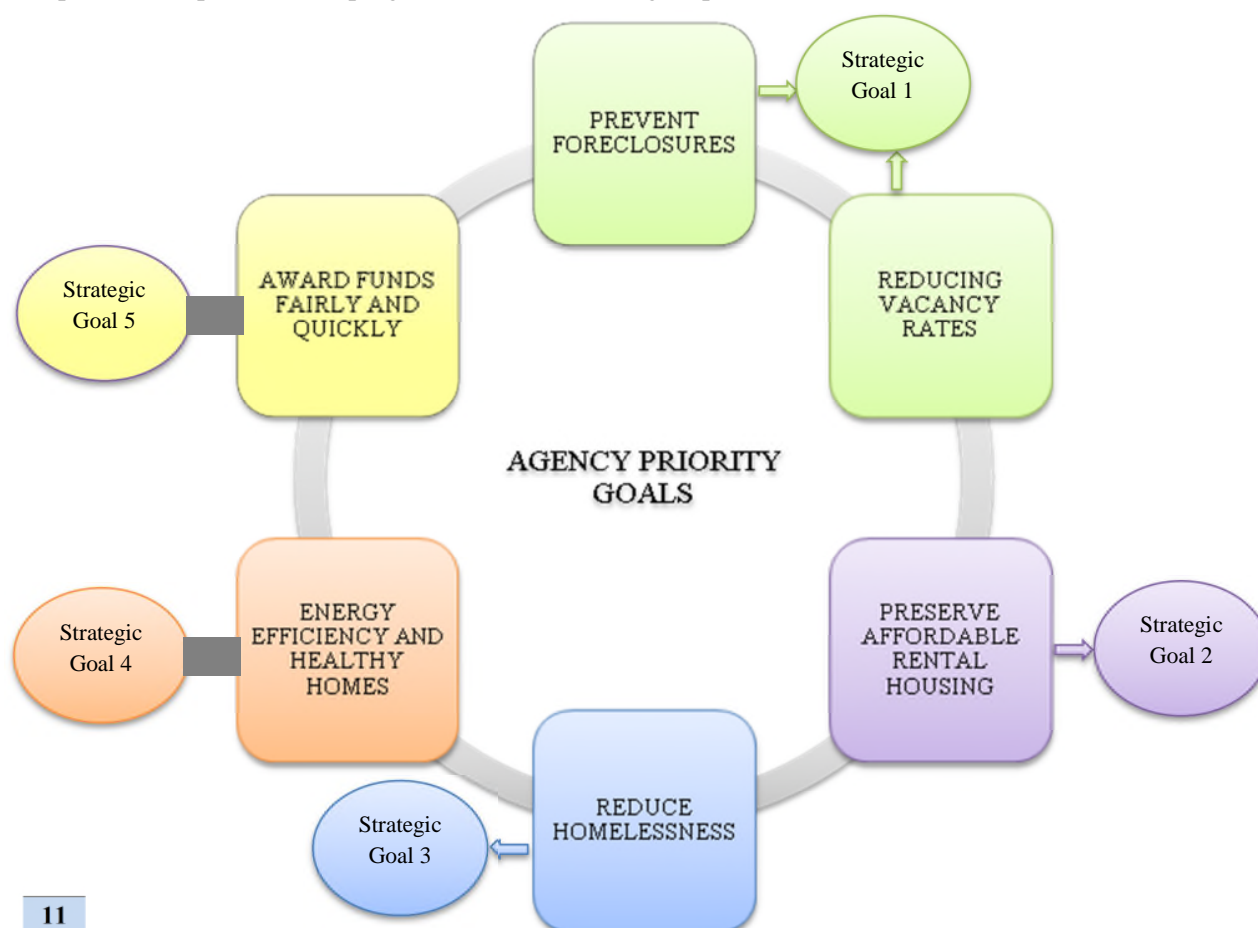


Agency Priority Goals

The APGs, outlined and illustrated below, directly support HUD's Strategic Goals to focus on ongoing responsibilities and priorities to address the following six Agency Priority Goals:

- (1) **Prevent Foreclosures:** Assist 700,000 homeowners who were at risk of losing their homes due to foreclosure;
- (2) **Reducing Vacancy Rates:** Reduce the average residential vacancy rate in 70 percent of the neighborhoods hardest hit by the foreclosure crisis relative to comparable areas;
- (3) **Preserve Affordable Rental Housing:** Preserve affordable rental housing by continuing to serve 5.4 million total families and serve 61,000 families through HUD's affordable rental housing programs;
- (4) **Reduce Homelessness:** Reduce the number of homeless Veterans to 35,000 by helping them move into permanent housing, jointly with the Department of Veterans Affairs;
- (5) **Energy Efficiency And Healthy Homes:** Enable the cost-effective green and energy retrofits of an estimated 159,000 HUD-assisted and public housing units.
- (6) **Award Funds Fairly And Quickly:** Improve internal processes to ensure that it could obligate 90 percent of NOFA programs within 180 calendar days from budget passage, ensuring that America's neediest families have the shelter and services they need, when they need them.

Each of HUD's Strategic Goals are supported by one or more two-year Agency Priority Goals (APGs), which serve as key measures of success in furthering HUD's mission. By monitoring progress on the APGs, HUD can analyze performance trends alongside related funding information to provide a comprehensible picture of its progress towards achieving its priorities.



AGENCY PRIORITY GOAL: PREVENT FORECLOSURES

By September 30, 2013, assist 700,000 homeowners who are at risk of losing their homes due to foreclosures.

OVERVIEW

The recession that began in December 2007 and ended in June 2009¹ was characterized by a shortage of credit, increased unemployment, diminished property values, and millions of home foreclosures. For the vast majority of Americans, their home is the single most expensive and valuable asset they own. As a result, losing a home through foreclosure is often a traumatic life experience that leads to significant deterioration in a person or family's living conditions, economic viability, neighborhood stability, and opportunities for improving quality of life. Foreclosure prevention and the recovery of the housing market are critical components of the Administration's broader plan for economic recovery. After serving over 900,000 homeowners in FY 2010 and 2011, the FY 2012 and 2013 goal committed HUD to serving an additional 700,000 homeowners by September 2013.

HUD works with servicers and borrowers to encourage early intervention and to facilitate loss mitigation actions that prevent foreclosures and keep more Americans in their homes. Many loss mitigation programs aim to lower monthly mortgage payments. However, homeowners must still earn enough monthly income to afford the modified payments. Individuals who have lost their jobs or who have faced significant reductions in their income may still not be able to afford even modified monthly payments.

All loss mitigation programs rely on cooperation with and implementation through third party mortgage servicers and lenders. As such, the rate and volume of assistance provided to eligible homeowners is subject to the infrastructure and customer service administered by these third parties. The Department and the Administration as a whole have acted to partner with and assist the industry to help as many homeowners as possible.

Despite HUD's efforts, sustained unemployment, underwater mortgage loans, and restrictive mortgage credit prevent refinancing and remain significant barriers to mitigating the crisis. These factors are subject to macroeconomic conditions that cannot be controlled by the Department.

STRATEGIES

The Office of Single Family Housing's targeted efforts to help struggling homeowners via the Loss Mitigation and Early Delinquency Intervention Programs have assisted hundreds of thousands of homeowners who are at risk of losing their homes due to foreclosure. Strategies have included improvements like establishing a network of Relationship Managers as a point of contact for borrowers in need of assistance, or implementing new communications tools, such as texting, to reach delinquent borrowers in the very early stages of delinquency when the delinquency is the easiest to cure.

Loan servicers (i.e. banks or lending institutions) most often offer early delinquency intervention assistance to homeowners who are less than 90 days in default. Providing assistance to homeowners who

¹ Bureau of Labor Statistics, "BLS Spotlight on Statistics," February 2012, "The Recession of 2007-2009." From http://www.bls.gov/spotlight/2012/recession/pdf/recession_bls_spotlight.pdf.

Management's Discussion And Analysis

Agency Priority Goals

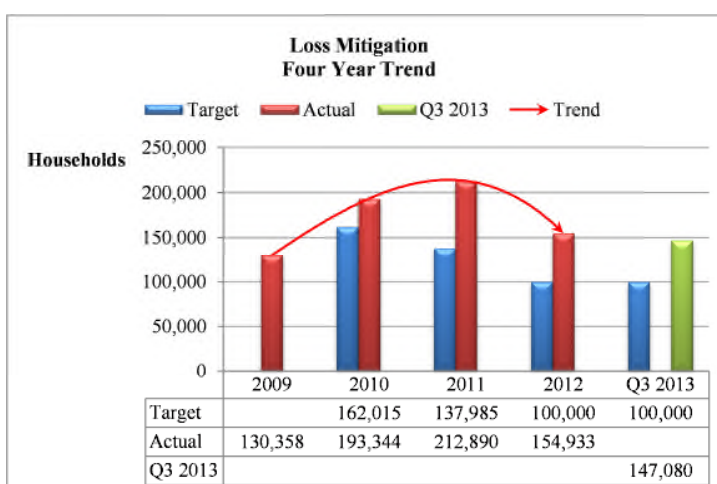
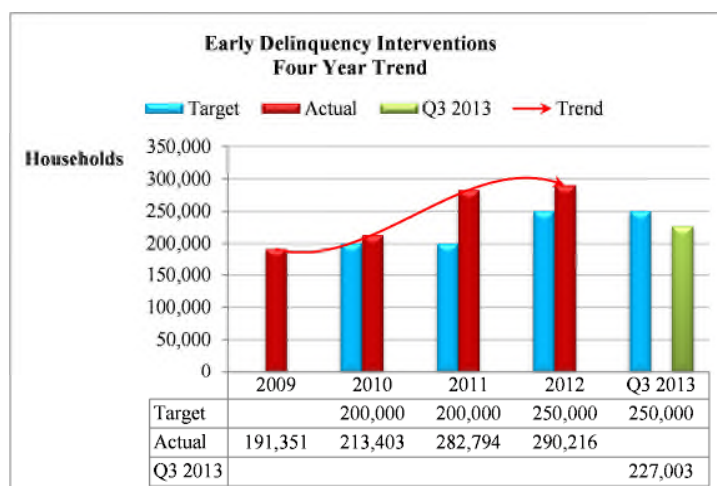
are in the early stages of mortgage payment distress averts the potential for more serious delinquencies, defaults, and foreclosures at a later date. Types of early delinquency interventions include:

- **Repayment.** An agreement in which the borrower agrees to repay delinquent amounts to bring the mortgage current, but is not a special forbearance.
- **Trial Modification.** A repayment plan set up for a borrower who has been conditionally approved for an FHA Home Affordable Modification Plan.

Early delinquency interventions have been effective over the years, but as the housing crisis expanded, HUD implemented both new and improved loss mitigation programs to better assist homeowners most in danger of losing their homes. These loss mitigation products include:

- **FHA Home Affordable Modification Plan.** This program reduces the monthly mortgage payment for eligible homeowners, who have FHA-insured mortgages, bringing the delinquency current and deferring principal in some cases to reach an affordable payment.
- **Special Forbearance.** A repayment plan that allows a borrower who is unemployed to reduce or suspend mortgage payments for a period of time to give payment relief while they seek employment.
- **Mortgage Modifications.** This program permanently changes one or more of the terms of a loan to make the mortgage payment affordable. Mortgage modifications can be combined with a special forbearance action.
- **Partial Claims.** This option allows the lender to advance funds to make a delinquent loan current when a borrower is unable to pay the delinquency through special forbearance or loan modification options. Partial claims can be combined with a special forbearance action.
- **Preforeclosure Sales.** This program allows a borrower in default to sell the home and use the sales proceeds to satisfy the mortgage debt, even if the proceeds are less than the amount owed.
- **Deeds in Lieu.** This option allows a defaulting borrower, who does not qualify for any other HUD loss mitigation option, to sign the house back to the mortgage company without going through the foreclosure process.

In FY 2013 through Q3, HUD exceeded cumulative targets for early delinquency interventions and loss mitigation actions by 21 percent and 96 percent, respectively, for a total of



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374,083 homeowners assisted. Our success on this goal is due to our continued work with lenders to find ways to help borrowers at risk for foreclosure as well as outreach to borrowers to ensure they are aware of their options when facing foreclosure. Although our performance is strong, HUD continues to closely monitor the high number of defaults longer than 90 days that may go into foreclosure. For detailed quarterly assessments, and to continue to track HUD's progress on this measure, readers may consult Performance.gov.

As supporting measures of the Department's effectiveness in preventing foreclosures, HUD closely follows the Consolidated Claim Workout Ratio and the 6-Month Re-default Rate. The Consolidated Claim Workout Ratio measures the portion of FHA claims paid out as loss mitigation from the total of loss mitigation and foreclosure claims paid out. A high ratio is desirable, because loss mitigation claims are better than foreclosure claims for both the borrower and for FHA. The 6-Month Re-default Rate measures the tendency for homeowners who have received loss mitigation assistance to re-default on their mortgages within the first six months, which is the most vulnerable period for homeowners at risk of foreclosure.

MEASURING OUR PROGRESS

The performance indicators in the following table are used to track our progress in preventing foreclosures. Trends for the first two indicators are shown on charts above.

INDICATOR	FY 2012 Target	FY 2012 Actual	FY 2013 Target	Q3 FY 2013 Actual*
Early Delinquency Interventions	250,000	290,216	250,000	227,003
Loan Modification	100,000	154,933	100,000	147,080
■ Consolidated Claim Workout Ratio	50.00%	62.58%	50.0%	63.00%
■ 6-Month Re-default Rate	13.00%	13.00%	10.00%	9.00%

*As of June 30, 2013

The Department's efforts to mitigate the foreclosure crisis have been led by the Assistant Secretary for Housing – Federal Housing Administration (FHA) Commissioner – and also extend to its close relationships with Treasury. Contributing programs include the FHA Home Affordable Modification Program (HAMP) and the Housing Counseling program. The FY 2012 actuals and the FY 2013 Q3 actuals together exceed the two-year goal of serving 700,000 additional homeowners.

AGENCY PRIORITY GOAL: REDUCING VACANCY RATES

By September 30, 2013, 70 percent of Neighborhood Stabilization Program 2 Neighborhood Investment Clusters will reduce the average residential vacancy rate relative to at least one comparable neighborhood.

OVERVIEW

One result of the downturn of the housing market—with high rates of foreclosure, increases in the number and proportion of vacant properties, and plummeting home values—has been to de-stabilize

neighborhoods with high foreclosure rates. As HUD reported to Congress in 2010, “Foreclosures can depress property values, lower local property tax revenue, and impose additional costs on cash-strapped public agencies in the form of additional police, fire, and other municipal services needed to respond to the blighting influence that vacant and foreclosed properties can have on local communities.”² For communities with high rates of foreclosure, the goal of the Neighborhood Stabilization Program (NSP) is to repurpose properties to stabilize neighborhoods.

STRATEGY

- **Mitigate the effects of the foreclosure crisis on neighborhoods by assisting communities that have high rates of foreclosure.**

HUD engaged the Reinvestment Fund under the NSP technical assistance program to analyze areas across the nation that received NSP investments. The purpose was to:

- 1) analyze how markets treated with NSP investment have changed over time compared to similar markets that have not been touched by these investments;
- 2) identify “outstanding performers,” markets treated with NSP investment where home sale price and vacancy indicators have trended better than their comparable markets;
- 3) develop a systematic process and automated report for updating this analysis on a quarterly basis using new home sales and vacancy statistics; and,
- 4) provide technical assistance to grantees on the relative effectiveness of their programs in achieving program goals.

The Department has three programmatic tools for mitigating the de-stabilizing effects of foreclosures on neighborhoods:

Neighborhood Stabilization Program 2. The Neighborhood Stabilization Program 2 (NSP2) is HUD’s primary tool for stabilizing neighborhoods whose viability has been and continues to be damaged by the economic effects of properties that have been foreclosed upon and abandoned. The NSP2 references the specific grant funds provided by the American Recovery and Reinvestment Act of 2009 (P.L. No. 111-5) to states, local governments, nonprofits, and a consortium of public and/or private nonprofit entities on a competitive basis. On January 14, 2010, HUD awarded a combined total of \$1.93 billion in grants to 56 grantees nationwide, including 33 consortiums at a regional level and four national consortiums carrying out activities in target areas throughout the country. These grantees were selected on the basis of foreclosure needs in their selected target areas, recent past experience, program design, and compliance with rules.

HUD measures NSP2 target areas’ units of service, which represent the number of units produced within each eligible activity. The term “units of service” is distinct from unique housing units or households because units of service may be produced through multiple activities (e.g., acquisition and rehabilitation). The activities reported on are the underlying Community Development Block Grant (CDBG) program activity groups that have emerged as the predominant uses of NSP funds.

² U.S. Department of Housing and Urban Development, Office of Policy Development and Research, Report to Congress on the Root Causes of the Foreclosure Crisis, January 2010.
http://www.huduser.org/portal/publications/Foreclosure_09.pdf.

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Because NSP2 grantees' 100 percent expenditure deadline was February 11, 2013, there will be no NSP2 contribution to this APG after September 30, 2013. Production updates will be provided after this date, but no targets have been set beyond this quarter.

Single Family Housing Asset Management. HUD acquires 1-to-4 unit residential properties when owners default and lenders foreclose on FHA-insured mortgages. These acquired properties become departmental assets, and are referred to as Real Estate Owned (REO) properties. The Office of Single Family Housing continues to reduce residential vacancy rates by decreasing the cycle time associated with selling its REO properties. In FY 2011, HUD sold its Single Family REO properties on average in 192 days, while in FY 2012 REO properties were sold on average in 136 days. Additionally, the Office has developed the National First Look Program.

National First Look Program. The National First Look program is a first-ever public-private partnership agreement between HUD and the National Community Stabilization Trust. To help rebuild neighborhoods that have been struggling with blight and declining home values due to foreclosures, the First Look program gives Neighborhood Stabilization Program grantees a brief exclusive opportunity to purchase bank-owned properties in target neighborhoods so these homes can either be rehabilitated, rented, resold or demolished. In collaboration with national servicers, FHA, Fannie Mae, and Freddie Mac, the nation's leading financial institutions, representing approximately 75 percent of the REO market, are participating in this program.

MEASURING OUR PROGRESS

The following performance indicators track our progress towards this priority goal:

INDICATOR	FY 2012 Target	FY 2012 Actual	FY 2013 Target	Q3 FY 2013 Actual
• Percent of NICs* with improved vacancy rate outcomes over at least one comparable area	70%	75%	70%	74%
• NSP2 target areas units of service	6,157	5,185	19,462	9,011
• Average days to list REO properties to market	44	22	23	21
• Average time in inventory for REO properties	188	136	133	121

* Neighborhood Investment Cluster

Through Q3 of FY 2013, HUD was exceeding its target with Neighborhood Investment Clusters (NICs) beating at least one comparable area by 4 percentage points. Although more completions still need to be reported, 74 percent of all NICs trended better than at least one of their comparable markets when it came to vacancy rate change between the first half of FY 2008 and the third quarter of FY 2013. This indicator identifies NICs (neighborhoods with at least two NSP investments per 100 houses) and tracks their vacancy rates against comparable (in terms of vacancy rate, home price, and market conditions pre-2008) neighborhoods that received no investment.

By statute, NSP2 grantees were required to expend all grant funds by February 11, 2013, but units are not counted until they are occupied. Therefore, the production estimates will lag expenditures by six to eighteen months, which will also delay impacts on reducing vacancy rates.

The continued provision of technical assistance (TA) relies on the use of NSP3 TA funds, which are not authorized to serve NSP2 grantees—an issue that CPD is currently working to address. Market conditions are a large factor for NSP2 grantees, which face still-declining property values, competition from investors, reluctance from lenders, and local capacity issues related to tight budgets, and TA may be needed to help these grantees successfully implement their programs.

The indicators for REO properties include all FHA REOs, not just those in NSP2 treatment areas.

For detailed quarterly assessments of progress, readers may consult the archived quarterly updates on Performance.gov.

AGENCY PRIORITY GOAL: PRESERVE AFFORDABLE RENTAL HOUSING

Between October 1, 2011 and September 30, 2013, one of HUD's priority goals was to preserve affordable rental housing by continuing to serve 5.4 million total families and serve an additional 61,000 families through HUD's affordable rental housing programs.

OVERVIEW

In an era when more than one-third of all American families rent their homes, we face a housing market that does not create and sustain a sufficient supply of affordable rental homes, especially for low-income households. In many communities, affordable rental housing does not exist without public support.

Affordability problems have been exacerbated by the recession and the increasing demand for rental housing generated by the foreclosure crisis. According to the 2011 Worst Case Housing Needs report published in February 2013, HUD found the number of renters with worst case housing needs grew from 5.9 million in 2007, to 7.1 million in 2009, and 8.5 million in 2011, representing an increase of 44 percent over these four years. Individuals and families were considered to have worst case housing needs if they were very low-income renters with incomes below 50 percent of the Area Median Income (AMI), who do not receive government assistance, and who either paid more than one-half of their income for rent, lived in severely inadequate conditions, or faced both of these challenges. At the same time, only about one in four very low-income families eligible for HUD/Federal rental assistance programs receives assistance. Federal housing programs have been financially unable to keep up with this demand over the years to help offset the limitations of the private rental market in providing housing that all families can afford. Given the current fiscal climate, it is critical that HUD maximize existing resources to maintain our current support to families and seek opportunities to expand that support where possible.



Funding from the HUD Community Planning Development Supportive Housing Program assists homeless families at the St. Lawrence Place emergency shelter in Columbia, South Carolina. The program helps families move from homelessness to a life of self-sufficiency and stability. One mother is an example of the program's success. After a separation from her husband and a loss of her job, she was unable to pay the rent. Consequently, she and her boys had to move in with family, but then she heard about St. Lawrence Place and applied. Once in St. Lawrence Place, their family life began to turn around. The mother was able to earn a college degree and get a job. She now works for the regional transit authority and has given her boys something they have never had before - a home of their very own.

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STRATEGY

- **Preserve affordable rental housing and serve additional families through HUD's affordable rental housing programs.**

All of HUD's programs that provide affordable rental assistance are integral to achieving the goal, including programs administered by the Offices of Public and Indian Housing (PIH), Housing Choice Vouchers (HCV), the Indian Housing Block Grant and Indian Community Development Block Grant (CDBG), HOPE VI and mixed finance transactions; Housing (privately-owned housing in multifamily programs, including 202, 236, BMIR, Section 8, Rent Supplement, RAP, 202 and 811 PRAC); Community Planning and Development (CPD) (HOME Investment Partnerships Program (including the Tax Credit Assistance Program [TCAP]) and Tenant-Based Rental Assistance (TBRA), HOPWA, McKinney-Vento homeless programs, a portion of the Neighborhood Stabilization Program, and CDBG-Disaster Recovery (CDBG-DR)). In addition, FHA Multifamily mortgage insurance supports the preservation of affordable housing when used in conjunction with Low Income Housing Tax Credits (LIHTC), tax-exempt bonds, and other state/local resources. Because of the cross-cutting nature of the goal, the efforts of the responsible program offices will be coordinated centrally by the Office of the Secretary.

MEASURING OUR PROGRESS

To track our progress towards this agency priority goal, HUD has tracked the following suite of performance indicators. Wherever available, historical information has been included.

- **TBRA occupied rental units**

This indicator tracks the number of occupied rental units within the HCV program, including tenant-based and project-based vouchers.

- **Public Housing occupied rental units**

This indicator tracks the number of occupied rental units within the Public Housing stock.

- **Office of Native American Programs (ONAP) occupied rental units**

This indicator tracks the number of rental units in the ONAP housing stock.

- **Multifamily Housing (MFH) occupied rental units**

This indicator tracks the number of MFH occupied rental units, including Section 8 Project-Based Rental Assistance, Sections 202 and 811, legacy housing programs like the Rental Assistance Program (RAP) and Rent Supplement properties, and units converted under the Rental Assistance Demonstration Program. Also included are some tax credit/LIHTC financed units, which are tracked by the Office of Policy Development and Research.

- **Community Planning and Development (CPD) occupied rental units.** This indicator tracks the number of occupied rental units within CPD programs, including HOME, HOME TBRA³, the

³ HOME TBRA is rental assistance, provided by Participating Jurisdictions (PJs), and is separate and distinct from assistance provided by Public and Indian Housing's TBRA (Housing Choice Voucher) program. Under HOME rules, PJs may provide individual households funds for rental assistance programs, self-sufficiency programs, homebuyer programs, targeted population programs, anti-displacement assistance programs, and security deposit programs.

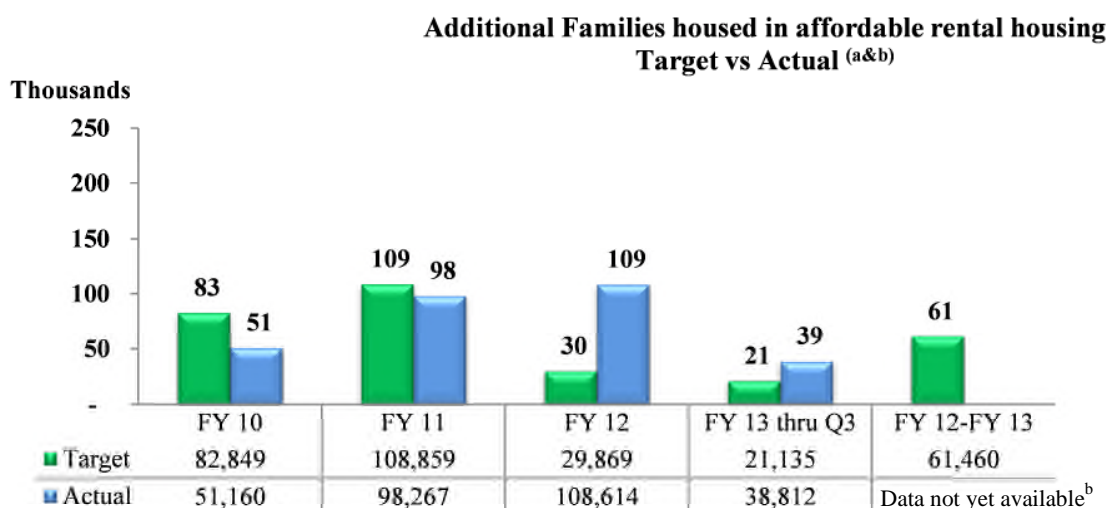
Management's Discussion And Analysis

Agency Priority Goals

Program TCAP, CDBG-DR, McKinney Supportive Housing, the Neighborhood Stabilization Program (NSP), and Housing Opportunities for Persons with AIDS (HOPWA).

■ Additional families housed in affordable rental housing

This indicator tracks the total number of households served since the beginning of the performance period, an accumulation of the indicators above. Two additional programs (Mod Rehab and Mainstream Vouchers) are also included in this total.



^a Due to continually improving and corrected data sets, actual figures may slightly differ than figures reported in previous performance reports.

^b Data reported are through Quarter 3 of 2013, as Quarter 4 data is not yet available. HUD expects that the programs will meet their 2-year targets, once Quarter 4 data is added.

Through the third quarter of FY 2013, HUD has exceeded its FY 2013 target by 23 percent. Currently HUD expects to meet the two year target of 61,460 affordable rental units. Since this goal tracks the net change of occupied units added and lost, it remains possible that a net loss of units could occur by the end of FY 2013. Moving forward, HUD will work to preserve utilization rates in our voucher programs and occupancy rates in public housing to sustain our progress in this area.

For detailed quarterly assessments of progress, readers may consult the archived quarterly updates on Performance.gov.

AGENCY PRIORITY GOAL: REDUCE HOMELESSNESS

Between October 1, 2011, and September 30, 2013, HUD aimed to reduce the number of homeless Veterans to 35,000 by serving 35,500 additional homeless Veterans.

OVERVIEW

Veterans are overrepresented in the homeless population, consisting of approximately 12 percent of homeless individuals at a given point in time (PIT) in 2013, while only 7 percent of the U.S. adult population has veteran status. On a [single night in January 2013](#), there were 57,849 Veterans reported as experiencing homelessness, which reflects a 24 percent decrease since 2009 of the total number of homelessness among Veterans. Causes of homelessness among Veterans are similar to causes of homelessness among non-Veterans. In terms of housing, renters in America already face serious difficulty finding affordable housing in a broad range of communities because of the dual problems of a shortage of units in some areas and a lack of income to afford units in the existing market. This is compounded for Veterans who may have additional challenges related to their service.

Researchers have identified certain factors that may increase a Veteran's risk of homelessness. Primary risk factors include adverse childhood events including having experienced homelessness prior to military service, mental illness and substance abuse (important to know if this occurred during military service), relationship breakdown and a history of abusive relationships, limited education and poor employment history, limited advancement during military service, transitions out of institutionalized care (prison/jail), poverty, and housing affordability problems. As for other populations, the complexity of navigating systems makes it difficult for Veterans to get their needs met.

Effectively transitioning homeless Veterans to permanent housing requires access to health care, employment, and benefits. Because homeless Veterans have medical and mental health needs greater than non-veteran chronic homeless, health care and the other benefits play a significant role in achieving and maintaining stability in permanent housing for Veterans experiencing homelessness. Employment and VA benefits are critical in providing homeless Veterans the income required to support housing and other daily living expenses.

STRATEGIES

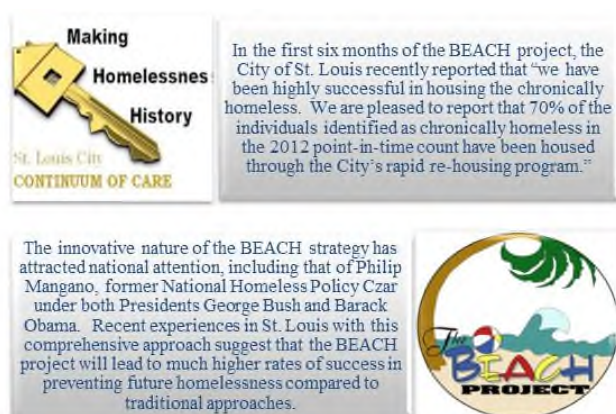
Strategies to end Veterans homelessness address three subpopulations within the broader homeless Veteran population: 1) Veterans experiencing chronic homelessness who are eligible for VA services, 2) Veterans experiencing non-chronic homelessness who are eligible for VA services, and 3) all Veterans experiencing homelessness who are ineligible for VA services. For Veterans experiencing chronic homelessness who are eligible for VA services, HUD-VASH vouchers, jointly administered by HUD and VA, offer the most appropriate resources, as they couple intensive services with permanent housing. For Veterans experiencing non-chronic homelessness who are eligible for VA services, VA's Supportive Services for Veteran Families (SSVF) program offers prevention and rapid re-housing solutions to both keep Veterans in housing and quickly move short-term homeless Veterans back into permanent housing. For Veterans experiencing homelessness who are ineligible for VA health services, HUD's Emergency Solutions Grant dollars and Continuum of Care Program resources are the appropriate vehicles to offer services and housing packages needed to move Veterans who are ineligible for VA health services off the street and out of shelters and transitional housing.

Management's Discussion And Analysis

Agency Priority Goals

- Dual focus on housing unsheltered (street) homeless Veterans and increasing exits to permanent housing of sheltered homeless Veterans
- Target Continuum of Care resources to serve homeless Veterans ineligible for VA health services
- Explore and implement systems changes for converting transitional housing programs to Permanent Supportive Housing or Rapid Re-housing
- Continue to advance Housing First models
- Collaborate across HUD, VA and USICH to align programs and efforts
- Continue to build place-based initiatives that align local, regional, state, and federal efforts to end Veterans homelessness
- Determine method of tracking exits from non-permanent HUD funded programs into permanent housing
- Improve the methodology and reporting of the HUD PIT data, with the primary intent to acquire timely, reliable, and detailed data regarding the number of homeless Veterans

MEASURING OUR PROGRESS



As of the third quarter of FY 2013, HUD has served 42,179 Veterans, surpassing its two-year goal of serving 35,500 Veterans, and aims to further exceed its goal by the end of FY 2013. A full calculation of HUD's two-year performance impact to reduce the number of homeless Veterans by the end of FY 2013 will be assessed during the annual PIT count which will take place on a single night in January 2014. HUD continues to work toward its end-of-year FY2013 goal of a reduction in Veterans' homelessness to

35,000 individuals, and based on the PIT count in January 2013, the number of homeless Veterans has decreased by 24% since 2009.

Through FY13 Q3, HUD-VASH program targets for serving homeless Veterans were exceeded by 23%, with participating PHAs serving 26,142 homeless Veterans. Contributing programs from the Office of Community Planning and Development report annually, so performance in FY13 is not yet known. In FY12, 11,962 Veterans were served by Continuum of Care funded Permanent Supportive Housing programs, exceeding FY12 targets by 58%. Also in FY12, 4,075 Veterans were served by Homeless Prevention and Rapid Rehousing (HPRP) dollars, exceeding FY12 targets by 9%. In order to meet the goal of ending Veteran's homelessness by 2015, HUD and the Department of Veterans Affairs have worked hard to target HUD-VASH vouchers and supportive services to chronically homeless Veterans.

The HUD-VASH program is jointly administered in communities by VA Medical Center (VAMC) and Public Housing Authority (PHA) staff, with help from Continuums of Care and other local partners. HUD and the VA participate in ongoing planning meetings to ensure that communications and strategies for the

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two agencies remain open and aligned. As part of their continued commitment to joint problem solving and improvement of efforts, HUD and VA jointly committed to pursuing a short-term goal of facilitating more effective information sharing between Continuums of Care and VA Medical Centers about the homeless Veterans they serve. For detailed quarterly assessments of progress, readers may consult the archived quarterly updates on Performance.gov.

AGENCY PRIORITY GOAL: ENERGY EFFICIENCY AND HEALTHY HOMES

Between October 1, 2011 and September 30, 2013, HUD aimed to enable a total of 159,000 cost effective energy efficient or healthy housing units, as part of a joint HUD-DOE goal of 520,000 in FY 2012–2013 and a total goal of 1.2 million units in FY 2010–2013.

OVERVIEW

HUD has committed to creating energy efficient, healthy housing as part of a broader commitment to fostering the development of inclusive, sustainable communities. The residential sector is responsible for fully 21 percent of the nation's greenhouse gas emissions; creating energy efficient housing is part of a long-term strategy to reduce the environmental impact of these buildings and at the same time increase housing affordability by reducing utility costs for both owners and residents. HUD itself spends an estimated \$6.4 billion annually on utilities (both water and energy)—either in the form of allowances for tenant-paid utilities, through direct operating grants for public housing or through housing assistance payments for in privately-owned assisted housing. Much of HUD's portfolio of public and assisted housing consists of older housing built before the advent of energy codes, and therefore does not have the level of energy efficiency that has resulted from newer, more efficient housing. Resulting utility costs account for around 22 percent of public housing operating budgets, and a similar share in the assisted housing sector. Costs are also high in much of Indian Country and in Alaska Native villages due to climate and housing conditions in these locations.

In FY 2013, the Department undertook a range of actions aimed at making significant improvements to the energy efficiency, health and safety of this housing and sustaining the progress achieved in prior years through significant HUD investments of Recovery Act funds in lower-cost, energy efficient housing. HUD is also committed to improving the health and safety of homes for families and children by improving indoor environmental quality and addressing lead hazards and other conditions that threaten the life or health of residents.



Near Tacoma, Washington and ancestral fishing grounds in Commencement Bay, the Puyallup Tribal Housing Authority is developing the NE Longhouse, a new, 20-unit housing complex with HUD funding provided under the Native American Housing and Self Determination Act and the American Recovery and Reinvestment Act. The U.S. Green Building Council certified the first phase of the NE Longhouse as LEED-Platinum, and selected the development as the Council's 2012 LEED for Homes Project of the Year.

Longhouse units have triple-pane windows, north-to-south exposures with natural cross-ventilation, structurally-insulated panels, Energy Star lighting and appliances, compact floor plans, and low flow plumbing. The siting maximizes the potential for solar panels, an integral element of phase 2, which is currently under construction. The most innovative feature is suggested in the name – *Cayalqwa*, which means "place of hidden waters." Thermal waters beneath the complex are used by ground-source heat pumps for hot water and hydronic heating systems. Thanks to thermal heat and solar panels, the Authority fully expects NE Longhouse to be a net-zero complex when completed. Link to a HUD YouTube: Puyallup Nation - Place of the Hidden Waters June 3, 2013 at <http://portalapps.hud.gov/HUDMediaChannel/jqplayer.jsp?pid=BBj-hVfoVUE>

Contributing Programs

This performance goal involves every HUD program that produces, manages, or finances HUD's portfolio of affordable housing. The Office of Housing contributed housing units completed through the Mark to Market Green Initiative, the Green Retrofit Program (through FY 2012), the PowerSaver pilot program, Green Refi Plus, the Section 202 and 811 supportive housing programs, and multifamily endorsements reporting energy efficient features. The Office of Public and Indian Housing includes energy efficient or green units reported through the Public Housing Capital Fund, Energy Performance Contracts, HOPE VI, Choice Neighborhoods and other new construction programs. The Office of Community Planning and Development (CPD) reports on new energy efficient units completed through HOME, CDBG, and the Recovery Act-funded Tax Credit Assistance Program (TCAP).

The Office of Sustainable Housing and Communities is the program lead for this Agency Priority Goal. The Office works with program offices to align energy standards and reporting across program offices, provides support in tracking progress against results, and coordinates activities as needed with the Department of Energy and the U.S. Environmental Protection Agency (EPA). The Office also administers the Sustainable Communities Initiative in partnership with the Department of Transportation and the U.S. Environmental Protection Agency.

Housing assisted by the Office of Healthy Homes and Lead Hazard Control (OHHLHC) also contributes to this goal through its Lead-Based Paint Hazard Control, and Lead Hazard Reduction Demonstration programs and other healthy housing programs, as well as its enforcement and compliance assistance efforts. The Office chairs the federal Healthy Homes Work Group that developed *Advancing Healthy Housing: A Strategy for Action*.⁴ This strategy provides the framework for interoffice and interagency collaboration on making homes healthy and safe for residents, such as by having more housing authorities adopt smoke-free policies, more HUD-assisted homes tested for radon, and more cities participate in the asthma Medicaid pilot program allowing reimbursement of treatment of housing conditions, among other goals.

STRATEGIES

- **Support and promote an energy-efficient, green, and healthy housing market by providing financing or strengthening incentives for retrofitting existing housing, and for energy-efficient new construction through HUD programs.**

HUD's energy strategy is designed to address the issue of residential energy costs, an aging public and assisted housing stock, and the growing fiscal demands on HUD's budget to cover rental property utility costs. The strategy aims to address the disproportionate energy cost burden on low- and moderate-income families, improve the health and quality of HUD-assisted housing for building residents, and support innovative financing for energy retrofits of both single family and multifamily housing. HUD made continued progress in FY 2013 in aligning energy efficiency standards across the Department and implementing more uniform tracking and reporting systems. For example, building on the Recovery Act Management and Performance System (RAMPS), the Office of Public and Indian Housing developed the Energy Performance Information Center (EPIC) to begin collecting data for energy investments made through the Public Housing Capital Fund grant program and Energy Performance Contracts.

⁴ Federal Healthy Homes Work Group. *Advancing Healthy Housing: A Strategy for Action*. February 4, 2013. http://portal.hud.gov/hudportal/HUD?src=/program_offices/healthy_homes/advhh.

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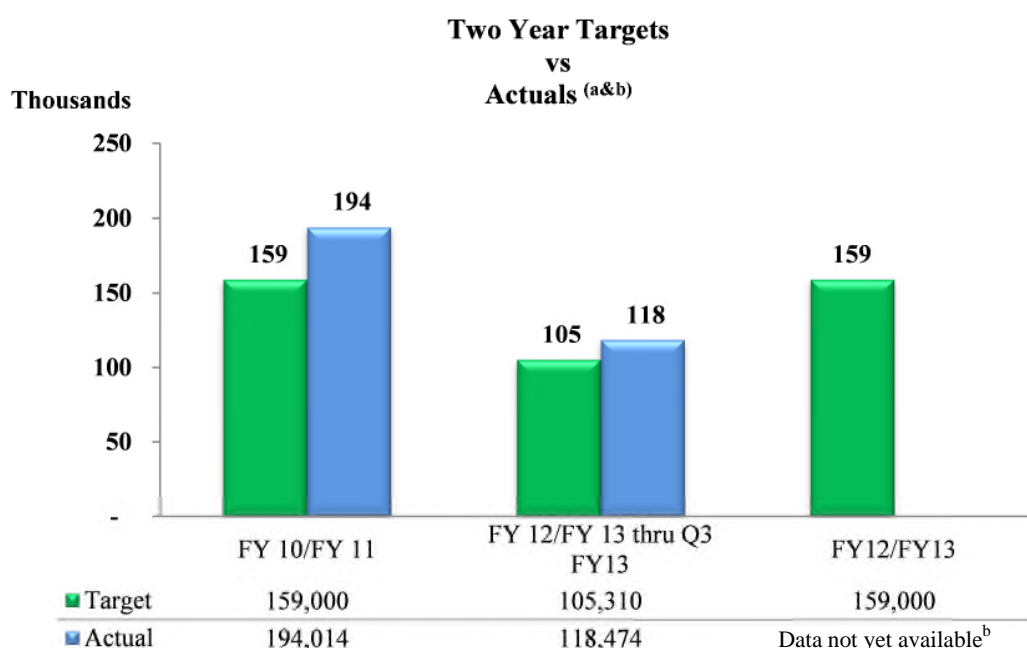
MEASURING OUR PROGRESS

Key Performance Measure:

● Cost-effective, healthy, energy efficient and green retrofits and new housing

To assess progress towards increasing the energy efficiency and health of the nation's housing stock, HUD tracks the number of new or retrofitted HUD-assisted or HUD-financed housing units that are healthy, energy-efficient, or meet green building standards.

Results: Cost-effective, healthy, energy efficient and green retrofits and new housing



^aIncludes the use of a "unit equivalent" method approved by OMB for certain programs to reflect the ten most cost effective Energy Conservation measures.

^bData reported is through Quarter 3 of FY 2013. Quarter 4 data is not yet available.

Through FY 2013 Quarter 3, HUD completed 118,474 energy efficient or healthy units, against its Quarter 3 target of 105,310 units. In FY 2012 HUD exceeded its target by nine percent, by completing a total of 82,992 energy-efficient and healthy units against the FY 2012 target of 75,670 units. In FY 2013, another 35,482 units were reported through Quarter 3, against the overall FY 2013 target of 83,330 units. Looking ahead to Quarter 4, HUD does not expect to meet the two year target of 159,000 units for the FY 2012 – FY 2013 performance period. However, we will exceed our target for the four-year period since this APG was established (FY 2010-2013)—with more than 300,000 energy-efficient and green units projected to be completed. The combined total with the Department of Energy over the four-year period is more than 1.64 million units, with a total of 700,493 units reported by the two departments in FY 2012-13 through Quarter 3⁵.

⁵ DOE reported an estimated 603,995 energy retrofits in FY 2012-13 through FY 2013 Quarter 3; HUD counted 96,498 non-OHHLC energy efficient units towards the joint goal.

The Office of Community Planning and Development and the Office of Housing will far exceed their FY 2013 targets (as well as their overall FY 2012-13 targets). The Office of Public and Indian Housing has exceeded its targets for four of five program areas, with Energy Performance Contracts (EPCs) the sole program under target with 10,507 units completed in FY 2012 and a total of 27,923 units projected to be completed in FY 2012-13.

For its lead hazard control grant programs, in FY 2012 HUD exceeded, at 102%, its production target of 12,100 homes. Work in most of these units was funded by FY 2009-2011 grants. In both FY 2012 and 2013, OHHLHC's funding was reduced, resulting in fewer lead hazard control grants. Grantees also experienced increased costs per housing unit, and less additional funding from local sources (leveraging), which resulted in fewer units being completed than projected. Through FY 2013 Quarter 3, production of 9,458 units was 101% of the target of 9,375 units, but 4th Quarter production is not expected to be sufficient to meet the FY 2013 target of 12,500 units, nor the two-year FY 2012-2013 goal of 24,600 units.

The end of Recovery Act funding and more limited resources make sustaining of the levels of activity achieved in FY 2010 through FY 2012 difficult to replicate. Additional challenges faced by the APG include the complex regulatory requirements for updating minimum energy standards for new housing; limited tools to incentivize energy efficiency in some programs; the continuing need for a uniform baseline for residential energy consumption across the portfolio; reduced funding for grant programs; and limitations on the Department's ability to collect consistent energy consumption data.

To continue to track HUD's quarterly and annual progress on this measure, visit Performance.gov.

AGENCY PRIORITY GOAL: AWARD FUNDS FAIRLY AND QUICKLY

Between October 1, 2011 and September 30, 2013, HUD aimed to improve internal processes to ensure that it could obligate 90 percent of NOFA programs within 180 calendar days from budget passage, ensuring that America's neediest families have the shelter and services they need, when they need them. The timely obligation and subsequent disbursement of funds would positively impact the agency's ability to achieve all of our priority goals.

OVERVIEW

HUD's mission is to build strong, sustainable, inclusive communities, and quality affordable homes for all. In support of this mission, HUD aims to accelerate the obligation of grant funds directly by cutting down the time it takes to get through the Notice of Funding Availability (NOFA) process. The "NOFA process" refers to the steps that HUD takes to let grantees know that there is competitive funding available and to specify how the funds are to be used and to ultimately award funds. Before a NOFA can be posted on Grants.gov, it has to be cleared internally and by the Office of Management & Budget (OMB). After the NOFA is posted and the competition is closed, applications are scored and ultimately funds are awarded. Each year HUD awards \$2-3 billion for community planning and development, public housing, housing counseling and family self-sufficiency.

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The obligation of HUD's competitive program funds has historically been slow. These delays sometimes lead to obligation of grant awards well after the fiscal year when the funds were appropriated. Failure to obligate and disburse funds in a timely manner can result in the rescission of funds or actual program de-funding (for example, Housing Counseling in FY 2011). In addition, these holdups directly affect HUD's mission, as recipients of funds are not able to spend funds in a timely manner, if at all.

HUD is addressing three opportunities to improve the NOFA process:

- Streamlining Processes and Establishing Protocols
- Improving Governance, Coordination, and Communication
- Automating Workflow Tracking and Processes

STRATEGIES

Standardizing and Streamlining Processes and Procedures:

The current Notice of Funding Availability (NOFA) process is hindered by bottlenecks and delays. Standardizing and streamlining NOFA processes and procedures will address many of the known root causes including: the heavy reliance on institutional knowledge, the lack of process documentation, multiple layers of review and approval, and the lack of an effective procedure to resolve points of disagreement.

Improving Governance, Coordination, and Communication:

Congress, OMB, and HUD all contribute to the policies related to NOFA governance and development. While relevant HUD offices strive to promptly communicate updates or changes to the NOFA policies and procedures, the primary means of communication are still primarily in person or by email. This creates undue errors, oversights, and inefficiencies. The development of a more effective means to communicate, educate, and collaborate is essential.

Automating Workflow Tracking and Processes:

Currently, none of the NOFA processes are automated. Workflows, notifications and tracking are managed by various individuals using their personal Excel and PowerPoint files. This makes the processing and tracking of NOFAs unduly cumbersome and subject to error. It also hinders management's visibility into the process and status, impeding appropriate oversight. HUD is evaluating alternatives to automate workflows, provide improved document control, and improve NOFA tracking.

MEASURING OUR PROGRESS

HUD has tracked progress in the obligation of NOFA programs as follows:

Percent of NOFA programs obligated within 180 days of budget passage	Target	Actual	Target Met?
FY 2011	NA	56%	NA
FY 2012	90%	46%	No
FY 2013	90%	32%*	No

* There were 25 NOFAs in FY 2013, with 8 (32%) NOFAs making the 180 day goal (September 22, 2013). An additional 3 more NOFAs were fully obligated within a week of the 180 day goal and before the end of the fiscal year, bringing the rate to 44%. HUD anticipates to attain a 77% rate by the end of the calendar year, December 31, 2013.

It is important to note that HUD made substantial progress in transforming its business processes in FY 2014. HUD succeeded in advancing all of the strategies earlier in this section. HUD is automating the NOFA processes from NOFA development through obligation. The automation of these NOFA processes will allow for better tracking of progress to ensure funds are awarded in a timely manner. HUD has also contracted with a vendor to build a communications portal for its NOFA stakeholders to easily access current policies and procedures as well as provide a general communications portal to share best practices. Details of each success are provided below:

- In late September 2013, HUD entered into an agreement with the Department of Health and Human Services (HHS) Center of Excellence for Grants Management to obtain the use of two software application modules to automate and streamline the grants process. The Announcement Module fully automates the NOFA development process from development through the posting of the NOFA to Grants.gov. This allowed HUD to avoid the risk of an independent development effort and to leverage an existing government-owned product (a shared service) that was developed with substantially more funds than are available to HUD alone. This action translated into comparatively lower procurement costs, greater functionality than originally envisioned by HUD, and reduced risk.
- The Announcement Module also automates tracking, workflow, document control and approvals that need to be made at various decision points in the process. It provides OMB direct access to the system to facilitate the clearance process. This module will be integrated into the HUD's clearance calendar process for seamless operations. Use of this Module will result in HUD no longer relying on the use of email to facilitate the majority of the NOFA clearance process, eliminating current challenges of version control, tracking, and process deviations.
- Additionally, the General Section for all NOFAs was reviewed and edited by an independent source to greatly reduce the length and to improve the clarity of the stated requirements. The improvements are expected to reduce the number of questions from potential grantees concerning the application requirements and facilitate NOFA development internally.
- The second module, an Application Review Module will be available to Programs to automate their review process. This will move many programs from their current pen and paper or excel based reviews.
- As mentioned earlier, HUD procured assistance in late September 2013 to develop an internal communications portal for the NOFA community. This portal will be the central point of NOFA communications, containing consistent, clear, authoritative information on processes, policies, and contacts. HUD expects the easy access to this information will decrease the NOFA development time, improve compliance, and lead to higher quality products.
- HUD's Grants Management Office also prepared and distributed periodic reports on the status of OMB-approved information collection requests falling under the requirements of the Paperwork Reduction Act (PRA). This has helped HUD's various program offices to identify much earlier any potential obstacles that may delay their NOFA progress. This information will be integrated into the communications portal mentioned above.

To continue to track HUD's quarterly and annual progress on this measure, visit Performance.gov.

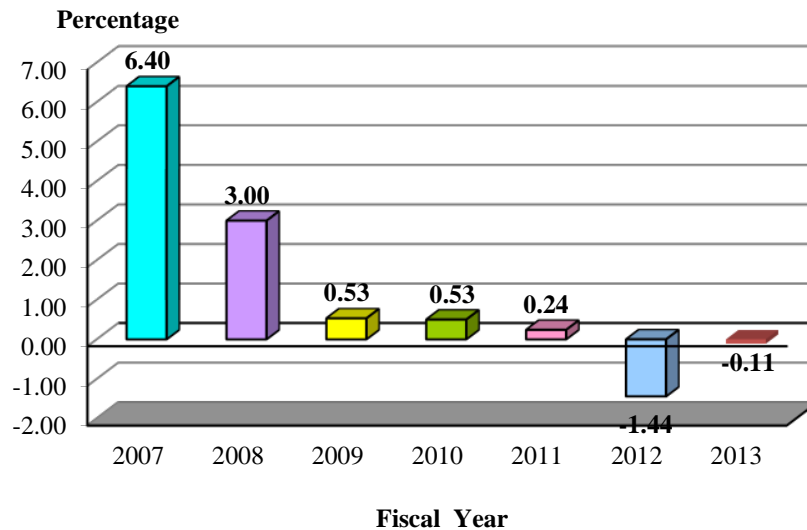
Mutual Mortgage Insurance (MMI) Capital Ratio

In the National Affordable Housing Act of 1990, Congress introduced a capital-ratio requirement for gauging the financial status of FHA's Mutual Mortgage Insurance (MMI) Fund (12 USC 1711(f)(4)). Today, the MMI Fund encompasses nearly all of FHA's single family business including, since 2009, reverse mortgages insured through FHA's Home Equity Conversion Mortgage program. The capital ratio compares the "economic net worth" of the MMI Fund to the dollar balance of active, insured loans, at a point in time. Economic net worth is defined as a net asset position, where the present value of expected future revenues and net claim expenses is added to current balance sheet positions. The capital ratio computation is part of an annual valuation of the outstanding portfolio of insured loans at the end of each fiscal year.

Capital resources of the Mutual Mortgage Insurance Fund (MMI Fund) are in two types of accounts: Financing Accounts and a Capital Reserve account. Funds in the Financing Accounts cover expected losses over the life of each insurance cohort, while Capital Reserve balances are accumulated for unanticipated losses. As of the end of 2013, HUD had transferred all of the accumulated balances of the Capital Reserve to the Financing Accounts to cover anticipated losses stemming from the recent economic recession.

The financial crisis and economic recession that began in fiscal year 2008 resulted in declines in the capital ratio to where a negative position was estimated at the end of last year. This year, the capital ratio, as calculated based on the independent actuary's report, has improved to -0.11 percent and is expected to reach 2.00 percent in 2015. The nearly \$15 billion improvement in portfolio value this year came from lower loss rates on insurance claims, revised delinquency servicing rules that are creating more cured delinquencies, and robust streamline refinance actions that saved borrowers an average of \$200 per month—even after many paid higher FHA insurance premiums on their new loans. Those newly refinanced loans should have both longer premium-paying lives and lower claims than they would have had they not refinanced. New loan guarantees in fiscal 2014 are expected to provide an additional \$16.7 billion in net revenues, according to the independent actuarial estimates. Continued strong, expected net revenues from new books-of-business result in an actuarial forecast of the MMI Fund reaching the 2.0 percent capital ratio in fiscal 2015.

MMI Capital Ratio



Note: The fiscal year 2007 – fiscal year 2008 ratios are based on unamortized insurance in force (original loan balances) and do not include HECM loans. The fiscal year 2009 - 2013 ratio calculations use amortized insurance in force (outstanding balances) and include HECM loans endorsed starting in fiscal year 2009.

The negative capital ratio today reflects an expectation that FHA's current pool of insured loans still has significant foreclosure and claim activity yet to occur, and that additional cost savings or income will be needed to cover those costs. Projected losses are particularly large for the fiscal year 2006 – 2009 cohort loans. Those loan cohorts were negatively impacted by employment disruptions and house price declines during the recession, and by large volumes of so-called seller-assisted down payment loans. In contrast, fiscal year 2010 - 2013 loans are expected to produce significant net revenues that can be used to substantially offset losses from those earlier years.

The portfolio valuation underlying the statutory capital ratio calculation is performed by an independent actuarial contractor, using FHA data and applying an independent economic forecast. That valuation is subject to uncertainty both from future economic conditions and from borrower behavioral patterns that could vary from underlying assumptions built into forecasting equations. The particular portfolio value used for the capital ratio estimate is a statistical (arithmetic) mean across 100 potential economic paths. Using the mean value provides some measure of reserving against adverse outcomes. This year, it adds \$2.6 billion to required loss reserves, effectively subtracting that amount from the net economic value used to calculate the capital ratio. This approach creates a higher threshold of required net income from FHA loan guarantee operations before reaching the two percent capital ratio target.

Programmatic changes made since 2009 continue to yield benefits to the MMI Fund. FHA insures loans with much stronger borrower credit quality and higher insurance premiums than was the case prior to 2009. In addition, FHA has aggressively continued a number of initiatives to reduce losses from legacy loans originated during the height of the crisis. Those include new delinquency servicing rules that focus

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on getting borrowers to affordable payment levels, expanded pre-foreclosure sale eligibility, shortening time-to-claim for defaulted loans in long foreclosure pipelines through note sales (Distressed Asset Sale Program), and making it easier for third-parties to purchase properties at foreclosure auctions and thus reduce the need for costly REO management.

HUD will continue to look for ways to reduce overall risk to the MMI Fund capital position, and to assure that the capital reserve ratio surpasses 2.0 percent in a timely manner, while also ensuring that FHA continues to serve its role of providing access to housing credit for low and moderate income households across the nation.

Forward Looking Information

Understanding the external factors that shape HUD's operating environment is crucial for identifying risks to future mission performance. External economic and legislative factors outside of HUD's control affect its ability to influence key performance goals. These external factors include funding levels, economic conditions, unemployment rates, financial lending environment, tax regulations, as well as other federal, state and local conditions.

At this writing, sequesters in federal funding levels that affected HUD programs during FY 2013 remain in force during early FY 2014. Diminished and uncertain funding poses significant challenges and risk to HUD's program partners such as cities and housing providers. For example, public housing authorities receive lower amounts of administrative fees, operating subsidies, and capital subsidies for addressing the capital needs backlog of the affordable housing stock.

Sustained unemployment remains a significant barrier to mitigating the foreclosure crisis and is subject to macroeconomic conditions that cannot be controlled by the Department. Unemployment puts pressure on household incomes and credit ratings. The weak job market thereby creates barriers to the ability of first-time home buyers to enter the housing market, weakens demand for home purchases, and reduces the ability of current homeowners to service their mortgages. However, the unemployment rate has gradually improved, and the residential construction market has substantially recovered, and home prices are increasing.

Financial markets anticipate that if unemployment rates improve further or signs of inflation appear, the Federal Reserve will slacken asset purchases and other policies that have kept interest rates low. As a result, interest rates for long-term debt and mortgage loans have begun to increase from the historic low levels that have prevailed over several years. Additionally, as federal agencies complete joint rulemaking during coming months to implement the Dodd- Frank Act, the definition of what types of mortgages require securitizers to retain risk might have significant effects on mortgage down payment requirements, loan to value ratios, and credit availability. Such factors intended to increase stability in the mortgage market exist in tension with affordability and access to credit for potential homebuyers.

Shrinking incomes and loss of homeownership have a direct effect on the growing need for affordable rental homes. Although the supply of affordable rental units is relatively fixed in the short run, the demand for these units is greatly increased by the number of former owners now requiring affordable rental housing and by shifts in household formation. This greater rental demand increases average rents and conversely reduces the availability of affordable units for renters with very low incomes. The most recent estimates from HUD's *Worst Case Housing Needs: Report to Congress* shows that only

64.6 affordable rental units were available per 100 very low income renters in 2011. The shortage of affordable housing and prevalence of severe rent burdens increased rapidly during 2009 to 2011, building on record increases during 2007 to 2009. This unmet demand for affordable housing puts pressure on waiting lists for public and assisted housing, fair market rents, and HUD's subsidy costs.

Shortages of affordable housing also contribute to doubling up and homelessness, especially for families. Homeless veterans are overrepresented in the homeless population and account for a substantial proportion of chronically homeless individuals. Causes of homelessness among Veterans are similar to causes of homelessness among non-veterans. The Administration has set an aggressive goal of eliminating veteran homelessness by 2015 and family homelessness by 2020, but a number of external factors including those listed above will affect HUD's ability to meet these goals.

Hurricane Sandy

OVERVIEW

On October 29, 2012 multiple weather systems – including Hurricane Sandy – collided over the most densely populated region in the nation, with devastating and tragic results. At least 159 people in the United States were killed as either a direct or indirect result of Sandy. More than 650,000 homes were damaged or destroyed and hundreds of thousands of businesses were damaged or forced to close at least temporarily. The power of nature was set loose on our nation's largest city and some of our smallest coastal towns, with results that would have previously seemed unimaginable. Lives were lost, millions of homes were upended, families were made homeless in a single night, and entire communities were in shock at the scale of the loss.

Rebuilding Challenges and the Creation of the Hurricane Sandy Rebuilding Task Force

In recognition of the size and magnitude of the storm and the rebuilding challenges facing the region, President Obama signed an Executive Order on December 7, 2012 creating the Hurricane Sandy Rebuilding Task Force and designating Secretary Donovan of HUD, as Chair. The Federal Government's experience from previous disasters taught that it was vital to have a team focused exclusively on long-term rebuilding immediately after the storm hit; working in tandem with the elements of the National Disaster Recovery Framework (NDRF), the Task Force was established to ensure the recovery benefitted from cabinet level focus and coordination. The President charged the Task Force with identifying and working to remove obstacles to resilient rebuilding while taking into account existing and future risks and promoting the long-term sustainability of communities and ecosystems in the Sandy-affected region.

In January 2013, Congress passed and the President signed the Disaster Relief Appropriations Act 2013 (Sandy Supplemental), which provided about \$50 billion in funding to support rebuilding in the region.

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STRATEGIES

This Rebuilding Strategy establishes guidelines for the investment of the Federal funds made available for recovery and sets the region on the path to being built back smarter and stronger with several outcomes in mind:

- Aligning this funding with local rebuilding visions.
- Cutting red tape and getting assistance to families, businesses, and communities efficiently and effectively, with maximum accountability.
- Coordinating the efforts of the Federal, State, and local governments and ensuring a region wide approach to rebuilding.
- Ensuring the region is rebuilt in a way that makes it more resilient – that is, better able to withstand future storms and other risks posed by a changing climate.

The Task Force identified direct areas of assistance to more areas that needed rebuilding priorities for Infrastructure, Housing, Small Business, and Insurance.



Infrastructure

The damage from Hurricane Sandy to physical infrastructure in New York, New Jersey, and other impacted states is measured in tens of billions of dollars. Separate from physical damage, EQECAT, a catastrophe risk modeling company, estimates the region lost between \$30 billion and \$50 billion in economic activity due to extensive power outages, liquid fuel shortages, and near-total shutdown of the region's transportation system⁶.

Energy

Following Hurricane Sandy, power outages impacted approximately 8.5 million customers, including businesses and services, affecting millions more people⁷ & ⁸. Additionally, breaks in natural gas lines caused fires in some locations, resulting in the destruction of many residences. Access to gasoline and diesel fuel in New York City and northern New Jersey was severely impaired following Sandy. This was largely caused by flooding damage to major terminals and docks in the Arthur Kill area of New Jersey. These fuel shortages delayed first responders and other response and recovery officials. As a result, portable generators sat unused and lines at fueling stations were long and problematic while consumers struggled to identify which gas stations had power and were operational.

⁶ EQECAT, "Billion-Dollar U.S. Weather/Climate Disaster 1980-2012," accessed July 11, 2012, <http://www.ncdc.noaa.gov/billions/events.pdf>

⁷ Department of Energy "Comparing the Impacts of Northeast Hurricanes on Energy Infrastructure," April 2013, http://energy.gov/sites/prod/files/2013/04/f0/Northeast%20Storm%20Comparison_FINAL_041513c.pdf

⁸ National Hurricane Center, "Tropical Cyclone Report: Hurricane Sandy," February 12, 2013, http://www.nhc.noaa.gov/data/tcr/AL182012_Sandy.pdf

Communications

The storm disrupted telecommunications and data access to millions of people and hundreds of thousands of businesses, paralyzing the greater New York Metropolitan economy. At the peak of the storm, tracking by the Federal Communications Commission (FCC) revealed that approximately 25% of cell sites across all or part of 10 states and Washington, D.C. were out of service⁹.

Green Infrastructure

Storm surge associated with Hurricane Sandy caused dune and beach erosion, island breaching, and transport and deposition of sediment inland (i.e., over wash) in coastal communities from New England to Florida. Coastal flooding also caused significant erosion to existing natural infrastructure, inundation of wetland habitats, removal of or erosion to coastal dunes, destruction of coastal lakes, and new inlet creation.

Transportation

Hurricane Sandy was the worst disaster for public transit systems (e.g., bus, subway, commuter rail) in the nation's history. On October 30, 2012, the morning after the storm made landfall, more than half of the nation's daily transit riders were without service. New York City's subway system was shut down on October 28, in advance of the storm, and remained closed through November 1. During that time, the City experienced traffic gridlock, and those who were able to get to work experienced commutes of up to several hours. Seawater breached many critical infrastructure systems, flowing into the Hugh L. Carey (Brooklyn-Battery) Tunnel, flooding eight of the New York City Subway tunnels, and damaging a variety of other transportation systems in the region.

Storm water Management and Drinking Water and Wastewater Treatment Systems

Floodwaters, massive storm runoff, wind damage, and loss of electricity combined to cause wastewater treatment plants up and down the mid-Atlantic coast to fail. These failures sent billions of gallons of raw and partially treated sewage into the region's waterways, impacting public health, aquatic habitats, and resources.

Public Medical Facilities and Schools

New York City-area hospitals and medical facilities, including the New York City Health and Hospitals Corporation facilities, were severely impacted by Hurricane Sandy; Bellevue Medical Center and Coney Island Hospitals, for example, were all flooded and eventually shut down due to the storm. In many places, there was extensive damage to mechanical, electrical, research, and medical equipment, much of which was located on lower floors or below grade to allow easier servicing and delivery of large equipment.

In New Jersey, many health care facilities were severely impacted by Hurricane Sandy, including hospitals, Emergency Medical Service providers, Federally Qualified Health Centers, local health departments, vital statistics offices, home healthcare agencies, rehabilitation hospitals, dialysis centers, and long-term care facilities. Hospitals alone reported an initial estimated \$68 million in damages;

⁹ David Turetsky, Chief, Public Safety & Homeland Security Bureau, Federal Communications Commission, Remarks NENA 2013 Conference & Expo Charlotte, NC June 18, 2013, http://www.transition.fcc.gov/Daily_Releases/Daily_Business/2013/db0621/DOC-321744A1.pdf

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Hudson County was hit hardest and closed some of its hospitals. Schools were also impacted, forcing many to close for more than a week following the storm.

Housing

In communities across New York, New Jersey, and Connecticut, workers could not return to their jobs, children were separated from their schools, elderly and disabled residents were unable to receive essential care, vulnerable populations experienced environmental and public health challenges, and neighbors were torn from their communities and deprived of their support networks.

Small Business

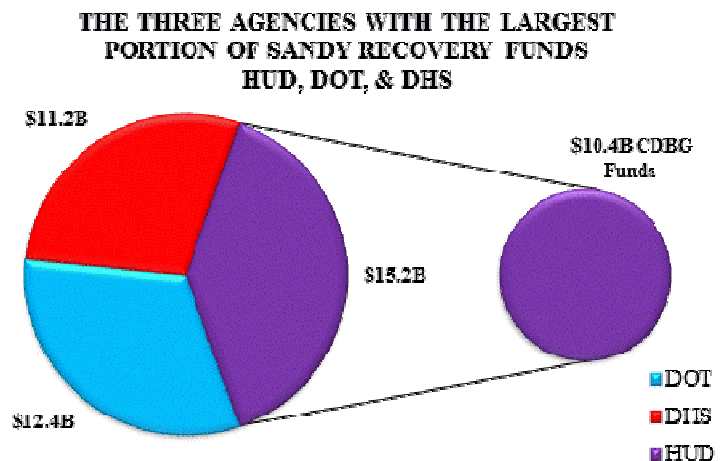
Flooding damaged inventories, machinery, and other structures; high winds and falling trees caused structural damage; and failure of power, water, telecommunications, and fuel infrastructure shut businesses down for days, if not weeks. Some small businesses still remain closed today and may never reopen. Supply chains, including small business suppliers¹⁰, were disrupted as well. Some sectors were disproportionately impacted, according to findings in a Department of Commerce study, particularly the travel and tourism industry in New Jersey.

MEASURING OUR PROGRESS

The three departments with the largest portion of recovery funds are HUD, the Department of Transportation (DOT), and Department of Homeland Security (DHS), with \$15.2 billion, \$12.4 billion, and \$11.2 billion in funding authority, respectively. DHS has outlayed \$3.9 billion, approximately 34 percent of the agency's total appropriation, for Sandy recovery, amounting to the largest proportion of funds outlayed by any agency.

The largest portion of HUD's allocation is for the CDBG-DR program, a critical post-disaster funding source that provides grantees the discretion to address unmet housing, infrastructure, economic development, and other needs after other Federal, State, local, and Tribal resources have been exhausted.

The Community Development Block Grants (CDBG) comprised the most funding allocation within HUD, including \$5.4 billion of CDBG-DR funds allocated within 8 days of the signing of the Sandy-supplemental into law. This represented the fastest ever allocation following the signing of an appropriations bill. More than 26,000 households have already been assisted through CDBG housing programs across the region, with more than \$157 million paid out to these beneficiaries. HUD also



¹⁰ NJMEP Ongoing Post Sandy Outreach, *Data on Calls Made November 2-16, 2012.*

Management's Discussion And Analysis Analysis Of Financial Condition And Results

recently announced the allocation of \$5 billion for a second portion of the CDBG-DR funds, bringing the total to over \$10.4B.

Already more than \$2 billion in infrastructure funds are at work in dozens of projects across the region.



Hurricane Sandy in New Jersey, one year later.
Courtesy of FEMA.GOV



Hurricane Sandy in New York, one year later.
Courtesy of FEMA.GOV

Analysis of Financial Condition and Results

In order to help the reader to understand the Department's financial results, position, and condition, the following analysis addresses the relevance of particular balances and amounts as well as major changes in types and/or amounts of assets, liabilities, costs, revenues, obligations, and outlays.

The principal financial statements have been prepared from the Department's accounting records in order to report the financial position and results of HUD's operations, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are provided in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

This part provides a summary of HUD's:

- Financial Data
- Analysis of Financial Position
- Analysis of Off-Balance Sheet Risk

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Summarized Financial Data (Dollars in Billions)

	2013	2012
Total Assets	\$152.8	\$127.7
Total Liabilities	\$72.4	\$70.1
Net Position	\$80.5	\$57.6
FHA Insurance-In-Force	\$1,292.0	\$1,264.0
Ginnie Mae Mortgage-Backed Securities Guarantees	\$1,457.1	\$1,341.4
Other HUD Program Commitments	\$45.8	\$50.1

HUD's FY 2013 Financial Statements reflect restatements of the Department's Fiscal Year 2012 Financial Statements in the following areas:

- Ginnie Mae's Financial Statement presentation in conformance with FASAB's SFFAS versus previous FASB presentation,
- Ginnie Mae's revised presentation of Other Assets to provide additional clarity on Non-credit Reform Loans Receivable,
- Ginnie Mae's revised presentation of unpaid undelivered orders on the Statement of Budgetary Resources,
- Elimination of probable unrealized claims from Ginnie Mae that are insured by FHA, and
- Recognition of Net Restricted Balances (NRA) as a result of funding provided by the Department under PIH's Section 8 Housing Choice Voucher Program.

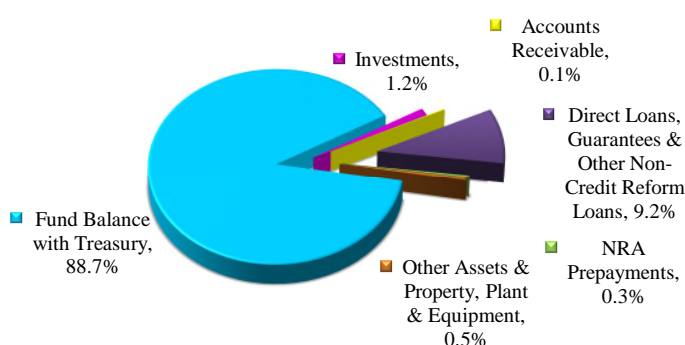
The Notes to the Financial Statements in Section II, Note 30, provides further details.

Analysis of Financial Position

Assets - Major Accounts

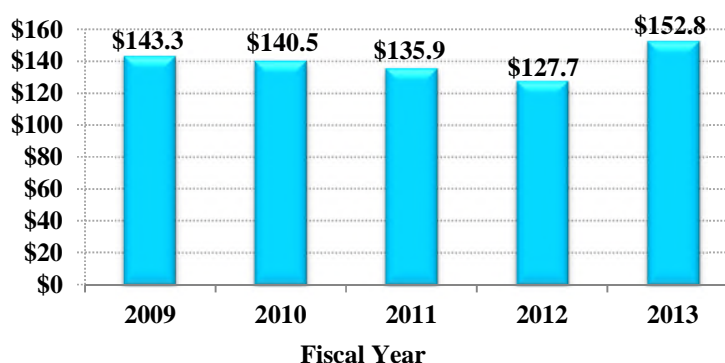
Total Assets for FY 2013, as reported in the Consolidated Balance Sheet, are displayed in the graph below. *Total Assets* of \$152.8 billion are comprised of *Fund Balance with Treasury* of \$135.6 billion (88.7 percent), *Accounts Receivable* of \$0.2 billion, *Direct Loans & Loan Guarantees* of \$10.0 billion, *Other Non-Credit Reform Loans* of \$4.0 billion, *Investments* of \$1.8 billion, *Net Restricted Asset Prepayments* of \$0.5 billion, and *Other Assets and Property, Plant & Equipment* of \$0.7 billion at September 30, 2013.

Composition of HUD Assets - FY13



Total Assets increased \$25.1 billion (19.7 percent) from \$127.7 billion at September 30, 2012. The net increase was due primarily to an increase of \$27.4 billion (25.3 percent) in *Fund Balance with Treasury*, an increase of \$1.5 billion (17.0 percent) in *Direct Loans & Loan Guarantees*, and an increase of \$0.3 billion (71.1 percent) in *Other Assets and Property, Plant & Equipment*, being offset by a decrease of \$3.1 billion (62.8 percent) in *Intragovernmental Investments*, a decrease of \$0.4 billion (8.2 percent) in *Other Non-Credit Reform Loans*, and a decrease of \$0.5 billion (54.2 percent) in *Net Restricted Asset Prepayments*. The table below shows *Total Assets* for FY 2013 and the four preceding years. The changes and trends affecting *Total Assets* are discussed below.

Total Assets Trend (Dollars in Billions)



Fund Balance with Treasury of \$135.6 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. *Fund Balance with Treasury* increased \$27.4 billion due primarily to increases of \$15.8 billion for FHA, \$2.5 billion for Ginnie Mae and \$12.5 billion for CDBG, offset by a decrease of \$1.1 billion for Section 8, \$0.5 for HOME, \$0.5 for PIH, and \$1.4 for All Others.

The FHA increase is primarily attributed to the maturity of investments not reinvested but transferred to the MMI financing account for the FY 2012 upward re-estimates, borrowings from the Treasury and an

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increase in upfront and periodic premium cash collections offset by an increase in single-family claims. Also funding for the Community Development Block Grant (CDBG) program was increased by \$12.5 billion due primarily to a \$15.2 billion supplemental appropriation for the Hurricane Sandy disaster.

Investments of \$1.8 billion consist primarily of investments by FHA's MMI and Cooperative Management Housing Insurance Fund (CMHI) and by Ginnie Mae, in non-marketable, intra-governmental, Treasury securities (i.e., investments not sold in public markets). FHA's investments decreased by \$2.8 billion (97.9 percent). The decrease was due to liquidating investments to fund FHA's upward re-estimate.

Accounts Receivable of \$0.2 billion primarily consists of claims to cash from the public, state and local authorities for bond refunding, Ginnie Mae premiums, FHA insurance premiums, and Section 8 year-end settlements. A 100 percent allowance for loss is established for all delinquent debt 90 days and over.

Direct Loan and Loan Guarantees of \$10.0 billion are generated by FHA credit program receivables and by HUD's support of construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 programs. The increase was attributed to an increase of FHA HECM and single-family notes receivable and associated accrued interest charges.

Other Non-Credit Reform Loans of \$4.0 billion consists of Ginnie Mae Advances Against Defaulted Mortgage-Backed Security Pools, Mortgage Loans Held for Investment, Short Sale Claims Receivable, and Foreclosed Property.

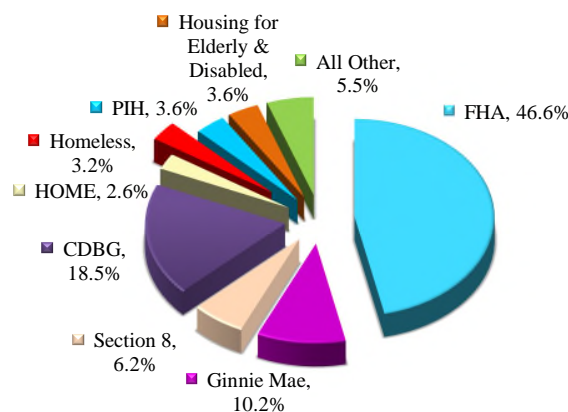
Net Restricted Asset Prepayments of \$0.5 billion are the Department's estimates of Net Restricted Assets (NRA) balances maintained by Public Housing Authorities under the Housing Choice Vouchers Program. NRA balances represent cash reserves used by PHAs to cover program expenses reported by these entities as a result of recent funding shortfalls faced by the Department. The NRA balances are expected to be transitioned to HUD's project reserves in calendar year 2014 under PIH's cash management policies. PIH has estimated NRA balances of \$452 million and \$986 million for Fiscal Year 2013 and Fiscal Year 2012 respectively.

Other Assets and Property, Plant & Equipment of \$0.7 billion comprises fixed assets and other assets.

Assets - Major Programs

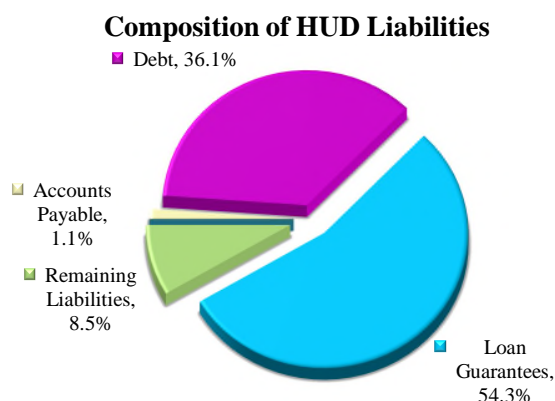
The chart below presents *Total Assets* for FY 2013 by major responsibility segment or program.

Assets by Responsibility Segment



Liabilities – Major Accounts

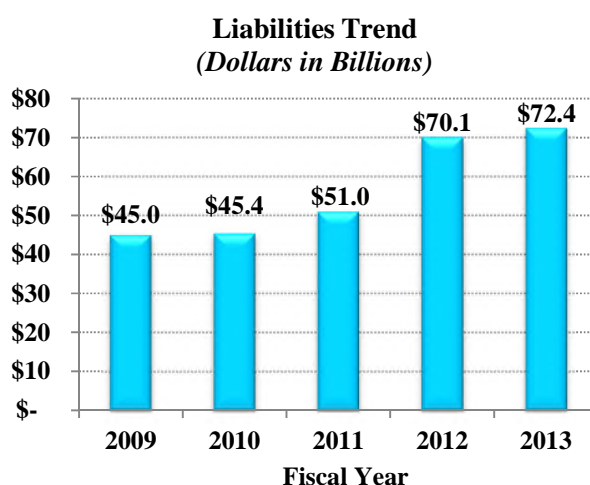
Total Liabilities for FY 2013, as reported in the Consolidated Balance Sheets, are displayed in the chart below.



Total Liabilities of \$72.4 billion consist primarily of *Loan Guarantees* of \$39.3 billion (54.3 percent), *Debt* in the amount of \$26.1 billion (36.1 percent), *Accounts Payable* of \$0.8 billion (1.1 percent), and *Remaining Liabilities* amounting to \$6.2 billion (8.5 percent) at September 30, 2013.

Total Liabilities increased by \$2.3 billion, due primarily to an increase of \$14.5 billion of *Intragovernmental Debt* and in increase of \$0.9 billion in *Remaining Liabilities*, offset by a decrease of \$12.6 billion of *Loan Guarantees*. This increase in *Total Liabilities* is a result of an increase in the principal debt with the Treasury. It is due primarily to an increase of FHA's borrowings in MMI Cohort of negative subsidy transferred to the capital reserve fund to offset premium collections and. Also, Ginnie Mae's loss reserves increased in pooled and non-pooled loss liability due to conventional loans and longer payment timetables.

The chart below presents *Total Liabilities* for FY 2013 and the four preceding years. A discussion of the changes and trends impacting *Total Liabilities* is presented in the subsequent paragraphs.



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Loan Guarantees consist of the *Liability for Loan Guarantees (LLG)* related to Credit Reform loans made after October 1, 1991 and the *Loan Loss Reserve* related to guaranteed loans made before October 1, 1991. The liability for *Loan Guarantees* and the *Loan Loss Reserve* are both comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties, less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes. The \$12.6 billion (24.2 percent) decrease in *Loan Guaranty Liability* is caused primarily by a decrease of FHA's Single Family LLG attributed to greater projected cash inflows based on a change in FHA's mortgage insurance premium (MIP) schedule. In addition, there was an elimination of the automatic cancellation of annual MIPs when loan balances reached 78 percent of the original property value. Also, there was a decrease in HECM/LLG attributed to discounting rates published by OMB that are indicative of the historically low interest rates. The HECM/LLG decrease was due to housing price forecasts that showed a stronger near term recovery in 2013 than was predicted last year. In addition, a decrease in Multifamily LLG is attributed to lower claims expectations, diminished insurance-in-force, and higher premium revenue.

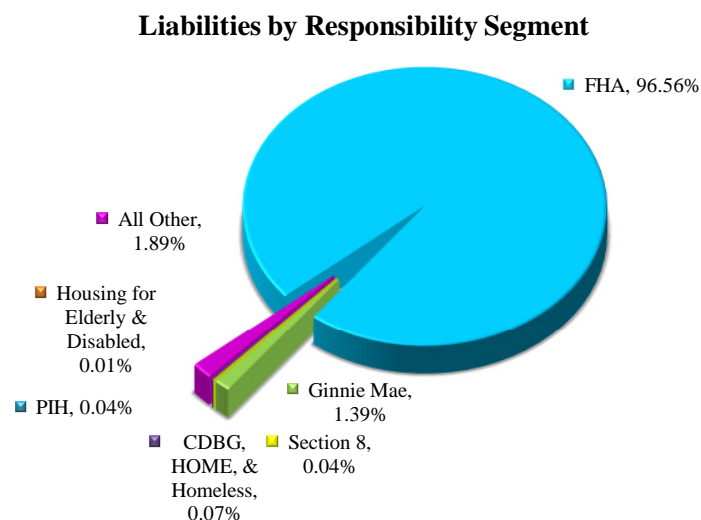
Debt includes primarily *Intragovernmental Debt* of \$26.1 billion. The *Intragovernmental Debt* is a result of an increase in the principal debt with the Treasury. The largest borrowing was in MMI Cohort negative subsidy transferred to the capital reserve fund to offset premium collections.

Accounts Payable consist primarily of pending grants payments.

Remaining Liabilities of \$6.2 billion consist of *Intragovernmental Liabilities*, *Federal Employee and Veteran Benefits*, *Loan Reserves* and *Other Liabilities*. The FHA increase of \$0.5 billion is primarily due to an increase of GI negative subsidy.

Liabilities – Major Programs

The chart below presents *Total Liabilities* for FY 2013 by responsibility segment.



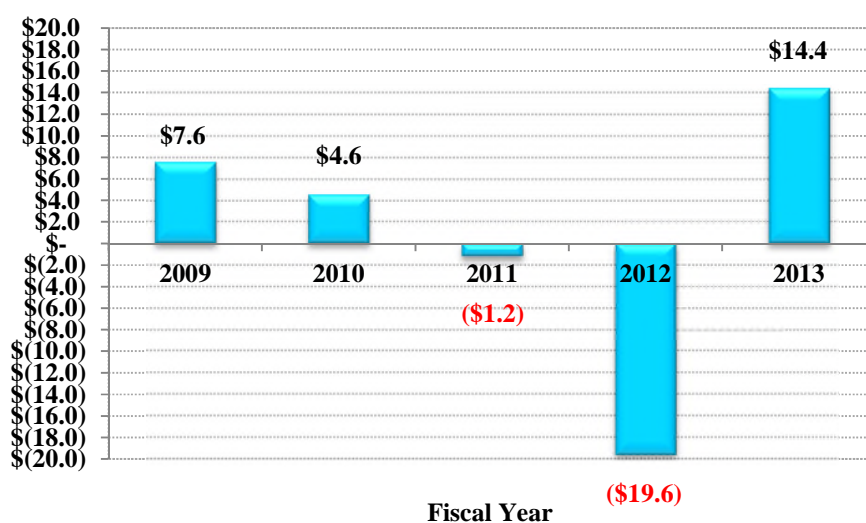
Changes in Net Position

Changes in *Unexpended Appropriations*, *Net Cost of Operations*, and *Financing Sources* combine to determine the *Net Position* at the end of the year. The elements are further discussed below. *Net Position* as reported in the *Statements of Changes in Net Position* reflects an increase of \$22.9 billion or (39.7 percent) from the prior fiscal year. The net increase in *Net Position* is primarily attributable to an \$8.4 billion increase in *Unexpended Appropriations* and a \$14.4 billion increase in *Cumulative Results of Operations*.

The combined effect of HUD's *Net Cost of Operations* and *Financing Sources* resulted in an increase in *Net Change in Cumulative Results of Operations* of \$34.0 billion during FY 2013. The large increase in FY 2013 is due primarily to an increase in Fund Balance of \$27.4 billion and an increase in Borrowing of \$14.5 billion, offset by a decrease of LLG of \$12.6 billion.

This chart presents HUD's *Net Change in Cumulative Results of Operations* for FY 2013 and the four preceding years.

**Net Change in Cumulative
Results of Operations for FY 2009 - 2013**
(Dollars in Billions)



Unexpended Appropriations: The increase by (15.8 percent) from \$53.5 billion in FY 2012 to \$61.9 billion of \$8.4 billion in FY 2013 is due primarily to additional funding of \$12.5 billion for CDBG, and an offset by expenditures of \$1.7 in Section 8, \$0.6 billion in PIH, \$0.6 billion for Housing for the Elderly and Disabled, and \$1.0 billion for All Other programs. The \$12.5 billion increased funding for the Community Development Block Grant (CDBG) program was primarily due to a \$15.2 billion supplemental appropriation for the Hurricane Sandy disaster.

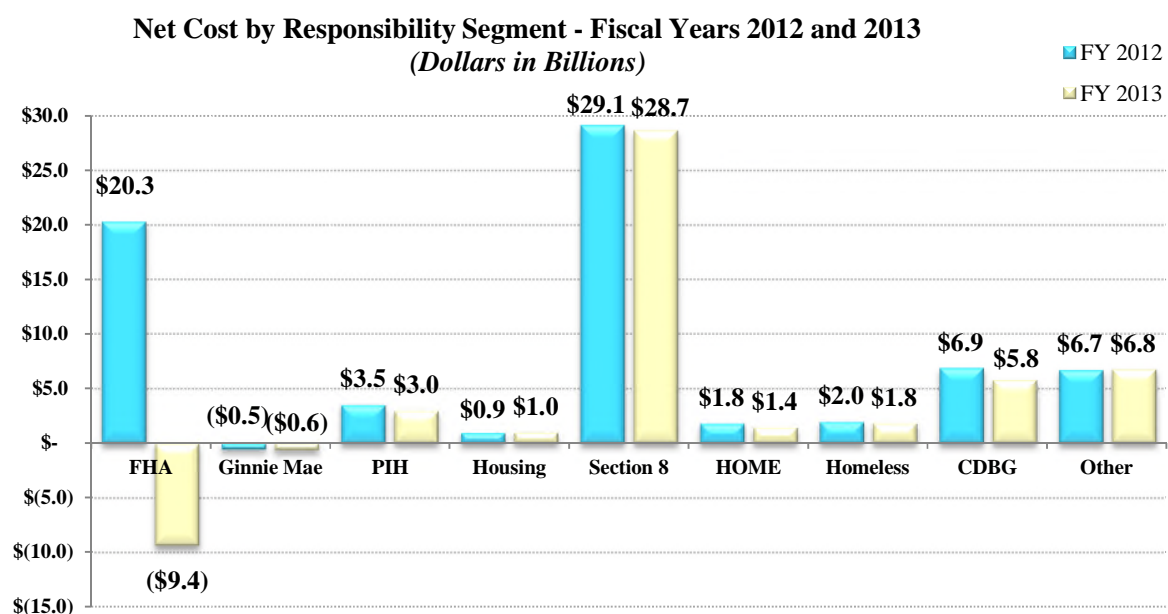
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Financing Sources: As shown in HUD's *Statement of Changes in Net Position*, HUD's financing sources for FY 2013 totaled \$52.8 billion. This amount is comprised primarily of \$56.7 billion in *Appropriations Used*, offset by approximately \$3.9 billion in other financing sources.

Net Cost of Operations: As reported in the *Consolidated Statement of Net Cost*, *Net Cost of Operations* amounts to \$38.4 billion for FY 2013, a decrease of \$32.3 billion (45.7 percent) from the prior fiscal year. *Net Cost of Operations* consists of total costs, including direct program and administrative costs, offset by program exchange revenues.

The chart below presents HUD's *Total Net Cost* for FY 2013 by responsibility segment.



As shown in the chart, *Cost of Operations* was primarily a result of spending of \$28.7 billion, (74.6 percent) of *Net Cost*, in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development, and PIH programs). The current fiscal year change in *Net Cost* for the Section 8 programs was \$0.5 billion (1.6 percent) less than the prior fiscal year. *FHA Net Cost* decreased by \$29.7 billion, due primarily to a decrease in gross costs and a decrease in HECM LIG liability for all programs.

Analysis of Off-Balance-Sheet Risk

The financial risks of HUD's credit activities are due primarily to managing FHA's insurance of mortgage guarantees and Ginnie Mae's guarantees of MBS. Financial operations of these entities can be affected by large unanticipated losses from defaults by borrowers and issuers and by an inability to sell the underlying collateral for an amount sufficient to recover all costs incurred.

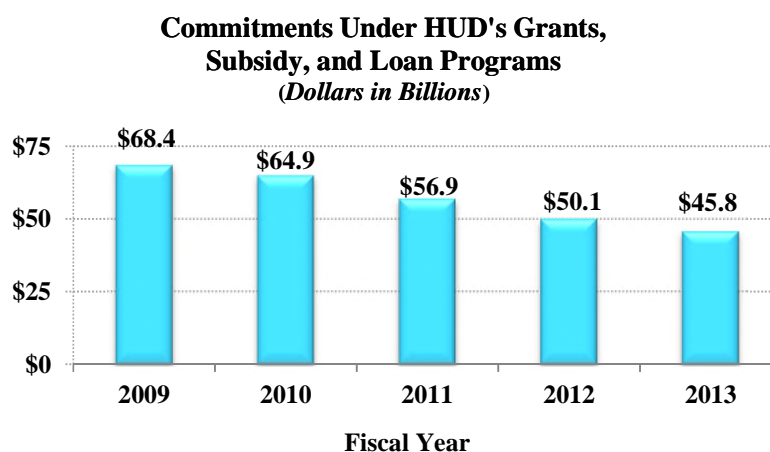
Contractual and Administrative Commitments

HUD's *Contractual Commitments* of \$45.8 billion in FY 2013 represent HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. *Administrative*

Management's Discussion And Analysis Analysis Of Financial Condition And Results

Commitments (reservations) of \$5.0 billion relate to specific projects, for which funds will be provided upon execution of the related contract.

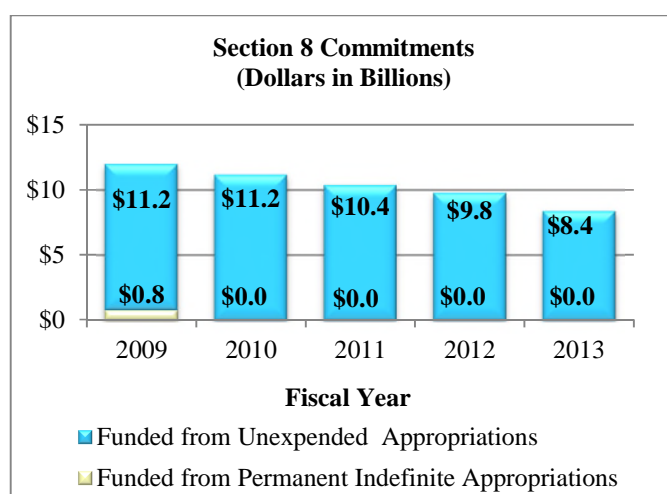
The chart on the next page presents HUD's *Contractual Commitments* for FY 2013 and the four preceding years.



These commitments are funded primarily by a combination of unexpended appropriations and permanent indefinite appropriations, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund the current year's portion of contracts entered into prior to FY 1988. Since FY 1988, HUD has been appropriated funds in advance for the entire contract term in the initial year, resulting in substantial increases and sustained balances in HUD's unexpended appropriations.

Total Commitments (contractual and administrative) decreased by \$0.7 billion (1.4 percent) during FY 2013. The change is primarily attributable to a decrease of \$1.3 billion in Section 8 commitments, offset by an increase of \$3.1 billion in CDBG program commitments. *All Other Commitments* reflect a decrease of \$2.5 billion.

The chart below presents HUD's Section 8 *Contractual Commitments* for FY 2013 and the four preceding years.



HUD FY 2013 Agency Financial Report

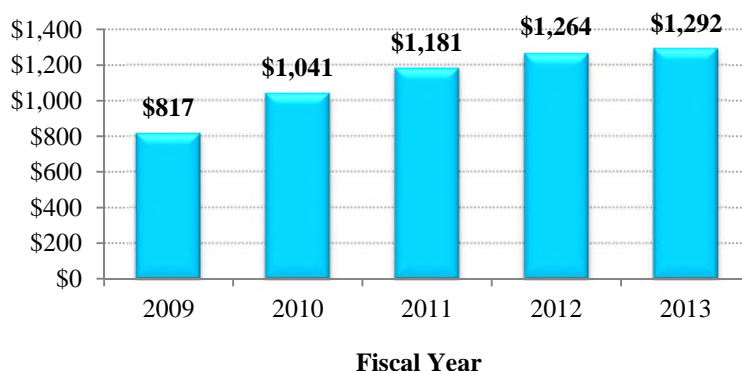
Section 1

To contain the costs of future Section 8 contract renewals, HUD began converting all expiring contracts to one-year terms during FY 1996. By changing to one-year contract terms, HUD effectively reduced the annual budget authority needed from Congress to fund the subsidies while still maintaining the same number of contracts outstanding.

FHA Insurance-In-Force

Multifamily Housing Programs provide FHA insurance to approved lenders to facilitate the construction, rehabilitation, repair, refinancing, and purchase of multifamily housing projects such as apartment rentals, and cooperatives. The chart below presents FHA's Insurance-In-Force (including the Outstanding Balance of HECM loans) of \$1,292 billion for FY 2013 and the four preceding years. This is an increase of \$28 billion (2.2 percent) from the FY 2012 FHA Insurance-In-Force of \$1,264 billion. FHA's volume has grown significantly during the mortgage crisis, as a result of constrained activity by private mortgage insurers and private lenders.

FHA Insurance In Force - As of September 30
(Dollars in Billions)



Ginnie Mae Guarantees

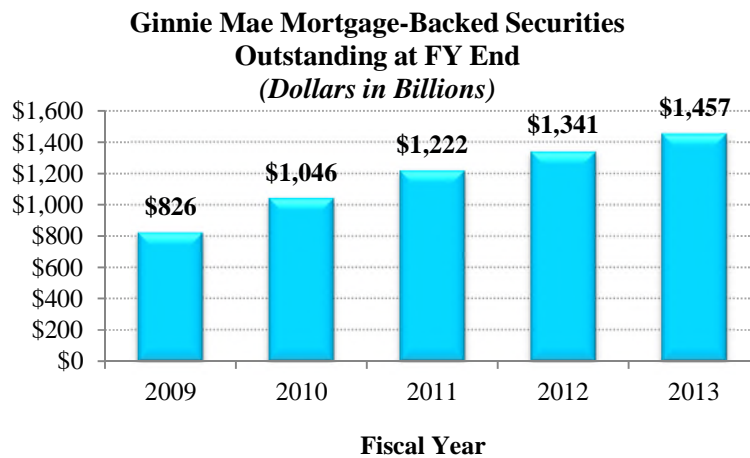
Ginnie Mae financial instruments with off-balance sheet risk include guarantees of MBS and commitments to guarantee. The securities are backed by pools of FHA and PIH insured, Rural Housing Service-insured, and Veterans Affairs-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2013 and 2012, were approximately \$1,457.1 billion and \$1,341.4 billion, respectively. In the event of default, the underlying mortgages serve as primary collateral, and FHA, USDA, VA and PIH insurance or guarantee indemnifies Ginnie Mae for most losses.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guarantee MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2013 and 2012 were \$118.1 billion and \$115.7 billion, respectively.

Management's Discussion And Analysis

Analysis Of Financial Condition And Results

The chart below presents Ginnie Mae MBS for FY 2013 and the four preceding years.



Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers. In FY 2013 and 2012, Ginnie Mae issued a total of \$99.0 billion and \$107.0 billion, respectively, in its multi-class securities program. The estimated outstanding balance of multiclass securities in the total MBS securities balance at September 30, 2013 and 2012 were \$468.0 billion and \$522.5 billion, respectively. These securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

Multi-class securities include:

- REMICs – Real Estate Mortgage Investment Conduits are a type of multiclass mortgage-related security in which interest and principal payments from mortgages are structured into separately traded securities.
- Stripped MBS – Stripped MBS are securities created by “stripping” or separating the principal and interest payments from the underlying pool of mortgages into two classes of securities, with each receiving a different proportion of the principal and interest payments.
- Platinums – A Ginnie Mae Platinum security is formed by combining Ginnie Mae MBS pools that have uniform coupons and original terms to maturity into a single certificate.

Management Assurances

FY 2013 ANNUAL ASSURANCE STATEMENT

The Department of Housing and Urban Development's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Manager's Financial Integrity Act (FMFIA). HUD is able to provide a qualified assurance of its internal controls over the effectiveness and efficiency of operations as of September 30, 2013, with the exception of three material weaknesses (one for Section 2 and two for Section 4) in the areas of Human Capital Management, Federal Financial Management Improvement Act (FFMIA), and Federal Information Security Management Act (FISMA) noncompliance.

Additionally, HUD conducted its assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular A-123. The Department provides a qualified assurance that its internal controls over financial reporting were operating effectively as of September 30, 2013, with the exceptions of the three material weaknesses — presentation of Balance Sheet Accounts, implementation of Cash Management Requirements, and the utilization of the First-in, First-out (FIFO) method of accounting. Other than the noted exceptions, the internal controls were operating effectively, and no other material weaknesses were found in the design or operation of the internal control over financial reporting.

In accordance with guidance established by the American Recovery and Reinvestment Act of 2009 (Recovery Act), HUD can provide reasonable assurance that all Recovery Act programs were managed effectively and efficiently, utilized reliable and accurate data to report achievement of program goals, and were in compliance with applicable laws and regulations. All HUD Recovery Act funds were awarded and distributed in a prompt, fair, and reasonable manner for the sole purpose designated in the Recovery Act.

The Department of Housing and Urban Development can provide reasonable assurance that appropriate policies and controls are in place to mitigate the risk of fraud and inappropriate charge card practices.

The Disaster Relief Appropriations Act (Sandy Funds) of 2013 provided the Department with \$16 billion to assist in the Hurricane Sandy recovery. Appropriate policies and controls are in place to mitigate the risk of fraud and inappropriate spending practices and ensure that Sandy Funds are used for their intended purpose.



Shaun Donovan
Secretary

December 16, 2013

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123, Management's Responsibility for Internal Control, requires ongoing evaluations of the adequacy of the systems of internal accounting and administrative controls and the annual reporting of the results of the evaluations. Section 2 of FMFIA requires reporting on the assessment of the effectiveness of the organization's internal controls to support effective and efficient programmatic operations, reliable financial reporting, compliance with applicable laws and regulations, and a summary of material weaknesses. Section 4 of FMFIA requires reporting on whether HUD's financial management systems conform to financial systems requirements.

HUD managers are responsible for ensuring that effective internal controls are implemented and maintained in their daily operations, programs, and financial management systems. Annually, HUD's senior management team provides a Statement of Assurance regarding the effectiveness and efficiency of the internal controls within those operations, programs, and systems. Additionally, they attest to the internal control over financial reporting and compliance with applicable laws and regulations. These assurances statements are the basis for the Secretary's Statement of Assurance.

HUD can provide a qualified statement of assurance that its internal control over operations and internal control over financial reporting (Section 2) and financial management systems (Section 4) meet the objectives of FMFIA, as of September 30, 2013, with the exception of the material weaknesses, which are described further below.

Section 2 — Internal Control over Operations

In FY 2013, the Section 2 — Internal Control over Operations — Material Weakness over HUD's Human Capital Management still existed. To address this material weakness, HUD continued its partnership with the U.S. Office of Personnel Management (OPM) to strengthen the controls within HUD's Human Capital Management practices in FY 2013. HUD trained its Human Resources staff and developed and implemented new human capital policies and standard operating procedures. HUD's leadership initiated a comprehensive approach to workforce and human capital planning. They created a "Workforce Planning Committee" and a "Human Capital Strategy Working Group." The "Workforce Planning Committee" was established to address concerns related to resource management and

workforce planning and the "Human Capital Strategy Working Group" was established to update the Department's Human Capital Strategic and Workforce Plans.

These plans will prioritize HUD's efforts and facilitate the transformation of HUD's Human Capital programs and services. The Workforce Plan will provide a systematic process for identifying HUD's staffing needs. The Human Capital Strategic Plan will be developed in accordance with Government Performance and Results Act (GPRA) requirements and will be HUD's roadmap for accomplishing the Department's mission and implementing HUD's Strategic Plan goals. HUD plans to continue to make great strides to eliminating this material weakness in FY 2014.

Section 2 — Internal Control over Financial Reporting

Currently, HUD uses the First-in, First-out (FIFO) method to account for disbursement of formula grant funds. By implementation of the FIFO method, HUD's accounting for formula grant funds is not in accordance with Federal Generally Accepted Accounting Principles (GAAP). However, due to the

HUD FY 2013 Agency Financial Report

Section 1

magnitude of the funds subjected to the FIFO method, HUD's Combined Statement of Budgetary Resources and the Consolidated Balance Sheet are not being presented in conformance with Federal GAAP. HUD has developed a remediation plan to resolve this noncompliance issue.

The material weakness in Presentation of Balance Sheet Accounts is related to the presentation of balance sheet accounts not being in accordance with the U.S. Government Standard General Ledger (USSGL). This presentation caused HUD to restate its FY 2012 Consolidated Financial Statements. HUD restated its FY 2012 Consolidated Balance Sheet related to one of its government corporations, Government National Mortgage Association (Ginnie Mae), for the corporation's presentation of loans receivables on the balance sheet not being in accordance with the USSGL. Ginnie Mae prepares its financial statements in accordance with Financial Accounting Standards Board (FASB) accounting guidance, and HUD's Consolidated Financial Statements are prepared in accordance with Federal Accounting Standards Advisory Board (FASAB) accounting guidance. HUD restated its FY 2012 Financial Statements in FY 2013 to correct this issue.

The Cash Management material weakness is related to HUD not complying with Department of the Treasury cash management regulations. In FY 2012, HUD was required to comply with Treasury's cash management rules and procedures related to monitoring and recording

public housing authorities' (PHA) cash reserves. The PHAs were required to reduce excess Housing Assistance Payments cash reserves. However, Treasury cash management regulations require the elimination of excess PHA-held cash reserves and conversion to HUD-held reserves. HUD performed cash reconciliations in FY 2013 to determine PHA cash reserve balances, but this process was not completed. In addition, HUD performed only cash reconciliations for non-Moving-to-Work PHAs. HUD is working to complete implementation of Treasury's cash management requirements.

Section 4 and Federal Financial Management Improvement Act of 1996 (FFMIA)

The FFMIA requires Federal agencies to implement and maintain financial systems that comply substantially with: (1) Federal financial management system requirements; (2) applicable Federal accounting standards; and (3) the USSGL at the transaction level. Additionally, Section 4 of FFMIA requires agencies to report on whether their accounting system conforms to the mandated Federal financial management system requirements. In each circumstance, agencies must report instances of material non-conformance, including the preparation of remediation plans that address the non-conformance.

In agreement with the Office of Inspector General's (OIG) assessment, HUD has determined that the Department is not in compliance with FFMIA. HUD's noncompliance with FFMIA is related to the newly declared Material Weaknesses and the Department's noncompliance with FISMA. The FISMA noncompliance changes HUD's risk rating. However, HUD's information technology (IT) infrastructure is safeguarded.

Although HUD lacks an integrated core financial management system, HUD uses both automated and manual processes to perform various financial management functions. These processes enable the Department to carry out its mission in support of its financial management requirements in a safeguarded IT environment. HUD is able to prepare financial statements and other required financial and budgetary reports; provide management reliable and timely financial information; and safeguard HUD's assets from loss, and misappropriation, or destruction. While HUD's financial management systems rely on manual

Management's Discussion And Analysis

Management Assurances

processes, efforts are underway to integrate HUD's financial management systems. HUD is currently implementing the "New Core" initiative, which aims to implement a consistent, common-enterprise, and compliant financial management system using a Federal Shared Services Provider.

In FY 2013, HUD had 39 financial management systems, of which 5 were identified as noncompliant with FFMIA. The 5 are: the Ginnie Mae Financial and Accounting System (**GFAS**), Facilities Integrated Resources Management System (**FIRMS**), Integrated Disbursement and Information System (**IDIS**), HUD Procurement System (**HPS**), and Small Purchase System (**SPS**).

During the FY 2013 Financial Statement Audit, **GFAS** was identified as not being substantially compliant with FFMIA. GFAS is not currently configured to support Ginnie Mae's accounting and reporting requirements for its budgetary resources. HUD prepared a remediation plan to bring GFAS into substantial compliance with FFMIA by June 30, 2014. HUD determined the amount of adjustments needed to correct the accounting and reporting errors for FY 2012 and made the adjustments for FY 2013.

FIRMS remains a noncompliant system because HUD had experienced significant problems and delays in making FIRMS operational. HUD's future plans are to implement the functionality of reporting and recording fixed assets in its New Core system, but in the meantime HUD plans to upgrade the FIRMS system.

IDIS does not comply with the internal controls and Federal financial accounting standards, as required by FFMIA, as a result of its use of the FIFO method to account for and disburse formula grant obligations. HUD's implementation of the FIFO method within the IDIS system obstructed HUD from accounting for the formula grant funds in accordance with Federal GAAP. HUD developed a remediation plan to bring IDIS in compliance with FFMIA with a proposed completion date of FY 2015.

The functionality of the **HPS** and **SPS** systems was replaced by the **HUD Integrated Acquisition Management System (HIAMS)** in FY 2012, the Department's end-to-end acquisition solution. The HIAMS system consolidated the prior procurement systems' functionality while simultaneously eliminating most manual and duplicative business processes. HUD originally planned to decommission HPS and SPS in FY 2013. However in FY 2012, OIG identified HIAMS as a FFMIA noncompliant system because of its inability to match obligation balances within the core system, HUD Central Accounting Processing System (HUDCAPS); and HPS and SPS were not decommissioned as planned.

In FY 2013, HUD made great strides and resolved the noncompliance issue with HIAMS. An automated report is generated to reconcile the previous day transactions posted in HUDCAPS back to HIAMS, thereby improving the interface between HIAMS and HUDCAPS. HUD plans to decommission HPS and SPS systems in FY 2014.

Federal Information Security Management Act (FISMA)

During HUD's FY 2013 annual evaluation of the Department's information security program, as required by FISMA, the OIG identified numerous weaknesses in HUD's entity-wide Computer Security program, which resulted in a significant deficiency being declared related to the Department's noncompliance with FISMA. By definition, a significant deficiency identified under FISMA must also be reported by management as a material weakness under FFMIA. The OIG identified several recommendations for HUD to implement. The implementation of these recommendations will strengthen and improve the Department's information security program. HUD began implementing corrective actions in FY 2013.

HUD FY 2013 Agency Financial Report

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In FY 2013, HUD updated its security policies and procedures to ensure compliance with the NIST-800-53 Rev 3 guidance, strengthened the Department's cyber security awareness and training program, developed a comprehensive enterprise-wide Cyber Security continuous monitoring strategy program, implemented a configuration management baseline, and refined the capital planning and investment control process to comply with Federal guidance.

For FY 2014, HUD plans to improve its entity-wide security measures by: (1) updating current policies and procedures to ensure compliance with NIST-800-53 Rev 4 guidance, (2) ensuring that security plans and Certification and Accreditation plans are updated in accordance with NIST guidance, and (3) concentrating the Department's efforts on strengthening our security awareness and training program and activities, as well as the security assessments. The estimated completion date is December 2014.

HUD's Financial Management Systems Framework

HUD's current financial application portfolio is comprised of compartmentalized legacy systems that combine both program and traditional accounting functionality. In order to improve the stability and efficiency of financial management operations and reduce the risks posed by legacy financial systems that are no longer supported by the vendor, HUD's

financial management systems are in need of an enterprise consolidation and modernization. In accordance with OMB Memorandum M-10-26, Immediate Review of Financial Systems IT Projects, HUD initiated the feasibility of utilizing a Federal Shared Service Provider (FSSP) as part of a formal alternatives analysis. In FY 2013, HUD entered into an Interagency Agreement (IAA) with the Bureau of Fiscal Service's Administrative Resource Center to conduct a Discovery Phase.

The purpose of the Discovery Phase was to analyze HUD's high-level processes and requirements to determine if it was feasible to utilize the Administrative Resource Center's shared service offering. The alternatives analysis considered approaches for HUD to enhance its legacy environment, to utilize a federally maintained or commercially hosted shared service provider, or pursue a third-party vendor for a traditional integration of a comprehensive financial enterprise solution.

Based on the Discovery Phase results, HUD decided to enter into another IAA with the Administrative Resource Center as the Department's FSSP. HUD determined that an FSSP provides the most value to HUD by leveraging modern technologies while reducing implementation risks. HUD currently plans to implement a shared service accounting solution in FY 2015. The migration of HUD's Core Financial Services includes the administrative and accounting system services associated with budgeting, accounting, finance, and reporting to a federal shared service provider. The replacement of both of HUD's legacy financial management systems, HUDCAPS and the Program Accounting System (PAS), is called the "New Core" project. As a result, all program offices that previously utilized legacy financial systems will instead interface with FSSP core financials. Additionally, all program users who work with HUD's current procurement, time and attendance, and travel systems will also be served by FSSP functionality.

The goal of HUD's New Core project is to transform HUD's core financial management processes and systems by improving the accuracy of its financial information to support better decisions. In addition, New Core's objective is to modernize the Department's financial management systems to allow HUD to: (1) achieve HUD's Strategic Goal 5—to transform the way HUD does business by automating processes or modernizing obsolete IT systems, (2) achieve substantial compliance with FFMIA, (3) provide

financial information and analytical capabilities to complete analyses to measure the effectiveness and efficiency

of its program outputs and outcomes, and (4) implement system improvements to resolve audit findings, major management challenges, and program deficiencies.

The New Core project will directly benefit HUD's internal stakeholders by consolidating and modernizing the Department's financial management systems and processes. The production of timely and accurate financial information, as well as increased analytical and customized reporting capabilities, will benefit HUD's users throughout the department.

Completed Actions

- HUD terminated the HIFMIP project and created the New Core Project. HUD evaluated system modernization options, which met HUD's strategic goals and Federal guidelines.
- HUD followed OMB guidance and evaluated the feasibility of utilizing a FSSP. The Department performed a Discovery phase with the Bureau of Fiscal Services' Administrative Resource Center. The Center and HUD reviewed HUD's needs against the Center's standard approach and feasible business solutions were identified for all gaps discovered. During this same time frame, a structured analysis was performed, which considered factors including HUD's functional and technical requirements, costs, risks, and organizational impacts.
- HUD determined that an FSSP provides the most value by leveraging modern technologies while reducing implementation risks.
- HUD negotiated an IAA for the activities required to implement the Center's shared service model.
- HUD completed the planning phase of the Shared Service Project.
- HUD and the Center began to hold requirements sessions with HUD's Subject Matter Experts.

Planned Activities

- Complete requirements validation sessions with HUD and Administrative Resource Center subject matter expert teams and update requirements and design activity time frames.
- In Phase 1 of the project, HUD will include activities for an interface solution, as well as modernization of financial reporting included in HUD's data warehouse.

Message from the Deputy Chief Financial Officer

December 16, 2013

Introduction

In this fiscal year, the Office of the Chief Financial Officer (OCFO) focused as a key stakeholder on a major Departmental initiative headed by the Deputy Secretary, the “New Core Project.” With an aim of replacing the Department’s aging financial systems, HUD has started a transition from legacy systems that cannot provide financial information in the scale and breadth necessary for the effective management of HUD’s programs and operations. In an environment of constrained resources, the Department can no longer continue to support inefficient systems that carry a risk of failure and need time-consuming maintenance. This multi-year effort will comprise a major contribution to Goal 5 of HUD’s Strategic Plan: *Transform the Way HUD Does Business*. In addition, the project will establish a path toward resolving internal control weaknesses that have been cited in recent years by the Office of Inspector General on HUD’s financial systems.



Future Direction of HUD’s Financial Systems

In these efforts, HUD followed directives of the Office of Management and Budget (OMB) aimed at improving Federal financial systems, particularly the OMB Shared Services Strategy of May 2, 2012, and OMB Memorandum M-13-08 of March 25, 2013, *Improving Financial Systems Through Shared Services*. At the conclusion of an alternatives analysis conducted in the selection of a replacement core accounting system, HUD decided to partner on the “New Core Project” with an experienced Federal Shared Service Provider, the Administrative Resources Center (ARC) of the U.S. Department of Treasury’s Bureau of Fiscal Service. HUD’s partnership with the ARC on the development of a new core financial management system will remove a risk of failure in the current financial systems and reduce implementation risks in a highly important course of action being taken to modernize the Department’s reporting processes.

Current Year Audit

In the audit of the current fiscal year, the Department received a qualified opinion on its FY 2013 financial statements from HUD’s Office of Inspector General (OIG). In addition, an original, unqualified opinion dated November 15, 2012 by the OIG on the Department’s FY 2012 financial statements has been replaced with a qualified opinion. The OIG based the qualification of the FY 2013 and FY 2012 financial statements on determining the following HUD practices to be not in accordance with generally accepted accounting principles: (1) Improper budgetary accounting in two programs, and (2) The lack of accounting for cash management in one program.

The OIG identified four material weaknesses. The first two material weaknesses relate to the items included in the discussion above on the OIG’s basis for the qualified opinion. The remaining two material weaknesses identified by the OIG concern weaknesses in the Department’s financial management systems and in HUD’s financial statement preparation and reporting process. In addition,

Financial Information

Message From The Deputy Chief Financial Officer

the Department recognized an operational material weakness in its Strategic Management of Human Capital Operations and a material weakness in the Department's non-compliance with the Federal Information Security Management Act (FISMA). Further, the OIG report notes eleven significant deficiencies, one of which the Department has resolved, and five instances in which HUD has not complied with certain provisions of laws and regulations.

HUD takes these material weaknesses, significant deficiencies, and instances of non-compliance with laws and regulation very seriously. The Department is taking aggressive actions aimed at correcting these issues and strengthening the Department's internal controls. The following items highlight several significant actions that the Department has taken in this fiscal year:

- Began the implementation of a new core financial system with the U.S. Department of Treasury.
- Restated the Department's FY 2012 financial statements.
- Developed a draft plan to eliminate the use of the FIFO accounting method.
- Developed procedures and adjusted accounting records with an aim of correcting weaknesses in the cash management process in PIH's Housing Choice Voucher program.

For a full discussion of HUD's FY 2013 accomplishments and planned actions in remediation efforts on all of these issues, please refer to the extensive material provided in the Management Assurances and the Summary of Financial Statement Audit subsections of this report.

Key Accomplishments

The skilled and dedicated financial professionals in OCFO have again delivered significant financial management achievements during the year which include the following:

- Received, for the seventh consecutive year, the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants (AGA) for the preparation of HUD's FY 2012 Agency Financial Report (AFR).
- Awarded by AGA, also for the Department's FY 2012 AFR, a Special "Best in Class" Recognition Award for Best Presentation of a Financial Management Systems Framework.
- Managed with fewer leadership positions in OCFO in a year marked by increasing retirements, funding limitations from sequestration, and complications from preparations for a government shutdown.
- Coordinated HUD's participation in key OMB initiatives:
 - Met OMB's target on reduced administrative spending in compliance with Executive Order 13576 which established the *Campaign to Cut Waste*.
 - Acted as a principal member of the government-wide Council on Financial Assistance Reform (COFAR), seeking excellence in grants management.
 - Reduced majority of HUD payments to small businesses and contractors from 30 days to 15 days.
 - Implemented HUD's use of the Do Not Pay portal to review eligibility of recipients to receive Federal funds.

HUD FY 2013 Agency Financial Report

Section 2

- Led the Department's effort in completing the discovery process and the Inter-Agency Agreement with the ARC for the "New Core Project", while continuing to sustain legacy systems to meet reporting and funding deadlines.
- Improved the Budget process.

In a fiscal year which was made much more challenging by sequestration and government shutdown preparations, I want to again call attention to the talents of the financial and accounting personnel at HUD, the FHA, Ginnie Mae, and in the Office of Inspector General. These valuable employees continue to make vital contributions in supporting the accomplishment of HUD's key mission in these difficult economic and budgetary times. I credit all of these individuals for the above successes and thank each of them for their hard work and dedication.



David P. Sidari

Financial Statements

Introduction

The principal financial statements have been prepared to report the financial position and results of operations of HUD, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from HUD's books and records in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The following financial statements are presented:

The **Consolidated Balance Sheet**, as of September 30, 2013 and 2012, which presents those resources owned or managed by HUD that are available to provide future economic benefits (assets), amounts owed by HUD that will require payments from those resources or future resources (liabilities), and residual amounts retained by HUD comprising the difference (net position).

The **Consolidated Statement of Net Cost**, which presents the net cost of HUD operations for the years ended September 30, 2013, and 2012. HUD's net cost of operations includes the gross costs incurred by HUD less any exchange revenue earned from HUD activities.

The **Consolidated Statement of Changes in Net Position**, which presents the change in HUD's net position resulting from the net cost of HUD operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2013, and 2012.

The **Combined Statement of Budgetary Resources**, which presents the budgetary resources available to HUD during FY 2013 and 2012, the status of these resources at September 30, 2013, and 2012, and the outlay of budgetary resources for the years ended September 30, 2013, and 2012.

The **Notes to the Financial Statements** provide important disclosures and details related to information reported on the statements.

The FY 2012 financial statements in this section are restated. For further explanation see Note 30.

HUD FY 2013 Agency Financial Report

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Department of Housing and Urban Development Consolidated Balance Sheet For the Period Ending September 2013 and 2012 (Dollars in Millions)

	2013	2012 (Restated)
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 4)	\$ 135,597	\$ 108,217
Investments (Note 5)	1,824	4,899
Accounts Receivable (Note 6)	1	-
Other Assets (Note 11)	15	27
Total Intragovernmental Assets	137,437	113,143
Investments (Note 5)	56	60
Accounts Receivable, Net (Note 6)	180	213
Direct Loan and Loan Guarantees, Net (Note 7)	9,986	8,534
Other Non Credit Reform Loans (Note 8)	4,001	4,355
General Property Plant and Equipment, Net (Note 9)	351	367
PIH Prepayments (Note 10)	452	986
Other Assets (Note 11)	378	59
TOTAL ASSETS	\$ 152,840	\$ 127,717
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 12)	18	15
Debt (Note 13)	26,079	11,567
Other Intragovernmental Liabilities (Notes 16)	4,659	4,117
Total Intragovernmental Liabilities	30,756	15,699
Accounts Payable (Note 12)	803	1,303
Loan Guarantee Liability (Note 7)	39,305	51,865
Debt Held by the Public (Note 13)	20	60
Federal Employee and Veteran Benefits (Note 14)	77	76
Loss Reserves (Note 15)	700	358
Other Governmental Liabilities (Note 16)	709	736
TOTAL LIABILITIES	\$ 72,370	\$ 70,097
NET POSITION		
Unexpended Appropriations - Funds From Dedicated Collections (Note 19)	(215)	240
Unexpended Appropriations - Other Funds	62,107	53,215
Cumulative Results of Operations - Funds From Dedicated Collections (Note 19)	18,151	17,525
Cumulative Results of Operations - Other Funds	427	(13,360)
TOTAL NET POSITION	80,470	57,620
TOTAL LIABILITIES AND NET POSITION	\$ 152,840	\$ 127,717

The accompanying notes are an integral part of these statements.

Department of Housing and Urban Development
Consolidated Statement of Net Cost
For the Period Ending September 2013 and 2012
(Dollars in Millions)

	2013	2012 (Restated)
COSTS		
Federal Housing Administration		
Gross Cost (Note 20)	\$ (6,718)	\$ 23,523
Less: Earned Revenue	(2,680)	(3,226)
Net Program Costs	(9,398)	20,297
Gain/Loss from Assumption Changes	-	-
Net Program Costs including Assumption Changes	(9,398)	20,297
Government National Mortgage Association		
Gross Cost (Note 20)	602	711
Less: Earned Revenue	(1,225)	(1,259)
Net Program Costs	(623)	(548)
Gain/Loss from Assumption Changes	-	-
Net Program Costs including Assumption Changes	(623)	(548)
Section 8		
Gross Cost (Note 20)	28,653	29,128
Less: Earned Revenue	-	-
Net Program Costs	28,653	29,128
Gain/Loss from Assumption Changes	-	-
Net Program Costs including Assumption Changes	28,653	29,128
Low Rent Public Housing Loans and Grants		
Gross Cost (Note 20)	2,960	3,512
Less: Earned Revenue	-	-
Net Program Costs	2,960	3,512
Gain/Loss from Assumption Changes	-	-
Net Program Costs including Assumption Changes	2,960	3,512
Homeless Assistance Grants		
Gross Cost (Note 20)	1,811	1,965
Less: Earned Revenue	-	-
Net Program Costs	1,811	1,965
Gain/Loss from Assumption Changes	-	-
Net Program Costs including Assumption Changes	1,811	1,965
Housing for the Elderly and Disabled		
Gross Cost (Note 20)	1,168	1,177
	(192)	(228)
Net Program Costs	976	949
Gain/Loss from Assumption Changes	-	-
Net Program Costs including Assumption Changes	976	949
Community Development Block Grants		
Gross Cost (Note 20)	5,787	6,901
Less: Earned Revenue	-	-
Net Program Costs	5,787	6,901
Gain/Loss from Assumption Changes	-	-
Net Program Costs including Assumption Changes	5,787	6,901
HOME		
Gross Cost (Note 20)	1,447	1,814
Less: Earned Revenue	-	-
Net Program Costs	1,447	1,814
Gain/Loss from Assumption Changes	-	-
Net Program Costs including Assumption Changes	1,447	1,814
Other		
Gross Cost (Note 20)	6,609	6,539
Less: Earned Revenue	(34)	(24)
Net Program Costs	6,575	6,515
Gain/Loss from Assumption Changes	-	-
Net Program Costs including Assumption Changes	6,575	6,515
Costs Not Assigned to Programs	200	200
Earned Revenue Not Attributed to Programs	-	-
Consolidated		
Gross Cost (Note 20)	42,515	75,467
Less: Earned Revenue	(4,127)	(4,734)
NET COST OF OPERATIONS	\$ 38,388	\$ 70,733

The accompanying notes are an integral part of these statements.

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Department of Housing and Urban Development Consolidated Statement of Changes in Net Position For the Period Ending September 2013 and 2012 (Dollars in Millions)

	2013			2012 (Restated)		
	FUNDS FROM DEDICATED COLLECTIONS	ALL OTHER FUNDS	CONSOLIDATED TOTAL	FUNDS FROM DEDICATED COLLECTIONS	ALL OTHER FUNDS	CONSOLIDATED TOTAL
CUMULATIVE RESULTS OF OPERATIONS:						
Beginning of Period	\$ 17,525	\$ (13,360)	\$ 4,165	\$ 16,434	\$ 7,365	\$ 23,799
Adjustments:						
Corrections of Errors	-	(1)	(1)	-	7	7
Beginning Balances, As Adjusted	17,525	(13,361)	4,164	16,434	7,372	23,806
BUDGETARY FINANCING SOURCES:						
Appropriations Used	456	56,240	56,696	1,962	51,284	53,246
Non-exchange Revenue	1	-	1	1	-	1
Transfers In/Out Without Reimbursement	2	(2)	-	3	(398)	(395)
OTHER FINANCING SOURCES (NON-EXCHANGE):						
Transfers In/Out Without Reimbursement	(1)	(13)	(14)	-	(1,045)	(1,045)
Imputed Financing	1	76	77	-	80	80
Other	-	(3,958)	(3,958)	-	(795)	(795)
Total Financing Sources	459	52,343	52,802	1,966	49,126	51,092
Net Cost of Operations	167	(38,555)	(38,388)	(875)	(69,858)	(70,733)
Net Change	626	13,788	14,414	1,091	(20,732)	(19,641)
CUMULATIVE RESULTS OF OPERATIONS	\$ 18,151	\$ 427	\$ 18,578	\$ 17,525	\$ (13,360)	\$ 4,165
UNEXPENDED APPROPRIATIONS:						
Beginning of Period	\$ 240	\$ 52,229	\$ 52,469	\$ 2,213	\$ 58,831	\$ 61,044
Adjustments:						
Corrections of Errors	-	987	987	-	1,880	1,880
Beginning Balances, As Adjusted	240	53,216	53,456	2,213	60,711	62,924
BUDGETARY FINANCING SOURCES:						
Appropriations Received	1	68,574	68,575	-	45,568	45,568
Other Adjustments	-	(3,443)	(3,443)	(11)	(1,780)	(1,791)
Appropriations Used	(456)	(56,240)	(56,696)	(1,962)	(51,284)	(53,246)
Total Budgetary Financing Sources	(455)	8,891	8,436	(1,973)	(7,496)	(9,469)
UNEXPENDED APPROPRIATIONS	(215)	62,107	61,892	240	53,215	53,455
NET POSITION	\$ 17,936	\$ 62,534	\$ 80,470	\$ 17,765	\$ 39,855	\$ 57,620

The accompanying notes are an integral part of these statements.

Financial Information
Financial Statements

Department of Housing and Urban Development
Combined Statement of Budgetary Resources
For the Period Ending September 2013 and 2012
(Dollars in Millions)

	2013		2012 (Restated)	
	Budgetary	NonBudgetary Credit Program Financing Accounts	Budgetary	NonBudgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated Balance Brought Forward, October	\$ 18,266	\$ 40,484	\$ 21,612	\$ 36,428
Adjustments to Unobligated Balance, Brought Forward, October 1	1	-	(18)	(6)
Unobligated balance brought forward, October 1, adjusted	18,267	40,484	21,594	36,422
Recoveries of prior year unpaid obligations	626	404	1,116	122
Other changes in unobligated balance	(496)	-	(1,080)	-
Unobligated balance from prior year budget authority, net	18,397	40,888	21,630	36,544
Appropriations (discretionary and mandatory)	65,002	-	44,047	-
Borrowing Authority (discretionary and mandatory)	1	19,193	-	5,760
Contract Authority (discretionary and mandatory)	-	-	-	-
Spending Authority from offsetting collections	28,927	54,755	16,774	34,396
Total Budgetary Resources	\$ 112,327	\$ 114,836	\$ 82,451	\$ 76,700
Status of Budgetary Resources:				
Obligations Incurred (Note 31)				
Direct	78,124	56,667	60,221	36,216
Reimbursable	3,587	-	3,964	-
Subtotal	81,711	56,667	64,185	36,216
Unobligated Balances			-	-
Apportioned	17,600	25,109	4,338	18,374
Exempt from Apportionment	-	-	-	-
Unapportioned	13,016	33,060	13,928	22,110
Unobligated balance, end of year	30,616	58,169	18,266	40,484
Total Status of Budgetary Resources	\$ 112,327	\$ 114,836	\$ 82,451	\$ 76,700
Change in Obligated Balance				
Unpaid Obligations:				
Unpaid obligations, brought forward, Oct 1	49,357	2,473	56,781	2,319
Adjustments to unpaid obligations, start of year (+ or -) (Note 28)	(3)	-	-	-
Obligations Incurred	81,711	56,667	64,185	36,216
Outlays, (gross) (-)	(86,053)	(56,197)	(70,493)	(35,940)
Actual Transfers, unpaid obligations (net) (+ or -)	-	-	-	-
Recoveries of prior year unpaid obligations (-)	(626)	(404)	(1,116)	(122)
Unpaid obligations, end of year (gross)	44,386	2,539	49,357	2,473
Uncollected Payments:				
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	(71)	(19)	(241)	(16)
Adjustments to uncollected payments, Fed sources, start of year (Note 2)	-	-	-	-
Change in uncollected customer payments, Fed sources (+ or -)	10	(2)	170	(2)
Actual Transfers, uncollected payments, Fed sources (net) (+ or -)	-	-	-	-
Uncollected payments, Fed sources, end of year (-)	(61)	(21)	(71)	(18)
Obligated balance, start of year (+ or -)	\$ 49,285	\$ 2,454	\$ 56,541	\$ 2,302
Obligated balance, end of year (net)	\$ 44,325	\$ 2,518	\$ 49,285	\$ 2,454
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	93,929	73,948	60,822	40,156
Actual offsetting collections (discretionary and mandatory) (-)	(29,448)	(59,432)	(17,490)	(34,659)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	10	(2)	170	(2)
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	-	-	-	-
Budget Authority, net (discretionary and mandatory)	\$ 64,491	\$ 14,514	\$ 43,502	\$ 5,495
Outlays, gross (discretionary and mandatory)	86,053	56,197	70,493	35,940
Actual offsetting collections (discretionary and mandatory) (-)	(29,447)	(59,432)	(16,753)	(34,659)
Outlays, net (discretionary and mandatory)	56,605	(3,235)	53,740	1,281
Distributed offsetting receipts	(1,495)	-	(3,425)	-
Agency Outlays, net (discretionary and mandatory)	\$ 55,110	\$ (3,235)	\$ 50,315	\$ 1,281

Notes To Financial Statements

September 30, 2013 and 2012

Note 1: Entity and Mission

HUD was created in 1965 to (1) provide housing subsidies for low and moderate income families, (2) provide grants to states and communities for community development activities, (3) provide direct loans and capital advances for construction and rehabilitation of housing projects for the elderly and persons with disabilities, and (4) promote and enforce fair housing and equal housing opportunity. In addition, HUD insures mortgages for single family and multifamily dwellings; insures loans for home improvements and manufactured homes; and facilitates financing for the purchase or refinancing of millions of American homes.

HUD's major programs are as follows:

The [Federal Housing Administration](#) (FHA) administers active mortgage insurance programs which are designed to make mortgage financing more accessible to the home-buying public and thereby to develop affordable housing. FHA insures private lenders against loss on mortgages which finance single family homes, multifamily projects, health care facilities, property improvements, and manufactured homes.

The [Government National Mortgage Association](#) (Ginnie Mae) guarantees the timely payment of principal and interest on Mortgage-Backed Securities (MBS) issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Department of Agriculture (USDA), the Department of Veterans Affairs (VA), and the HUD Office of Public and Indian Housing (PIH).

The [Section 8 Rental Assistance](#) programs assist low- and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low- and very low-income family can afford and the approved rent for an adequate housing unit funded by the Housing Choice Voucher (HCV) Program.

The [Low Rent Public Housing Grants](#) program provides grants to Public Housing Agencies (PHAs) and Tribally Designated Housing Entities (TDHEs) for construction and rehabilitation of low-rent housing. This program is a continuation of the Low Rent Public Housing Loan program which pays principal and interest on long-term loans made to PHAs and TDHEs for construction and rehabilitation of low-rent housing.

The [Homeless Assistance Grants](#) program provides grants to localities to implement innovative approaches to address the diverse facets of homelessness.

The **Section 202/811** [Supportive Housing for the Elderly](#) and [Persons with Disabilities](#) programs provided 40-year loans to nonprofit organizations sponsoring rental housing for the elderly or disabled. During FY 1992, the program was converted to a grant program. The grant program provides capital for long-term supportive housing for the elderly (Section 202) and the disabled (Section 811).

The [Community Development Block Grant](#) (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services. The United States Congress appropriated \$17.5 billion in FY 2008 and \$150 million in emergency supplemental appropriations in FY 2005 for the "Community

Development Fund” for emergency expenses to respond to various disasters such as Hurricane Katrina and IKE . Funds of \$1.5 billion were disbursed in FY 2013 and \$868 million in FY 2012. Any remaining un-obligated balances remain available until expended.

The [Home Investments Partnerships](#) program provides grants to states, local governments, and Indian tribes to implement local housing strategies designed to increase home ownership and affordable housing opportunities for low- and very low-income families.

Other Programs not included above consist of other smaller programs which provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, rehabilitation of housing units, removal of lead hazards, and for maintenance costs of PHAs and TDHEs housing projects. The programs provided 9 percent of HUD’s consolidated revenues and financing sources for FY 2013 and 12 percent of HUD’s consolidated revenues and financing sources for FY 2012.

Note 2: Summary of Significant Accounting Policies

A. Basis of Consolidation

The accompanying principal financial statements include all Treasury Account Fund Symbols (TAFSS) designated to the Department of Housing and Urban Development, which consist of principal program funds, revolving funds, general funds and deposit funds. All inter-fund accounts receivable, accounts payable, transfers in and transfers out within these TAFSS have been eliminated to prepare the consolidated balance sheet, statement of net cost, and statement of changes in net position. The SBR is prepared on a combined basis as required by [OMB Circular A-136, Financial Reporting Requirements](#).

The Department’s FY 2013 financial statements do not include the accounts and transactions of one transfer appropriation, the Appalachian Regional Commission. Some laws require departments (parent) to allocate budget authority to another department (child). Allocation means a delegation, authorized by law, by one department of its authority to obligate and outlay funds to another department. HUD, the child account, receives budget authority and then obligates and outlays sums of up to the amount included in the allocation. As required by OMB Circular A-136, financial activity is in the parent account which is also accountable for and maintains the responsibility for reporting while the child performs on behalf of the parent and controls how the funds are expended. Consequently, these balances are not included in HUD’s consolidated financial statements as specified by OMB Circular A-136.

B. Basis of Accounting

The Department’s FY 2013 financial statements include the accounts and transactions of FHA, Ginnie Mae, and its grant, subsidy and loan programs.

The financial statements are presented in accordance with the OMB Circular No. A-136, Financial Reporting Requirements, and in conformance with the Federal Accounting Standards Advisory Board’s (FASAB) Statements of Federal Financial Accounting Standards (SFFAS).

The financial statements are presented on the accrual and budgetary bases of accounting. Under the accrual method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. Generally, procedures for HUD’s major grant and subsidy programs require recipients to request periodic disbursement concurrent with incurring eligible costs. Budgetary accounting facilitates compliance with legal requirements on the use of Federal funds.

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The Department's disbursement policy permits grantees/recipients to request funds to meet immediate cash needs to reimburse themselves for eligible incurred expenses and eligible expenses expected to be received and paid within three days or as subsidies payable in accordance with the Cash Management Improvement Act of 1990. Except for PIH programs, HUD's disbursement of funds for these purposes are not considered advance payments but are viewed as sound cash management between the Department and the grantees. In the event it is determined that the grantee/recipient did not disburse the funds within the three-day time frame, interest earned must be returned to HUD and deposited into one of Treasury's miscellaneous receipt accounts.

C. Use of Estimates

The preparation of the principal financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Amounts reported for net loans receivable and related foreclosed property and the loan guarantee liability represent the Department's best estimates based on pertinent information available.

To estimate the Allowance for Subsidy (AFS) associated with loans receivable and related foreclosed property and the Liability for Loan Guarantees (LLG), the Department uses cash flow model assumptions associated with the loan guarantees subject to the Federal Credit Reform Act of 1990 (FCRA), as described in Note 7, to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, the Department develops assumptions based on historical data, current and forecasted program and economic assumptions.

Certain programs have higher risks due to increased chances of fraudulent activities perpetrated against the Department. The Department accounts for these risks through the assumptions used in the liabilities for loan guarantee estimates. HUD develops the assumptions based on historical performance and management's judgments about future loan performance.

The Department relies on estimates by PIH to determine the amount of funding needs for PHAs/IHAs under the PIH Housing Choice Voucher Program. Under the Department's cash management program, PIH evaluates the program needs of PHAs/IHAs to minimize excess cash balances maintained by these entities. The Department implemented a cash management policy in calendar year 2012 over the voucher program given its significant funding levels and the excess cash balances which PHAs/IHAs had accumulated over the years. The cash reserves, referred to as net restricted assets (NRA) are monitored by the Department and estimated by HUD on a recurring basis. The NRA balances are the basis for PIH prepayments recorded by the Department in its comparative financial statements for FY 2012 and FY 2013. HUD's FY 2012 financial statements were restated based on a cash flow model which anticipates funding levels and actual costs of implementing the program. The Department relies on expenditure data reported by PHAs/IHAs which are reported through the Voucher Management System.

D. Credit Reform Accounting

The primary purpose of the Federal Credit Reform Act of 1990 (FCRA), which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. [*OMB Circular A-11*](#),

Preparation, Execution, and Submission of the Budget, Part 5, Federal Credit Programs defines loan guarantee as any guarantee, insurance or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower (Issuer) to a non-Federal lender (Investor). FHA practices Credit Reform accounting.

The FCRA establishes the use of the program, financing, and general fund receipt accounts for loan guarantees committed and direct loans obligated after September 30, 1991 (Credit Reform). It also establishes the liquidating account for activity relating to any loan guarantees committed and direct loans obligated before October 1, 1991 (pre-Credit Reform). These accounts are classified as either budgetary or non-budgetary in the Combined Statements of Budgetary Resources. The budgetary accounts include the program, capital reserve and liquidating accounts. The non-budgetary accounts consist of the credit reform financing accounts.

The program account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a non-budgetary account that records all of the cash flows resulting from Credit Reform direct loans or loan guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from U.S. Treasury, earns or pays interest, and receives the subsidy cost payment from the program account.

The general fund receipt account is a budget account used for the receipt of amounts paid from the financing account when there are negative subsidies from the original estimate or a downward re-estimate. In most cases, the receipt account is a general fund receipt account and amounts are not earmarked for the credit program. They are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in this account are non-entity assets and are offset by intragovernmental liabilities. At the beginning of the following fiscal year, the fund balance in the general fund receipt account is transferred to the U.S. Treasury General Fund. The FHA general fund receipt accounts of the General Insurance (GI) and Special Risk Insurance (SRI) funds are in this category.

In order to resolve the different requirements between the FCRA and the National Affordable Housing Act of 1990 (NAHA), OMB instructed FHA to create the capital reserve account to retain the Mutual Mortgage Insurance/Cooperative Management Housing Insurance (MMI/CMHI) negative subsidy and subsequent downward re-estimates. Specifically, the NAHA required that FHA's MMI fund achieve a Capital Ratio of 2.0 percent by FY 2000. The Capital Ratio is defined as the ratio of economic net worth (current cash plus the present value of all future net cash flows) of the MMI fund to unamortized insurance in force (the unpaid balance of insured mortgages). Therefore, to ensure that the calculated capital ratio reflects the actual strength of the MMI fund, the resources of the capital reserve account, which are considered FHA assets, are included in the calculation of the MMI fund's economic net worth.

The liquidating account is a budget account that records all cash flows to and from FHA resulting from pre-Credit Reform direct loans or loan guarantees. Liquidating account collections in any year are available only for obligations incurred during that year or to repay debt. Unobligated balances remaining in the GI and SRI liquidating funds at year-end are transferred to the U.S. Treasury's General Fund. Consequently, in the event that resources in the GI/SRI liquidating account are otherwise insufficient to

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cover the payments for obligations or commitments, the FCRA provides the GI/SRI liquidating account with permanent indefinite authority to cover any resource shortages.

E. Operating Revenue and Financing Sources

HUD finances operations principally through appropriations, collection of premiums and fees on its FHA and Ginnie Mae programs, and interest income on its mortgage notes, loans, and investments portfolio.

Appropriations for Grant and Subsidy Programs

HUD receives both annual and multi-year appropriations and recognizes those appropriations as revenue when related program expenses are incurred. Accordingly, HUD recognizes grant-related revenue and related expenses as recipients perform under the contracts. HUD recognizes subsidy-related revenue and related expenses when the underlying assistance (e.g., provision of a Section 8 rental unit by a housing owner) is provided or upon disbursement of funds to PHAs.

Ginnie Mae Fees

Fees received for Ginnie Mae's guaranty of MBS are recognized as earned. Commitment fees represent income that Ginnie Mae earns for providing approved issuers with authority to pool mortgages into Ginnie Mae MBS. The authority Ginnie Mae provides issuers expires 12 months from issuance for single family issuers and 24 months from issuance for multifamily issuers. Ginnie Mae receives commitment fees as issuers request commitment authority and recognizes the commitment fees as earned as issuers use their commitment authority, with the balance deferred until earned or expired, whichever occurs first. Fees from expired commitment authority are not returned to issuers.

F. Appropriations and Moneys Received from Other HUD Programs

The National Housing Act of 1990, as amended, provides for appropriations from Congress to finance the operations of GI and SRI funds. For Credit Reform loan guarantees, appropriations to the GI and SRI funds are provided at the beginning of each fiscal year to cover estimated losses on insured loans during the year. For pre-Credit Reform loan guarantees, FHA has permanent indefinite appropriation authority to finance any shortages of resources needed for operations.

Monies received from other HUD programs, such as interest subsidies and rent supplements, are recorded as revenue for the liquidating accounts when services are rendered. Monies received for the financing accounts are recorded as additions to the Liability for Loan Guarantee or the Allowance for Subsidy when collected.

G. Investments

HUD limits its investments, principally comprised of investments by FHA's MMI/CMHI Fund and by Ginnie Mae, to non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets). The market value and interest rates established for such investments are the same as those for similar Treasury issues, which are publicly marketed.

HUD's investment decisions are limited to Treasury policy which: (1) only allows investment in Treasury notes, bills, and bonds; and (2) prohibits HUD from engaging in practices that result in "windfall" gains and profits, such as security trading and full scale restructuring of portfolios in order to take advantage of interest rate fluctuations.

FHA's normal policy is to hold investments in U.S. Government securities to maturity. However, in certain circumstances, FHA may have to liquidate its U.S. Government securities before maturity to finance claim payments.

HUD reports investments in U.S. Government securities at amortized cost. Premiums or discounts are amortized into interest income over the term of the investment. HUD intends to hold investments to maturity, unless needed for operations. No provision is made to record unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

In connection with an Accelerated Claims Disposition Demonstration program (the 601 program), FHA transfers assigned mortgage notes to private sector entities in exchange for cash and equity interest. FHA uses the equity method of accounting to measure the value of its investments in these entities.

Multifamily Risk Sharing Debentures [Section 542(c)] is a program available to lenders where the lender shares the risk in a property by issuing debentures for the claim amount paid by FHA on defaulted insured loans.

H. Credit Program Receivables and Related Foreclosed Property

HUD finances mortgages and provides loans to support construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program. Prior to April 1996, mortgages were also assigned to HUD through FHA claims settlement (i.e., Mortgage Notes Assigned (MNAs)). Single family mortgages were assigned to FHA when the mortgagor defaulted due to certain "temporary hardship" conditions beyond the control of the mortgagor, and when, in management's judgment, it is likely that the mortgage could be brought current in the future. FHA's loans receivable include MNAs, also described as Secretary-held notes, Purchase Money Mortgages (PMM) and notes related to partial claims. Under the requirements of the FCRA, PMM notes are considered to be direct loans while MNA notes are considered to be defaulted guaranteed loans. The PMM loans are generated from the sales on credit of FHA's foreclosed properties to qualified non-profit organizations. The MNA notes are created when FHA pays the lenders for claims on defaulted guaranteed loans and takes assignment of the defaulted loans for direct collections. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Credit program receivables for direct loan programs and defaulted guaranteed loans assigned for direct collection are valued differently based on the direct loan obligation or loan guarantee commitment date. These valuations are in accordance with the FCRA and SFFAS No. 2, "Accounting for Direct Loans and Loan Guarantees," as amended by SFFAS No. 18. Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows from the related receivables.

Credit program receivables resulting from obligations or commitments prior to October 1, 1991 (pre-Credit Reform) are recorded at the lower of cost or fair value (net realizable value). Fair value is estimated based on the prevailing market interest rates at the date of mortgage assignment. When fair value is less than cost, discounts are recorded and amortized to interest income over the remaining terms of the mortgages or upon sale of the mortgages. Interest is recognized as income when earned. However, when full collection of principal is considered doubtful, the accrual of interest income is suspended and receipts (both interest and principal) are recorded as collections of principal. Pre-Credit Reform loans are reported net of allowance for loss and any unamortized discount. The estimate for the allowance on credit

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program receivables is based on historical loss rates and recovery rates resulting from asset sales and property recovery rates, and net of cost of sales.

Foreclosed property acquired as a result of defaults of loans obligated or loan guarantees committed on or after October 1, 1991, is valued at the net present value of the projected cash flows associated with the property. Foreclosed property acquired as a result in defaulted loans obligated or loan guarantees committed prior to 1992 is valued at net realizable value. The estimate for the allowance for loss related to the net realizable value of foreclosed property is based on historical loss rates and recovery rates resulting from property sales, and net of cost of sales.

I. Borrowings

As further discussed in Note 11, several of HUD's programs have the authority to borrow funds from the U.S. Treasury for program operations. These borrowings, representing unpaid principal balances and future accrued interest is reported as debt in HUD's consolidated financial statements. The PIH Low Rent Public Housing Loan Program and the Housing for the Elderly or Handicapped fund were financed through borrowings from the Federal Financing Bank or the U.S. Treasury prior to the Department's conversion of these programs to grant programs. The Department also borrowed funds from the private sector to assist in the construction and rehabilitation of low rent housing projects under the PIH Low Rent Public Housing Loan Program. Repayments of these long-term borrowings have terms up to 40 years.

In accordance with Credit Reform accounting, FHA also borrows from the U.S. Treasury when cash is needed in its financing accounts. Usually, the need for cash arises when FHA has to transfer the negative credit subsidy amount related to new loan disbursements, and existing loan modifications from the financing accounts to the general fund receipts account (for cases in GI/SRI funds) or the liquidating account (for cases in MMI/CMHI funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward re-estimates from the GI/SRI financing account to the GI/SRI receipt account or when available cash is less than claim payments due.

J. Liability for Loan Guarantees

The net potential future losses related to FHA's central business of providing mortgage insurance are accounted for as Loan Guarantee Liability in the consolidated balance sheets. As required by SFFAS No. 2, the Loan Guarantee Liability includes the Credit Reform related Liabilities for Loan Guarantees (LLG) and the pre-Credit Reform Loan Loss Reserve (LLR).

The LLG is calculated as the net present value of anticipated cash outflows for defaults, such as claim payments, premium refunds, property costs to maintain foreclosed properties less anticipated cash inflows such as premium receipts, proceeds from asset sales and principal and interest on Secretary-held notes.

HUD records loss estimates for its single family LLR and multifamily LLR mortgage insurance programs operated through FHA. FHA records loss estimates for its single family programs to provide for anticipated losses incurred (e.g., claims on insured mortgages where defaults have taken place but claims have not yet been filed). Using the net cash flows (cash inflows less cash outflows), FHA computes an estimate based on conditional claim rates and loss experience data, and adjusts the estimates to incorporate management assumptions about current economic factors. FHA records loss estimates for its multifamily programs to provide for anticipated outflows less anticipated inflows. Using the net present value of claims less premiums, fees, and recoveries, FHA computes an estimate based on conditional claim rates, prepayment rates, and recovery assumptions based on historical experience.

Ginnie Mae also establishes loss reserves to the extent management believe issue defaults are probable and FHA, USDA, and PIH insurance or guarantees are insufficient to recoup Ginnie Mae expenditures.

K. Full Cost Reporting

Beginning in FY 1998, SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, required that full costing of program outputs be included in Federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated department financial statements, HUD identified each responsible segment's share of the program costs or resources provided by HUD or other Federal agencies.

L. Accrued Unfunded Leave and Federal Employees Compensation Act (FECA) Liabilities

Annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of leave are expensed as taken.

M. Retirement Plans

The majority of HUD's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). FERS went into effect pursuant to Public Law 99-335 on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. HUD expenses its contributions to the retirement plans.

A primary feature of FERS is that it offers a savings plan whereby HUD automatically contributes one percent of pay and matches any employee contribution up to five percent of an individual's basic pay. Under CSRS, employees can contribute up to \$16,500 of their pay to the savings plan, but there is no corresponding matching by HUD. Although HUD funds a portion of the benefits under FERS relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities applicable to its employees' retirement plans.

N. Separate Disclosure of the Homeless Assistance Grants Program

The Department restated its financial statements to include Community Planning and Development's Homeless Assistance Grants program as a separate responsibility center due to increased funding levels by the Department. The grants provide funds for the Emergency Solutions Grant and Continuum of Care programs. These programs, which award funds through formula and competitive processes, enable localities to shape and implement comprehensive, flexible, coordinated approaches to address the multiple issues of homelessness. Prior to FY 2012, the PIH Operating Subsidy program was shown as a separate entity but has been incorporated in the All Other program category reported by the Department. As of September 30, 2013, the total Fund Balance with Treasury in the Homeless Assistance Grants program was \$5 billion representing 43 percent of the \$11 billion reported in HUD's All Other programs prior to the restatement by HUD.

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Note 3: Entity and Non-Entity Assets

Non-entity assets consist of assets that belong to other entities but are included in the Department's consolidated financial statements and are offset by various liabilities to accurately reflect HUD's net position. The Department's non-entity assets principally consist of: (1) U.S. deposit of negative credit subsidy in the GI/SRI general fund receipt account, (2) escrow monies collected by FHA that are either deposited at the U.S. Treasury, Minority-Owned banks or invested in U.S. Treasury securities, and (3) cash remittances from Section 8 bond refunding deposited in the General Fund of the Treasury.

HUD's assets as of September 30, 2013 and 2012 were as follows (dollars in millions):

Description	2013			2012		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury (Note 4)	\$ 133,311	\$ 2,286	\$ 135,597	\$ 104,693	\$ 3,524	\$ 108,217
Investments (Note 5)	1,821	3	1,824	4,896	3	4,899
Other Assets (Note 11)	15	-	15	27	-	27
Total Intragovernmental Assets	\$ 135,147	\$ 2,289	\$ 137,436	\$ 109,616	\$ 3,527	\$ 113,143
Investments (Note 5)	56	-	56	60	-	60
Accounts Receivable, Net (Note 6)	159	21	180	193	20	213
Loan Receivables and Related Foreclosed Property, Net (Note 7)	9,986	-	9,986	8,534	-	8,534
Other Non-Credit Reform Loans Receivable, Net (Note 8)	4,001	-	4,001	4,355	-	4,355
General Property, Plant and Equipment, Net (Note 9)	351	-	351	367	-	367
PIH Prepayments (Note 10)	452	-	452	986	-	986
Other Assets (Note 11)	331	47	378	59	-	59
Total Assets	\$ 150,483	\$ 2,357	\$ 152,840	\$ 124,170	\$ 3,547	\$ 127,717

Note 4: Fund Balance with the U.S. Treasury

The U.S. Treasury, which, in effect, maintains HUD's bank accounts, processes substantially all of HUD's receipts and disbursements. HUD's fund balances with the U.S. Treasury as of September 30, 2013 and 2012 were as follows (dollars in millions):

Description	2013	2012
Revolving Funds	\$ 64,404	\$ 45,021
Appropriated Funds	61,890	53,067
Trust Funds	7,066	6,101
Other	2,237	4,028
Total - Fund Balance	\$ 135,597	\$ 108,217

The Department's Fund Balance with Treasury includes receipt accounts established under current Federal Credit Reform legislation and cash collections deposited in restricted accounts that cannot be used by HUD for its programmatic needs. These designated funds established by the Department of Treasury are classified as suspense and/or deposit funds and consist of accounts receivable balances due from the public. A Statement of Budgetary Resources is not prepared for these funds since any cash remittances received by the Department are not defined as a budgetary resource.

In addition to fund balance, contract and investment authority are also a part of HUD's funding sources. Contract authority permits an agency to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. HUD has permanent indefinite contract authority. Since Federal securities are considered the equivalent of cash for budget purposes, investments in them are treated as a change in the mix of assets held, rather than as a purchase of assets.

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HUD's fund balances with the U.S. Treasury as reflected in the entity's general ledger as of September 30, 2013 and 2012 were as follows (dollars in millions):

Status of Resources - 2013

<u>Description</u>	<u>Unobligated Available</u>	<u>Unobligated Unavailable</u>	<u>Obligated Not Yet Disbursed</u>	<u>Unfilled Customer Orders</u>	<u>Status of Total Resources</u>	<u>Fund Balance</u>	<u>Other Authority</u>	<u>Total Resources</u>
FHA	\$ 25,075	\$ 33,617	\$ 3,170	\$ (3)	\$ 61,859	\$ 61,856	\$ 3	\$ 61,859
Ginnie Mae	2	9,159	480	(19)	9,622	9,622	-	9,622
Section 8 Rental Assistance	561	40	8,363	-	8,964	8,964	-	8,964
PIH Loans and Grants	115	29	5,257	-	5,401	5,401	-	5,401
Homeless Assistance Grants	1,871	400	2,691	-	4,962	4,962	-	4,962
Section 202/811	391	158	2,863	-	3,412	3,412	-	3,412
CDBG	13,875	15	14,419	-	28,309	28,309	-	28,309
Home	190	16	3,819	-	4,025	4,025	-	4,025
Section 235/236	27	14	1,566	-	1,607	1,140	467	1,607
All Other	604	845	4,290	(61)	5,678	5,666	12	5,678
Total	\$ 42,711	\$ 44,293	\$ 46,918	\$ (83)	\$ 133,839	\$ 133,357	\$ 482	\$ 133,839

Status of Resources Covered by Fund Balance

<u>Description</u>	<u>Unobligated Available</u>	<u>Unobligated Unavailable</u>	<u>Obligated Not Yet Disbursed</u>	<u>Unfilled Customer Orders</u>	<u>Fund Balance</u>	<u>Non-Budgetary: Suspense, Deposit and Receipt Accounts</u>	<u>Total Fund Balance</u>
FHA	\$ 25,075	\$ 33,614	\$ 3,170	\$ (3)	61,856	\$ 1,625	\$ 63,481
Ginnie Mae	2	9,159	480	(19)	9,622	-	9,622
Section 8 Rental Assistance	561	40	8,363	-	8,964	11	8,975
PIH Loans and Grants	115	29	5,257	-	5,401	-	5,401
Homeless Assistance Grants	1,871	400	2,691	-	4,962	-	4,962
Section 202/811	391	158	2,863	-	3,412	-	3,412
CDBG	13,875	15	14,419	-	28,309	-	28,309
Home	190	16	3,819	-	4,025	-	4,025
Section 235/236	3	6	1,131	-	1,140	-	1,140
All Other	604	833	4,290	(61)	5,666	604	6,270
Total	\$ 42,687	\$ 44,270	\$ 46,483	\$ (83)	\$ 133,357	\$ 2,240	\$ 135,597

Status of Resources Covered by Other Authority

<u>Description</u>	<u>Unobligated Available</u>	<u>Unobligated Unavailable</u>	<u>Obligated Not Yet Disbursed</u>	<u>Unfilled Customer Orders</u>	<u>Permanent Indefinite Authority</u>	<u>Investment Authority</u>	<u>Borrowing Authority</u>
FHA	\$ -	\$ 3	\$ -	\$ -	\$ -	\$ 3	\$ -
Ginnie Mae	-	-	-	-	-	-	-
Section 8 Rental Assistance	-	-	-	-	-	-	-
PIH Loans and Grants	-	-	-	-	-	-	-
Section 202/811	-	-	-	-	-	-	-
Section 235/236	24	8	435	-	467	-	-
All Other	-	12	-	-	-	-	12
Total	\$ 24	\$ 23	\$ 435	\$ -	\$ 467	\$ 3	\$ 12

Status of Receipt Account Balances

<u>Description</u>	<u>Fund Balance</u>
FHA	\$ 1,625
Section 8 Rental Assistance	11
All Other	604
Total	\$ 2,240

Breakdown of All Other

<u>Description</u>	<u>Fund Balance</u>
Other Repayments of Capital Investments and Recoveries and Manufactured Housing Fees Trust Fund	\$ 545
Negative Subsidies and Downward Restimates of Subsidies	59
Total	\$ 604

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Status of Resources - 2012

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	\$ 18,405	\$ 25,944	\$ 3,202	\$ (2)	\$ 47,549	\$ 44,775	\$ 2,774	\$ 47,549
Ginnie Mae	5	8,860	334	(18)	9,181	7,075	2,106	9,181
Section 8 Rental Assistance	290	70	9,751	-	10,111	10,111	-	10,111
PIH Loans and Grants	99	48	5,792	-	5,939	5,939	-	5,939
Homeless Assistance Grants	2,015	379	2,474	-	4,868	4,868	-	4,868
Section 202/811	367	100	3,476	-	3,943	3,943	-	3,943
CDBG	733	13	15,037	-	15,783	15,783	-	15,783
Home	149	13	4,340	-	4,502	4,502	-	4,502
Section 235/236	49	14	1,952	-	2,015	1,142	873	2,015
All Other	600	755	5,313	(71)	6,597	6,585	12	6,597
Total	\$ 22,712	\$ 36,196	\$ 51,671	\$ (91)	\$ 110,488	\$ 104,723	\$ 5,765	\$ 110,488

Status of Resources Covered by Fund Balance

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Fund Balance	Non-Budgetary: Suspense, Deposit and Receipt Accounts	Total Fund Balance
FHA	\$ 18,405	\$ 23,170	\$ 3,202	\$ (2)	44,775	\$ 2,866	\$ 47,641
Ginnie Mae	5	6,754	334	(18)	7,075	-	7,075
Section 8 Rental Assistance	290	70	9,751	-	10,111	9	10,120
PIH Loans and Grants	99	48	5,792	-	5,939	-	5,939
Homeless Assistance Grants	2,015	379	2,474	-	4,868	-	4,868
Section 202/811	367	100	3,476	-	3,943	-	3,943
CDBG	733	13	15,037	-	15,783	-	15,783
Home	149	13	4,340	-	4,502	-	4,502
Section 235/236	4	6	1,132	-	1,142	-	1,142
All Other	600	743	5,313	(71)	6,585	619	7,204
Total	\$ 22,667	\$ 31,296	\$ 50,851	\$ (91)	\$ 104,723	\$ 3,494	\$ 108,217

Status of Resources Covered by Other Authority

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Permanent Indefinite Authority	Investment Authority	Borrowing Authority
FHA	\$ -	\$ 2,774	\$ -	\$ -	\$ -	\$ 2,774	\$ -
Ginnie Mae	-	2,106	-	-	-	2,106	-
Section 8 Rental Assistance	-	-	-	-	-	-	-
PIH Loans and Grants	-	-	-	-	-	-	-
Section 202/811	-	-	-	-	-	-	-
Section 235/236	45	8	820	-	873	-	-
All Other	-	12	-	-	-	-	12
Total	\$ 45	\$ 4,900	\$ 820	\$ -	\$ 873	\$ 4,880	\$ 12

Status of Receipt Account Balances

Description	Fund Balance
FHA	\$ 2,866
Section 8 Rental Assistance	9
All Other	619
Total	\$ 3,494

Breakdown of All Other

Description	Fund Balance
Other Repayments of Capital Investments and Recoveries and Manufactured Housing Fees Trust Fund	\$ 543
Negative Subsidies and Downward Restimates of Subsidies	76
Total	\$ 619

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An immaterial difference exists between HUD's recorded Fund Balances with the U.S. Treasury and the U.S. Department of Treasury's records. It is the Department's practice to adjust its records to agree with Treasury's balances at the end of the fiscal year. The adjustments are reversed at the beginning of the following fiscal year.

Note 5: Investments

The U.S. Government securities are non-marketable intra-governmental securities. Interest rates are established by the U.S. Treasury and during FY 2013 ranged from 1.88 percent to 2.00 percent. During FY 2012, interest rates ranged from 0.44 percent to 2.00 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2013 and 2012 were as follows (dollars in millions):

	<u>Cost</u>	<u>Amortized (Premium)/ Discount, Net</u>	<u>Accrued Interest</u>	<u>Net Investments</u>	<u>Market Value</u>
FY 2013	\$ 1,815	\$ (1)	\$ 10	\$ 1,824	\$ 1,868
FY 2012	\$ 4,892	\$ (3)	\$ 10	\$ 4,899	\$ 4,960

Investments in Private-Sector Entities

These investments in private-sector entities are the result of FHA's participation in the Accelerated Claims Disposition Demonstration program and Risk Sharing Debentures as discussed in Note 2G. The following table presents financial data on FHA's investments in Section 601 and Risk Sharing Debentures as of September 30, 2013 and 2012 (dollars in millions):

	<u>Beginning Balance</u>	<u>New Acquisitions</u>	<u>Share of Earnings or Losses</u>	<u>Return of Investment</u>	<u>Redeemed</u>	<u>Ending Balance</u>
2013						
601 Program	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Risk Sharing Debentures	57	1	-	-	(2)	56
Total	\$ 57	\$ 1	\$ -	\$ -	\$ (2)	\$ 56
2012						
601 Program	\$ 6	\$ 21	\$ 7	\$ (31)	\$ -	\$ 3
Risk Sharing Debentures	57	-	-	-	-	57
Total	\$ 63	\$ 21	\$ 7	\$ (31)	\$ -	\$ 60

Note 6: Accounts Receivable (Net)

The Department's accounts receivable represents Section 8 year-end settlements, claims to cash from the public, state and local authorities for bond refunding, Section 236 excess rental income, sustained audit findings, refunds of overpayment, FHA insurance premiums, and foreclosed property proceeds.

A 100 percent allowance for loss is established for all delinquent accounts 90 days and over for bond refunding. The allowance for loss methodology is the total delinquencies greater than 90 days plus/or minus economic stress factors. The economic stress factors include payoff, foreclosure, bankruptcy and hardship of the project. Adjustments to the bond refunding allowance for loss account are done every quarter to ensure they are deemed to be necessary.

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For Section 236 excess rental income, the allowance for loss consists of 10 percent of the receivables with a repayment plan plus 95 percent of the receivables without a repayment plan. Adjustments to the excess rental income allowance for loss account are done biannually to ensure they are deemed necessary.

Section 8 Settlements

Prior to January 1, 2005, the Housing Choice Voucher (HCV) Program's Section 8 subsidies were disbursed based on estimated amounts due under the contracts. At the end of each year, the actual amount due under the contracts was determined. The excess of subsidies paid to PHAs during the year over the actual amount due was reflected as an accounts receivable in the balance sheet. These receivable amounts were "collected" by offsetting such amounts with subsidies due to the PHAs in subsequent periods. On January 1, 2005, Congress changed the basis of the program funding from a "unit-based" process with program variables that affected the total annual Federal funding need, to a "budget-based" process that limits the Federal funding to PHAs to a fixed amount. Under this "budget-based" process, a year-end settlement process to determine actual amounts due is no longer applicable. Effective January 1, 2012, PIH reinstated the year-end settlement process for the HCV Program in accordance with its cash management policies. However, as reported by the OIG's Internal Control Report, the results of PIH's cash reconciliation reviews are not reflected in the Department's financial statements. The PIH reviews have not been completed on a timely basis and the required standard general ledger transactions have not been recorded in the Department's accounting systems.

Bond Refunding

Many of the Section 8 projects constructed in the late 1970s and early 1980s were financed with tax exempt bonds with maturities ranging from 20 to 40 years. The related Section 8 contracts provided that the subsidies would be based on the difference between what tenants could pay pursuant to a formula, and the total operating costs of the Section 8 project, including debt service. The high interest rates during the construction period resulted in high subsidies. When interest rates came down in the 1980s, HUD was interested in getting the bonds refunded. One method used to account for the savings when bonds are refunded (PHAs sell a new series of bonds at a lower interest rate, to liquidate the original bonds), is to continue to pay the original amount of the bond debt service to a trustee. The amounts paid in excess of the lower "refunded" debt service and any related financing costs, are considered savings. One-half of these savings are provided to the PHA, the remaining one-half is returned to HUD. As of September 30, 2013 and 2012, HUD was due \$17 million and \$16 million, respectively.

Section 236 Excess Rental Income

The Excess Rental Income receivable account represents the difference between the amounts that projects reported to HUD's Lockbox as owing (in use prior to August 2008) and the actual amount collected. On a monthly basis, projects financed under Section 236 of the National Housing Act must report the amount of rent collected in excess of basic rents and remit those funds to the Department. Unless written authorization is given by the Department to retain the excess rental income, the difference must be remitted to HUD. Generally, the individual amounts owing under Excess Rental Income receivables represents monthly reports remitted without payment. After 2008, any remittances owed by individuals are collected through PAY.GOV as well as the required HUD documents.

Other Receivables

Sustained audit costs include sustained audit findings, refunds of overpayment, FHA insurance premiums and foreclosed property proceeds due from the public. The Department recognizes that the amount of sustained audit costs anticipated from OIG disallowed costs are not reflected in the Department's financial statements. HUD expects to report these balances in FY 2014 based on expected recovery rates from OIG's pool of questioned costs reported by the Department's program recipients. The Department's believes that the amount is within a range of \$57 million to \$151 million but further confirmation of the underlying data and finalization of HUD's methodology is required.

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2013 and 2012 (dollars in millions):

<u>Description</u>	2013			2012		
	Gross Accounts Receivable	Allowance for Loss	Total, Net	Gross Accounts Receivable	Allowance for Loss	Total, Net
Public						
Section 8 Settlements	\$ 10	\$ -	\$ 10	\$ 8	\$ -	\$ 8
Bond Refundings	17	-	17	23	(7)	16
Section 236 Excess Rental Income	6	(2)	4	7	(3)	4
Other Receivables:						
FHA	109	(96)	13	103	(79)	24
Ginnie Mae	121	-	121	736	(581)	155
Other Receivables	17	(2)	15	15	(9)	6
Total Accounts Receivable	\$ 280	\$ (100)	\$ 180	\$ 892	\$ (679)	\$ 213

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers

HUD reports direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans or defaulted guaranteed loans, net of allowance for estimated uncollectible loans or estimated losses.

The FHA insures Home Equity Conversion Mortgages (HECM), also known as reverse mortgages. These loans are used by senior homeowners age 62 and older to convert the equity in their home into monthly streams of income and/or a line of credit to be repaid when they no longer occupy the home. Unlike ordinary home equity loans, a HUD reverse mortgage does not require repayment as long as the home is the borrower's principal residence.

The FHA also administers the HOPE for Homeowners (H4H) program. The program was established by Congress to help those at risk of default and foreclosure refinance into more affordable, sustainable loans.

The allowance for loan losses for the Flexible Subsidy Fund and the Housing for the Elderly and Disabled Program is determined as follows:

Flexible Subsidy Fund

There are four parts to the calculation of allowance for loss: (1) loss rate for loans written-off, (2) loss rate for restructured loans, (3) loss rate for loans paid-off, and (4) loss rate for loans delinquent or without repayment activity for 30 years. Loss rates for parts 1 and 3 are based on actual historical data derived from the previous three years. The loss rates for parts 2 and 4 are provided by or agreed to by the Housing Office of Evaluation.

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Housing for the Elderly and Disabled Program

There are three parts to the calculation of allowance for loss: (1) loss rate for loans issued a Foreclosure Hearing Letter, (2) loss rate for the estimated number of foreclosures in the current year, and (3) loss rate for loans delinquent for more than 180 days. Loss rates for parts 1 and 2 are determined by actual historical data from the previous five years. Loss rate for part 3 is determined or approved by the Housing Office of Evaluation.

Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loans or defaulted guaranteed loans, are governed by the FCRA and are recorded as the net present value of the associated cash flows (i.e., interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows).

The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for FY 2013 and FY 2012:

A. List of HUD's Direct Loan and/or Guarantee Programs:

1. FHA
 - a) MMI/CMHI Direct Loan Program
 - b) GI/SRI Direct Loan Program
 - c) MMI/CMHI Loan Guarantee Program
 - d) GI/SRI Loan Guarantee Program
 - e) H4H Loan Guarantee Program
 - f) HECM Program
2. Housing for the Elderly and Disabled
3. All Other
 - a) CPD Revolving Fund
 - b) Flexible Subsidy Fund
 - c) Section 108 Loan Guarantees
 - d) Indian Housing Loan Guarantee Fund
 - e) Loan Guarantee Recovery Fund
 - f) Native Hawaiian Housing Loan Guarantee Fund
 - g) Title VI Indian Housing Loan Guarantee Fund
 - h) Green Retrofit Direct Loan Program
 - i) Emergency Homeowners' Loan Program

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B. Direct Loans Obligated Pre-1992 (Allowance for Loss Method) (dollars in millions):

	2013				
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans, Net
<u>Direct Loan Programs</u>					
FHA					
a) MMI/CHMI Direct Loan Program	\$ -	\$ -	\$ (5)	\$ -	(5)
b) GI/SRI Direct Loan Program	15	11	(7)	-	19
Housing for the Elderly and Disabled	2,096	22	(10)	-	2,108
All Other					
a) CPD Revolving Fund	5	-	(5)	2	2
b) Flexible Subsidy Fund	479	84	(42)	-	521
Total	\$ 2,595	\$ 117	\$ (69)	\$ 2	\$ 2,645

	2012				
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans, Net
<u>Direct Loan Programs</u>					
FHA					
a) MMI/CHMI Direct Loan Program	\$ -	\$ -	\$ (5)	\$ -	(5)
b) GI/SRI Direct Loan Program	15	11	(6)	-	20
Housing for the Elderly and Disabled	2,493	25	(19)	-	2,499
All Other					
a) CPD Revolving Fund	5	-	(5)	1	1
b) Flexible Subsidy Fund	508	89	(37)	-	560
Total	\$ 3,021	\$ 125	\$ (72)	\$ 1	\$ 3,075

C. Direct Loans Obligated Post-1991 (dollars in millions):

	2013				
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
<u>Direct Loan Programs</u>					
All Other					
a) Green Retrofit Program	\$ 75	\$ 1	\$ (70)	\$ -	\$ 6
b) Emergency Homeowners' Loan Program	82	1	(81)	-	2
c) EHLP Receipt Account	40	-	-	-	40
Total	\$ 197	\$ 2	\$ (151)	\$ -	\$ 48

	2012				
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
<u>Direct Loan Programs</u>					
All Other					
a) Green Retrofit Program	\$ 80	\$ 1	\$ (69)	\$ -	\$ 12
b) Emergency Homeowners' Loan Program	69	-	(67)	-	2
Total	\$ 149	\$ 1	\$ (136)	\$ -	\$ 14

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D. Total Amount of Direct Loans Disbursed (Post-1991) (dollars in millions):

<u>Direct Loan Programs</u>	<u>Current Year</u>	<u>Prior Year</u>
All Other		
a) Green Retrofit Program	\$ -	\$ -
b) Emergency Homeowners' Loan Program	19	69
Total	\$ 19	\$ 69

E. Subsidy Expense for Direct Loans by Program and Component (dollars in millions):

E1. Subsidy Expense for New Direct Loans Disbursed (dollars in millions):

<u>Direct Loan Programs</u>	2013				
	<u>Interest Differential</u>	<u>Defaults</u>	<u>Fees and Other Collections</u>	<u>Other</u>	<u>Total</u>
All Other					
a) Green Retrofit Program	\$ -	\$ -	\$ -	\$ -	\$ -
b) Emergency Homeowners' Loan Program	-	-	-	18	18
Total	\$ -	\$ -	\$ -	\$ 18	\$ 18

<u>Direct Loan Programs</u>	2012				
	<u>Interest Differential</u>	<u>Defaults</u>	<u>Fees and Other Collections</u>	<u>Other</u>	<u>Total</u>
All Other					
a) Green Retrofit Program	\$ -	\$ -	\$ -	\$ -	\$ -
b) Emergency Homeowners' Loan Program	-	-	-	67	67
Total	\$ -	\$ -	\$ -	\$ 67	\$ 67

E2. Modifications and Re-estimates (dollars in millions):

<u>Direct Loan Programs</u>	2013			
	<u>Total Modification</u>	<u>Interest Rate Re-estimates</u>	<u>Technical Re-estimates</u>	<u>Total Re-estimates</u>
All Other				
a) Green Retrofit Program	\$ -	\$ -	\$ -	\$ -
b) Emergency Homeowners' Loan Program	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -

<u>Direct Loan Programs</u>	2012			
	<u>Total Modification</u>	<u>Interest Rate Re-estimates</u>	<u>Technical Re-estimates</u>	<u>Total Re-estimates</u>
All Other				
a) Green Retrofit Program	\$ -	\$ -	\$ -	\$ -
b) Emergency Homeowners' Loan Program	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -

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E3. Total Direct Loan Subsidy Expense (dollars in millions):

<u>Direct Loan Programs</u>	<u>Current Year</u>	<u>Prior Year</u>
All Other		
a) Green Retrofit Program	\$ -	\$ -
b) Emergency Homeowners' Loan Program	18	67
Total	\$ 18	\$ 67

F. Subsidy Rates for Direct Loans by Program and Component:

Budget Subsidy Rates for Direct Loans

<u>Direct Loan Programs</u>	2013				
	<u>Interest Differential</u>	<u>Defaults</u>	<u>Fees and Other Collections</u>	<u>Other</u>	<u>Total</u>
All Other					
a) Green Retrofit Program	41.0%	42.7%	0.0%	(1.3%)	82.3%
b) Emergency Homeowners' Loan Program	0.0%	0.0%	0.0%	97.7%	97.7%

<u>Direct Loan Programs</u>	2012				
	<u>Interest Differential</u>	<u>Defaults</u>	<u>Fees and Other Collections</u>	<u>Other</u>	<u>Total</u>
All Other					
a) Green Retrofit Program	41.0%	42.7%	0.0%	(1.3%)	82.3%
b) Emergency Homeowners' Loan Program	0.0%	0.0%	0.0%	97.7%	97.7%

G. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans) (dollars in millions):

<u>Beginning Balance, Changes, and Ending Balance</u>	<u>FY 2013</u>	<u>FY 2012</u>
Beginning balance of the subsidy cost allowance	\$ 137	\$ 69
Add: subsidy expense for direct loans disbursed during the reporting years by component:		
a) Interest rate differential costs	-	-
b) Default costs (net of recoveries)	-	-
c) Fees and other collections	-	-
d) Other subsidy costs	18	67
Total of the above subsidy expense components	18	67
Adjustments:		
a) Loan modifications	-	-
b) Fees received	-	-
c) Foreclosed properties acquired	-	-
d) Loans written off	(5)	-
e) Subsidy allowance amortization	1	1
f) Other	-	-
Ending balance of the subsidy cost allowance before re-estimates	151	137
Add or subtract subsidy re-estimates by component:		
a) Interest rate re-estimate	-	-
b) Technical/default re-estimate	-	-
Total of the above re-estimate components	-	-
Ending balance of the subsidy cost allowance	\$ 151	\$ 137

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H. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method) (dollars in millions):

2013					
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHI Funds	\$ 18	\$ -	\$ (23)	\$ 22	\$ 17
b) GI/SRI Funds, Excluding HECM	2,225	228	(945)	9	1,517
c) GI/SRI Funds, HECM	5	2	(2)	7	12
Total	\$ 2,248	\$ 230	\$ (970)	\$ 38	\$ 1,546

2012					
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHI Funds	\$ 17	\$ -	\$ (33)	\$ 24	\$ 8
b) GI/SRI Funds, Excluding HECM	2,339	219	(1,378)	10	1,190
c) GI/SRI Funds, HECM	5	1	(2)	5	9
Total	\$ 2,361	\$ 220	\$ (1,413)	\$ 39	\$ 1,207

I. Defaulted Guaranteed Loans from Post-1991 Guarantees (dollars in millions):

2013					
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHI Funds	\$ 3,487	\$ 163	\$ (4,957)	\$ 4,500	\$ 3,193
b) GI/SRI Funds, Excluding HECM	686	2	(359)	152	481
c) GI/SRI Funds, HECM	2,038	951	(1,015)	67	2,041
d) H4H Program	-	-	1	1	2
All Other					
a) Indian Housing Loan Guarantee	-	-	-	30	30
b) Native Hawaiian Housing Loan Guarantee	-	-	-	1	1
Total	\$ 6,211	\$ 1,116	\$ (6,330)	\$ 4,751	\$ 5,748

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	2012				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
a) MMI/CMHI Funds	\$ 1,744	\$ 41	\$ (4,482)	\$ 4,888	\$ 2,191
b) GI/SRI Funds, Excluding HECM	683	2	(559)	201	327
c) GI/SRI Funds, HECM	1,775	806	(934)	53	1,700
All Other	-	-	-	20	20
Total	\$ 4,202	\$ 849	\$ (5,975)	\$ 5,162	\$ 4,238

	<u>2013</u>	<u>2012</u>
Total Credit Program Receivables and Related Foreclosed Property, Net	<u>\$9,986</u>	<u>\$8,534</u>

J. Guaranteed Loans Outstanding (dollars in millions):

J1. Guaranteed Loans Outstanding (dollars in millions):

	2013	
	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Loan Guarantee Programs		
FHA Programs		
a) MMI/CMHI Funds	\$ 1,167,538	\$ 1,087,079
b) GI/SRI Funds	115,234	104,680
c) H4H Program	117	113
All Other	5,718	5,713
Total	\$ 1,288,607	\$ 1,197,585

	2012	
	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Loan Guarantee Programs		
FHA Programs		
a) MMI/CMHI Funds	\$ 1,141,718	\$ 1,069,419
b) GI/SRI Funds	111,586	100,720
c) H4H Program	124	122
All Other	5,190	5,185
Total	\$ 1,258,618	\$ 1,175,446

J2. Home Equity Conversion Mortgage Loans Outstanding (dollars in millions):

	2013 Current Year Endorsements	Cumulative	
		Current Outstanding Balance	Maximun Potential Liability
Loan Guarantee Programs			
FHA Programs	\$ 14,671	\$ 100,869	\$ 145,918
	2012 Current Year Endorsements	Cumulative	
		Current Outstanding Balance	Maximun Potential Liability
Loan Guarantee Programs			
FHA Programs	\$ 13,111	\$ 93,565	\$ 139,858

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J3. New Guaranteed Loans Disbursed (dollars in millions):

<u>Loan Guarantee Programs</u>	<u>2013</u>	
	<u>Outstanding Principal, Guaranteed Loans, Face Value</u>	<u>Amount of Outstanding Principal Guaranteed</u>
FHA Programs		
a) MMI/CMHI Funds	\$ 240,276	\$ 237,443
b) GI/SRI Funds	23,344	23,191
c) H4H Program	-	-
All Other	794	793
Total	\$ 264,414	\$ 261,427

<u>Loan Guarantee Programs</u>	<u>2012</u>	
	<u>Outstanding Principal, Guaranteed Loans, Face Value</u>	<u>Amount of Outstanding Principal Guaranteed</u>
FHA Programs		
a) MMI/CMHI Funds	\$ 213,267	\$ 211,043
b) GI/SRI Funds	18,806	18,709
c) H4H Program	-	-
All Other	869	869
Total	\$ 232,942	\$ 230,621

K. Liability for Loan Guarantees (Estimated Future Default Claims, Pre-1992) (dollars in millions):

<u>Loan Guarantee Programs</u>	<u>2013</u>		
	<u>Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims</u>	<u>Liabilities for Loan Guarantees for Post- 1991 Guarantees (Present Value)</u>	<u>Total Liabilities For Loan Guarantees</u>
FHA Programs	\$ 8	\$ 39,124	\$ 39,132
All Other	-	173	173
Total	\$ 8	\$ 39,297	\$ 39,305

<u>Loan Guarantee Programs</u>	<u>2012</u>		
	<u>Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims</u>	<u>Liabilities for Loan Guarantees for Post- 1991 Guarantees (Present Value)</u>	<u>Total Liabilities For Loan Guarantees</u>
FHA Programs	\$ 17	\$ 51,688	\$ 51,705
All Other	-	160	160
Total	\$ 17	\$ 51,848	\$ 51,865

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L. Subsidy Expense for Post-1991 Guarantees:

L1. Subsidy Expense for Current Year Loan Guarantees (dollars in millions):

<u>Loan Guarantee Programs</u>	<u>Endorsement Amount</u>	<u>2013</u>			
		<u>Default Component</u>	<u>Fees Component</u>	<u>Other Component</u>	<u>Subsidy Amount</u>
FHA					
a) MMI/CMHI Funds, Excluding HECM	\$ 240,276	\$ 7,135	\$ (24,207)	\$ (7)	\$ (17,079)
b) MMI/CMHI Funds, HECM	14,671	536	(902)	-	(366)
c) GI/SRI Funds	23,344	571	(1,484)	-	(913)
d) H4H Program	-	-	-	-	-
All Other	-	14	-	-	14
Total	\$ 278,291	\$ 8,256	\$ (26,593)	\$ (7)	\$ (18,344)

L2. Subsidy Expense for Prior Year Loan Guarantees (dollars in millions):

<u>Loan Guarantee Programs</u>	<u>Endorsement Amount</u>	<u>2012</u>			
		<u>Default Component</u>	<u>Fees Component</u>	<u>Other Component</u>	<u>Subsidy Amount</u>
FHA					
a) MMI/CMHI Funds, Excluding HECM	\$ 213,267	\$ 6,829	\$ (13,203)	\$ 993	\$ (5,381)
b) MMI/CMHI Funds, HECM	13,111	754	(954)	-	(200)
c) GI/SRI Funds	18,806	647	(1,041)	-	(394)
d) H4H Program	-	-	-	-	-
All Other	-	16	-	-	16
Total	\$ 245,184	\$ 8,246	\$ (15,198)	\$ 993	\$ (5,959)

L3. Modification and Re-estimates (dollars in millions):

<u>Loan Guarantee Programs</u>	<u>2013</u>			
	<u>Total Modifications</u>	<u>Interest Rate Re-estimates</u>	<u>Technical Re-estimates</u>	<u>Total Re-estimates</u>
FHA				
a) MMI/CMHI Funds	\$ -	\$ -	\$ 9,862	\$ 9,862
b) GI/SRI Funds	-	-	(1,443)	(1,443)
All Other	-	-	(2)	(2)
Total	\$ -	\$ -	\$ 8,417	\$ 8,417

<u>Loan Guarantee Programs</u>	<u>2012</u>			
	<u>Total Modifications</u>	<u>Interest Rate Re-estimates</u>	<u>Technical Re-estimates</u>	<u>Total Re-estimates</u>
FHA				
a) MMI/CMHI Funds	\$ -	\$ -	\$ 16,636	\$ 16,636
b) GI/SRI Funds	-	-	3,993	3,993
All Other	-	-	13	13
Total	\$ -	\$ -	\$ 20,642	\$ 20,642

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L4. Total Loan Guarantee Subsidy Expense (dollars in millions):

<u>Loan Guarantee Programs</u>	<u>Current Year</u>	<u>Prior Year</u>
FHA		
a) MMI/CMHI Funds	\$ (7,582)	\$ 11,054
b) GI/SRI Funds	(2,356)	3,599
c) H4H Program	-	-
All Other	\$ 11	\$ 30
Total	<u>\$ (9,927)</u>	<u>\$ 14,683</u>

M. Subsidy Rates for Loan Guarantees by Programs and Component:

Budget Subsidy Rates for Loan Guarantees for FY 2013 Cohorts

<u>Loan Guarantee Program</u>	<u>Default</u>	<u>Fees and Other Collections</u>	<u>Other</u>	<u>Total</u>
FHA Programs				
MMI/CMHI				
Single Family - Forward	3.0%	(9.4%)		(6.5%)
Single Family - HECM	2.4%	(6.2%)		(3.8%)
Single Family - Refinancing	10.2%	(7.7%)	(2.6%)	0.0%
Multi Family - Section 213	3.0%	(9.4%)		(6.5%)
GI/SRI				
Multifamily				
Section 221(d)(4)	4.4%	(6.9%)		(2.5%)
Section 207/223(f)	1.1%	(5.8%)		(4.7%)
Section 223(a)(7)	1.1%	(5.8%)		(4.7%)
Section 232	3.1%	(7.4%)		(4.3%)
Section 242	1.3%	(7.7%)		(6.4%)
H4H				
Single Family - Section 257				0.0%
All Other Programs				
CDBG, Section 108(b)	2.5%			2.5%
Loan Guarantee Recovery	50.0%			50.0%
Indian Housing	1.4%	0.0%		1.4%
Native Hawaiian Housing	0.5%	0.0%		0.5%
Title VI Indian Housing	10.9%			10.9%

Budget Subsidy Rates for Loan Guarantees for FY 2012 Cohorts

<u>Loan Guarantee Program</u>	<u>Default</u>	<u>Fees and Other Collections</u>	<u>Other</u>	<u>Total</u>
FHA Programs				
MMI/CMHI				
Single Family - Forward	3.7%	(6.4%)		(2.8%)
Single Family - HECM	5.7%	(7.3%)		(1.5%)
Multi Family - Section 213	3.7%	(6.4%)		(2.8%)
GI/SRI				
Multifamily				
Section 221(d)(4)	5.3%	(6.4%)		(1.1%)
Section 207/223(f)	3.5%	(5.6%)		(2.2%)
Section 223(a)(7)	3.5%	(5.6%)		(2.2%)
Section 232	3.6%	(5.6%)		(2.0%)
Section 242	1.8%	(5.6%)		(3.8%)
H4H				
Single Family - Section 257				0.0%
All Other Programs				
CDBG, Section 108(b)	2.5%			2.5%
Loan Guarantee Recovery	50.0%			50.0%
Indian Housing	1.5%			1.5%
Native Hawaiian Housing	0.9%			0.9%
Title VI Indian Housing	10.8%			10.8%

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N. Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)
(dollars in millions):

Beginning Balance, Changes, and Ending Balance	2013	2012
Beginning balance of the loan guarantee liability	\$ 55,144	\$ 36,214
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	-	-
(b) Default costs (net of recoveries)	8,256	8,246
(c) Fees and other collections	(26,593)	(15,198)
(d) Other subsidy costs	(7)	993
Total of the above subsidy expense components	\$ (18,344)	\$ (5,959)
Adjustments:		
(a) Loan guarantee modifications	-	-
(b) Fees Received	12,029	10,743
(c) Interest supplemental paid	-	-
(d) Foreclosed property and loans acquired	11,835	5,888
(e) Claim payments to lenders	(29,417)	(20,275)
(f) Interest accumulation on the liability balance	1,687	1,425
(g) Other	(27)	(51)
Ending balance of the subsidy cost allowance before re-estimates	\$ 32,907	\$ 27,985
Add or Subtract subsidy re-estimates by component:		
(a) Interest rate re-estimate	-	-
(b) Technical/default re-estimate	1,316	20,167
(c) Adjustment of prior years credit subsidy re-estimates	7,414	6,992
Total of the above re-estimate components	8,730	27,159
Ending balance of the subsidy cost allowance	\$ 41,637	\$ 55,144
Less: unrealized Ginnie Mae claims from defaulted loans	\$ (2,332)	\$ (3,279)
Ending balance of the subsidy cost allowance	\$ 39,305	\$ 51,865

O. Administrative Expenses (dollars in millions):

Loan Guarantee Program	2013	2012
FHA	\$ 647	\$ 647
All Other	-	-
Total	\$ 647	\$ 647

Note 8: Other Non-Credit Reform Loans

The following shows HUD's Other Non-Credit Reform Loans Receivable as of September 30, 2013 and September 30, 2012 (dollars in millions):

Description	2013			
	FHA	Ginnie Mae	All Other	Total
Mortgage Loans Held for Investment, net	\$ -	\$ 3,336	\$ -	\$ 3,336
Advances Against Defaulted Mortgage-Backed Security Pools, net	-	99	-	99
Properties Held for Sale, net	-	23	-	23
Foreclosed Property	-	481	-	481
Short Sale Claims Receivable	-	62	-	62
Total	\$ -	\$ 4,001	\$ -	\$ 4,001

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<u>Description</u>	2012			
	<u>FHA</u>	<u>Ginnie Mae</u>	<u>All Other</u>	<u>Total</u>
Mortgage Loans Held for Investment, net	\$ -	\$ 3,410	\$ -	\$ 3,410
Advances Against Defaulted Mortgage-Backed Security Pools, net	-	912	-	912
Properties Held for Sale, net	-	12	-	12
Foreclosed Property	-	-	-	-
Short Sale Claims Receivable	-	21	-	21
Total	\$ -	\$ 4,355	\$ -	\$ 4,355

Other Non-Credit Reform Loans consists of Ginnie Mae Advances Against Defaulted Mortgage-Backed Security Pools, Mortgage Loans Held for Investment, Short Sale Claims Receivable, and Foreclosed Property. The balance of Other Non-Credit Reform Loans as of September 30, 2013 and 2012 is \$4,001 and \$4,355 million, respectively. Below is a description of each type of loan.

Advances against Defaulted Mortgage-Backed Security Pools

Advances against defaulted MBS pools represent pass-through payments made to fulfill Ginnie Mae's guarantee of timely principal and interest payments to MBS security holders. The advances are reported net of an allowance to the extent that management believes that they will not be recovered. The allowance for uncollectible advances is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA and PIH. Other factors considered in the estimate include market analysis and appraised value of the loans. These loans are still accruing interest because they have not reached the required delinquency thresholds and purchased from the defaulted issuer pools.

Once Ginnie Mae purchases the loans from the pools after the 90 and 120 day delinquency thresholds for Manufactured Housing and Single Family loans, respectively, the loans are reclassified as Mortgage Loans Held for Investment (HFI) below. Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in full satisfaction of a loan, such as the receipt of claims proceeds from an insuring agency or underlying collateral upon foreclosure. The advances against defaulted MBS pools balance is \$99 million in FY 2013 and \$912 million in FY 2012.

When a Ginnie Mae issuer defaults, Ginnie Mae is required to step into the role of the issuer and make the timely pass-through payments to investors, and subsequently, assumes the servicing rights and obligations of the issuer's entire Ginnie Mae guaranteed, pooled loan portfolio of the defaulted issuer. Ginnie Mae utilizes the MSSs to service these portfolios. There are currently two MSSs for Single Family and one MSS for Manufactured Housing defaulted issuers. These MSSs currently service 100 percent of all non-pooled loans.

In its role as servicer, Ginnie Mae assesses individual loans within its pooled portfolio to determine whether the loan must be purchased out of the pool as required by the Ginnie Mae MBS Guide. Ginnie Mae purchases mortgage loans out of the MBS pool when:

- A. Mortgage loans are uninsured by the FHA, USDA, VA or PIH
- B. Mortgage loans were previously insured but insurance is currently denied (collectively with B), referred to as uninsured mortgage loans)
- C. Mortgage loans are insured but are delinquent for more than 90 and 120 days based on management discretion for manufactured housing and single family loans, respectively.

During FY 2013, the majority of purchased mortgage loans were bought out due to borrower delinquency of more than 90 or 120 days depending on loan type (i.e., Single Family or Manufactured Housing).

Ginnie Mae evaluates the collectability of all purchased loans and assesses whether there is evidence of credit deterioration subsequent to the loan's origination and it is probable, at acquisition, that Ginnie Mae will be unable to collect all contractually required payments receivable. Ginnie Mae considers guarantees and insurance from FHA, USDA, VA and PIH in determining whether it is probable that Ginnie Mae will collect all amounts due according to the contractual terms.

For FHA insured loans, Ginnie Mae expects to collect the full amount of the unpaid principal balance and debenture rate interest (only for months allowed in the insuring agency's timeline), when the insurer reimburses Ginnie Mae subsequent to filing a claim. As a result, these loans are accounted for under ASC Subtopic 310-20, *Receivables – Nonrefundable Fees and Other Costs*. In accordance with ASC 310-20-30-5, these loans are recorded at the unpaid principal balance which is the amount Ginnie Mae pays to repurchase these loans. Accordingly, Ginnie Mae recognizes interest income on these loans on an accrual basis at the debenture rate for the number of months allowed under the insuring agency's timeline. After the allowed timeline, Ginnie Mae considers these loans to be non-performing as the collection of interest is no longer reasonably assured, and places these loans on nonaccrual status. Ginnie Mae recognizes interest income for loans on nonaccrual status when cash is received.

Ginnie Mae separately assesses the collectability of mortgage loans bought out of the defaulted portfolios that are uninsured and loans that are non-FHA insured for which Ginnie Mae only receives a portion of the outstanding principal balance. If the principal and interest payments are not fully guaranteed from the insurer (i.e., there is a lack of insurance), or loans are delinquent at acquisition, it is probable that Ginnie Mae will be unable to collect all contractually required payments receivable. Accordingly, these loans are considered to be credit impaired and are accounted for under ASC Subtopic 310-30, *Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality*. At the time of acquisition, these loans are recorded at the lower of their acquisition cost or present value of expected amounts to be received. As non-performing loans, these loans are placed on nonaccrual status.

Ginnie Mae has the ability and the intent to hold these acquired loans for the foreseeable future or until maturity. Therefore, Ginnie Mae classifies the mortgage loans as held for investment (HFI). The mortgage loans HFI are reported net of allowance for loan losses. Mortgage loans HFI also includes mortgage loans that are undergoing the foreclosure process.

Ginnie Mae performs periodic and systematic reviews of its loan portfolios to identify credit risks and assess the overall collectability of the portfolios for the estimated uncollectible portion of the principal balance of the loan. The allowance for loss on mortgage loans HFI represents management's estimate of probable credit losses inherent in Ginnie Mae's mortgage loan portfolio. The allowance for loss on mortgage loans HFI is netted against the balance of mortgage loans HFI. Additionally, Ginnie Mae incorporates the probable recovery amount from mortgage insurance (e.g., FHA, USDA, VA, or PIH) based on established insurance rates. To make this evaluation, Ginnie Mae reviews the delinquency of mortgage loans, industry benchmarks, as well as the established rates of insurance recoveries from insurers.

Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in full satisfaction of a loan, such as the receipt of claims proceeds

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from an insuring agency or underlying collateral upon foreclosure. Mortgage loans HFI, net as of September 30, 2013 and 2012 was \$3 and \$3 billion, respectively.

Foreclosed Property

Ginnie Mae records foreclosed property when a MSS receives marketable title to a property which has completed the foreclosure process in the respective state. The asset is measured as the principal and interest of a loan which is in the process of being conveyed to an insuring agency, net of an allowance. These assets are conveyed to the appropriate insuring agency within six months. Foreclosed property has previously been placed on nonaccrual status after the loan was repurchased from a pool. These properties differ from properties held for sale because they will be conveyed to an insuring agency, and not sold by the MSS.

The allowance for foreclosed property is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA, and PIH. The aggregate of the foreclosed property and the allowance for foreclosed property is the amount that Ginnie Mae determines to be collectible. Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in full satisfaction of a loan, such as the receipt of claims proceeds from an insuring agency. Foreclosed Property, net as of September 30, 2013 was \$481 million.

Short Sale Claims Receivable

As an alternative to foreclosure, a property may be sold for its appraised value even if the sale results in a short sale where the proceeds are not sufficient to pay off the mortgage. Ginnie Mae's MSSs analyze mortgage loans HFI for factors such as delinquency, appraised value of the loan, and market in locale of the loan to identify loans that may be short sale eligible. These transactions are analyzed and approved by Ginnie Mae's MBS program office.

For FHA insured loans, for which the underlying property was sold in a short sale, the FHA typically pays Ginnie Mae the difference between the proceeds received from the sale and the total contractual amount of the mortgage loan and interest at the debenture rate. Hence, Ginnie Mae does not incur any losses as a result of the short sale of an FHA insured loan. Ginnie Mae records a short sale claims receivable while it awaits repayment of this amount from the insurer. For short sales claims receivable for which Ginnie Mae believes that collection is not probable, Ginnie Mae records an allowance for short sales claims receivable. The allowance for short sales claims receivable is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA, and PIH. The aggregate of the short sales receivable and the allowance for short sales receivable is the amount that Ginnie Mae determines to be collectible. Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of claims in full satisfaction of a loan from an insuring agency. Short Sale Claims Receivable, net as of September 30, 2013 and 2012 was \$62 and \$21 million, respectively.

Note 9: General Property, Plant, and Equipment (Net)

General property, plant, and equipment consists of furniture, fixtures, equipment and data processing software used in providing goods and services that have an estimated useful life of two or more years. Purchases of \$100,000 or more are recorded as an asset and depreciated over their estimated useful life on a straight-line basis with no salvage value. Capitalized replacement and improvement costs are depreciated over the remaining useful life of the replaced or improved asset. Generally, the Department's

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assets are depreciated over a four-year period, unless it can be demonstrated that the estimated useful life is significantly greater than four years.

The following shows general property, plant, and equipment as of September 30, 2013 and September 30, 2012 (dollars in millions):

<u>Description</u>	2013			2012		
	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Book Value</u>	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Book Value</u>
Equipment	\$ 3	\$ (1)	\$ 2	\$ 3	\$ (1)	\$ 2
Leasehold Improvements	-	-	-	-	-	-
Internal Use Software	186	(158)	28	175	(143)	32
Internal Use Software in Development	321	-	321	333	-	333
Total	\$ 510	\$ (159)	\$ 351	\$ 511	\$ (144)	\$ 367

Note 10: PIH Prepayments

HUD's assets include the Department's estimates for net restricted assets (NRA) balances maintained by Public Housing Authorities under the Housing Choice Voucher Program. As further discussed in Note 30, NRA balances represent cash reserves used by PHAs to cover program expenses reported by these entities as a result of recent funding shortfalls faced by the Department. The NRA balances are expected to be transitioned to HUD's project reserves in calendar year 2014 under PIH's cash management policies. PIH has estimated NRA balances of \$452 million and \$986 million for FY 2013 and FY 2012 respectively. Under the PIH cash management program, the NRA balances estimated by the Department are expected to be transitioned to HUD's project reserve accounts in FY 2014. Prior to the restatement of the Department's financial statements for FY 2012, the asset and the associated expenses were not reported by HUD. The amount of the prepayments are reflected as non-federal assets and reported under the Section 8 Rental Assistance program segment of HUD's consolidating balance sheet.

Note 11: Other Assets

The following shows HUD's Other Assets as of September 30, 2013 and September 30, 2012 (dollars in millions):

<u>Description</u>	<u>FHA</u>	<u>Ginnie Mae</u>	<u>Section 8</u>	<u>All Other</u>	<u>Total</u>
Intragovernmental Assets:					
Other Assets	\$ 1	\$ -	\$ -	\$ 14	\$ 15
Total Intragovernmental Assets	1	-	-	14	15
Mortgagor Reserves for Replacement - Cash	\$ 47	\$ -	\$ -	\$ -	\$ 47
Other Assets	331	-	-	-	331
Total	\$ 379	\$ -	\$ -	\$ 14	\$ 393

2012					
<u>Description</u>	<u>FHA</u>	<u>Ginnie Mae</u>	<u>Section 8</u>	<u>All Other</u>	<u>Total</u>
Intragovernmental Assets:					
Other Assets	\$ 3	\$ -	\$ -	\$ 24	\$ 27
Total Intragovernmental Assets	3	-	-	24	27
Mortgagor Reserves for Replacement - Cash	\$ 55	\$ -	\$ -	\$ -	\$ 55
Other Assets	5	-	-	(1)	4
Total	\$ 63	\$ -	\$ -	\$ 23	\$ 86

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Note 12: Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2013 and 2012 (dollars in millions):

<u>Description</u>	<u>2013</u>			<u>2012</u>		
	<u>Covered</u>	<u>Not-Covered</u>	<u>Total</u>	<u>Covered</u>	<u>Not-Covered</u>	<u>Total</u>
Intragovernmental						
Accounts Payable	\$ 18	\$ -	\$ 18	\$ 15	\$ -	\$ 15
Debt	26,079	-	26,079	11,567	-	11,567
Other Intragovernmental Liabilities	4,642	17	4,659	4,098	19	4,117
Total Intragovernmental Liabilities	\$ 30,739	\$ 17	\$ 30,756	\$ 15,680	\$ 19	\$ 15,699
Accounts Payable	803	-	803	1,303	-	1,303
Liabilities for Loan Guarantees	39,305	-	39,305	51,865	-	51,865
Debt	20	-	20	60	-	60
Federal Employee and Veterans' Benefits	-	77	77	-	76	76
Loss Liability	700	-	700	358	-	358
Other Liabilities	627	82	709	639	97	736
Total Liabilities	\$ 72,194	\$ 176	\$ 72,370	\$ 69,905	\$ 192	\$ 70,097

HUD's other governmental liabilities principally consists of Ginnie Mae's deferred revenue, FHA's special receipt account and the Department's payroll costs. Further disclosures of HUD's other liabilities are also found in Note 16.

Note 13: Debt

Several HUD programs have the authority to borrow funds from the U.S. Treasury for program operations. Additionally, the National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. Also, PHAs and TDHEs borrowed funds from the private sector and from the Federal Financing Bank (FFB) to finance construction and rehabilitation of low rent housing. HUD is repaying these borrowings on behalf of the PHAs and TDHEs.

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2013 (dollars in millions):

<u>Description</u>	<u>Beginning Balance</u>	<u>Net Borrowings</u>	<u>Ending Balance</u>
Debt to the U.S. Treasury	\$ 11,567	\$ 14,512	\$ 26,079
Held by the Public	60	(40)	20
Total	\$ 11,627	\$ 14,472	\$ 26,099
Classification of Debt:			
Intragovernmental Debt			\$ 26,079
Debt held by the Public			20
Total			\$ 26,099

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The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2012 (dollars in millions):

<u>Description</u>	<u>Beginning Balance</u>	<u>Net Borrowings</u>	<u>Ending Balance</u>
Debt to the U.S. Treasury	\$ 6,091	\$ 5,476	\$ 11,567
Held by the Public	153	(93)	60
Total	\$ 6,244	\$ 5,383	\$ 11,627

Classification of Debt:			
Intragovernmental Debt			\$ 11,567
Debt held by the Public			60
Total			\$ 11,627

Interest paid on borrowings as of September 30, 2013 and 2012 was \$921 million and \$463 million, respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from the U.S. Treasury

In FY 2013 and FY 2012, FHA borrowed \$14,412 billion and \$5,670 billion, respectively, from the U.S. Treasury. In accordance with Credit Reform accounting, FHA borrows from the U.S. Treasury when cash is needed in its financing accounts. Usually, the need for cash arises when FHA has to transfer the negative credit subsidy amounts related to new loan disbursements and existing loan modifications from the financing accounts to the general fund receipt account (for cases in GI/SRI funds) or to the capital reserve account (for cases in MMI/CMHI funds). In some instances, borrowings are also needed to transfer the credit subsidy related to downward re-estimates when available cash is less than claim payments due. These borrowings carried interest rates ranging from 1.68 percent to 7.39 percent during FY 2013 and FY 2012.

In FY 2013, HUD borrowed \$530 thousand for the Emergency Homeowners' Relief Program. These borrowings earned an interest rate of 1.67 percent. As in FHA's credit reform programs, all borrowings were made in the financing accounts.

Borrowings from the Federal Financing Bank (FFB) and the Public

During the 1960s, 1970s, and 1980s, PHAs obtained loans from the private sector and from the FFB to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the PHAs, through the Low Rent Public Housing program. For borrowings from the Public, interest is payable throughout the year.

Before July 1, 1986, the FFB purchased notes issued by units of general local government and guaranteed by HUD under Section 108. These notes had various maturities and carried interest rates that were one-eighth of one percent above rates on comparable Treasury obligations. The FFB held substantially all outstanding notes, and no note purchased by the FFB has ever been declared in default. In March of FY 2010, HUD repaid all FFB borrowings for the Low Rent Public Housing program.

Debentures Issued To Claimants

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. There were no debentures issued in FY 2013. Interest rates related to the outstanding debentures ranged from 4.00

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percent to 13.375 percent in FY 2011. Debentures may be redeemed by lenders prior to maturity to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U. S. Treasury.

Note 14: Federal Employee and Veterans' Benefits

HUD is a non-administering agency; therefore, it relies on cost factors and other actuarial projections provided by the Department of Labor (DOL) and Office of Personnel Management (OPM). HUD's imputed costs consist of two components, pension and health care benefits. During FY 2013, HUD recorded imputed costs of \$78 million which consisted of \$39 million for pension and \$39 million for health care benefits. During FY 2012, HUD recorded imputed costs of \$81 million which consisted of \$37 million for pension and \$44 million for health care benefits. These amounts are reported by OPM and charged to expense with a corresponding amount considered as an imputed financing source in the Statement of Changes in Net Position.

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the Federal Employee Compensation Act (FECA), administered and determined by the DOL. The liability, based on the net present value of estimated future payments based on a study conducted by DOL, was \$77 million as of September 30, 2013, and \$76 million as of September 30, 2012. Future payments on this liability are to be funded by future financing sources.

In addition to the imputed costs of \$78 million noted above, HUD recorded benefit expenses totaling \$172 million for FY 2013 and \$168 million for FY 2012.

Note 15: MBS Loss Liability

For FY 2013 and FY 2012, Ginnie Mae's MBS loss liability was \$700 million and \$357 million, respectively. The estimate is established to the extent management believes losses due to defaults are probable and estimable and FHA, USDA, VA, and PIH insurance or guarantees are insufficient to recoup Ginnie Mae expenditures. The MBS loss liability represents probable and estimable losses net of recoveries for currently defaulted issuers as well as probable and estimable future defaults by issuers of MBS. An increase to the loss liability is established through a provision charged to operations while a decrease is a recapture of expense charged to operations. The loss liability is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios.

In estimating losses, management utilizes a statistically-based model that evaluates numerous factors, including but not limited to, general and regional economic conditions, mortgage characteristics, and actual and expected future default and loan loss experience. Based on its analysis of its loss exposure, Ginnie Mae increased its MBS loss liability balance in FY 2013. Ginnie Mae management believes that its MBS loss liability is adequate to cover probable and estimable losses of default-related losses due to Ginnie Mae guaranteed MBS.

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Note 16: Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2013 (dollars in millions):

<u>Description</u>	<u>Non- Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	\$ 3,983	\$ -	\$ 3,983
Unfunded FECA Liability	17	-	17
Employer Contributions and Payroll Taxes	-	3	3
Miscellaneous Receipts Payable to Treasury	-	641	641
Advances to Federal Agencies	-	15	15
Total Intragovernmental Liabilities	<u>\$ 4,000</u>	<u>\$ 659</u>	<u>\$ 4,659</u>
Other Liabilities			
FHA Other Liabilities	\$ 81	\$ -	\$ 81
FHA Escrow Funds Related to Mortgage Notes	343	-	343
Ginnie Mae Deferred Income	-	139	139
Deferred Credits	-	18	18
Deposit Funds	-	17	17
Accrued Unfunded Annual Leave	82	-	82
Accrued Funded Payroll Benefits	-	27	27
Contingent Liability	-	-	-
Other	-	2	2
Total Other Liabilities	<u>\$ 4,506</u>	<u>\$ 862</u>	<u>\$ 5,368</u>

The following shows HUD's Other Liabilities as of September 30, 2012 (dollars in millions):

<u>Description</u>	<u>Non- Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	\$ 3,473	\$ -	\$ 3,473
Unfunded FECA Liability	18	-	18
Employer Contributions and Payroll Taxes	-	10	10
Miscellaneous Receipts Payable to Treasury	-	607	607
Advances to Federal Agencies	-	9	9
Total Intragovernmental Liabilities	<u>\$ 3,491</u>	<u>\$ 626</u>	<u>\$ 4,117</u>
Other Liabilities			
FHA Other Liabilities	\$ 74	\$ -	\$ 74
FHA Escrow Funds Related to Mortgage Notes	322	-	322
Ginnie Mae Deferred Income	-	134	134
Ginnie Mae Deposit Funds	-	(3)	(3)
Deferred Credits	-	18	18
Deposit Funds	-	30	30
Accrued Unfunded Annual Leave	82	-	82
Accrued Funded Payroll Benefits	-	63	63
Contingent Liability	16	-	16
Total Other Liabilities	<u>\$ 3,985</u>	<u>\$ 868</u>	<u>\$ 4,853</u>

Special Receipt Account Liability

The special receipt account liability is created from negative subsidy endorsements and downward credit subsidy in the GI/SRI special receipt account.

Note 17: Financial Instruments with Off-Balance Sheet Risk

Some of HUD's programs, principally those operated through FHA and Ginnie Mae, enter into financial arrangements with off-balance sheet risk in the normal course of their operations.

A. FHA Mortgage Insurance

The outstanding principal of FHA's guaranteed loans (face value) as of September 30, 2013 and 2012 was \$1,282 billion and \$1,253 billion, respectively. The amount of outstanding principal guaranteed

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(insurance-in-force) as of September 30, 2013 and 2012 was \$1,191 billion and \$1,170 billion, respectively, as disclosed in Note 7J. The maximum claim amount (MCA) outstanding for FHA's reverse mortgage insurance program (HECM) as of September 30, 2013 and 2012 was \$146 billion and \$140 billion, respectively. As of September 30, 2013 and 2012 the insurance-in-force (the outstanding balance of active loans) was \$101 billion and \$94 billion, respectively as disclosed in Note 7J. The HECM insurance in force includes balances drawn by the mortgagee; interest accrued on the balances drawn, service charges, and mortgage insurance premiums. The maximum claim amount is the dollar ceiling to which the outstanding loan balance can grow before being assigned to FHA.

B. Ginnie Mae Mortgage-Backed Securities

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of MBS and commitments to guarantee MBS. The securities are backed by pools of FHA, USDA, VA and PIH mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2013 and 2012, was approximately \$1,457 billion and \$1,341 billion, respectively. However, Ginnie Mae's potential loss is considerably less because of the financial strength of the Department's issuers. Additionally, in the event of default, the underlying mortgages serve as primary collateral and FHA, USDA, VA and PIH insurance or guarantee indemnifies Ginnie Mae for most losses.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guarantee MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2013 and 2012 were \$118 billion and \$116 billion, respectively. Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas. No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In FY 2013 and FY 2012, Ginnie Mae issued a total of \$99 billion and \$107 billion, respectively, in its multi-class securities program. The estimated outstanding balance for the complete multi-class securities program (REMICs, Platinum's, etc.) at September 30, 2013 and 2012, were \$468 billion and \$522 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

C. Section 108 Loan Guarantees

Under HUD's Loan Guarantee (Section 108) program, recipients of the CDBG Entitlement Grant program funds may pledge future grant funds as collateral for loans guaranteed by HUD (these loans were provided from private lenders since July 1, 1986). Section 108 provides entitlement communities with a source of financing for projects that are too large to be financed from annual grants. The amount of loan guarantees outstanding as of September 30, 2013 and 2012 was \$2 billion and \$2 billion, respectively. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

Note 18: Contingencies

Lawsuits and Other

FHA is party in various legal actions and claims brought by or against it. In the opinion of management and general counsel, the ultimate resolution of these legal actions will not have an effect on FHA's consolidated financial statements as of September 30, 2013. As a result, no contingent liability has been recorded.

HUD is party to a number of claims and tort actions related to lawsuits brought against it concerning the implementation or operation of its various programs. The potential loss related to an ongoing case related to HUD's assisted housing programs is probable at this time and as a result, the Department has recorded a contingent liability of \$100 thousand in its financial statements. The Department also estimates other cases where the expected outcome totaling \$351 million is reasonably possible but not probable and therefore no contingent liability was recorded in HUD's financial statements. Other ongoing suits cannot be reasonably determined at this time and in the opinion of management and general counsel, the ultimate resolution of pending litigation will not have a material effect on the Department's financial statements.

Note 19: Funds from Dedicated Collections

Funds from dedicated collections are financed by specifically identified revenues and are required by statute to be used for designated activities or purposes.

Ginnie Mae

Ginnie Mae is a self-financed government corporation, whose program operations are financed by a variety of fees, such as guaranty, commitment, new issuer, handling, and transfer servicing fees, which are to be used only for Ginnie Mae's legislatively authorized mission. In FY 2013, Ginnie Mae was authorized to use \$22 million for payroll and payroll related expense, funded by commitment fees.

Rental Housing Assistance Fund

The Housing and Urban Development Act of 1968 authorized the Secretary to establish a revolving fund into which rental collections in excess of the established basic rents for units in Section 236 subsidized projects would be deposited. The Housing and Community Development Amendment of 1978 authorized the Secretary, subject to approval in appropriation acts, to transfer excess rent collections received after 1978 to the Troubled Projects Operating Subsidy program, renamed the Flexible Subsidy Fund. Prior to that time, collections were used for paying tax and utility increases in Section 236 projects. The Housing and Community Development Act of 1980 amended the 1978 Amendment by authorizing the transfer of excess rent collections regardless of when collected.

Flexible Subsidy

The Flexible Subsidy Fund assists financially troubled subsidized projects under certain FHA authorities. The subsidies are intended to prevent potential losses to the FHA fund resulting from project insolvency and to preserve these projects as a viable source of housing for low and moderate-income tenants. Priority was given with Federal insurance-in-force and then to those with mortgages that had been assigned to the Department.

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American Recovery and Reinvestment Act Programs (Recovery Act)

The Recovery Act includes \$14 billion for 17 programs at HUD which are distributed across three themes that align with the broader Recovery goals. A further discussion of HUD's accomplishments under the Recovery Act program can be found at www.hud.gov/recovery.

Manufactured Housing Fees Trust Fund

The National Manufactured Housing Construction and Safety Standards Act of 1974, as amended by the Manufactured Housing Improvement Act of 2000, authorizes development and enforcement of appropriate standards for the construction, design, and performance of manufactured homes to assure their quality, durability, affordability, and safety.

Fees are charged to the manufacturers for each manufactured home transportable section produced and will be used to fund the costs of all authorized activities necessary for the consensus committee (HUD) and its agents to carry out all aspects of the manufactured housing legislation. The fee receipts are permanently appropriated and have helped finance a portion of the direct administrative expenses incurred in program operations. Activities are initially financed via transfer from the Manufactured Housing General Fund.

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The following shows funds from dedicated collections as of September 30, 2013 (dollars in millions):

		Rental		Manufactured		Recovery			Total
		Housing	Flexible	Housing Fees		Act			Earmarked
	Ginnie Mae	Assistance	Subsidy	Trust Fund	Funds		Other	Eliminations	Funds
Balance Sheet									
Fund Balance w/Treasury	\$ 9,622	\$ 4	\$ 296	\$ 13	\$ 168	\$ 2	\$ -	\$ -	\$ 10,105
Investments	1,821	-	-	-	-	-	-	-	1,821
Accounts Receivable	129	4	-	-	3	-	(1)	-	135
Loans Receivable	-	-	523	-	5	-	-	-	528
Other Non-Credit Reform Loans Receivable	6,333	-	-	-	-	-	-	-	6,333
General Property, Plant and Equipment	37	-	-	-	-	-	-	-	37
Other	-	-	-	-	-	-	-	-	-
Total Assets	\$ 17,942	\$ 8	\$ 819	\$ 13	\$ 176	\$ 2	\$ (1)	\$ -	\$ 18,959
Debt - Intragovernmental	\$ -	\$ -	\$ -	\$ -	\$ 15	\$ -	\$ -	\$ -	\$ 15
Accounts Payable - Intragovernmental	-	-	-	-	1	-	-	-	1
Accounts Payable - Public	167	-	-	-	-	-	-	-	167
Loan Guarantees	-	-	-	-	-	-	-	-	-
Loss Liability	700	-	-	-	-	-	-	-	700
Other Liabilities - Intragovernmental	-	-	-	-	1	-	(1)	-	-
Other Liabilities - Public	140	-	-	-	-	-	-	-	140
Total Liabilities	\$ 1,007	\$ -	\$ -	\$ -	\$ 17	\$ -	\$ (1)	\$ -	\$ 1,023
Unexpended Appropriations	\$ 1	\$ -	\$ (376)	\$ -	\$ 160	\$ -	\$ -	\$ -	\$ (215)
Cumulative Results of Operations	16,934	8	1,195	13	(1)	2	-	-	18,151
Total Net Position	\$ 16,935	\$ 8	\$ 819	\$ 13	\$ 159	\$ 2	\$ -	\$ -	\$ 17,936
Total Liabilities and Net Position	\$ 17,942	\$ 8	\$ 819	\$ 13	\$ 176	\$ 2	\$ (1)	\$ -	\$ 18,959
Statement of Net Cost For the Period Ended									
Gross Costs	\$ 602	\$ 3	\$ 7	\$ 7	\$ 456	\$ 1	\$ (4)	\$ -	\$ 1,072
Less Earned Revenues	(1,225)	(3)	(10)	(3)	(1)	(1)	4	(1,239)	
Net Costs	\$ (623)	\$ -	\$ (3)	\$ 4	\$ 455	\$ -	\$ -	\$ (167)	
Statement of Changes in Net Position for the Period Ended									
Net Position Beginning of Period	\$ 16,311	\$ 8	\$ 815	\$ 15	\$ 614	\$ 2	\$ -	\$ -	\$ 17,765
Appropriations Received	-	-	-	-	1	-	-	-	1
Transfers In/Out Without Reimbursement	-	-	-	2	(1)	-	-	-	1
Imputed Costs	1	-	-	-	-	-	-	-	1
Other Adjustments	-	-	-	-	-	-	-	-	-
Donations and Forfeitures of Cash & Cash Equivalent	-	-	-	-	-	-	-	-	-
Penalties, Fines, and Administrative Fees Revenue	-	-	1	-	-	-	-	-	1
Net Cost of Operations	623	-	3	(4)	(455)	-	-	-	167
Change in Net Position	\$ 624	\$ -	\$ 4	\$ (2)	\$ (455)	\$ -	\$ -	\$ -	\$ 171
Net Position End of Period	\$ 16,935	\$ 8	\$ 819	\$ 13	\$ 159	\$ 2	\$ -	\$ -	\$ 17,936

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The following shows funds from dedicated collections as of September 30, 2012 (dollars in millions):

		Rental		Manufactured				Total
	Ginnie Mae	Housing Assistance	Flexible Subsidy	Housing Fees Trust Fund	Recovery Act Funds	Other	Eliminations	Earmarked Funds
Balance Sheet								
Fund Balance w/Treasury	\$ 7,075	\$ 4	\$ 255	\$ 15	\$ 634	\$ 2	\$ -	\$ 7,985
Investments	2,124	-	-	-	-	-	-	2,124
Accounts Receivable	161	4	-	-	-	-	-	165
Loans Receivable	-	-	560	-	11	-	-	571
Other Non-Credit Reform Loans Receivable	7,635	-	-	-	-	-	-	7,635
General Property, Plant and Equipment	40	-	-	-	-	-	-	40
Other	-	-	-	-	-	-	-	-
Total Assets	\$ 17,035	\$ 8	\$ 815	\$ 15	\$ 645	\$ 2	\$ -	\$ 18,520
Debt - Intragovernmental	\$ -	\$ -	\$ -	\$ -	\$ 15	\$ -	\$ -	\$ 15
Accounts Payable - Public	234	-	-	-	16	-	-	250
Loss Liability	357	-	-	-	-	-	-	357
Other Liabilities - Public	133	-	-	-	-	-	-	133
Total Liabilities	\$ 724	\$ -	\$ -	\$ -	\$ 31	\$ -	\$ -	\$ 755
Unexpended Appropriations	\$ 2	\$ -	\$ (376)	\$ -	\$ 614	\$ -	\$ -	\$ 240
Cumulative Results of Operations	16,309	8	1,191	15	-	2	-	17,525
Total Net Position	\$ 16,311	\$ 8	\$ 815	\$ 15	\$ 614	\$ 2	\$ -	\$ 17,765
Total Liabilities and Net Position	\$ 17,035	\$ 8	\$ 815	\$ 15	\$ 645	\$ 2	\$ -	\$ 18,520
Statement of Net Cost For the Period Ended								
Gross Costs	\$ 711	\$ 1	\$ (535)	\$ 7	\$ 1,963	\$ -	\$ (3)	\$ 2,144
Less Earned Revenues	(1,259)	-	(8)	(3)	(1)	-	3	(1,268)
Net Costs	\$ (548)	\$ 1	\$ (543)	\$ 4	\$ 1,962	\$ -	\$ -	\$ 876
Statement of Changes in Net Position for the Period Ended								
Net Position Beginning of Period	\$ 15,762	\$ 9	\$ 270	\$ 17	\$ 2,587	\$ 2	\$ -	\$ 18,647
Appropriations Received	-	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement	-	-	-	2	-	-	-	2
Imputed Costs	1	-	-	-	-	-	-	1
Other Adjustments	-	-	-	-	(11)	-	-	(11)
Donations and Forfeitures of Cash & Cash Equivalent	-	-	-	-	-	-	-	-
Penalties, Fines, and Administrative Fees Revenue	-	-	2	-	-	-	-	2
Net Cost of Operations	548	(1)	543	(4)	(1,962)	-	-	(876)
Change in Net Position	\$ 549	\$ (1)	\$ 545	\$ (2)	\$ (1,973)	\$ -	\$ -	\$ (882)
Net Position End of Period	\$ 16,311	\$ 8	\$ 815	\$ 15	\$ 614	\$ 2	\$ -	\$ 17,765

Note 20: Intragovernmental Costs and Exchange Revenue

The data below shows HUD's intragovernmental costs and earned revenue separately from activity with the public. Intragovernmental transactions are exchange transactions made between two reporting entities within the Federal government. Intragovernmental costs are identified by the source of the goods and services; both the buyer and seller are Federal entities. Revenues recognized by the Department may also be reported as non-Federal if the goods or services are subsequently sold to the public. Public activity involves exchange transactions between the reporting entity and a non-Federal entity.

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The following shows HUD's intragovernmental costs and exchange revenue (dollars in millions):

2013	Low Rent										Financial Statement	Consolidating
	Federal Housing	Section 8 Rental	Public Housing Loans and	Homeless Assistance	Housing for the Elderly	Community Development	HOME	All Other	Eliminations			
	Administration	Ginnie Mae	Assistance	Grants	Grants	and Disabled	Block Grants					
Intragovernmental Costs	\$ 943	\$ 3	\$ 71	\$ 34	\$ 29	\$ 61	\$ 19	\$ 10	\$ 309	\$ (4)	\$ 1,475	
Public Costs	(7,661)	599	28,582	2,926	1,782	1,107	5,768	1,437	6,300	-	40,840	
Subtotal Costs	\$ (6,718)	\$ 602	\$ 28,653	\$ 2,960	\$ 1,811	\$ 1,168	\$ 5,787	\$ 1,447	\$ 6,609	\$ (4)	\$ 42,315	
Unassigned Costs									\$ -	\$ -	\$ 200	
Total Costs											\$ 42,515	
Intragovernmental Earned Revenue	\$ (2,604)	\$ (99)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (20)	\$ 4	\$ (2,719)	
Public Earned Revenue	(76)	(1,126)	-	-	-	(192)	-	-	(14)	-	(1,408)	
Total Earned Revenue	(2,680)	(1,225)	-	-	-	(192)	-	-	(34)	4	(4,127)	
Net Cost of Operations	\$ (9,398)	\$ (623)	\$ 28,653	\$ 2,960	\$ 1,811	\$ 976	\$ 5,787	\$ 1,447	\$ 6,575	\$ -	\$ 38,388	

2012	Low Rent										Financial Statement	Consolidating
	Federal Housing	Section 8 Rental	Public Housing Loans and	Homeless Assistance	Housing for the Elderly	Community Development	HOME	All Other	Eliminations			
	Administration	Ginnie Mae	Assistance	Grants	Grants	and Disabled	Block Grants					
Intragovernmental Costs	\$ 492	\$ 2	\$ 85	\$ 45	\$ 1	\$ 32	\$ 25	\$ 12	\$ 315	\$ (3)	\$ 1,006	
Public Costs	23,031	709	29,043	3,467	1,964	1,145	6,876	1,802	6,224	-	74,261	
Subtotal Costs	\$ 23,523	\$ 711	\$ 29,128	\$ 3,512	\$ 1,965	\$ 1,177	\$ 6,901	\$ 1,814	\$ 6,539	\$ (3)	\$ 75,267	
Unassigned Costs									\$ 200	\$ -	\$ 200	
Total Costs											\$ 75,467	
Intragovernmental Earned Revenue	\$ (3,113)	\$ (94)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (16)	\$ 3	\$ (3,220)	
Public Earned Revenue	(113)	(1,165)	-	-	-	(228)	-	-	(8)	-	(1,514)	
Total Earned Revenue	(3,226)	(1,259)	-	-	-	(228)	-	-	(24)	3	(4,734)	
Net Cost of Operations	\$ 20,297	\$ (548)	\$ 29,128	\$ 3,512	\$ 1,965	\$ 949	\$ 6,901	\$ 1,814	\$ 6,715	\$ -	\$ 70,733	

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Note 21: Total Cost and Earned Revenue by Budget Functional Classification

The following shows HUD's total cost and earned revenue by budget functional classification for FY 2013 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	\$ 946	\$ (2,704)	\$ (1,758)
Community and Regional Development	91	(5)	86
Income Security	445	(12)	433
Other Multiple Functions	(3)	(2)	(5)
Financial Statement Eliminations	<u>\$ (3)</u>	<u>\$ 3</u>	<u>\$ -</u>
Total Intragovernmental	1,476	(2,720)	(1,244)
With the Public:			
Commerce and Housing Credit	\$ (7,084)	\$ (1,396)	\$ (8,480)
Community and Regional Development	5,906	(1)	5,905
Income Security	41,570	(10)	41,560
Administration of Justice	73	-	73
Other Multiple Functions	<u>374</u>	<u>-</u>	<u>374</u>
Total with the Public	\$ 40,839	\$ (1,407)	\$ 39,432
Not Assigned to Programs:			
Income Security	<u>200</u>	<u>-</u>	<u>200</u>
Total with the Public	\$ 200	\$ -	\$ 200
TOTAL:			
Commerce and Housing Credit	\$ (6,138)	\$ (4,100)	\$ (10,238)
Community and Regional Development	5,997	(6)	5,991
Income Security	42,215	(22)	42,193
Administration of Justice	73	-	73
Other Multiple Functions	371	(2)	369
Financial Statement Eliminations	<u>(3)</u>	<u>3</u>	<u>-</u>
TOTAL:	<u>\$ 42,515</u>	<u>\$ (4,127)</u>	<u>\$ 38,388</u>

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The following shows HUD's total cost and earned revenue by budget functional classification for FY 2012 (dollars in millions):

<u>Budget Functional Classification</u>	<u>Gross Cost</u>	<u>Earned Revenue</u>	<u>Net Cost</u>
Intragovernmental:			
Commerce and Housing Credit	\$ 494	\$ (3,208)	\$ (2,714)
Community and Regional Development	70	(5)	65
Income Security	442	(7)	435
Other Multiple Functions	<u>\$ 1</u>	<u>\$ (1)</u>	<u>\$ -</u>
Total Intragovernmental	1,007	(3,221)	(2,214)
With the Public:			
Commerce and Housing Credit	\$ 23,794	\$ (1,507)	\$ 22,287
Community and Regional Development	7,070	-	7,070
Income Security	42,881	(6)	42,875
Administration of Justice	70	-	70
Other Multiple Functions	<u>445</u>	<u>-</u>	<u>445</u>
Total with the Public	\$ 74,260	\$ (1,513)	\$ 72,747
Not Assigned to Programs:			
Income Security	<u>200</u>	<u>-</u>	<u>200</u>
Total with the Public	\$ 200	\$ -	\$ 200
TOTAL:			
Commerce and Housing Credit	\$ 24,288	\$ (4,715)	\$ 19,573
Community and Regional Development	7,140	(5)	7,135
Income Security	43,523	(13)	43,510
Administration of Justice	70	-	70
Other Multiple Functions	<u>446</u>	<u>(1)</u>	<u>445</u>
TOTAL:	<u>\$ 75,467</u>	<u>\$ (4,734)</u>	<u>\$ 70,733</u>

Note 22: Expenditures by Strategic Goals

As HUD updated its Strategic Plan to address the economic and community development issues the nation is facing, five Strategic Goals were identified. This note presents the expenditures incurred by HUD's various programs in achieving these goals. A description of each Strategic Goal is presented below and additional information is found in the Strategic Plan section of the AFR.

Goal 1: Strengthen the nation's housing market to bolster the economy and protect consumers

Goal 2: Meet the need for quality affordable rental homes

Goal 3: Utilize housing as a platform for improving quality of life

Goal 4: Build inclusive and sustainable communities free from discrimination

Goal 5: Transform the way HUD does business

The following table shows the expenditures allocated to HUD's Strategic Goals for FY 2013 (dollars in millions):

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	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Total
Programs						
FHA	(6,071)	(1,448)	(379)	(1,500)	-	(9,398)
Ginnie Mae	(467)	(156)	-	-	-	(623)
Section 8 Rental Assistance	-	23,430	187	5,036	-	28,653
Low Rent Public Housing Loans and Grants	413	2,172	74	301	-	2,960
Homeless Assistance Grants	-	1,268	543	-	-	1,811
Housing for the Elderly and Disabled	-	608	85	283	-	976
Community Development Block Grants	1,157	289	868	3,472	-	5,786
HOME	391	781	-	275	-	1,447
All Other Programs	410	3,784	798	1,588	(4)	6,576
Total	(4,167)	30,728	2,176	9,455	(4)	38,188
Costs Not Assigned To Programs						200
Total						38,388

The following table shows the expenditures allocated to HUD's Strategic Goals for FY 2012 (dollars in millions):

	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Total
Programs						
FHA	12,338	3,900	771	3,288	-	20,297
Ginnie Mae	(411)	(137)	-	-	-	(548)
Section 8 Rental Assistance	-	23,816	190	5,122	-	29,128
Low Rent Public Housing Loans and Grants	418	2,658	75	361	-	3,512
Homeless Assistance Grants	-	1,376	589	-	-	1,965
Housing for the Elderly and Disabled	-	591	83	275	-	949
Community Development Block Grants	1,380	345	1,035	4,141	-	6,901
HOME	490	979	-	345	-	1,814
All Other Programs	588	3,471	820	1,628	8	6,515
Total	14,803	36,999	3,563	15,160	8	70,533
Costs Not Assigned To Programs						200
Total						70,733

Note 23: Net Costs of HUD's Cross-Cutting Programs

This note provides a categorization of net costs for several major program areas whose costs were incurred among HUD's principal organizations previously discussed under Section 1 of the report. Costs incurred under HUD's other programs represent activities which support the Department's strategic goal to develop and preserve quality, healthy, and affordable homes.

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The following table shows the Department's cross-cutting costs among its major program areas for FY 2013 (dollars in millions):

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
<u>Section 8</u>					
Intragovernmental Gross Costs	\$ 44	\$ 27	\$ -	\$ -	\$ 71
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	\$ 44	\$ 27	\$ -	\$ -	\$ 71
Gross Costs with the Public	\$ 18,835	\$ 9,666	\$ 78	\$ 3	\$ 28,582
Earned Revenues	-	-	-	-	-
Net Costs with the Public	\$ 18,835	\$ 9,666	\$ 78	\$ 3	\$ 28,582
Net Program Costs	\$ 18,879	\$ 9,693	\$ 78	\$ 3	\$ 28,653
<u>Low Rent Public Housing Loans & Grants</u>					
Intragovernmental Gross Costs	\$ 34	\$ -	\$ -	\$ -	\$ 34
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	\$ 34	\$ -	\$ -	\$ -	\$ 34
Gross Costs with the Public	\$ 2,923	\$ -	\$ -	\$ 3	\$ 2,926
Earned Revenues	-	-	-	-	-
Net Costs with the Public	\$ 2,923	\$ -	\$ -	\$ 3	\$ 2,926
Net Program Costs	\$ 2,957	\$ -	\$ -	\$ 3	\$ 2,960
<u>Homeless Assistance Grants</u>					
Intragovernmental Gross Costs	\$ -	\$ -	\$ -	\$ 30	\$ 30
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	\$ -	\$ -	\$ -	\$ 30	\$ 30
Gross Costs with the Public	\$ -	\$ -	\$ 1,726	\$ 55	\$ 1,781
Earned Revenues	-	-	-	-	-
Net Costs with the Public	\$ -	\$ -	\$ 1,726	\$ 55	\$ 1,781
Net Program Costs	\$ -	\$ -	\$ 1,726	\$ 85	\$ 1,811
<u>CDBG</u>					
Intragovernmental Gross Costs	\$ -	\$ -	\$ 19	\$ -	\$ 19
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	\$ -	\$ -	\$ 19	\$ -	\$ 19
Gross Costs with the Public	\$ 77	\$ -	\$ 5,606	\$ 85	\$ 5,768
Earned Revenues	-	-	-	-	-
Net Costs with the Public	\$ 77	\$ -	\$ 5,606	\$ 85	\$ 5,768
Net Program Costs	\$ 77	\$ -	\$ 5,625	\$ 85	\$ 5,787
<u>All Other</u>					
Intragovernmental Gross Costs	\$ 92	\$ 154	\$ 41	\$ 23	\$ 310
Intragovernmental Earned Revenues	-	-	-	(20)	(20)
Intragovernmental Net Costs	\$ 92	\$ 154	\$ 41	\$ 3	\$ 290
Gross Costs with the Public	\$ 4,463	\$ 557	\$ 1,326	\$ (47)	\$ 6,299
Earned Revenues	-	(14)	-	-	(14)
Net Costs with the Public	\$ 4,463	\$ 543	\$ 1,326	\$ (47)	\$ 6,285
Direct Program Costs	\$ 4,555	\$ 697	\$ 1,367	\$ (44)	\$ 6,575
Costs Not Assigned to Programs	\$ 64	\$ 91	\$ 45	\$ -	\$ 200
Net Program Costs (including indirect costs)	\$ 4,619	\$ 788	\$ 1,412	\$ (44)	\$ 6,775

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The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas for FY 2012 (dollars in millions):

<u>HUD's Cross-Cutting Programs</u>	<u>Public and Indian Housing</u>	<u>Housing</u>	<u>Community Planning and Development</u>	<u>Other</u>	<u>Consolidated</u>
<u>Section 8</u>					
Intragovernmental Gross Costs	\$ 42	\$ 43	\$ -	\$ -	\$ 85
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	\$ 42	\$ 43	\$ -	\$ -	\$ 85
Gross Costs with the Public	\$ 19,143	\$ 9,818	\$ 80	\$ 2	\$ 29,043
Earned Revenues	-	-	-	-	-
Net Costs with the Public	\$ 19,143	\$ 9,818	\$ 80	\$ 2	29,043
Net Program Costs	<u>\$ 19,185</u>	<u>\$ 9,861</u>	<u>\$ 80</u>	<u>\$ 2</u>	<u>\$ 29,128</u>
<u>Low Rent Public Housing Loans & Grants</u>					
Intragovernmental Gross Costs	\$ 45	\$ -	\$ -	\$ -	\$ 45
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	\$ 45	\$ -	\$ -	\$ -	\$ 45
Gross Costs with the Public	\$ 3,461	\$ -	\$ -	\$ 6	\$ 3,467
Earned Revenues	-	-	-	-	-
Net Costs with the Public	\$ 3,461	\$ -	\$ -	\$ 6	\$ 3,467
Net Program Costs	<u>\$ 3,506</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6</u>	<u>\$ 3,512</u>
<u>CDBG</u>					
Intragovernmental Gross Costs	\$ -	\$ -	\$ 25	\$ -	\$ 25
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	\$ -	\$ -	\$ 25	\$ -	\$ 25
Gross Costs with the Public	\$ 71	\$ -	\$ 6,746	\$ 59	\$ 6,876
Earned Revenues	-	-	-	-	-
Net Costs with the Public	\$ 71	\$ -	\$ 6,746	\$ 59	\$ 6,876
Net Program Costs	<u>\$ 71</u>	<u>\$ -</u>	<u>\$ 6,771</u>	<u>\$ 59</u>	<u>\$ 6,901</u>
<u>All Other</u>					
Intragovernmental Gross Costs	\$ 83	\$ 168	\$ 69	\$ (5)	\$ 315
Intragovernmental Earned Revenues	(2)	-	-	(15)	(17)
Intragovernmental Net Costs	\$ 81	\$ 168	\$ 69	\$ (20)	\$ 298
Gross Costs with the Public	\$ 4,628	\$ 301	\$ 1,287	\$ 9	\$ 6,225
Earned Revenues	-	(9)	-	1	(8)
Net Costs with the Public	\$ 4,628	\$ 292	\$ 1,287	\$ 10	\$ 6,217
Direct Program Costs	<u>\$ 4,709</u>	<u>\$ 460</u>	<u>\$ 1,356</u>	<u>\$ (10)</u>	<u>\$ 6,515</u>
Costs Not Assigned to Programs	\$ 67	\$ 95	\$ 38	\$ -	\$ 200
Net Program Costs (including indirect costs)	<u>\$ 4,776</u>	<u>\$ 555</u>	<u>\$ 1,394</u>	<u>\$ (10)</u>	<u>\$ 6,715</u>

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Note 24: FHA Net Costs

FHA organizes its operations into three overall program types: Single Family Forward, Multifamily/Healthcare, and Home Equity Conversion Mortgages (HECM). These program types are composed of two major funds: GI/SRI and MMI/CMHI. FHA encourages homeownership through its Single Family Forward programs by making loans readily available with its mortgage insurance programs. These programs insure mortgage lenders against losses from default, enabling those lenders to provide mortgage financing on favorable terms to homebuyers. Multifamily Housing Programs provide FHA insurance to approved lenders to facilitate the construction, rehabilitation, repair, refinancing, and purchase of multifamily housing projects such as apartment rentals, and cooperatives. Healthcare programs enable low cost financing of health care facility projects and improve access to quality health care by reducing the cost of capital. The HECM program provides eligible homeowners who are 62 years of age and older access to the equity in their property with flexible terms. Homeowners may opt for a lump sum payment of mortgage proceeds, monthly payments, line of credit or a combination thereof.

The following table shows Net Cost detail for the FHA (dollars in millions):

Fiscal Year 2013					
	Single Family Forward Program	HECM Program	Multifamily/Healthcare Program	Administrative Costs	Total
Costs					
Intragovernmental Gross Costs	\$ 727	\$ 53	\$ 142	\$ 21	\$ 943
Intragovernmental Eamed Revenues	(1,720)	(823)	(62)	-	(2,605)
Intragovernmental Net Costs	\$ (993)	\$ (770)	\$ 80	\$ 21	\$ (1,662)
Gross Costs with the Public	\$ (5,840)	\$ (565)	\$ (1,927)	\$ 671	\$ (7,661)
Eamed Revenues	(28)	(2)	(46)	-	(76)
Net Costs with the Public	\$ (5,868)	\$ (567)	\$ (1,973)	\$ 671	\$ (7,737)
Net Program Costs	\$ (6,861)	\$ (1,337)	\$ (1,893)	\$ 692	\$ (9,399)

Fiscal Year 2012					
	Single Family Forward Program	HECM Program	Multifamily/Healthcare Program	Administrative Costs	Total
Costs					
Intragovernmental Gross Costs	\$ 326	\$ 52	\$ 85	\$ 29	\$ 492
Intragovernmental Eamed Revenues	(2,608)	(478)	(28)	-	(3,114)
Intragovernmental Net Costs	\$ (2,282)	\$ (426)	\$ 57	\$ 29	\$ (2,622)
Gross Costs with the Public	\$ 15,454	\$ 8,159	\$ (1,243)	\$ 660	\$ 23,030
Eamed Revenues	(50)	(5)	(57)	-	(112)
Net Costs with the Public	\$ 15,404	\$ 8,154	\$ (1,300)	\$ 660	\$ 22,918
Net Program Costs	\$ 13,122	\$ 7,728	\$ (1,243)	\$ 689	\$ 20,296

Note 25: Commitments under HUD's Grant, Subsidy, and Loan Programs

A. Contractual Commitments

HUD has entered into extensive long-term commitments that consist of legally binding agreements to provide grants, subsidies or loans. Commitments become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy commitments generally differs depending on whether the agreements were entered into before or after 1988.

With the exception of the Housing for the Elderly and Disabled and Low Rent Public Housing Loan Programs (which have been converted to grant programs), Section 235/236, and a portion of "all other"

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programs, HUD management expects all of the programs to continue to incur new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts below.

Prior to fiscal 1988, HUD's subsidy programs, primarily the Section 8 program and the Section 235/236 programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multiyear contracts within annual and total contract limitation ceilings. HUD then drew on and continues to draw on permanent indefinite appropriations to fund the current year's portion of those multiyear contracts. Because of the duration of these contracts (up to 40 years), significant authority exists to draw on the permanent indefinite appropriations. Beginning in FY 1988, the Section 8 and the Section 235/236 programs began operating under multiyear budget authority whereby the Congress appropriates the funds "up-front" for the entire contract term in the initial year.

HUD's commitment balances are based on the amount of unliquidated obligations recorded in HUD's accounting records with no provision for changes in future eligibility, and thus are equal to the maximum amounts available under existing agreements and contracts. Unexpended appropriations and cumulative results of operations shown in the Consolidated Balance Sheet comprise funds in the U.S. Treasury available to fund existing commitments that were provided through "up-front" appropriations and also include permanent indefinite appropriations received in excess of amounts used to fund the pre-1988 subsidy contracts and offsetting collections.

FHA enters into long-term contracts for both program and administrative services. FHA funds these contractual obligations through appropriations, permanent indefinite authority, and offsetting collections. The appropriated funds are primarily used to support administrative contract expenses while the permanent indefinite authority and the offsetting collections are used for program services.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2013 (dollars in millions):

Programs	Undelivered Orders				
	Unexpended Appropriations	Permanent Indefinite	Investment Authority	Offsetting Collections	Undelivered Orders - Obligations, Unpaid
FHA	\$ 174	\$ 109	\$ -	\$ 2,061	\$ 2,344
Ginnie Mae	-	-	-	428	428
Section 8 Rental Assistance	8,360	-	-	-	8,360
Low Rent Public Housing Loans and Grants	5,243	-	-	-	5,243
Homeless Assistance Grants	2,680	-	-	-	2,680
Housing for the Elderly and Disabled	2,860	-	-	-	2,860
Community Development Block Grants	14,385	-	-	-	14,385
HOME Partnership Investment Program	3,810	-	-	-	3,810
Section 235/236	1,100	466	-	-	1,566
All Other	4,075	-	-	-	4,075
Total	\$ 42,687	\$ 575	\$ -	\$ 2,489	\$ 45,751

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2013, \$6 billion relates to project-based commitments and \$2 billion relates to tenant-based commitments.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2012 (dollars in millions):

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<u>Programs</u>	<u>Undelivered Orders</u>				
	<u>Unexpended Appropriations</u>	<u>Permanent Indefinite</u>	<u>Investment Authority</u>	<u>Offsetting Collections</u>	<u>Undelivered Orders - Obligations, Unpaid</u>
FHA	\$ 188	\$ 193	\$ -	\$ 1,696	\$ 2,077
Ginnie Mae	-	-	-	343	343
Section 8 Rental Assistance	9,750	-	-	-	9,750
Low Rent Public Housing Loans and Grants	5,769	-	-	-	5,769
Homeless Assistance Grants	2,455	-	-	-	2,455
Housing for the Elderly and Disabled	3,470	-	-	-	3,470
Community Development Block Grants	14,970	-	-	-	14,970
HOME Partnership Investment Program	4,330	-	-	-	4,330
Section 235/236	1,078	872	-	-	1,950
All Other	4,998	-	-	-	4,998
Total	\$ 47,008	\$ 1,065	\$ -	\$ 2,039	\$ 50,112

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2012, \$7 billion relates to project-based commitments and \$2 billion relates to tenant-based commitments.

B. Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments which are reservations of funds for specific projects (including those for which a contract has not yet been executed) to obligate all or part of those funds. Administrative commitments become contractual commitments upon contract execution.

The following chart shows HUD's administrative commitments as of September 30, 2013 (dollars in millions):

<u>Programs</u>	<u>Reservations</u>			
	<u>Unexpended Appropriations</u>	<u>Permanent Indefinite Appropriations</u>	<u>Offsetting Collections</u>	<u>Total Reservations</u>
Section 8 Rental Assistance	\$ 185	\$ -	\$ -	\$ 185
Low Rent Public Housing Loans and Grants	24	-	-	24
Homeless Assistance Grants	124	-	-	124
Housing for the Elderly and Disabled	66	-	-	66
Community Development Block Grants	4,234	-	-	4,234
HOME Partnership Investment Program	186	-	-	186
Section 235/236	-	-	-	-
All Other	145	-	-	145
Total	\$ 4,964	\$ -	\$ -	\$ 4,964

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The following chart shows HUD's administrative commitments as of September 30, 2012 (dollars in

<u>Programs</u>	<u>Reservations</u>			
	<u>Unexpended</u> <u>Appropriations</u>	<u>Permanent</u> <u>Indefinite</u> <u>Appropriations</u>	<u>Offsetting</u> <u>Collections</u>	<u>Total</u> <u>Reservations</u>
Section 8 Rental Assistance	\$ 89	\$ -	\$ -	\$ 89
Low Rent Public Housing Loans and Grants	8	-	-	8
Homeless Assistance Grants	311	-	-	311
Housing for the Elderly and Disabled	98	-	-	98
Community Development Block Grants	553	-	-	553
HOME Partnership Investment Program	144	-	-	144
Section 235/236	-	-	-	-
All Other	141	-	-	141
Total	\$ 1,344	\$ -	\$ -	\$ 1,344

millions):

Note 26: Disaster Recovery Relief Efforts

The effects of Hurricanes Katrina, Rita and Wilma in 2005 and Hurricanes Ike and Gustav in 2008 resulted in increased funding for the Department for assisting in meeting housing needs of those displaced by the disaster. In FY 2008, HUD also received additional disaster funding for the Mid West to assist communities affected by severe storms and flooding.

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The following table shows the status of budgetary resources information for HUD's programs funded to support disaster relief as of September 30, 2013 (dollars in millions):

		Tenant-Based Rental Assistance	
	CDBG		Total
Budgetary Resources			
Unobligated Balance, beginning of period	\$ 241	\$ -	\$ 241
Recoveries	-	-	-
Budget Authority	-	-	-
Spending Authority from Offsetting Collections	-	-	-
Non-Expenditure Transfers, net	-	-	-
Other Balances Withdrawn	-	-	-
Total Budgetary Resources	<u>\$ 241</u>	<u>\$ -</u>	<u>\$ 241</u>
Status of Budgetary Resources			
Obligations Incurred	\$ 119	\$ -	\$ 119
Unobligated Balance, available	122	-	122
Unobligated Balance, not available	-	-	-
Total Status of Budgetary Resources	<u>\$ 241</u>	<u>\$ -</u>	<u>\$ 241</u>
Change in Obligated Balance			
Obligated Balance, net beginning of period	\$ 2,698	\$ -	\$ 2,698
Obligations Incurred	119	-	119
Gross Outlays	(671)	-	(671)
Recoveries	-	-	-
Obligated Balance, net end of period	<u>\$ 2,146</u>	<u>\$ -</u>	<u>\$ 2,146</u>
Net Outlays	<u>\$ 671</u>	<u>\$ -</u>	<u>\$ 671</u>

The data below displays cumulative activity for the four largest state recipients of HUD disaster assistance since the inception of the program. The obligations incurred and gross outlays shown above represent fiscal year activity (dollars are in millions).

	Obligations	Outlays	Unliquidated
Louisiana	\$ 14,571	\$ 12,585	\$ 1,986
Mississippi	5,539	4,678	861
Texas	3,751	1,756	1,995
Florida	393	328	65
Other States	2,288	2,059	229
Total	<u>\$ 26,542</u>	<u>\$ 21,406</u>	<u>\$ 5,136</u>

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The following table shows the status of budgetary resources information for HUD's programs funded to support disaster relief as of September 30, 2012 (dollars in millions):

	Tenant-Based Rental		
	CDBG	Assistance	Total
Budgetary Resources			
Unobligated Balance, beginning of period	\$ 200	\$ -	\$ 200
Recoveries	-	6	6
Budget Authority	100	-	100
Spending Authority from Offsetting Collections	-	-	-
Non-Expenditure Transfers, net	300	-	300
Other Balances Withdrawn	-	(6)	(6)
Total Budgetary Resources	\$ 600	\$ -	\$ 600
Status of Budgetary Resources			
Obligations Incurred	\$ 359	\$ -	\$ 359
Unobligated Balance, available	241	-	241
Unobligated Balance, not available	-	-	-
Total Status of Budgetary Resources	\$ 600	\$ -	\$ 600
Change in Obligated Balance			
Obligated Balance, net beginning of period	\$ 3,206	\$ 13	\$ 3,219
Obligations Incurred	359	-	359
Gross Outlays	(868)	(8)	(876)
Recoveries	-	(6)	(6)
Obligated Balance, net end of period	\$ 2,697	\$ (1)	\$ 2,696
Net Outlays	\$ 868	\$ 8	\$ 876

The data below displays cumulative activity for the four largest state recipients of HUD disaster assistance since the inception of the program. The obligations incurred and gross outlays shown above represent fiscal year activity (dollars in millions).

	Obligations	Outlays	Unliquidated
Louisiana	\$ 14,521	\$ 12,078	\$ 2,443
Mississippi	5,539	4,428	1,111
Texas	3,751	1,412	2,339
Florida	393	267	126
Other States	2,287	1,739	548
Total	\$ 26,491	\$ 19,924	\$ 6,567

Note 27: Apportionment Categories of Obligations Incurred

Budgetary resources are usually distributed in an account or fund by specific time periods, activities, projects, objects, or a combination of these categories. Resources apportioned by fiscal quarters are classified as Category A apportionments. Apportionments by any other category would be classified as Category B apportionments.

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HUD's categories of obligations incurred were as follows (dollars in millions):

	<u>Category A</u>	<u>Category B</u>	<u>Total</u>
<u>2013</u>			
Direct	\$ 893	\$ 137,476	\$ 138,369
Reimbursable	-	9	9
Total	<u>\$ 893</u>	<u>\$ 137,485</u>	<u>\$ 138,378</u>
	<u>Category A</u>	<u>Category B</u>	<u>Total</u>
<u>2012</u>			
Direct	\$ 948	\$ 95,488	\$ 96,436
Reimbursable	-	3,964	3,964
Total	<u>\$ 948</u>	<u>\$ 99,452</u>	<u>\$ 100,400</u>

Note 28: Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

The President's Budget containing actual FY 2013 data is not available for comparison to the Statement of Budgetary Resources. Actual FY 2013 data will be available in the Appendix to the Budget of the United States Government, FY 2015.

For FY 2012, an analysis to compare HUD's Statement of Budgetary Resources to the President's Budget of the United States was performed to identify any differences.

The following shows the difference between Budgetary Resources reported in the Statement of Budgetary Resources and the President's Budget for FY 2012 (dollars in millions):

	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Distributed Offsetting Receipts</u>	<u>Net Outlays</u>
<u>Combined Statement of Budgetary Resources</u>	\$ 159,150	\$ 100,400	\$ (3,426)	\$ 55,022
Difference #1 - Resources related to HUD's expired accounts not reported in the President's Budget	(653)	(55)	-	-
Difference #2 - The negative subsidy reported by Ginnie Mae as an offsetting receipt is reported as a negative outlay in the President's Budget	-	-	737	(737)
Difference #3 - Restatement of Ginnie Mae commercial financial statements to Federal reporting standards	149	(10)	-	-
Difference #4 - Ginnie Mae amounts precluded from obligation	(102)	-	-	-
United States Budget	<u>\$ 158,544</u>	<u>\$ 100,335</u>	<u>\$ (2,689)</u>	<u>\$ 54,285</u>

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Note 29: Reconciliation of Net Cost of Operations to Budget

This note (formerly the Statement of Financing) links the proprietary data to the budgetary data. Most transactions are recorded in both proprietary and budgetary accounts. However, because different accounting bases are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts. The Reconciliation of Net Cost of Operations to Budget is as follows for the periods ending September 30, 2013 and September 30, 2012 (dollars in millions):

	<u>2013</u>	<u>2012</u>
Budgetary Resources Obligated		
Obligations Incurred	\$ 138,378	\$ 100,401
Spending Authority from Offsetting Collections and Recoveries	(88,899)	(51,665)
Obligations Net of Offsetting Collections	\$ 49,479	\$ 48,736
Offsetting Receipts	(1,495)	(3,425)
Net Obligations	\$ 47,984	\$ 45,311
Other Resources		
Transfers In/Out Without Reimbursement	\$ (564)	\$ (1,440)
Imputed Financing from Costs Absorbed by Others	78	80
Other Resources	1	3
Net Other Resources Used to Finance Activities	\$ (485)	\$ (1,357)
Total Resources Used to Finance Activities	\$ 47,499	\$ 43,954
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods/Services/Benefits		
Services Ordered but Not Yet Provided	\$ 4,989	\$ 8,095
Credit Program Resources that Increase LLG or Allowance for Subsidy	80,982	47,527
Credit Program Resources not Included in Net Cost (Surplus) of Operations	(55,840)	-
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(33,354)	(10,429)
Resources that Fund Expenses from Prior Periods	(21)	(1)
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(51)	(14,619)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	\$ (3,295)	\$ 30,573
Total Resources Used to Finance the Net Cost of Operations	\$ 44,204	\$ 74,527
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period		
Upward/Downward Re-estimates of Credit Subsidy Expense	\$ 8,723	\$ 27,148
Increase in Exchange Revenue Receivable from the Public	(208)	(218)
Change in Loan Loss Reserve	(3)	(3)
Revaluation of Assets or Liabilities	1	5
Depreciation and Amortization	16	18
Changes in Bad Debt Expenses Related to Credit Reform Receivables	(440)	(303)
Reduction of Credit Subsidy Expense from Guarantee Endorsements and Modifications	(18,358)	(5,977)
Increase in Annual Leave Liability	-	-
Other	4,453	(24,464)
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	\$ (5,816)	\$ (3,794)
Net Cost of Operations	<u><u>\$ 38,388</u></u>	<u><u>\$ 70,733</u></u>

Note 30: Restatement of the Department's Fiscal Year 2012 Financial Statements

In FY 2013, the Department restated its FY 2012 financial statements to correct material errors in the Consolidated Balance Sheet, the Statement of Net Cost, the Statement of Changes in Net Position, and the Combined Statement of Budgetary Resources. The FY 2012 restatement was due to Ginnie Mae's financial statements prepared under Federal Accounting Standards Advisory Board (FASAB), the reclassification of GNMA's other assets to other non-credit reform loans receivable, and the establishment of prepayments from our tenant-based rental assistance program.

The Department and Ginnie Mae properly use different accounting standards, but this restatement is required to correct errors required by HUD in the preparation of the Department's consolidated financial statements. However, in the opinion of management and HUD's general counsel, Ginnie Mae is not subject to the Federal Credit Reform Act (FCRA). As a result, the restated financial statements are based on the Department's analysis of accounting standards not specific to FCRA. Also related to Ginnie Mae was the impact of the accounting error related to the classification of Mortgages Held for Investment and related activity as other assets which is inconsistent with the Department of Treasury's reporting requirements. Based on further discussions with the OIG and GNMA program officials, these balances were reclassified as non-credit reform loans.

The restated financial statements by HUD also reflect the accounting error of not recording net restricted assets maintained by PHAs under the Housing Choice Voucher Program, which resulted in additional assets and operating expenses reported by the Department. Summarized below are the net changes to the Department's FY 2012 financial statements to correct accounting errors not previously reported (dollars in millions):

Financial Statement	Amount
Consolidated Balance Sheet	
Total Assets	\$ 8,988
Total Liabilities	(9,913)
Total Net Position	925
Consolidated Statement of Net Cost	\$ 963
Consolidated Statement of Changes in Net Position	
Cumulative Results of Operations	\$ 61
Unexpended Appropriations	986
Consolidated Statement of Budgetary Resources	
Unpaid Obligations, End of Year, Gross	\$ 158
Unobligated Balances	(158)

The Department's restated financial statements do not reflect the impact of eliminating the current use of the First In First Out (FIFO) method to liquidate obligations under CPD's formula grant programs. The Department is in the process of modifying the Integrated Disbursement Information System (IDIS) to ensure that the disbursements are matched to the proper funding source as required under U.S. generally accepted accounting principles (GAAP). Until the systems modifications are completed by the Department, the impact on HUD's financial statements cannot be determined. HUD was also not able to assess the impact of revising its regulations based on GAO's ruling of HUD's interpretation of the 24 month commitment period which grantees must adhere to as a stipulation to receiving Federal funds. The failure by a grantee to meet the 24-month commitment as interpreted by GAO would result in greater recoveries reported on the Department's Statement of Budgetary Resources. The Department will

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disclose a restatement related to CPD's programs once HUD determines the financial statements and corresponding line items impacted.

Consolidation of a Reporting Entity with a Differing Accounting Treatment

HUD restated its FY 2012 financial statements to correct the impact of errors resulting from the improper consolidation of Ginnie Mae's financial statements. FASAB is the source of generally accepted accounting principles (GAAP) for Federal reporting entities. Ginnie Mae is a government corporation within HUD, and HUD reports Ginnie Mae on its consolidated financial statements. Ginnie Mae prepares its stand-alone financial statements in accordance with Financial Accounting Standards Board (FASB) accounting guidance. However, HUD's financial statements are presented in conformance with the FASAB's SFFAS. As such, Ginnie Mae assessed the differences between FASB and FASAB accounting requirements for purposes of reporting the financial information to HUD and identified the following differences:

Mortgage Servicing Rights (MSR) – Under FASB, servicing assets and servicing liabilities arise from situations in which Ginnie Mae assumes servicing rights on the pooled loan portfolio as a result of issuer default. FASB Accounting Standards Codification (ASC) 860-50-30-1 indicates that servicing assets and servicing liabilities should be initially measured at fair value. In accordance with ASC 860-50-35-3, Ginnie Mae has made an irrevocable election to subsequently measure MSRs at fair value at each reporting date based on the present value of estimated future net servicing income. However, under FASAB guidance, there is no servicing rights concept and the expected cash flows from revenue to be received but unearned are not considered an asset under FASAB. As a result, the MSR asset of \$61 million was eliminated in the FY 2012 Consolidated Balance Sheet and a corresponding loss was recognized in the FY 2012 Statement of Net Cost.

Guarantee Asset – Under FASB guidance, Ginnie Mae receives guarantee fees from the issuers equal to six basis points (Single Family and Manufactured Housing loans) and nine basis points (Multifamily loans) on the unpaid principal balance of the outstanding MBSs in the non-defaulted issuer portfolio. These fees are paid on a monthly basis over the period that the guarantee is provided (typically 30 years of cash flows over the life of the loan). As the guarantee is issued in a standalone transaction for a premium, Ginnie Mae records a guarantee asset (representing a receivable at net present value) for the guarantee fees as the offsetting entry for the guarantee liability (see description below) in accordance with ASC 460-10-55-23a. On the other hand, FASAB does not have guidance to specifically allow for the recognition of an asset as it relates to future collection of fees tied to a guaranteed liability. A receivable is only recognized once goods and services are provided and a reasonable estimate can be made. As a result, the guarantee asset of \$7 billion is written off from the FY 2012 HUD Consolidated Financial Statements.

Guarantee Liability – Under FASB guidance, Ginnie Mae recognizes a Guarantee Liability for the non-contingent aspect of its obligation. At inception of the guarantee under the MBS Program, Ginnie Mae recognizes a liability for the guarantee that it provides on MBSs issued by third-party issuers. Generally, a guarantee liability is initially measured at fair value. However, Ginnie Mae applies the practical expedient in ASC 460-10-30-2a (ASC Topic 460, Guarantees (ASC 460)), which allows the guarantee liability to be recognized at inception based on the premium received or receivable by the guarantor, provided the guarantee is issued in a standalone

arm's length transaction with an unrelated party. As Ginnie Mae does not receive guarantee fees at inception of the guarantee, Ginnie Mae determines the initial measurement of the guarantee liability based on the expected present value cash flows to be received for the guarantee fee. Under FASAB guidance, there is currently not a practical expedient consideration in FASAB. Therefore, the guarantee liability of \$7 billion is written off from the FY 2012 HUD Consolidated Financial Statements.

Restatement of Other Assets

HUD restated its FY 2012 financial statements to correct the impact of the errors resulting from improper classification of the non-credit reform loans to other assets. The error occurred due to the Department's misinterpretation of the United States Standard General Ledger (USSGL) requirements which provide guidance on the presentation of financial statements. As the crosswalk did not specifically note a line for a non-credit reform loans receivable and related assets, Ginnie Mae presented certain assets in other assets in FY 2012. In FY 2013, Ginnie Mae agreed to reclassify balances related to Mortgage Loans Held for Investment and related balances from other assets to other non-credit reform loans as a result of ambiguous reporting criteria as it applies to Ginnie Mae's Mortgage Backed Securities (MBS). Below is a summary of the restatement in FY 2012:

	September 30, 2012 Restatement	September 30, 2012 Original Presentation	Difference
Non-Credit Reform Loans Receivable	\$ 7,634,117,316	\$ -	\$ 7,634,117,316
Other Assets	\$ 4,135	\$ 14,328,742,865	\$ (14,328,738,731)

The Other Assets line item includes the Guaranty Asset and MSRs in the Original Presentation column which has been written off as previously discussed in the prior section. In FY 2012, the original presentation included Mortgage Loans Held for Investment, Foreclosed Property, Advances against Defaulted MBS Pools, and Short Sale Claims Receivable. These balances have been moved to the Non-Credit Reform Loans Receivable line item in the Restatement column. Note 8 provides detail in regards to the composition of the Non-Credit Reform line item in FY 2013.

Statement of Budgetary Resources

The Department restated its FY 2012 financial statements to correct the impact of the errors resulting from omission of unpaid undelivered obligations. The error occurred because budgetary accounting was not being performed due to limitations of Ginnie Mae's reporting system which was configured to meet private sector needs. As a Government corporation, Ginnie Mae prepares its financial statements based on FASB accounting guidance. In order to prepare budgetary data for HUD consolidated purposes, Ginnie Mae performs reconciliations of proprietary transactions to complete the Statement of Budgetary Resources (SBR) outside of their financial system. Based on the FY 2013 audit, the Office of the Inspector General (OIG) identified that unpaid, undelivered obligations were not properly accounted for within the consolidated data. As a result of Ginnie Mae's analysis of procurement data as of October 1, 2006, the amount Ginnie Mae's unpaid obligations as of September 30, 2012 increased from \$333 million to \$490 million. All of the differences disclosed by the Department are the result of the consolidation of Ginnie Mae's stand-alone financial statements to comply with Federal Accounting Standards Advisory Board (FASAB) reporting requirements. Ginnie Mae expects to complete the systems modifications to capture budgetary data at the transaction level in FY 2014.

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Elimination of Probable Unrealized Claims from Ginnie Mae

HUD restated its FY 2012 financial statements to correct the impact of the errors resulting from the improper valuation of Ginnie Mae held defaulted FHA-insured mortgage loans. As of September 30, 2013 and 2012, Ginnie Mae held defaulted FHA-insured mortgage loans. These loans, acquired from defaulted MBS issuers, had balances of \$6 billion and \$7 billion in FY 2013 and FY 2012, respectively. Ginnie Mae reports these loans as assets on their financial statements. Ginnie Mae may submit requests for claim payments to FHA for some or all of these loans. Subject to all existing claim verification controls, FHA would pay such claims to Ginnie Mae, another component of HUD, upon conveyance of the foreclosed property to FHA. Any liability for such claims, and offsetting recoveries, is reflected in FHA's Liability for Loan Guarantees (LLG) on the accompanying financial statements based on the default status of the insured loans. In prior years, the HUD consolidated financial statements reflected these amounts on their statements without reclassification.

In FY 2013, HUD revised the presentation of the balance sheet to conform with generally accepted accounting principles. The Department recognized probable claims by Ginnie Mae reducing the value of its assets and liabilities by the same amount. The correction of the error recognized by FHA's guarantee recorded in the LLG account reduced the amount of Mortgages Held for Investment reported as non-credit reform loans in HUD's consolidated balance sheet. The reclassification entry of \$2 billion and \$3 billion was made in the Department's FY 2013 and FY 2012 financial statements, respectively, and had no impact on HUD's net position. Prior to the restatement of the financial statements by HUD, the Department only eliminated actual claims by Ginnie Mae totaling \$8 million and \$6 million for FY 2013 and FY 2012, respectively.

Recognition of NRA Balances and Impact of Cash Management Reviews

HUD restated its FY 2012 financial statements to correct the impact of the errors resulting from the omission of PIH's Net Restricted Asset (NRA) balances in HUD's consolidated balance sheet. Beginning in 2005, PHAs have maintained NRA balances as a result of funding provided by the Department under the Housing Choice Voucher Program. The NRA balances have been significantly depleted over the years due to reduced renewal funding levels and sequestration.

In calendar year 2012, PIH implemented new cash management requirements and procedures for the disbursement by HUD of housing assistance payments funds provided to PHAs under the Housing Choice Voucher program in accordance with Department of Treasury's guidelines. PIH Notices further stipulated that NRAs maintained by PHAs as of December 31, 2012 were to be transitioned to HUD held reserves under the Department's cash management policies. The implementation of the Department's cash management policies have not been fully implemented and as a result, PHAs continue to hold NRA balances to cover shortfalls to cover the subsidiary costs of the Housing Voucher Program.

PIH has implemented a forecasting model to project the NRA balances maintained by the PHAs. The OIG has reviewed the projections by PIH and has determined that additional audit work is needed to verify the underlying data and assumptions of the model. The Department recognizes that the expenses of the program are self-reported by the PHAs and subject to audit verification by the OIG and the results of PIH's ongoing monitoring reviews. The amount of costs incurred by PHAs under the program are reported through PIH's Voucher Management System and used by program staff to adjust the amount of the NRA balances during the year. The expense recognized by the Department in the Statement of Net Cost and its impact on the net cost of operations reported on the Statement of Changes in Net Position is

based on the difference between the beginning and ending NRA balances reported for FY 2013 and FY 2012, respectively. The Department contends that prior reviews of PIH activity and reliance on IPA audits provide a reasonable basis to book the estimate to accurately reflect the full costs of the PIH voucher program.

The Department has recorded a prepayment of \$452 million dollars and \$986 million dollars in its FY 2013 and FY 2012, respectively. In addition, the Department corrected an error in the beginning balances of \$2 billion and \$986 million dollars was recognized in its FY 2012 and FY 2013 financial statements, respectively, as a result of understating its equity reported on its balance sheets for the current and prior fiscal years. The reduction of the prepayment increased the amount of expenses under the voucher program by \$534 million dollars and \$902 million dollars in its Statement of Net Costs for FY 2013 and 2012, respectively. A prepayment of \$452 million and \$986 million was also recognized in the Statement of Budgetary Resources for FY 2013 and FY 2012, respectively, to account for the related asset established in the Department's Consolidated Balance Sheet. The reclassification from a paid to pre-paid status has no impact on the restated Statement of Budgetary Resources since the amounts for unobligated balances, gross outlays and unpaid obligations, end of year are not impacted under the USSGL.

It is the position of the Department that the establishment of an accounts receivable is inappropriate given the substance of the transactions as interpreted by PIH and OCFO staff. Although required by PIH interim policy notices, the recognition of an accounts receivable is not warranted under Federal GAAP since the projected reductions in the NRA balances have not been remitted to the Department. Once the NRA balances are returned to HUD through direct payments or wire transfers by the PHAs, the prepayment balance in the Department's financial records will be reclassified as an accounts receivable and reduced by the cash transfers reflected in the Department's treasury's account. The recommended accounting by the Department is consistent with the substance of the underlying financial event.

The Department also acknowledges that the results of PIH's cash management reviews performed in FY 2012 are not reflected in the financial statements. As noted in the OIG's Internal Control Report, excesses and shortages identified by PIH staff have resulted in receivables and payables amounting to \$29 million and \$70 million respectively as of June 2013. In addition, excess and identified but not reported by the Department for the fiscal year ending 2012 resulted in receivables and payables amounting to \$154 million and \$19 million respectively. As a result of not completing the reviews in a timely manner, information to estimate figures as of September 30, 2013 were not available and could not be estimated at the completion of the audit.

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Below are the Department's FY 2012 restated financial statements to correct accounting errors not previously reported (dollars in millions):

	September 30, 2012 Consolidated Financial Statements (with no restatement)	September 30, 2012 Consolidated Financial Statements (with restatement)	Changes
Balance Sheet (Dollars in Millions)			
ASSETS			
Intragovernmental			
Fund Balance with Treasury	108,217	108,217	-
Investments	4,899	4,899	-
Other Assets	27	27	
Total Intragovernmental Assets	113,143	113,143	
Investments	60	60	
Accounts Receivable, Net	213	213	-
Direct Loan and Loan Guarantees, Net	8,534	8,534	-
Other Non Credit Reform Loans (Note 8)	-	4,355	(4,355)
General Property Plant and Equipment, Net	367	367	-
PIH Prepayments (Note 10)		986	(986)
Other Assets (Note 11)	14,388	59	14,329
TOTAL ASSETS	136,705	127,717	8,988
LIABILITIES			
Intragovernmental Liabilities			
Accounts Payable	15	15	
Debt	11,567	11,567	
Other Intragovernmental Liabilities	4,117	4,117	
Total Intragovernmental Liabilities	15,699	15,699	-
Accounts Payable	1,303	1,303	-
Loan Guarantee Liability (Note 7)	55,144	51,865	3,279
Debt Held by the Public	60	60	-
Federal Employee and Veteran Benefits	76	76	-
Loss Reserves	358	358	-
Other Governmental Liabilities (Note 16)	7,370	736	6,634
TOTAL LIABILITIES	80,010	70,097	9,913
Net Position			
Unexpended Appropriations - Funds From Dedicated Collections	240	240	
Unexpended Appropriations - Other Funds	52,229	53,215	(986)
Cumulative Results of Operations - Funds From Dedicated Collections (Note 11)	17,586	17,525	61
Cumulative Results of Operations - Other Funds	(13,360)	(13,360)	
Total Net Position	56,695	57,620	(925)
Total Liabilities and Net Position	136,705	127,717	8,988

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Statement of Changes in Net Position (Dollars in Millions)	September 30, 2012 Consolidated Financial Statements (with no restatement)	September 30, 2012 Consolidated Financial Statements (with restatement)	Changes
CUMULATIVE RESULTS OF OPERATIONS:			
Beginning Balances	23,799	23,799	-
Adjustments			
Changes in Accounting Principles			
Corrections of Errors	7	7	
Beginning Balances, As Adjusted	23,806	23,806	-
BUDGETARY FINANCING SOURCES:			
Other Adjustments			
Appropriations Used	52,343	53,246	(903)
Non-exchange Revenue	-	-	
Donations/Forfeitures of Cash & Cash Equivalents	1		
Transfers In/Out Without Reimbursement	(394)	(394)	
Other			
OTHER FINANCING SOURCES (Non-exchange):			
Transfers In/Out Without Reimbursement	(1,045)	(1,045)	
Imputed Financing	80	80	
Other	(795)	(795)	
Total Financing Sources	50,190	51,092	(902)
Net Cost of Operations	(69,770)	(70,733)	963
Net Change	(19,580)	(19,641)	61
CUMULATIVE RESULTS OF OPERATIONS	4,226	4,165	61
UNEXPENDED APPROPRIATIONS:			
Beginning Balances	61,044	61,044	-
Adjustments			
Changes in Accounting Principles			
Corrections of Errors	(7)	1,881	(1,888)
Beginning Balances, As Adjusted	61,037	62,925	(1,888)
BUDGETARY FINANCING SOURCES:			
Appropriations Received	45,568	45,568	-
Appropriations Transferred In/Out			
Other Adjustments	(1,793)	(1,793)	-
Appropriations Used	(52,343)	(53,245)	902
Total Budgetary Financing Sources	(8,568)	(9,470)	902
Total Unexpended Appropriations	52,469	53,455	(986)
NET POSITION	56,695	57,620	(925)

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	September 30, 2012	September 30, 2012	
	Consolidated	Consolidated	
Statement of Net Cost	Financial Statements	Financial Statements	
(Dollars in Millions)	(with no restatement)	(with restatement)	Changes
PROGRAM COSTS			
Gross Costs (Note 20)	74,454	75,467	(1,013)
Less: Earned Revenue	(4,684)	(4,734)	50
	<hr/>	<hr/>	
Net Program Costs	69,770	70,733	(963)
Net Cost of Operations	<hr/>	<hr/>	
	69,770	70,733	(963)

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Statement of Budgetary Resources (Dollars in Millions)	September 30, 2012 Consolidated Financial Statements (with no restatement)	September 30, 2012 Consolidated Financial Statements (with restatement)	Changes
Budgetary Resources:			
Unobligated Balance, Brought Forward	58,190	58,040	150
Adjustments to Unobligated Balance Brought Forward, October 1	(24)	(24)	-
Unobligated balance from prior year budget authority, net	58,166	58,016	150
Recoveries of Prior Year Unpaid Obligations	1,237	1,238	(1)
Other changes in unobligated balance	(1,080)	(1,080)	-
Unobligated balance from prior year budget authority, net	58,323	58,174	149
Appropriations (discretionary and mandatory)	44,047	44,047	-
Borrowing Authority (discretionary and mandatory)	5,760	5,760	-
Spending Authority from offsetting collections	51,169	51,170	(1)
Total Budgetary Resources	159,299	159,151	148
STATUS OF BUDGETARY RESOURCES:			
Obligations Incurred			
Direct	96,436	96,437	
Reimbursable	3,955	3,964	(9)
Subtotal	100,391	100,401	(10)
Unobligated Balances			
Apportioned	22,712	22,712	
Unapportioned	36,196	36,038	158
Subtotal	58,908	58,750	158
Total Status of Budgetary Resources	159,299	159,151	148
CHANGE IN OBLIGATED BALANCE:			
Unpaid Obligations:			
Unpaid obligations, brought forward, Oct 1	58,952	59,100	(148)
Adjustments to unpaid obligations, start of year (+ or -)		-	
Obligations incurred	100,391	100,401	(10)
Outlays (gross) (-)	(106,433)	(106,433)	-
Actual Transfers, unpaid obligations (net) (+ or -)	-	-	-
Recoveries of prior year unpaid obligations (-)	(1,238)	(1,238)	-
Unpaid Obligations, end of year (gross)	51,672	51,830	(158)
Uncollected Payments:			
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	(259)	(257)	(2)
Adjustments to uncollected payments, Fed sources, start of year	-	-	
Change in uncollected payments, Fed sources (+ or -)	168	168	-
Actual Transfers, uncollected payments, Fed sources (net) (+ or -)	-	-	
Uncollected payments, Fed sources, end of year (-)	(91)	(89)	(2)
Obligated Balance, start of year (+ or -)	58,693	58,843	(150)
Obligated Balance, end of year (+ or -)	51,581	51,739	(158)
BUDGET AUTHORITY, NET:			
Budget authority, gross (discretionary and mandatory)	100,978	100,978	-
Actual offsetting collections (discretionary and mandatory) (-)	(52,149)	(52,149)	-
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	168	168	-
Budget Authority, net (discretionary and mandatory)	48,997	48,997	-
Outlays, net (discretionary and mandatory)			
Gross Outlays	106,433	106,433	-
Actual offsetting collections (discretionary and mandatory) (-)	(51,412)	(51,412)	-
	55,021	55,021	
Distributed offsetting receipts	(3,425)	(3,425)	-
Agency Outlays, net (discretionary and mandatory)	51,595	51,595	-

Required Supplementary Stewardship Information

Introduction

This narrative provides information on resources utilized by HUD that do not meet the criteria for information required to be reported or audited in HUD's financial statements but are, nonetheless, important to understand investments made by HUD for the benefit of the Nation. The stewardship objective requires that HUD also report on the broad outcomes of its actions associated with these resources. Such reporting will provide information that will help the reader to better assess the impact of HUD's operations and activities.

HUD's stewardship reporting responsibilities extend to the investments made by a number of HUD programs in Non-Federal Physical Property, Human Capital, and Research and Development. Due to the relative immateriality of the amounts and in the application of the related administrative costs, most of the investments reported reflect direct program costs only. The investments addressed in this narrative are attributable to programs administered through the following divisions/departments:

- Community Planning and Development (CPD),
- Public and Indian Housing (PIH),
- Policy Development and Research (PD&R), and
- Office of Healthy Homes and Lead Hazard Control (OHHLHC).

Overview of HUD's Major Programs

CPD seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons. HUD makes stewardship investments through the following CPD programs:

- **Community Development Block Grants (CDBG)** are provided to state and local communities, which use these funds to support a wide variety of community development activities within their jurisdictions. These activities are designed to benefit low- and moderate-income persons, aid in the prevention of slums and blight, and meet other urgent community development needs. State and local communities use the funds as they deem necessary, as long as the use of these funds meet at least one of these objectives. A portion of the funds supports the acquisition, construction or rehabilitation of permanent, residential structures that qualify as occupied by and benefiting low- and moderate- income persons, while other funds help to provide employment and job training to low- and moderate-income persons.
- **Disaster Recovery Assistance (Disaster Grants/CDBG-DR)** is a CDBG program that helps state and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate, construct, or demolish physical property.
- **The Housing Investment Partnerships Program (HOME)** provides formula grants to states and localities (used often in partnership with local nonprofit groups) to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for low-income persons.
- **Homeless – Continuum of Care (CoC)** The Supportive Housing Program (SHP) was repealed and replaced by the Continuum of Care (CoC) Program effective FY 2012. The CoC is a body of

stakeholders in a specific geographic area that plans and implements homeless assistance strategies (including the coordination of resources) to address the critical needs of homeless persons and facilitate their transition to jobs and independent living.

- **Emergency Solutions Grants (ESG)** provide formula funding to local units of government for homelessness prevention and to improve the number and quality of emergency and transitional shelters for homeless individuals and families.
- **Neighborhood Stabilization Program (NSP)** stabilizes communities that have suffered from foreclosures and abandonment. Through the purchase and redevelopment of foreclosed and abandoned homes and residential properties, and by providing technical assistance (**NSP TA**), the goal of the program is being realized.
- **Housing Opportunities for People with HIV/AIDS (HOPWA)** provides education assistance and an array of housing subsidy assistance and supportive services to assist low-income families and individuals who are living with the challenges of HIV/AIDS and risks of homelessness.
- **Rural Innovation Fund (RIF)** offers grants throughout the nation to address distressed housing conditions and concentrated poverty. The grants promote an ‘entrepreneurial approach’ to affordable housing and economic development in rural areas by providing job training, homeownership counseling and affordable housing to residents of rural and tribal communities.
- **OneCPD** provides technical assistance and capacity building to CPD grantees including onsite and remote training, workshops, and 1:1 assistance.

PIH ensures safe, decent, and affordable housing, creates opportunities for residents’ self-sufficiency and economic independence, and assures the fiscal integrity of all program participants. HUD makes stewardship investments through the following PIH programs:

- **Indian Community Development Block Grants (ICDBG)** provide funds to Indian organizations to develop viable communities, including decent housing, a suitable living environment, and economic opportunities, principally for low and moderate-income recipients.
- The **Native Hawaiian Housing Block Grant (NHHBG)** program provides an annual block grant to the Department of Hawaiian Home Lands (DHHL) for a range of affordable housing activities to benefit low-income Native Hawaiians eligible to reside on the Hawaiian home lands. The DHHL has the authority under the NHHBG program to develop new and innovative affordable housing initiatives and programs based on local needs, including down payment and other mortgage assistance programs, transitional housing, domestic abuse shelters, and revolving loan funds.
- **Indian Housing Block Grants (IHBG)** provide funds needed to allow tribal housing organizations to maintain existing units and to begin development of new units to meet their critical long-term housing needs.
- **HOPE VI Revitalization Grants (HOPE VI)** provide support for the improvement of the living environment of public housing residents in distressed public housing units. Some investments support the acquisition, construction or rehabilitation of property owned by the PHA, state or local governments, while others help to provide education and job training to residents of the communities targeted for rehabilitation.

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- **Choice Neighborhoods** grants transform distressed neighborhoods and public and assisted projects into viable and sustainable mixed-income neighborhoods by linking housing improvements with appropriate services, schools, public assets, transportation, and access to jobs.
- **The Public Housing (PH) Capital Fund** provides grants to PHAs to improve the physical conditions and to upgrade the management and operation of existing public housing.

PD&R's stewardship responsibilities include maintaining current information to monitor housing needs and housing market conditions, and to support and conduct research on priority housing and community development issues. In prior years, HUD made stewardship investments through the Community Development Work Study and the Partnership for Advancing Technology in Housing (PATH) program.

The **OHHLHC** program seeks to eliminate childhood lead poisoning caused by lead-based paint hazards and to address other childhood diseases and injuries, such as asthma, unintentional injury, and carbon monoxide poisoning, caused by substandard housing conditions.

- **The Lead Technical Assistance Division**, in support of the Departmental Lead Hazard Control program, supports technical assistance and the conduct of technical studies and demonstrations to identify innovative methods to create lead-safe housing at reduced cost. In addition, these programs are designed to increase the awareness of lead professionals, parents, building owners, housing and public health professionals, and others with respect to lead-based paint and related property-based health issues.
- **Lead Hazard Control Grants** help state and local governments and private organizations and firms control lead-based paint hazards in low-income, privately owned rental, and owner-occupied housing. The grants build program and local capacity and generate training opportunities and contracts for low-income residents and businesses in targeted areas.

RSSI Reporting – HUD's Major Programs

Non-Federal Physical Property

Investment in Non-Federal Physical Property: Non-Federal physical property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. These investments support HUD's strategic goals to increase the availability of decent, safe, and affordable housing and to strengthen communities. Through these investments, HUD serves to improve the quality of life and economic vitality. The table below summarizes material program investments in Non-Federal Physical Property, for fiscal years 2009 through 2013.

Financial Information
Required Supplementary Stewardship Information

Investments in Non-Federal Physical Property
Fiscal Year 2009 – 2013
(Dollars in millions)

Program	2009	2010	2011	2012	2013
CPD					
CDBG	\$1,180	\$1,083	\$1,132	\$1,115	\$1,129
Disaster Grants ¹	\$144	\$358	\$314	\$280	\$310
HOME	\$18	\$36	\$21	\$23	\$21
SHP/CoC - Homeless ²	\$14	\$20	\$17	\$11	\$1
NSP	N/A	\$10	\$24	\$6	\$4
RIF ³	N/A	N/A	N/A	\$0	\$3
PIH					
ICDBG	\$61	\$62	\$61	\$117	\$54
NHHBG	\$10	\$13	\$13	\$13	\$12
IHBG ⁴	\$309	\$212	\$259	\$265	\$215
HOPE VI	\$104	\$114	\$240	\$122	\$127
Choice Neighborhoods ⁵	N/A	N/A	N/A	\$0	\$3
PH Capital Fund ⁶	\$2,310	\$3,783	\$3,610	\$2,223	\$1,798
TOTAL	\$4,150	\$5,691	\$5,691	\$4,175	\$3,677

Notes:

1. Disasters are unpredictable, which causes material fluctuations.
2. Low dollar value was due to shrinking resources for new programs.
3. Rural Innovation Fund was reported for the first time in FY 2012, however the amount was not material to be included in the FY 2012 AFR.
4. Historical amounts were updated to reflect corrections made since the last report.
5. Choice Neighborhoods was a component of HOPE VI in FY 2011. In FY 2012, it was reported separately, however the amount was not material to be included in the FY 2012 AFR.
6. Part of decrease attributed to reduced funding received for Capital Fund Program.

Human Capital

Investment in Human Capital: Human Capital investments support education and training programs that are intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goals, which are to promote self-sufficiency and asset development of families and individuals; improve community quality of life and economic vitality; and ensure public trust in HUD. The following table summarizes material program investments in Human Capital, for fiscal years 2009 through 2013.

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Investments in Human Capital
Fiscal Year 2009 – 2013
(Dollars in millions)

Program	2009	2010	2011	2012	2013
CPD					
CDBG ¹	\$29	\$28	\$26	\$29	\$24
Disaster Grants	N/A	N/A	\$7	\$0	\$0
ESG	\$0	\$2	\$3	\$4	\$3
NSP TA	N/A	N/A	\$2	\$2	\$1
SHP/CoC - Homeless	\$16	\$28	\$32	\$33	\$31
HOPWA	\$1	\$1	\$1	\$1	\$1
OneCPD ²	N/A	N/A	N/A	\$0	\$40
PIH					
NHHBG	\$0	\$1	\$1	\$0	\$0
IHBG	\$1	\$1	\$1	\$1	\$1
HOPE VI	\$9	\$10	\$42	\$15	\$12
Choice Neighborhoods ³	N/A	N/A	N/A	\$0	\$2
OHHLHC					
Lead Technical Assistance	\$0	\$0	\$1	\$0	\$0
TOTAL	\$56	\$71	\$116	\$85	\$115

Notes:

1. FY 2012 included \$0.6m on Rural Innovation Fund promote an 'entrepreneurial approach' to affordable housing and economic development in rural areas by providing job training, homeownership counseling and affordable housing to residents of rural and tribal communities.
2. FY 2012 was the first year of reporting OneCPD's investment in human capital in the RSSI, however the amount was not material to be included in the FY 2012 AFR.
3. Choice Neighborhoods was a component of HOPE VI in FY 2011. In FY 2012, it was reported separately, however the amount was not material to be included in the FY 2012 AFR.

Results of Human Capital Investments: The following table presents the results (number of people trained) of human capital investments made by HUD's CPD, PIH, and OHHLHC programs:

Results of Investments in Human Capital
Number of People Trained
Fiscal Year 2009 – 2013

Program	2009	2010	2011	2012	2013
CPD					
CDBG	47,578	97,349	303,416	65,741	68,236
SHP/CoC - Homeless ¹	21.9%	21.6%	17.8%	27.4%	17.0%
HOPWA	N/A	2,614	1,662	1,426	1,595
NSP TA ²	N/A	131	541	933	298
RIF ³	N/A	N/A	N/A	0	1,048
OneCPD ⁴	N/A	N/A	N/A	N/A	9,791
PIH					
ICDBG ⁵	15	0	122	0	0
NHHBG ⁵	160	210	116	0	0
IHBG ⁵	485	1,474	1,550	770	1,077
HOPE VI (see table on next page)					
OHHLHC					
Lead Technical Assistance ⁶	1,200	0	3,000	600	590
TOTAL	49,438	101,778	310,407	69,470	82,635

Notes:

1. SHP/CoC results are expressed in terms of percentage of persons exiting the programs having employment income. Prior years' information is continually being updated as grantees submit project level data.
2. FY 2010 was the first year of reporting NSP TA's results of investments in human capital in the RSSI. As of FY 2012, outcomes data were under development in the Disaster Recovery Grant Reporting System. Performance measures were developed that will allow for more accurate and comprehensive tracking of outcomes. The number of people trained under the Program during reporting period became available in FY2013 for current and prior years.
3. FY 2012 was the first year of reporting Rural Innovation Fund's results of investments in human capital in the RSSI, however the amount was not material to be included in the FY 2012 AFR.
4. FY 2013 was the first year of reporting OneCPD's results of investments in human capital in the RSSI.
5. Due to new administrative requirements in FY 2012, there was a decline in the procurement of training. This resulted in fewer grantees receiving program training.
6. Congress did not fund the Lead Technical Assistance program in FY 2010. FY 2009 funding was \$0.2 million.

HOPE VI Results of Investments in Human Capital: Since the inception of the HOPE VI program in FY 1993, the program has made significant investments in Human Capital related initiatives (i.e., education and training). The following table presents HOPE VI's key cumulative performance information for fiscal years 2009, 2010, 2011, 2012 and 2013, since the program's inception.

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Key Results of HOPE VI Program Activities
Fiscal Years 2009 – 2013

HOPE VI Service	2009 Enrolled	2009 Completed	% Completed	2010 Enrolled	2010 Completed	% Completed
Employment Preparation, Placement, & Retention ¹	75,991	N/A	N/A	78,818	N/A	N/A
Job Skills Training Programs	31,079	16,490	53%	31,932	16,936	53%
High School Equivalent Education	16,453	4,760	29%	17,036	4,989	29%
Entrepreneurship Training	3,496	1,505	43%	3,528	1,534	43%
Homeownership Counseling	15,259	6,506	43%	15,727	6,752	43%
HOPE VI Service	2011 Enrolled	2011 Completed	% Completed	2012 Enrolled	2012 Completed	% Completed
Employment Preparation, Placement, & Retention ¹	80,435	N/A	N/A	82,630	N/A	N/A
Job Skills Training Programs	32,597	17,267	53%	33,566	17,753	53%
High School Equivalent Education	17,305	5,053	29%	17,684	5,164	29%
Entrepreneurship Training	3,608	1,570	44%	3,672	1,613	44%
Homeownership Counseling	15,864	6,858	43%	16,163	6,964	43%
HOPE VI Service	2013 Enrolled	2013 Completed	% Completed			
Employment Preparation, Placement, & Retention ¹	84,792	N/A	N/A			
Job Skills Training Programs	34,664	18,322	53%			
High School Equivalent Education	18,206	5,263	29%			
Entrepreneurship Training	3,730	1,635	44%			
Homeownership Counseling	16,504	7,046	43%			

Note:

1. Completion data for this service is not provided, as all who enroll are considered recipients of the training.

Research and Development

Investments in Research and Development: Research and development investments support (a) the search for new knowledge and/or (b) the refinement and application of knowledge or ideas, pertaining to development of new or improved products or processes. Research and development investments are intended to increase economic productive capacity or yield other future benefits.

As such, these investments support HUD's strategic goals, which are to increase the availability of decent, safe, and affordable housing in America's communities; and ensure public trust in HUD.

Financial Information
Required Supplementary Stewardship Information

The following table summarizes HUD's research and development investments.

Investments in Research and Development
Fiscal Year 2009 – 2013
(Dollars in millions)

Program	2009	2010	2011	2012	2013
CPD					
Disaster Grants	\$0	\$0	\$6	\$0	\$0
PIH					
IHBG ¹	\$1	\$0	\$0	\$0	\$0
PD&R					
PATH ²	\$1	\$0	\$0	\$0	\$0
OHHLHC					
Lead Hazard Control	\$3	\$5	\$1	\$1	\$2
TOTAL	\$5	\$5	\$7	\$1	\$2

Notes:

1. In FY 2006-2009 funds were expended on a study to evaluate the effectiveness of the IHBG program.
2. The program has not received a new appropriation since FY 2007.

Results of Investments in Research and Development: In support of HUD's lead hazard control initiatives, the OHHLHC program has conducted various studies. Such studies have contributed to an overall reduction in the per-housing unit cost of lead hazard evaluation and control efforts over the last decade. More recently, as indicated in the table on the next page, the studies have contributed to a relatively flat per-housing unit cost, as adjusted for nominal inflation and cost of construction increases. The per-housing unit cost varies by geographic location and the grantees' level of participation in control activities. These studies have also led to the identification of the prevalence of related hazards.

Per-Housing Unit Cost of Lead Hazard Evaluation and Control
Fiscal Year 2009 – 2013
(Dollars)

Program	2009	2010	2011	2012	2013
OHHLHC					
Lead Hazard Control	\$5,554	\$5,901	\$6,247	\$5,763	\$6,321
TOTAL	\$5,554	\$5,901	\$6,247	\$5,763	\$6,321

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Required Supplementary Information

Introduction

Presented on the following pages are additional disaggregated financial statements broken out by HUD's major lines of business (i.e., responsibility segments) to supplement the financial statements shown earlier in this section.

The FY 2012 financial statements in this section are restated. For further explanation see Note 30.

Financial Information

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Department of Housing and Urban Development Consolidating Balance Sheet As Of September 2013 (Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Financial Statement Eliminations	Consolidating
ASSETS											
Intragovernmental											
Fund Balance with Treasury (Note 4)	\$ 63,481	\$ 9,622	\$ 8,974	\$ 5,401	\$ 4,962	\$ 3,411	\$ 28,309	\$ 4,025	\$ 7,411	\$ -	\$ 135,597
Investments (Note 5)	3	1,821	-	-	-	-	-	-	-	-	1,824
Accounts Receivable (Note 6)	-	8	-	-	-	-	-	-	3	(11)	1
Other Assets (Note 11)	1	-	-	-	-	-	-	-	14	-	15
Total Intragovernmental Assets	63,486	11,451	8,974	5,401	4,962	3,411	28,309	4,025	7,428	(11)	137,437
Investments (Note 5)	56	-	-	-	-	-	-	-	-	-	56
Accounts Receivable, Net (Note 6)	13	121	26	4	-	-	5	-	10	-	180
Direct Loan and Loan Guarantees, Net (Note 7)	7,276	-	-	-	-	2,108	-	-	602	-	9,986
Other Non Credit Reform Loans (Note 8)	-	6,333	-	-	-	-	-	-	-	(2,332)	4,001
General Property Plant and Equipment, Net (Note 9)	-	36	-	-	-	-	-	-	315	-	351
PIH Prepayments (Note 10)	-	-	452	-	-	-	-	-	-	-	452
Other Assets (Note 11)	378	-	-	-	-	-	-	-	-	-	378
TOTAL ASSETS	\$ 71,209	\$ 17,942	\$ 9,462	\$ 5,405	\$ 4,963	\$ 5,519	\$ 28,313	\$ 4,025	\$ 8,355	\$ (2,343)	\$ 152,840

LIABILITIES											
Intragovernmental Liabilities											
Accounts Payable (Note 12)	8	-	-	-	-	-	-	-	19	(10)	18
Debt (Note 13)	25,940	-	-	-	-	-	-	-	139	-	26,079
Other Intragovernmental Liabilities (Notes 16)	3,983	-	27	-	-	-	1	-	649	(1)	4,659
Total Intragovernmental Liabilities	29,931	-	27	-	-	-	1	-	808	(11)	30,756
Accounts Payable (Note 12)	404	167	2	10	11	3	33	9	164	-	803
Loan Guarantee Liability (Note 7)	41,465	-	-	-	-	-	-	-	173	(2,332)	39,305
Debt Held by the Public (Note 13)	-	-	-	20	-	-	-	-	-	-	20
Federal Employee and Veteran Benefits (Note 14)	-	-	-	-	-	-	-	-	77	-	77
Loss Reserves (Note 15)	-	700	-	-	-	-	-	-	-	-	700
Other Governmental Liabilities (Note 16)	424	140	-	-	-	1	-	-	144	-	709
TOTAL LIABILITIES	\$ 72,225	\$ 1,007	\$ 30	\$ 30	\$ 11	\$ 4	\$ 34	\$ 9	\$ 1,364	\$ (2,343)	\$ 72,370

NET POSITION											
Unexpended Appropriations - Funds From Dedicated Collections (Note 19)	-	2	0	8	7	-	120	5	(356)	-	(215)
Unexpended Appropriations - Other Funds	869	(0)	9,422	5,383	4,945	3,348	28,159	4,012	5,970	-	62,107
Cumulative Results of Operations - Funds From Dedicated Collections (Note 19)	-	16,933	-	-	-	-	-	-	1,218	-	18,151
Cumulative Results of Operations - Other Funds	(1,884)	(0)	0	(15)	(0)	2,167	-	-	158	-	427
TOTAL NET POSITION	(1,015)	16,935	9,422	5,375	4,952	5,515	28,280	4,016	6,950	-	80,470
TOTAL LIABILITIES AND NET POSITION	\$ 71,209	\$ 17,942	\$ 9,462	\$ 5,405	\$ 4,963	\$ 5,519	\$ 28,313	\$ 4,025	\$ 8,355	\$ (2,343)	\$ 152,840

The accompanying notes are an integral part of these statements.

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Section 2

Department of Housing and Urban Development Consolidating Balance Sheet As Of September 2012 (Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Financial Statement Eliminations	Consolidating
ASSETS											
Intragovernmental											
Fund Balance with Treasury (Note 4)	\$ 47,640	\$ 7,076	\$ 10,120	\$ 5,939	\$ 4,868	\$ 3,943	\$ 15,783	\$ 4,503	\$ 8,345	\$ -	\$ 108,217
Investments (Note 5)	2,775	2,124	-	-	-	-	-	-	-	-	4,899
Accounts Receivable (Note 6)	-	6	-	-	-	-	-	-	-	(6)	-
Other Assets (Note 11)	3	-	-	-	-	-	-	-	24	-	27
Total Intragovernmental Assets	\$ 50,418	\$ 9,206	\$ 10,120	\$ 5,939	\$ 4,868	\$ 3,943	\$ 15,783	\$ 4,503	\$ 8,369	\$ (6)	\$ 113,143
Cash and Other Monetary Assets (Note 4)	-	-	-	-	-	-	-	-	-	-	-
Investments (Note 5)	60	-	-	-	-	-	-	-	-	-	60
Accounts Receivable, Net (Note 6)	24	155	24	1	-	-	-	-	9	-	213
Direct Loan and Loan Guarantees, Net (Note 7)	5,441	-	-	-	-	2,499	-	-	594	-	8,534
Other Non Credit Reform Loans (Note 8)	-	7,634	-	-	-	-	-	-	-	(3,279)	4,355
General Property Plant and Equipment, Net (Note 9)	-	40	-	-	-	-	-	-	327	-	367
PIH Prepayments (Note 10)	-	-	986	-	-	-	-	-	-	-	986
Other Assets (Note 11)	60	-	-	-	-	-	-	-	(1)	-	59
TOTAL ASSETS	\$ 56,003	\$ 17,085	\$ 11,130	\$ 5,940	\$ 4,868	\$ 6,442	\$ 15,783	\$ 4,503	\$ 9,298	\$ (3,285)	\$ 127,717
LIABILITIES											
Intragovernmental Liabilities											
Accounts Payable (Note 12)	6	-	-	-	-	-	3	-	12	(7)	15
Debt (Note 13)	11,527	-	-	-	-	-	-	-	40	-	11,567
Other Intragovernmental Liabilities (Notes 16)	3,473	-	25	-	-	-	1	-	618	-	4,117
Total Intragovernmental Liabilities	\$ 15,006	\$ -	\$ 25	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ 670	\$ (7)	\$ 15,699
Accounts Payable (Note 12)	721	235	1	19	19	5	63	10	230	-	1,303
Loan Guarantee Liability (Note 7)	54,984	-	-	-	-	-	-	-	160	(3,279)	51,865
Debt Held by the Public (Note 13)	-	-	-	60	-	-	-	-	-	-	60
Federal Employee and Veteran Benefits (Note 14)	-	-	-	-	-	-	-	-	76	-	76
Loss Reserves (Note 15)	-	357	-	-	-	-	-	-	-	-	358
Other Governmental Liabilities (Notes 16)	396	132	-	-	-	3	-	-	206	-	736
TOTAL LIABILITIES	\$ 71,107	\$ 724	\$ 26	\$ 79	\$ 19	\$ 8	\$ 67	\$ 10	\$ 1,342	\$ (3,286)	\$ 70,097
NET POSITION											
Unexpended Appropriations - Funds From Dedicated Collections (Note 19)	-	2	-	6	14	-	564	5	(350)	-	240
Unexpended Appropriations - Other Funds	862	-	11,104	5,911	4,835	3,921	15,152	4,488	6,941	-	53,215
Cumulative Results of Operations - Funds From Dedicated Collections (Note 19)	-	16,309	-	-	-	-	-	-	1,216	-	17,525
Cumulative Results of Operations - Other Funds	(15,966)	-	-	(56)	-	2,513	-	-	149	-	(13,360)
TOTAL NET POSITION	(15,104)	\$ 16,311	\$ 11,104	\$ 5,861	\$ 4,849	\$ 6,434	\$ 15,716	\$ 4,493	\$ 7,956	\$ -	\$ 57,620
TOTAL LIABILITIES AND NET POSITION	\$ 56,003	\$ 17,085	\$ 11,130	\$ 5,940	\$ 4,868	\$ 6,442	\$ 15,783	\$ 4,503	\$ 9,298	\$ (3,286)	\$ 127,717

The accompanying notes are an integral part of these statements.

Financial Information
Required Supplementary Information

Department of Housing and Urban Development
Consolidating Statement of Net Cost
For the Period Ending September 2013 and 2012
(Dollars in Millions)

2013	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Financial Statement Eliminations	Consolidating
	\$ (6,718)	\$ 602	\$ 28,653	\$ 2,960	\$ 1,811	\$ 1,168	\$ 5,787	\$ 1,447	\$ 6,609	\$ (4)	\$ 42,315
Gross Costs (Note 20)	(2,680)	(1,225)	-	-	-	(192)	-	-	(34)	4	(4,127)
Less: Earned Revenues	(9,398)	(623)	28,653	2,960	1,811	976	5,787	1,447	6,575	-	38,188
Net Program Costs											
Gain/Loss On Pension, ORB, or OPEB Assumption Changes	-	-	-	-	-	-	-	-	-	-	-
Net Program Costs including Assumption Changes	(9,398)	(623)	28,653	2,960	1,811	976	5,787	1,447	6,575	-	38,188
Costs Not Assigned to Programs	-	-	-	-	-	-	-	-	200	-	200
Earned Revenue Not Assigned	-	-	-	-	-	-	-	-	-	-	-
Net Cost of Operations	\$ (9,398)	\$ (623)	\$ 28,653	\$ 2,960	\$ 1,811	\$ 976	\$ 5,787	\$ 1,447	\$ 6,775	\$ -	\$ 38,388

Figures may not add to totals because of rounding.

2012	Government											
	Federal Housing Administration	National Mortgage Association	Section 8 Rental Assistance	Public Housing Loans and Grants	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Financial Statement Eliminations	Consolidating	
PROGRAM COSTS	Gross Costs (Note 20)	\$ 23,523	\$ 711	\$ 29,128	\$ 3,512	\$ 1,965	\$ 1,177	\$ 6,901	\$ 1,814	\$ 6,539	\$ (3)	\$ 75,267
	Less: Earned Revenues	(3,226)	(1,259)	-	-	-	(228)	-	-	(24)	3	(4,734)
	Net Costs	\$ 20,297	\$ (548)	\$ 29,128	\$ 3,512	\$ 1,965	\$ 949	\$ 6,901	\$ 1,814	\$ 6,515	-	\$ 70,533
	Gain/Loss On Pension, ORB, or OPEB Assumption Changes	-	-	-	-	-	-	-	-	-	-	-
	Net Program Costs including Assumption Changes	\$ 20,297	\$ (548)	\$ 29,128	\$ 3,512	\$ 1,965	\$ 949	\$ 6,901	\$ 1,814	\$ 6,515	-	\$ 70,533
Costs Not Assigned to Programs Earned Revenue Not Assigned	-	-	-	-	-	-	-	-	-	200	-	200
	Net Cost of Operations	\$ 20,297	\$ (548)	\$ 29,128	\$ 3,512	\$ 1,965	\$ 949	\$ 6,901	\$ 1,814	\$ 6,715	-	\$ 70,733

Figures may not add to totals because of rounding.

HUD FY 2013 Agency Financial Report

Section 2

Department of Housing and Urban Development Consolidating Statement of Changes in Net Position For the Period Ending September 2013 (Dollars in Millions) Cumulative Results of Operations										
	Federal Housing Administration FHA	Government National Mortgage Association GNMA	Section 8 Rental Assistance Section8	Public and Indian Housing Loans and Grants PIH	Homeless Assistance Grants Homeless	Housing for the Elderly and Disabled Section202	Community Development Block Grants CDBG	HOME Home	All Other AllOther	Consolidating HUDConsol
Net Position - Beginning of Period										
Funds From Dedicated Collections	\$ -	\$ 16,309	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,216	\$ 17,525
All Other Funds	(15,966)	-	-	(56)	-	2,513	-	-	149	(13,360)
Beginning Balances	(15,966)	16,309	-	(56)	-	2,513	-	-	1,365	4,165
Adjustments										
Corrections of Errors										
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	(1)	(1)
Beginning Balances, As Adjusted										
Funds From Dedicated Collections	-	16,309	-	-	-	-	-	-	1,216	17,525
All Other Funds	(15,966)	-	-	(56)	-	2,513	-	-	148	(13,361)
Total Beginning Balances, As Adjusted	(15,966)	16,309	-	(56)	-	2,513	-	-	1,364	4,164
Budgetary Financing Sources										
Appropriations Used										
Funds From Dedicated Collections	-	-	-	(1)	6	-	444	-	7	456
All Other Funds	7,490	-	28,465	2,895	1,720	1,073	5,287	1,419	7,891	56,240
Non-exchange Revenue										
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	1	1
All Other Funds	-	-	-	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement										
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	2	2
All Other Funds	-	-	-	-	-	(544)	-	-	542	(2)
Other Budgetary Financing Sources										
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	188	106	85	102	56	28	(565)	-
Other Financing Sources:										
Transfers In/Out Without Reimbursement										
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	(1)	(1)
All Other Funds	550	-	-	-	-	-	-	-	(563)	(13)
Imputed Financing From Costs Absorbed From Others										
Funds From Dedicated Collections	-	1	-	-	-	-	-	-	-	1
All Other Funds	18	-	-	-	-	-	-	-	58	76
Other										
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-
All Other Funds	(3,374)	-	-	-	-	-	-	-	(584)	(3,958)
Total Financing Sources										
Funds From Dedicated Collections	-	1	-	(1)	6	-	444	-	9	459
All Other Funds	4,684	-	28,653	3,001	1,805	631	5,343	1,447	6,779	52,343
Total Financing Sources	4,684	1	28,653	3,000	1,811	631	5,787	1,447	6,788	52,802
Net Cost of Operations										
Funds From Dedicated Collections	-	623	-	1	(6)	-	(444)	-	(8)	167
All Other Funds	9,398	-	(28,653)	(2,961)	(1,805)	(976)	(5,343)	(1,447)	(6,768)	(38,555)
Net Change										
Funds From Dedicated Collections	-	624	-	-	-	-	-	-	2	626
All Other Funds	14,082	-	-	40	-	(345)	-	-	11	13,788
Total All Funds										
Funds From Dedicated Collections	-	16,933	-	-	-	-	-	-	1,218	18,151
All Other Funds	(1,884)	-	-	(15)	-	2,167	-	-	158	427
Total All Funds	\$ (1,884)	\$ 16,933	\$ -	\$ (15)	\$ -	\$ 2,167	\$ -	\$ -	\$ 1,376	\$ 18,578
Unexpended Appropriations										
	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Consolidating
Net Position - Beginning of Period										
Funds From Dedicated Collections	\$ -	\$ 2	\$ -	\$ 6	\$ 13	\$ -	\$ 564	\$ -	\$ (350)	\$ 240
All Other Funds	862	-	10,118	5,911	4,835	3,922	15,152	4,489	6,941	52,220
Beginning Balances	862	2	10,118	5,917	4,849	3,922	15,716	4,493	6,591	52,460
Adjustments										
Corrections of Errors										
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	986	-	-	-	-	-	1	987
Beginning Balances, As Adjusted										
Funds From Dedicated Collections	-	2	-	6	13	-	564	5	(350)	240
All Other Funds	862	-	11,104	5,911	4,835	3,922	15,152	4,489	6,942	53,216
Total Beginning Balances, As Adjusted	862	2	11,104	5,917	4,849	3,922	15,716	4,493	6,592	53,456
Budgetary Financing Sources										
Appropriations Received										
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	1	1
All Other Funds	7,604	-	28,360	2,523	2,033	540	19,308	1,000	7,206	68,574
Appropriations Transfers In/Out										
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-
All Other Funds	(68)	-	-	-	-	-	(20)	-	88	-
Other Adjustments (Rescissions, etc)										
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-
All Other Funds	(39)	-	(1,577)	(155)	(203)	(41)	(994)	(58)	(375)	(3,443)
Appropriations Used										
Funds From Dedicated Collections	-	-	-	1	(6)	-	(444)	-	(7)	(456)
All Other Funds	(7,490)	-	(28,465)	(2,895)	(1,720)	(1,073)	(5,287)	(1,419)	(7,891)	(56,240)
Other Financing Sources:										
Total Financing Sources										
Funds From Dedicated Collections	-	-	-	1	(6)	-	(444)	-	(6)	(455)
All Other Funds	7	-	(1,682)	(527)	110	(574)	13,007	(477)	(972)	8,891
Total Financing Sources	7	-	(1,682)	(526)	103	(574)	12,564	(477)	(978)	8,436
Net Change										
Funds From Dedicated Collections	-	2	-	8	7	-	120	5	(356)	(215)
All Other Funds	869	-	9,422	5,383	4,945	3,348	28,159	4,012	5,970	62,107
Total Unexpended Appropriations	869	2	9,422	5,391	4,952	3,348	28,279	4,016	5,614	61,892
Total All Funds										
Funds From Dedicated Collections	-	16,935	-	8	7	-	120	5	862	17,936
All Other Funds	(1,015)	-	9,422	5,368	4,945	5,515	28,159	4,012	6,128	62,534
Net Position	\$ (1,015)	\$ 16,935	\$ 9,422	\$ 5,375	\$ 4,952	\$ 5,515	\$ 28,280	\$ 4,016	\$ 6,990	\$ 80,470

Figures may not add to totals because of rounding.

Financial Information

Required Supplementary Information

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Period Ending September 2012
(Dollars in Millions)

Cumulative Results of Operations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Financial Statement Eliminations	Consolidating
Net Position - Beginning of Period											
Funds From Dedicated Collections	\$ -	\$ 15,760	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	674	\$ -	\$ 16,434
All Other Funds	4,569	-	-	(147)	-	2,847	-	-	96	-	7,365
Beginning Balances	\$ 4,569	\$ 15,760	-	(147)	-	2,847	-	-	770	-	23,799
Adjustments											
Corrections of Errors											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	8	-	-	-	-	(1)	-	7
Beginning Balances, As Adjusted											
Funds From Dedicated Collections	-	15,760	-	-	-	-	-	-	674	-	16,434
All Other Funds	4,569	-	-	(139)	-	2,847	-	-	95	-	7,372
Total Beginning Balances, As Adjusted	\$ 4,569	\$ 15,760	-	(139)	-	2,847	-	-	769	-	23,806
Budgetary Financing Sources											
Appropriations Used											
Funds From Dedicated Collections	-	-	-	378	330	-	1,029	159	65	-	1,962
All Other Funds	875	-	28,930	3,093	1,636	1,101	5,810	1,624	8,214	-	51,284
Non-exchange Revenue											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	1	-	1
All Other Funds	-	-	-	-	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	3	-	3
All Other Funds	(395)	-	-	-	-	(542)	-	-	540	-	(398)
Other Budgetary Financing Sources											
Funds From Dedicated Collections	-	-	197	125	-	56	61	30	(470)	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-	-
Other Financing Sources:											
Transfers In/Out Without Reimbursement											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	(481)	-	-	-	-	-	-	-	(564)	-	(1,045)
Imputed Financing From Costs Absorbed From Others											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	15	-	-	-	-	-	-	-	65	-	80
Other											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	(253)	-	-	-	-	-	-	-	(543)	-	(795)
Total Financing Sources											
Funds From Dedicated Collections	-	1	-	378	330	-	1,029	159	69	-	1,966
All Other Funds	(238)	-	29,128	3,218	1,636	615	5,871	1,654	7,242	-	49,126
Total Financing Sources	(238)	\$ 1	\$ 29,128	\$ 3,596	\$ 1,966	\$ 615	\$ 6,900	\$ 1,813	\$ 7,311	-	\$ 51,092
Net Cost of Operations											
Funds From Dedicated Collections	-	548	-	(378)	(330)	-	(1,029)	(159)	473	-	(875)
All Other Funds	(20,297)	-	(29,128)	(3,134)	(1,636)	(949)	(5,871)	(1,654)	(7,188)	-	(69,858)
Net Change											
Funds From Dedicated Collections	-	549	-	-	-	-	-	-	542	-	1,091
All Other Funds	(20,535)	-	-	84	-	(334)	-	-	53	-	(20,732)
Total All Funds											
Funds From Dedicated Collections	-	16,309	-	-	-	-	-	-	1,216	-	17,525
All Other Funds	(15,966)	-	-	(56)	-	2,513	-	-	149	-	(13,360)
Total All Funds	(15,966)	\$ 16,309	-	(56)	-	2,513	-	-	1,365	-	4,165

Unexpended Appropriations

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Financial Statement Eliminations	Consolidating
Net Position - Beginning of Period											
Funds From Dedicated Collections	\$ -	\$ 2	\$ -	\$ 395	\$ 343	\$ -	\$ 1,593	\$ 164	\$ (284)	\$ -	\$ 2,213
All Other Funds	880	-	10,765	6,576	4,671	4,470	17,563	5,110	8,827	-	58,831
Beginning Balances	\$ 880	\$ 2	\$ 10,765	\$ 6,971	\$ 5,014	\$ 4,470	\$ 19,156	\$ 5,274	\$ 8,543	-	\$ 61,044
Adjustments											
Corrections of Errors											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	1,888	(8)	-	-	-	-	1	-	1,880
Beginning Balances, As Adjusted											
Funds From Dedicated Collections	-	2	-	395	343	-	1,593	164	(284)	-	2,213
All Other Funds	880	-	12,653	6,568	4,671	4,470	17,563	5,110	8,827	-	60,711
Total Beginning Balances, As Adjusted	\$ 880	\$ 2	\$ 12,653	\$ 6,962	\$ 5,014	\$ 4,470	\$ 19,156	\$ 5,274	\$ 8,544	-	\$ 62,924
Budgetary Financing Sources											
Appropriations Received											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	983	-	28,254	2,523	1,901	540	3,408	1,000	6,957	-	45,568
Appropriations Transfers In/Out											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	(72)	-	-	-	-	-	-	-	72	-	-
Other Adjustments (Rescissions, etc)											
Funds From Dedicated Collections	-	-	-	(11)	-	-	-	-	(1)	-	(11)
All Other Funds	(24)	-	(873)	(87)	(101)	12	(9)	2	(701)	-	(1,780)
Appropriations Used											
Funds From Dedicated Collections	-	-	-	(378)	(330)	-	(1,029)	(159)	(65)	-	(1,962)
All Other Funds	(875)	-	(28,930)	(3,093)	(1,636)	(1,101)	(5,810)	(1,624)	(8,214)	-	(51,284)
Other Financing Sources:											
Total Financing Sources											
Funds From Dedicated Collections	-	-	-	(389)	(330)	-	(1,029)	(159)	(66)	-	(1,973)
All Other Funds	12	-	(15,488)	(657)	164	(549)	(2,411)	(622)	(1,886)	-	(7,496)
Total Financing Sources	\$ 12	-	(15,488)	(1,046)	(166)	(549)	(3,440)	(781)	(1,952)	-	(9,469)
Net Change											
Funds From Dedicated Collections	-	2	-	6	13	-	564	5	(350)	-	240
All Other Funds	862	-	11,104	5,911	4,835	3,922	15,152	4,489	6,941	-	53,215
Total Unexpended Appropriations	\$ 862	\$ 2	\$ 11,104	\$ 5,917	\$ 4,848	\$ 3,922	\$ 15,716	\$ 4,494	\$ 6,591	-	\$ 53,455
Total All Funds											
Funds From Dedicated Collections	-	16,311	-	6	13	-	564	5	866	-	17,765
All Other Funds	(15,104)	-	11,104	5,855	4,835	6,434	15,152	4,489	7,090	-	39,855
Net Position	(15,104)	\$ 16,311	\$ 11,104	\$ 5,861	\$ 4,848	\$ 6,434	\$ 15,716	\$ 4,494	\$ 7,956	-	\$ 57,620

Figures may not add to totals because of rounding.

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	Government		Public and		Housing for the		HOME		Federal		Total	
	Federal Housing Administration	National Mortgage Association	Section 8 Indian Housing Assistance	Loans and Grants	Assistance Grants	Elderly and Disabled	Community Development Block Grants	All Other	Budgetary Administration	Housing Credit Program	Other Non-Budgetary	Total
Budgetary Resources												
	\$ 4,074	\$ 8,706	\$ 360	\$ 147	\$ 2,393	\$ 468	\$ 746	\$ 163	\$ 1,209	\$ 40,275	\$ 209	\$ 40,484
	1	2	-	2	-	-	-	(3)	1	-	-	1
	4,075	8,706	360	150	2,393	468	746	163	1,206	40,275	209	40,484
	87	1	173	24	133	31	26	20	132	626	-	1,030
	(208)	-	(32)	(23)	(103)	(48)	(22)	(6)	(54)	-	-	-
	3,954	8,707	500	150	2,423	451	750	177	1,285	40,678	209	40,888
Unobligated balance from prior year budget authority, net												
	7,525	(1)	26,815	2,391	1,933	511	18,316	948	6,564	65,002	-	-
	22,922	5,849	-	3	1	80	-	-	71	19,092	101	19,193
	-	-	-	-	-	-	-	-	-	34,696	59	34,755
	\$ 34,401	\$ 14,555	\$ 27,315	\$ 2,545	\$ 4,357	\$ 1,042	\$ 19,067	\$ 1,125	\$ 7,920	\$ 112,327	\$ 370	\$ 114,356
Status of Budgetary Resources:												
										</		

Financial Information

Required Supplementary Information

Department of Housing and Urban Development Combining Statement of Budgetary Resources For the Period Ending September 2012 (Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Public and Indian Housing Loans & Grants	Homesless Assistance Grants	Housing for the Elderly and Disabled Grants	Community Development Block Grants	HOME	All Other	Budgetary Total	Federal Housing Administration Total	Other Non-Budgetary Credit Program Accounts	Non-Budgetary Financing Accounts	Total
Budgetary Resources:														
Unobligated Balance Brought Forward, October 1	\$ 5,565	\$ 8,676	\$ 347	\$ 181	\$ 2,505	\$ 1,165	\$ 1,059	\$ 358	\$ 1,757	\$ 21,612	\$ 36,249	\$ 179	\$ 36,428	\$ 58,040
Adjustments to Unobligated Balance, Brought Forward, October 1	-	-	-	-	-	-	-	-	(18)	(18)	-	-	(6)	(24)
Unobligated balance brought forward, October 1, adjusted	\$ 5,565	\$ 8,676	\$ 347	\$ 181	\$ 2,505	\$ 1,165	\$ 1,059	\$ 358	\$ 1,738	\$ 21,594	\$ 36,249	\$ 173	\$ 36,422	\$ 58,016
Recoveries of prior year unpaid obligations	26	1	287	115	167	26	18	18	457	1,116	122	-	122	1,237
Other changes in unobligated balance	(276)	-	(50)	(104)	(101)	(6)	(26)	(6)	(510)	(1,080)	-	-	-	(1,080)
Unobligated balance from prior year budget authority, net	\$ 5,315	\$ 8,676	\$ 583	\$ 192	\$ 2,571	\$ 1,185	\$ 1,052	\$ 370	\$ 1,685	\$ 21,630	\$ 36,371	\$ 173	\$ 36,544	\$ 58,173
Appropriations (discretionary and mandatory)	912	-	27,404	2,523	1,901	540	3,408	1,000	6,360	44,047	-	-	-	44,047
Borrowing Authority (discretionary and mandatory)	12,737	-	4,007	-	-	45	-	-	(18)	16,774	5,760	-	5,760	22,531
Spending Authority from offsetting collections	-	-	-	-	-	-	-	-	-	-	34,329	67	34,396	34,792
Total Budgetary Resources	\$ 18,964	\$ 12,684	\$ 27,987	\$ 2,716	\$ 4,473	\$ 1,769	\$ 4,461	\$ 1,370	\$ 8,026	\$ 82,451	\$ 76,459	\$ 240	\$ 76,700	\$ 159,150
Status of Budgetary Resources:														
Obligations Incurred	14,800	15	27,627	2,569	2,080	1,301	3,715	1,208	6,815	60,221	36,185	31	36,216	96,436
Direct	-	3,992	-	-	-	-	-	-	2	3,994	-	-	-	3,994
Reimbursable	-	-	27,627	2,569	2,080	1,301	3,715	1,208	6,813	64,185	36,185	31	36,216	100,401
Subtotal	\$ 14,800	\$ 3,992	\$ 27,627	\$ 2,569	\$ 2,080	\$ 1,301	\$ 3,715	\$ 1,208	\$ 6,813	\$ 64,185	\$ 36,185	\$ 31	\$ 36,216	\$ 100,401
Unobligated Balances	59	5	290	99	2,014	367	733	149	621	4,338	18,346	29	18,374	22,712
Appropriated	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exempt from Apportionment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unapportioned	4,015	8,701	70	48	379	101	13	13	588	13,928	21,929	181	22,110	36,038
Subtotal	\$ 4,074	\$ 8,706	\$ 360	\$ 147	\$ 2,393	\$ 468	\$ 746	\$ 163	\$ 1,209	\$ 18,266	\$ 40,275	\$ 209	\$ 40,484	\$ 58,750
Total Status of Budgetary Resources	\$ 18,964	\$ 12,684	\$ 27,987	\$ 2,716	\$ 4,473	\$ 1,769	\$ 4,461	\$ 1,370	\$ 8,026	\$ 82,451	\$ 76,459	\$ 240	\$ 76,700	\$ 159,150
Change in Obligated Balance:														
Unpaid Obligations:	737	666	10,441	6,805	2,517	3,259	18,135	4,932	9,251	56,781	2,220	(1)	2,319	59,000
Unpaid obligations, brought forward, Oct 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments to unpaid obligations, start of year (+ or -) (Note 28)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Obligations Incurred	14,800	3,977	27,627	2,569	2,080	1,301	3,715	1,208	6,818	64,185	36,185	31	36,216	100,401
Outlays, (gross) (-)	(14,868)	(4,151)	(28,030)	(3,467)	(1,955)	(1,098)	(6,795)	(1,781)	(8,347)	(70,493)	(35,911)	(29)	(35,940)	(106,433)
Actual Transfers, unpaid obligations (net) (+ or -)	(26)	(1)	(287)	(115)	(167)	(26)	(18)	(18)	(457)	(1,116)	(122)	-	(122)	(1,237)
Recoveries of prior year unpaid obligations (-)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unpaid obligations, end of year (gross)	\$ 732	\$ 491	\$ 9,751	\$ 5,792	\$ 2,475	\$ 3,475	\$ 15,036	\$ 4,340	\$ 7,266	\$ 49,357	\$ 2,472	\$ 1	\$ 2,473	\$ 51,830
Uncollected Payments:														
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	(20)	(12)	-	-	-	-	-	-	(209)	(241)	(1)	(15)	(16)	(257)
Change in uncollected customer payments, Fed sources (+ or -)	18	(5)	-	-	-	-	-	-	156	170	1	(3)	(2)	168
Uncollected payments, Fed sources, end of year (-)	\$ (2)	\$ (17)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (53)	\$ (71)	\$ -	\$ (18)	\$ (18)	\$ (90)
Obligated balances, start of year (+ or -)	\$ 717	\$ 654	\$ 10,441	\$ 6,805	\$ 2,517	\$ 3,259	\$ 18,135	\$ 4,932	\$ 9,041	\$ 56,541	\$ 2,319	\$ (16)	\$ 2,302	\$ 58,842
Obligated balance, end of year (net)	\$ 730	\$ 474	\$ 9,751	\$ 5,792	\$ 2,475	\$ 3,475	\$ 15,036	\$ 4,340	\$ 7,213	\$ 49,285	\$ 2,472	\$ (18)	\$ 2,454	\$ 51,740
Budget Authority and Outlays, Net:														
Budget authority, gross (discretionary and mandatory)	13,649	4,007	27,404	2,524	1,902	584	3,409	1,000	6,342	40,822	40,089	67	40,156	100,978
Actual offsetting collections (discretionary and mandatory) (-)	(12,766)	(4,002)	-	(1)	(1)	(580)	(1)	-	(139)	(17,490)	(34,595)	(64)	(34,659)	(52,149)
Change in Uncollected Customer Payments from Fed Sources (Dis and Man) (- or +)	18	(5)	-	-	-	-	-	-	157	170	1	(3)	(2)	168
Budget Authority, net (discretionary and mandatory)	\$ 901	\$ -	\$ 27,404	\$ 2,523	\$ 1,901	\$ 4	\$ 3,408	\$ 1,000	\$ 6,360	\$ 43,502	\$ 5,495	\$ -	\$ 5,495	\$ 48,997
Outlays, gross (discretionary and mandatory)	14,868	4,151	28,030	3,467	1,955	1,098	6,795	1,781	8,347	70,493	35,911	29	35,940	106,433
Actual offsetting collections (discretionary and mandatory) (-)	(12,766)	(3,265)	-	(1)	(1)	(580)	(1)	-	(139)	(16,753)	(34,595)	(64)	(34,659)	(51,412)
Outlays, net (discretionary and mandatory)	\$ 2,103	\$ 886	\$ 28,030	\$ 3,466	\$ 1,954	\$ 518	\$ 6,794	\$ 1,781	\$ 8,209	\$ 53,740	\$ 1,316	\$ (35)	\$ 1,281	\$ 55,021
Disburied offsetting receipts	(2,611)	(737)	(9)	-	-	-	-	-	(68)	(3,425)	-	-	-	(3,425)
Agency Outlays, net (discretionary and mandatory)	\$ (500)	\$ 149	\$ 28,021	\$ 3,466	\$ 1,954	\$ 518	\$ 6,794	\$ 1,781	\$ 8,141	\$ 50,315	\$ 1,316	\$ (35)	\$ 1,281	\$ 51,596

Figures may not add to totals because of rounding.

Independent Auditor's Report



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

INDEPENDENT AUDITOR'S REPORT¹

To the Secretary,
U.S. Department of Housing and Urban Development:

Report on the Financial Statements

In accordance with the Chief Financial Officers Act of 1990, the U.S. Department of Housing and Urban Development (HUD) has prepared the accompanying consolidated balance sheets as of September 30, 2013 and 2012 (restated), and the related consolidated statements of net cost, changes in net position, and combined statement of budgetary resources for the fiscal years then ended which have been audited by us as required in accordance with generally accepted auditing standards accepted in the United States of America.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

¹ This report is supplemented by a separate report issued by the HUD Office of Inspector General (OIG) to provide a more detailed discussion of the internal control and compliance issues and to provide specific recommendations to HUD management. The report is available at the HUD OIG Internet site at http://www.hudoig.gov/Audit_Reports/2014-FO-0003.pdf and is entitled Additional Details To Supplement Our Report on HUD's Fiscal Years 2013 and 2012 Financial Statements (2014-FO-0003, dated December 16, 2013).

Auditor's Responsibility

We are required by the Chief Financial Officers 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, to audit HUD's principal financial statements or select an independent auditor to do so. Our responsibility is to express an opinion on the fair presentation of these principal financial statements in all material respects, in conformity with accounting principles generally accepted in the United States of America based on the audit. The audit was conducted in accordance with auditing standards generally accepted in the United States of America, which require the auditor to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

With respect to the fiscal years 2013 and 2012 (restated) financial statements, we did not audit the financial statements of the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) for the periods ending September 30, 2013 and 2012, which reflected total assets constituting 58 and 57 percent, respectively, of the related consolidated totals. Another independent auditor, whose reports have been furnished to us, audited those statements, and our opinion on the fiscal years 2013 and 2012 financial statements, related to the amounts included for FHA and Ginnie Mae as of September 30, 2013 and 2012, is based solely on the reports of the other auditors.

In planning and performing our audit, we examined, on a test basis, evidence supporting amounts and disclosures in the financial statements, assessed the appropriateness of the accounting principles used and the reasonableness of significant accounting estimates made by management, and considered HUD's internal controls relevant to the entity's preparation and overall presentation of the financial statements. Additionally, we considered compliance with certain provisions of applicable laws, regulations, and governmentwide policy requirements and certain provisions of contracts and grant agreements that could have a direct and material effect on HUD's principal financial statements. The sufficiency of the audit procedures selected depended on our judgment and we determined to be appropriate, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the

effectiveness of the entity's internal control or compliance with laws and regulations, and accordingly, no such opinion is expressed.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

- *Improper Budgetary Accounting.* HUD's budgetary accounting for Community Planning and Development (CPD) and Ginnie Mae programs were not performed in accordance with Federal GAAP that resulted in a material misstatement in HUD's Combined Statement of Budgetary Resources.

HUD used cumulative and First-In First-Out (FIFO) methods to disburse, that were both unacceptable and not in accordance with generally accepted accounting principles for grants in the Federal government, to determine the amount of uncommitted HOME grant funds that would be subject to reallocation/recapture under section 218(g) of the HOME Investment Partnership Act and to process disbursements for CPD formula programs, respectively. Given the dollar risk exposure and volume of CPD grant activities from several thousand grantees (\$5 billion in annual appropriations to support CPD's-related programs including the HOME Investment Partnerships, Community Development Block Grant, Housing for Persons with AIDS, and Emergency Shelter Grant) and the system limitations of HUD's grant management and mixed accounting system to properly account for these grant transactions in accordance with the statutory requirements and generally accepted accounting principles (GAAP), we determined that financial transactions related to these CPD programs that entered HUD's accounting system are being processed incorrectly. Thus, based on the pervasiveness of their effects, in our opinion, the obligated/unobligated balance brought forward and obligated/unobligated balances reported in HUD's Combined Statement of Budgetary Resources for fiscal year 2013 and in prior years were materially misstated. The related amount of material misstatements for these CPD programs in the accompanying Combined Statement of Budgetary Resources cannot be readily determined to reliably support the budgetary balances reported by HUD at year-end, due to inadequacy of evidence available from HUD's mixed accounting and grants management system.

Ginnie Mae's portion of undelivered orders was omitted in HUD's Combined Statement of Budgetary Resources (SBR) in prior years. Ginnie Mae was in compliance with Commercial GAAP, which is appropriate for their stand-alone financial statements; however, their

core financial information system is not configured for Federal GAAP budgetary accounting and subsequent consolidated financial reporting. The lack of automated processes was a contributing factor for the omission of undelivered order balances in the SBR. This omission resulted in a material misstatement of obligated/unobligated balances and unobligated balances brought forward for fiscal year 2013 and 2012. HUD restated its Ginnie Mae portion of the SBR for fiscal year 2012 to correct the material error in the prior year and adjusted the numbers accordingly for fiscal year 2013. However, due to timing of the completion of HUD's restatement analysis we were unable to perform all the appropriate audit procedures that we deem necessary to form an opinion on the reliability of the restated SBR balances as determined by HUD at year-end.

- *Lack of accounting for cash management.* Excess rental subsidy funds held by public housing authorities (PHA) and due back to HUD were not properly recognized and presented in accordance with Federal GAAP. At the direction of Congress in a fiscal year 2012 conference report, HUD implemented U.S. Treasury cash management regulations. Treasury regulations required HUD to perform the following: (1) transfer accumulated funds held by PHAs in net restricted asset accounts outside of HUD back to HUD and hold as program reserves, and (2) complete quarterly reconciliations recognizing amounts due to or by HUD, which HUD began completing in January 2012. These program funding changes should have resulted in the recognition of assets and liabilities in accordance with Statement of Federal Financial Accounting Standards 1 and 5 and Statement of Federal Financial Accounting Concepts 1, 5, and 7. However, HUD failed to recognize these financial events in its accounting records, resulting in their omission in the fiscal year 2012 financial statements. In January 2012, an amount of \$1.7 billion was estimated as funds held by PHAs in excess of their immediate needs for providing rental subsidies and should have been returned to HUD; additional amounts of \$154 million and \$19 million were estimated for accounts receivable and accounts payable, respectively, as of September 30, 2012, based on quarterly reconciliations completed. HUD's Office of the Chief Financial Officer (OCFO) made manual adjustments reflecting advances and expenses in the accounting records to account for fiscal year 2013 activity in the amount of \$934 million and \$534 million, respectively. These adjustments were based on estimates prepared by HUD program officials. We were unable to obtain sufficient, appropriate audit evidence about the reasonableness of these manual adjustments due to the timing of these adjustments and the lack of sufficient documentation to support the estimate. As a result, we could not express an opinion on the accounting and presentation of assets and expenses related to these adjustments.

HUD FY 2013 Agency Financial Report

Section 2

Qualified Opinion on the Fiscal Years 2013 and 2012 (Restated) Financial Statements

In our opinion, based on our audit and the reports of other auditors, except for the possible effects of the matters described in the Basis for Qualified Opinion section above, the principal financial statements and accompanying notes present fairly, in all material respects, the financial position of HUD as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our previous reported opinion, dated November 15, 2012, which as of September 6, 2013, has been withdrawn, and our original opinion on HUD's fiscal year 2012 consolidated financial statements have been replaced by the opinion in the fiscal year 2013 audit on the basis of the issues outlined in the Basis for Qualified Opinion paragraphs and on the restated financial statements as discussed in Note 30. In addition, there were other material misstatements in the fiscal year 2012 financial statements related to current use of the FIFO method to liquidate obligations under CPD's formula grant programs but no adjustments have been made at the time of issuance of this auditor's report because the specific amount of misstatements and their related effects were unknown. A restatement related to CPD's programs will occur once HUD determines the appropriate adjustments needed to correct the errors.

Additional details on the other auditors' and our findings regarding HUD's internal controls are summarized below and were provided in separate reports to HUD management. These additional details also augment the discussions of instances in which HUD had not complied with applicable laws and regulations; the information regarding our audit objectives, scope, and methodology; and recommendations to HUD management resulting from our audit.

Report on Internal Control

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we and the other auditor did note the following 4 material weaknesses and 1 significant deficiencies.

Material Weaknesses

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

HUD CPD's formula grants program accounting departed from GAAP due to its use of the FIFO method to disburse obligations. 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. As a result of FIFO, budget-year grant obligation balances were misstated and disbursements were made using an incorrect general ledger attribute. Due to the inability of IDIS Online to provide an audit trail of all of the financial events affected by the FIFO method, the financial information within IDIS Online, which was transferred to HUD's core financial system and used to prepare its consolidated financial statements, could not be quantified. Due to the magnitude 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 Office of Public and Indian Housing's Housing Choice Voucher Program Cash Management Process Departed From GAAP and Treasury Requirements

HUD's new cash management process for the Housing Choice Voucher program departed from Federal GAAP and Treasury cash management requirements. When HUD implemented this process, management did not consider its impact on the financial reporting process. HUD also did not establish internal controls to ensure accurate and reliable financial reporting. Consequently, until OIG identified the issue, HUD omitted recognition of material financial events and transactions in the consolidated financial statements in fiscal years 2012 and 2013. Further, under HUD's process, PHAs still held funds in excess of their immediate disbursing needs, which violated Treasury cash management regulations.

Financial Management Systems Weaknesses Continued To Challenge HUD

Although HUD had taken steps and efforts were underway in fiscal year 2013 to address some of the Office of Inspector General's (OIG) concerns, weaknesses in HUD's financial management systems remained a serious problem. HUD continued to face these challenges due to shortcomings from its information technology systems and the lack of systems capabilities and automation. As a result of HUD's inherent system limitations and weaknesses, HUD's 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 required financial management functions and efficiently manage financial operations of the agency, which translated to lost opportunities for achieving mission goals and improving mission performance.

There Were Weaknesses in HUD's Consolidated Financial Statement Preparation and Reporting Processes

In fiscal year 2013, our audit work identified weaknesses in HUD's financial statement consolidation, preparation, and reporting related to Ginnie Mae. Specifically, we noted the (1) improper valuation and presentation of certain line items related to Ginnie Mae in HUD's consolidated balance sheet, (2) failure to make the appropriate conversion adjustments to account for the differences in the accounting standards applicable to Ginnie Mae's stand-alone financial statements and HUD's consolidated financial statements, and (3) inaccurate accounting and reporting of Ginnie Mae's budgetary resources. We attributed these financial reporting deficiencies to weaknesses in HUD's Federal GAAP basis financial reporting environment and the inadequate oversight of component entities' financial statement preparation and reporting processes. As a result, HUD's previously issued financial statements had to be restated to correct material errors.

Significant Deficiencies

HUD Lacked GAAP-Compliant Policies for Accruals

HUD's accounting policies and procedures related to the accrual of expenses did not recognize liabilities in accordance with Federal GAAP. Our concern on this departure caused liabilities arising from exchange and nonexchange transactions were not recognized on the financial statements relating to (1) unpaid amounts due from grant and entitlement programs but not reported, (2) goods and services received but not invoiced, and (3) charge card purchases incurred but not billed. The absence of recognition of these financial events existed because OCFO did not allocate resources to ensure that research and identification of new or changing accounting

standards and their applicability to HUD were performed. This deficiency resulted in the lack of policies and procedures to require the preparation and implementation of appropriate methodologies for an accrual estimate for liabilities as of the reporting date. The absence of an accrual estimate for these significant transactions resulted in misstatements on HUD's consolidated financial statements due to the underreporting of liabilities, expenses, and obligations or outlays.

Weaknesses in the Reporting of HUD's Accounts Receivable Continued

Weaknesses identified in fiscal year 2012² regarding recognition of and proper accounting for accounts receivable remained. Specifically, OIG found (1) HUD did not always record or estimate receivables in the accounting records when a determination was made that funds were owed to HUD and required repayment, and (2) weak oversight of the accounting for accounts receivable derived from Section 8 financing adjustment factor (FAF) bond refunding. These conditions occurred because of a weak financial management governance structure and poor accounting monitoring controls. As a result, we identified \$1.7 million in accounts receivable not included in HUD's consolidated financial statements resulting from program monitoring findings and repayment agreements. Additionally, an estimated \$57.3 million in receivables from OIG audit recommendations was not included in HUD's consolidated financial statements as of September 30, 2013. Lastly, the total receivable balance for FAF bond refunding totaling \$17.1 million was at risk for misstatement due to the lack of oversight of the accounting for the portfolio.

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 where disbursements were made before the point of obligation documented in the funds control plan, program codes that were not included in funds control plans, and funds control plans that 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, 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). 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.

² Audit Report 2013-FO-0003, Additional Details To Supplement Our Report on HUD's Fiscal Years 2012 and 2011 Financial Statements, issued November 15, 2012

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, we identified \$168.9 million in invalid obligations that were still on the books as of September 30, 2013. These deficiencies were attributed to ineffective monitoring efforts and the inability to promptly process contract closeouts. As a result, HUD's unpaid obligation balances were potentially overstated by \$168.9 million, which we have recommended for review and deobligation. Additionally, HUD lacked an established process to reconcile the subsidiary and general ledger obligation controlling accounts, causing differences to not be identified on a timely basis, or at all, resulting in balances within the general ledger to be at risk of being unsupported or incomplete.

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

HUD did not have a fully implemented and effective financial management governance structure or system of internal control over financial reporting. This condition stemmed from HUD's inadequate implementation of the Chief Financial Officers Act of 1990. Specifically, HUD's financial management structure did not have permanent staff in critical financial management positions and relied on the delegation of key financial management functions without providing adequate policy and oversight. Additionally, as we have reported in prior-year audits, HUD did not have reliable financial information for reporting, did not have integrated financial management systems, and had not implemented a compliant core financial system. As a result, multiple deficiencies existed in HUD's internal controls over financial reporting, resulting in misstatements and instances of noncompliance with laws and regulations.

Weaknesses in HUD's Rental Housing Assistance Program Monitoring Continued

HUD needs to improve the monitoring of its more than 2,200 PHAs to ensure that they (1) report accurate financial, compliance, and performance data; (2) comply with statutory objectives; (3) use their funds and leasing capacity; 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. Consequently, the accuracy of Voucher Management System self-reported data was questionable, compliance with Moving To Work program statutory requirements could not be determined, PHAs did not fully use their funding, and HUD continued to disburse significant amounts of improper payments.

Financial and Program Management Controls Over the Emergency Homeowner's Loan Program Were Weak

HUD did not implement sufficient controls over the Emergency Homeowner's Loan Program to ensure compliance with program, accounting, and financial reporting requirements. This condition was due to a lack of permanent program management structure, causing the administration of the program to be fragmented among three different program offices, resulting in the lack of established policies and procedures to ensure adequate administration, monitoring, and oversight of the program. As a result, (1) \$90.1 million in obligations remained as of September 30, 2013, that potentially no longer had a bona fide need, (2) loans were potentially issued in excess of the maximum loan amount mandated by law, and (3) the portfolio lacked an adequate subsidiary ledger to support the loan receivable balance recognized on the financial statements.

HUD's Computing Environment Controls Had Weaknesses

HUD's computing environment, data centers, networks, and servers provide critical support to all facets of its programs, mortgage insurance, financial management, and administrative operations. In prior years, we reported on various weaknesses with general system controls and controls over certain applications, as well as weak security management. These deficiencies increased risks associated with safeguarding funds, property, and assets from waste, loss, unauthorized use, or misappropriation. We audited selected information systems general and application controls of HUD's computer systems on which HUD's financial systems reside and support the preparation of HUD's financial statements. We also followed up on the status of previously reported application control weaknesses. Our review found information systems control weaknesses that could negatively affect HUD's ability to accomplish its assigned mission, protect its data and information technology assets, fulfill its legal responsibilities, and maintain its day-to-day functions.

FHA Undelivered Orders Should Be Reviewed Annually and Deobligated Promptly

Review of FHA's undelivered orders revealed (1) inactive obligations, (2) disbursements in excess of obligated amounts, and (3) deobligations of inactive contracts not recognized in the Single Family Asset Management System. While the FHA Comptroller's Office sends a request for follow-up on open obligations to the operation areas, we did not identify any FHA policies and procedures that would implement HUD's annual review of undelivered orders and obligations.

If undelivered orders are not reviewed on a timely basis and de-obligated as needed or contracts are not reviewed on time and closed out properly,

the unobligated balances carried forward could be misstated. In addition, inadequate controls could lead to Anti-Deficiency Act violations and disbursements without proper approval and evidence of payments may lead to waste and abuse of resources.

FHA's New System Reporting and Reconciliation Capabilities Need Improvement

In fiscal year 2013, FHA transitioned to a new system (Home Equity Reverse Mortgage Information Technology (HERMIT)) for managing insured and assigned home equity conversion mortgage loans. We identified several discrepancies between the reports generated from the new system and reports from the general ledger and other source systems that could not be adequately explained during the reconciliation process. These differences raise concerns about the completeness and accuracy of the data in the HERMIT system and about the movement of data among other FHA systems and the general ledger. Further, they indicate a weakness in internal controls. Due to the unexplainable differences, we were unable to determine whether the discrepancies were caused by timing differences among files or reports, interface issues among systems, conversion problems with HERMIT data, or any combination of these causes. The fact that such questions remained after 9 months of experience with the HERMIT system indicates that there were weaknesses in the reconciliation of data among the related systems.

Ginnie Mae's Master Subservicer Provided Inaccurate Accounting Reports

The monthly loan level accounting reports provided by the Master Subservicer to Ginnie Mae were found to contain inaccurate information, beginning in fiscal year 2012 when OCFO observed discrepancies within different elements of the accounting reports. OCFO also noted loans, which were being closed out (transferred to FHA as a claim) but were still being reported to Ginnie Mae as open (awaiting transfer to FHA) on the accounting reports. These reports are used by Ginnie Mae and are an integral part of its financial reporting process. The monthly accounting reports were inaccurate since the Master Subservicer did not have effective integrated systems to accumulate data necessary to generate monthly accounting reports accurately and reliably for Ginnie Mae's purposes and did not establish effective controls to reconcile the data from different systems contained within the reports or ensure that data supporting the reports could be retrieved in a timely manner.

**Report on Compliance With
Laws and Regulations**

In connection with our audit, we performed tests of HUD's compliance with certain provisions of laws and regulations. The results of our tests disclosed five instances of noncompliance that are required to be reported in accordance with Government Auditing Standards, issued by the Comptroller General of the United States or OMB Bulletin No. 14-02, Audit Requirements for Federal Financial Statements, as amended. However, the objective of our audit was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

HUD Did Not Substantially Comply With the Federal Financial Management Improvement Act

In fiscal year 2013, we determined that HUD's financial management systems as a whole continued to not substantially meet Federal Financial Management Improvement Act requirements. Due to shortcomings from its information technology systems and lack of systems capabilities, HUD lacked assurance that its systems could support management's need for reliable, useful, and timely information for accountability and day-to-day decision making.

HUD Did Not Substantially Comply With the Anti-Deficiency Act

In fiscal year 2013, HUD made demonstrable progress in moving several of the old³ Anti Deficiency Act (ADA)⁴ cases from HUD OCFO⁵ to OMB for review and approval. However, for the fifth consecutive year, no ADA violation was reported to the President, Congress, and the Comptroller General at the end of fiscal year 2013 as required. HUD did not make clearing of backlogged ADA cases a priority in fiscal year 2013. Untimely disposition of the ADA cases could delay the implementation of corrective actions, including any needed safeguards to strengthen HUD's fund control system to prevent recurrence of the same ADA violation.

HUD Did Not Comply With the HOME Investment Partnership Act

HUD did not comply with the HOME Investment Partnership Act, section 218 (g). HUD's misinterpretation of the plain language in the Act, the

³ As of September 30, 2013, a total of 16 cases were open and under review by HUD. The time elapsed since these cases were opened ranged from more than a year to 10 years.

⁴ 31 U.S.C. (United States Code) 1341, 342, 1350, 1517, and 1519.

⁵ 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 ADA 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.

implementation of the cumulative method and FIFO technique, as well as the current recapture policies have resulted in HUD's noncompliance with the HOME statute requirements. Consequently, HUD incorrectly permitted some jurisdictions to retain and commit HOME program grant funds beyond the statutory deadline.

HUD Did Not Comply With the Federal Information Security Management Act

The fiscal year 2013 independent evaluation of the HUD information technology security program found significant deficiencies in most of the practices and component parts of the program. We found that the program did not comply with the Federal Information Security Management Act and information assets were at risk.

FHA Did Not Comply With the Cranston-Gonzalez National Affordable Housing Act of 1990

The Cranston-Gonzales National Affordable Housing Act of 1990 required that FHA's Mutual Mortgage Insurance (MMI) Fund maintain a minimum level of capital sufficient to withstand a moderate recession. This capital requirement, termed the "capital ratio," is defined as capital resources (assets minus current liabilities), less the liability for future claim costs (net of future premiums and recoveries), divided by the value of amortized insurance-in-force. The Act requires FHA to maintain a minimum capital ratio of 2 percent and conduct an annual independent actuarial study to, among other things, calculate this ratio. The Housing and Economic Recovery Act of 2008 requires that the HUD Secretary submit a report annually to Congress describing the results of the study, assess the financial status of the MMI Fund, recommend program adjustments, and evaluate the quality control procedures and accuracy of information used in the process of underwriting loans guaranteed by the MMI Fund. As of the date of our audit, this report for fiscal year 2013 had not been submitted to Congress, but preliminary FHA data indicated that this ratio remained below the required 2 percent throughout fiscal year 2013.

Required Supplementary Information

U.S. GAAP requires that certain information be presented to supplement the basic general-purpose financial statements. Such information, although not a part of the basic general-purpose financial statements, is required by the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the basic general-purpose financial statements into an appropriate operational, economic, or historical context.

In its Fiscal Year 2013 Agency Financial Report, HUD presents “required supplemental stewardship information” and “required supplementary information.” The required supplemental stewardship information presents information on investments in non-Federal physical property and human capital and investments in research and development. In the required supplementary information, HUD presents a “management discussion and analysis of operations” and combining statements of budgetary resources. HUD also elected to present consolidating balance sheets and related consolidating statements of changes in net position as required supplementary information. The consolidating information is presented for purposes of additional analysis of the financial statements rather than to present the financial position and changes in net position of HUD’s major activities. This information is not a required part of the basic financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136.

We did not audit and do not express an opinion or provide any assurance on this information; however, we applied certain limited procedures, in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to the auditor’s inquiries, the basic financial statements, and other knowledge the auditor obtained during the audit of the basic financial statements. These limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

Results of the Audit of FHA’s Financial Statements

The independent certified public accounting firm of CliftonLarsonAllen LLP performed a separate audit of FHA’s fiscal years 2013 and 2012 financial statements. Its report on FHA’s financial statements, dated December 13, 2013,⁶ includes an unqualified opinion on FHA’s financial statements, along with discussion of two significant deficiencies in internal controls and one instance of noncompliance with laws and regulations.

⁶ CliftonLarsonAllen LLP’s report on FHA, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2013 and 2012 (2014-FO-0002, dated December 13, 2013) was incorporated into this report.

HUD FY 2013 Agency Financial Report

Section 2

Results of the Audit of Ginnie Mae's Financial Statements

The independent certified public accounting firm of CliftonLarsonAllen LLP performed a separate audit of Ginnie Mae's fiscal years 2013 and 2012 financial statements. Its report on Ginnie Mae's financial statements, dated December 6, 2013,⁷ includes an unqualified opinion on these financial statements, along with discussion of one significant deficiency in internal control.

Objectives, Scope, and Methodology

As part of our audit, we considered HUD's internal controls over financial reporting by obtaining an understanding of the design effectiveness of internal controls, determined whether they had been placed into operation, assessed control risks, and performed tests of the reporting entity's internal controls to determine our audit procedures for the purpose of expressing our opinion on the principal financial statements. We are not providing assurance on those internal controls. Consequently, we do not provide an opinion on internal controls. We conducted our audit in accordance with Government Auditing Standards and the requirements of OMB Bulletin 14-02. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

We also tested HUD's compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements that could have a direct and material effect on the financial statements. However, our consideration of HUD's internal controls and our testing of its compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements were not designed to and did not provide sufficient evidence to allow us to express an opinion on such matters and would not necessarily disclose all matters that might be material weaknesses; significant deficiencies; or noncompliance with

⁷ CliftonLarson Allen LLP's report on Ginnie Mae, Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2013 and 2012 (2014-FO-0001, dated December 6, 2013) was incorporated into this report.

laws, regulations, governmentwide policies, and provisions of contract and grant agreements. Accordingly, we do not express an opinion on HUD's internal controls or its compliance with laws, regulations, governmentwide policies, and provisions of contract and grant agreements.

With respect to internal controls related to performance measures to be reported in management's discussion and analysis and HUD's Fiscal Year 2013 Agency Financial Report, we performed limited testing procedures as required by AU-C Section 730, Required Supplementary Information. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

Agency Comments and Our Evaluation

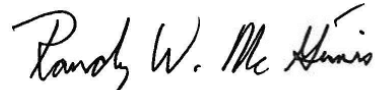
On November 27, 2013, we provided a draft of the internal control and compliance sections of our report to the OCFO, appropriate assistant secretaries, and other departmental officials and requested that the OCFO coordinate a departmentwide response. The OCFO responded in a memorandum dated December 12, 2013, which is included in its entirety in our separate report, along with our complete evaluation of the response. The Department's response was considered in preparing the final version of this report. While HUD did not provide formal comments to all reported control deficiencies and compliance with laws and regulations, management indicated agreement with most of OIG's findings and conclusions. However, HUD continues to disagree regarding the finding that the Office of Community Planning and Development's formula grant accounting does not comply with Generally Accepted Accounting Principles. However, a high level plan has been developed to address the finding and eliminate the use of the First-In First-Out method of disbursing and cumulative method of determining program compliance. OIG will evaluate and report on HUD's progress on implementing these corrections in the next fiscal year. HUD also disagrees with a part of the finding stating HUD's financial management systems weaknesses continued to be a challenge. Specifically, HUD disagrees that its procurement applications do not meet FFMIA's system requirements because it was not intended nor designed to perform any of the core financial system functions. OIG respectfully disagrees with HUD's position. HUD generally agrees with the finding related to PIH's Housing Choice Voucher Program Cash Management Process departing from GAAP and Treasury requirements in addition to the finding related to the consolidated financial reporting issues with Ginnie Mae. In regards to (1) Ginnie Mae's implementation of a budgetary accounting module for its core financial system, and (2) HUD's implementation of a new core

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financial system, OIG will evaluate and monitor progress in implementing both of these noncompliant core financial management system.

This report is intended for the information and use of the management of HUD, OMB, the U.S. Government Accountability Office, and Congress and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited. In addition to a separate report detailing the internal control and compliance issues included in this report and providing specific recommendations to HUD management, we noted other matters involving internal control over financial reporting and HUD's operation that we are reporting to HUD management in a separate "management letter."



Randy W. McGinnis
Assistant Inspector General for Audit

December 16, 2013

Office Of Inspector General's Report On Management And Performance Challenges

Office Of Inspector General's Report On Management And Performance Challenges



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

NOV 19 2013

Memorandum

TO: Shaun Donovan, Secretary, S

FROM: 
David A. Montoya, Inspector General, G

SUBJECT: Management and Performance Challenges for Fiscal Year 2014 and Beyond

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is submitting its annual statement to you summarizing our current assessment of the most serious management and performance challenges facing the U.S. Department of Housing and Urban Development (HUD or Department) in fiscal year 2014. Through our audits, investigations, inspections, and evaluations, we work with departmental managers in recommending actions that best address these challenges. More details on our efforts in relation to these issues can be found in our Semiannual Reports to Congress.

The Department's primary mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD seeks to accomplish this mission through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. HUD relies upon many partners for the performance and integrity of a large number of diverse programs. Among these partners are cities that manage HUD's Community Development Block Grant funds, public housing agencies that manage assisted housing funds, HUD-approved lenders that originate and service FHA-insured loans, Government National Mortgage Association mortgage-backed security issuers that provide mortgage capital, and other Federal agencies with which HUD coordinates to accomplish its goals. HUD also has a substantial responsibility for administering disaster assistance programs.

Achieving HUD's mission continues to be an ambitious challenge for its limited staff, given the agency's diverse programs, the thousands of intermediaries assisting the Department, and the millions of beneficiaries of its housing programs. The attachment discusses the challenges facing HUD.

Attachment

HUD Management and Performance Challenges
Fiscal Year 2014 and Beyond

Human Capital Management

For many years, one of the U.S. Department of Housing and Urban Development's (HUD or Department) major challenges has been to effectively manage its limited staff to accomplish its primary mission. HUD lacks a valid basis for assessing its human resource needs and allocating staff within program offices. The Department contracted with the National Academy of Public Administration (NAPA) to consult on this problem. In 1999, a NAPA report noted that HUD did not engage in any short- or long-term planning to determine staffing needs. It noted the absence of a clear workforce planning strategy, which is impeding the Department's efforts to address its workforce needs in a strategic and organized manner.

NAPA recommended that the Department establish an intraagency team of senior officials from the Offices of the Chief Financial Officer and Chief Human Capital Officer and administrative and budget officials from major program offices to assess the causes of HUD's erratic resource management practices and develop a more timely and predictable staffing process. In addition, NAPA recommended that this team lay the groundwork for creating ongoing, agencywide workforce analysis and planning that is tied to HUD's strategic plan and enhances longer range capability to recruit and sustain a high quality and skilled workforce.

A June 2012 review conducted by the Office of Personnel Management (OPM) found a number of weaknesses in HUD's human capital policies and practices. Specifically, OPM determined that HUD does not meet 41 of 68 expected outcomes across five Human Capital Assessment and Accountability Framework (HCAAF) systems. The five areas of HCAAF consist of Strategic Alignment, Leadership and Knowledge Management, Results-Oriented Performance Culture, Talent Management, and Accountability. OPM's review traced many of the problems to a lack of human capital accountability activities and insufficient strategic management of human capital.

In March 2013, the U.S. Government Accountability Office (GAO) issued a report on HUD's strategic human capital and workforce planning, which stated that HUD is reexamining its resource management processes. The report did not fully consider all standards identified in a 1999 NAPA report. GAO's review found that HUD has provided central guidance on how work is defined and collected; however, HUD has not created incentives or accountability to staff to report accurate workload data. GAO found that the data collected are often not used to inform decision making, thus it is difficult to make an adequate decision as to HUD's resource needs. This is especially important as GAO reported in its February 2013 High Risk Series update that at the end of fiscal year 2012, at least 40 percent of HUD's staff was either already eligible or will become eligible to retire by 2016.

In June 2011, HUD introduced a transformation initiative within the Office of Multifamily Housing. By 2016, it proposes to complete a transformation of the way it works from a 1970s operating model to a 21st-century model that applies industry best practices, improves its ability to manage risk and deliver excellent customer service, and increases accountability and national

consistency. The challenge will be to ensure that this new style of functioning maintains adequate monitoring of properties and access to its clients. The transformation involves four initiatives to address the closing of offices: workload sharing across offices, risk-based underwriting and processing, targeted support for troubled properties, and streamlining the organization in headquarters and the field.

Financial Management Governance of HUD

HUD faces a significant management challenge to fully establish and implement a successful financial management governance structure and system of internal control over financial reporting as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Chief Financial Officers Act of 1990 (CFO Act). Since the implementation of the CFO Act and the requirement for audited financial statements, the Office of Inspector General (OIG) has reported multiple significant deficiencies in HUD's internal controls over financial reporting, including a material weakness on HUD's fiscal year 2012 financial statements, which can be directly related to a weak financial management governance structure.

HUD's current financial management structure, which administers \$57.6 billion in appropriations for fiscal year 2013, relies upon delegations of key financial management functions to HUD's program offices, including but not limited to review and approval of vouchers, reviews of unliquidated obligations, and some budgetary functions. A majority of HUD's program offices do not have positions with well-defined duties relating to financial management or internal controls over financial reporting. This condition has fostered an attitude and environment in which program-related issues, concerns, and decisions are prioritized, thereby limiting the relative importance of financial management responsibilities.

Additionally, HUD has been operating without a CFO since August 2011, and there have been recurring vacancies in HUD's Assistant CFO positions over the past 3 years. Currently, three out of four Assistant CFO positions have not been permanently filled. These vacancies have limited HUD's ability to set an appropriate tone at the top regarding the importance of HUD's financial management and the implementation and maintenance of internal controls over financial reporting.

Further, the Office of the Chief Financial Officer (OCFO) lacks a position or division to (1) monitor the issuance of accounting policies and standards from entities such as the Federal Accounting Standards Advisory Board and OMB and determine their impact on HUD and (2) interpret program office financial reporting policies and determine whether they comply with generally accepted accounting principles (GAAP) and other financial management regulations. Our audits have indicated that instead, accounting procedures are often determined by program office preference without the oversight of OCFO and regard for accounting standards. The absence of this function has been the root cause of multiple significant deficiencies identified in our audits. Without executive leadership within OCFO, it is difficult to maintain the proper institutional balance of financial resources between program execution objectives and financial management requirements.

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Another concern is that HUD's financial management handbooks are either significantly outdated or incomplete. OCFO has attempted to implement accounting policy and procedures through the issuance of memorandums, but this method does not provide easily accessible guidance and reference for staff, nor does it provide for a permanent source of financial management standard operating policies. Financial management policy in a centralized location that is easily accessible by staff is instrumental for the continuity of accounting policies and procedures during periods of staff turnover. Since 2008, HUD's OCFO has had a 44 percent turnover in staff, with 15 percent turnover between 2011 and 2012. Additionally, 10 divisions or offices within OCFO have experienced decreases in full-time employees of 33 percent or more. Combined with the lack of a basic policy framework necessary to implement a compliant financial management system, this situation creates a significant challenge in ensuring compliance with accounting standards and other regulations. HUD must fully commit to establishing, documenting, and implementing its accounting policies and procedures in a permanent and easily accessible manner.

HUD does not effectively monitor internal control, creating a significant challenge in management's ability to implement a successful system of internal control. HUD has established procedures for internal control monitoring and oversight reviews of agency financial management activities; however, in recent years, these reviews have either been delayed or not completed. For example,

- HUD's management control review program is designed to have program offices annually assess the risk of their programs based upon the general control environment, inherent risks, and the effectiveness of existing controls and to periodically review internal controls to determine whether identified risks are mitigated. However, the program is not consistently implemented across all program offices, and risks are not assessed annually.
- The front-end risk assessment process is intended to review new or revised programs before implementation, but several reviews have not been finalized well after the first year of the respective programs.
- Quality management reviews, which are designed to ensure that HUD programs and processes perform in accordance with statutory requirements and efficient management principles, were not completed for fiscal years 2012 and 2013.
- Compliance reviews to ensure that program offices follow their established funds control plans were not performed during fiscal year 2012.

The lack of oversight and monitoring from the nonperformance of these reviews limits the level of assurance management has that essential internal control functions in place across the Department are properly designed and implemented and can be relied upon.

Overall, the deficiencies in HUD's financial management governance structure have resulted in a departmentwide imbalance in which financial management requirements are subordinated to program office operational objectives. HUD's OCFO could provide better financial information to manage the day-to-day operations of the Department, as well as assist in policy and budget formulation, if HUD's financial management were appropriately structured and the CFO were given the authorities and resources needed.

Financial Management Systems

Since fiscal year 1991, OIG has annually reported on the lack of an integrated financial management system, including the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems. During the past several years, HUD has made progress by partially implementing new core financial systems at FHA and the Government National Mortgage Association (Ginnie Mae) and addressing many of the previous weaknesses that OIG identified. HUD has been working to replace its current core financial management system 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 for core processing. With the award of the contract in September 2010, HUD anticipated implementation of phase one of the project in time to have all of the fiscal year 2012 financial data within the new system. However, 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, HUD reevaluated its alternatives, and the New Core Project was created to move HUD forward to implement a new core financial system. The New Core Project has the same scope as HIFMIP and will initially replace the functionality of two of the applications currently used for core processing. The Department expects to use a phased approach to eventually modernize all of its financial systems and processes. In July 2013, the New Core Project management team recommended migration to a Federal shared service provider. The team concluded that this option would provide the most value to HUD by leveraging modern technologies in cloud computing while reducing implementation risks.

On July 30, 2013, HUD signed an interagency agreement with the Bureau of Fiscal Services (DFS) to obtain full Federal shared services. Full service leverages DFS's financial management, procurement, human resources, and travel applications. HUD will be one of the first cabinet-level agencies to migrate to a Federal shared service provider. We are concerned, however, about HUD's ability to successfully complete such a large-scale system migration. While HUD's focus is on implementing a new core system in a shared service center, most of the mixed systems will remain with HUD, along with the "cuff" systems that users have developed over time to overcome deficiencies. In addition, the Department relies on several different contractors to support the various financial management applications, and the development of the necessary interfaces will rely on the interface designs created during the failed implementation of the HIFMIP project. Although HUD has just started to define the project's scope, the "go live" date is currently scheduled for October 1, 2014.

We remain concerned about the current state of FHA's information technology (IT) systems and the lack of systems capabilities and automation to respond to changes in business processes and the IT operating environment. To address these challenges, in August 2009, FHA completed the Information Technology Strategy and Improvement Plan, which identified FHA's priorities for IT transformation. The plan identified 25 initiatives to address specific FHA lines of business needs. Initiatives were prioritized, with the top five being single-family related. In all, the FHA transformation initiative was intended to improve the Department's management of insurance programs through the development and implementation of a modern financial services IT environment that is expected to improve loan endorsement processes, collateral risk capabilities,

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and fraud prevention. However, to date, FHA has completed a few but not all of the goals due to a lack of funding. FHA is working on acquiring risk management tools but has made substantive progress only on its initial system design phase.

Overall, it appears funding constraints diminished the ability to complete the new application systems and phase out and deactivate the outdated systems. Progress has been made, but many of the initiatives are still in the design phase. With these delays, HUD risks investing its resources on projects that may not meet critical mission needs. This brings about another concern: the ability to maintain antiquated infrastructure on which some of the HUD and FHA applications reside. As workloads continue to rise, these legacy systems that are 15 to 30 years old must be maintained to effectively support the current market conditions and volume of activity. However, the use of aging hardware and software could result in poor performance and high maintenance costs. If the IT infrastructure is not modernized in a timely manner, it will become increasingly difficult and expensive to maintain operations and maintain interfaces to other IT systems.

As part of our annual review of information systems controls in support of the financial statements audit, we continue to report weaknesses in internal controls and security regarding HUD's general data processing operations and specific applications. The effect of these weaknesses is that HUD cannot be reasonably assured that system information will remain confidential, safeguarded, and available to those who need it without interruption. For instance, HUD did not (1) implement effective interface procedures to ensure that FHA and Ginnie Mae data were protected during transmission and access to these data were restricted while stored in the shared electronic folder, (2) follow adequate separation of duties controls to ensure that a voucher processing group could not modify some of the banking information used for drawdown processing, (3) validate all telecommunication links and Web interfaces during disaster recovery testing, and (4) ensure that procedures for managing the configurations of systems in HUD's computing environment were followed. As a result, HUD's financial systems continue to be at risk of compromise.

According to OMB requirements, the Chief Information Officer has ultimate responsibility for the governance, management, and delivery of IT mission and business programs within the Department and has an effective operative means of meeting this responsibility. However, HUD OCIO has been relegated to the role of policy making, lacking the authority to enforce policies and meet IT governance responsibilities. For example, while OCIO issues guidance for the development of systems and security documents such as security self-assessments, systems security plans, risk assessments, and configuration management plans, it remains merely a collector of the documents. We found many instances of documents developed by the program offices being out of date and not accurately reflecting the current environment. OCIO has indicated that it did not always have the resources available to monitor the applications and ensure that the program offices implemented the policies and procedures to meet Federal IT requirements. Instead, OCIO has written policies and procedures that delegate the responsibilities for meeting Federal IT requirements to the program areas. This delegation results in no centralized individual being responsible for HUD's IT mission and business programs.

We also have concerns with HUD's ability to summarize and report all transactions and events related to community planning development (CPD) programs accurately and in a timely manner

in accordance with GAAP until appropriate system changes are implemented in HUD's accounting systems. HUD's accounting systems for CPD programs were designed to process disbursements using a first-in, first out (FIFO) methodology. Under FIFO, the funds are committed and drawn from the oldest to the newest funds having the same grant program, source of funds, recipient of funds, and type of funds. However, as we have previously reported and OMB and GAO have upheld, this methodology was not a generally accepted accounting practice for grants in the Federal Government. To properly account for these transactions in accordance with GAAP, the same source of funding for an obligation should also be used to record disbursements against that obligation. HUD will need to make system changes to eliminate the FIFO logic, but the scope and cost of this effort is significant. While the system changes will probably have the largest impact on the HOME Investment Partnerships Program, they will also affect other formula programs within CPD, creating a continuing challenge for HUD.

Information Security

Our annual evaluation of the HUD IT security program, as mandated by the Federal Information Security Management Act (FISMA), revealed that core foundational pillars for an effective program either do not exist or have been poorly implemented. The existing governance framework for IT security and privacy is fragmented, and the roles and functional responsibilities are not clearly defined. Policies and procedures have not been established in accordance with the latest Federal guidance. HUD's system inventory is not accurate or maintained in a manner to ensure that all systems have security safeguards, a valid authority to operate, and full accountability for IT security. HUD has significant deficiencies in 7 of the 11 programs on which OIG reports to OMB, including Continuous Monitoring, Incident Response, Security Training, Plans of Actions and Milestones, IT Risk Management, System Contingency Planning, and Contractor System Oversight. HUD deployed a network asset discovery and management tool in fiscal year 2013 and when the enterprise solution is fully implemented, it will have capability to identify, monitor, and manage all IT assets on the HUD network, which would partially enhance its security posture.

HUD's annual IT budget of \$392 million in fiscal year 2013 and the program leadership have not facilitated an effective program. The Department will be challenged to ensure that leadership establishes a strategic direction for the future of the program, which is consistent with changing technology, evolving Federal guidance, emerging IT threats, and budget constraints. The impending transition of IT service introduces additional challenges when the HUD IT service contract expires in June 2014. Going forward, HUD will need to consider security requirements and incorporate them into IT services procurement actions as needed. Instilling a pervasive IT security culture throughout HUD will be dependent upon a strong and skilled Chief Information Officer, executive support, and well-trained resources in developing and implementing a FISMA-compliant program.

Single-Family Programs

FHA's single-family mortgage insurance programs enable millions of first-time borrowers and minority, low-income, elderly, and other underserved households to realize the benefits of home ownership. HUD manages a growing portfolio of single-family insured mortgages exceeding

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\$1.2 trillion. Effective management of this portfolio represents a continuing challenge for the Department.

For the past 4 years, the FHA fund has failed to meet its legislatively mandated 2 percent capital ratio. Each of these 4 years has seen a further decline in that ratio, and according to the 2012 actuarial study, the fund had a negative economic value of \$16.3 billion. Based upon the 2012 projections, the capital ratio will not reach the 2 percent level until 2017, marking 8 consecutive fiscal years below the 2 percent threshold. Moreover, for the first time in its history, FHA has requested a \$1.7 billion draw from the U.S. Treasury to supplement its reserves at the end of fiscal year 2013. Due to the continuing stress on the insurance fund's estimated reserves, GAO included FHA concerns in its latest "high risk" update relating to "Modernizing the U.S. Financial Regulatory System and Federal Role in Housing Finance." Restoring the fund's reserves and finances has been a priority for HUD, and it has increased premiums, reduced the amount of equity that may be withdrawn on reverse mortgages, and taken other steps to restore the financial health of the fund. OIG has collaborated with HUD and the U.S. Department of Justice (DOJ) to pursue civil fraud investigations in an effort to recover losses from lenders that fraudulently originated FHA loans. It is incumbent upon the Department to make every effort to prevent or mitigate fraud, waste, and abuse in FHA loan programs.

FHA plays a major role in supporting the housing market, and FHA has implemented initiatives to strengthen the insurance fund. For example, the Reverse Mortgage Stabilization Act of 2013 afforded FHA tools to manage the fund better and in a timelier manner. For example, recognizing the need to stabilize its reverse mortgage program and to improve the health of the fund due to significant claims paid for reverse mortgage losses, FHA has implemented various structural changes to the program through mortgagee letters instead of a lengthy rule-making process. Further, FHA now has the authority to seek indemnification from its direct endorsement lenders, which account for 70 percent of all FHA-approved lenders. With this authority, FHA will be able to obtain indemnification from all its approved lenders for loans that fail to comply with its guidelines.

In spite of these positive steps, we remain concerned about HUD's resolve in taking the necessary actions going forward to protect the fund. As we noted in recent testimony, HUD is often hesitant to take strong but needed actions against lenders because of its competing mandate to continue FHA's role in restoring the housing market and ensure the availability of mortgage credit and continued lender participation in the FHA program. For example, FHA has been slow to implement a rigorous and timely claims review process. OIG has repeatedly noted in past audits and other types of lender underwriting reviews HUD's financial exposure when paying claims on loans that were not qualified for insurance. Based on results of a 2011 review of mortgage lenders in partnership with HUD and DOJ, OIG reiterated recommendations made in 2006. Specifically, the Department needs to develop and implement procedures to review a statistical or risk-based selection of loans, for which FHA paid a claim on the mortgage insurance within the first 2 years of endorsement, to verify that the loans met FHA requirements and were qualified for insurance. While HUD agreed to act on our recommendation, our 2013 follow-up review found that HUD had not adequately implemented the necessary corrective actions.

OIG has taken further steps to help preserve the FHA insurance fund and improve FHA loan underwriting by partnering with HUD and DOJ in a number of FHA lender reviews that have led to lawsuits against the lenders for failing to comply with FHA requirements. Within the last 2 years, the government has reached civil settlements with FHA lenders totaling nearly \$1.5 billion for alleged violations of the False Claims Act and the Financial Institutions Reform, Recovery, and Enforcement Act. A majority of the settlement amounts paid are of direct benefit to the FHA insurance fund. More recently, OIG has initiated additional lender reviews in which statistical samples of FHA loans were drawn to determine the accuracy and due diligence of the underwriters of loans by some of the largest lenders nationwide. Our results to date have shown high percentages of loans reviewed that should not have been insured due to significant deficiencies in the underwriting. These reviews are ongoing.

HUD also faces challenges in ensuring that its single-family housing programs benefit eligible participants through minimizing losses and by not paying improper claims. In a recent review of FHA's Preforeclosure Sale Program, OIG found that FHA paid foreclosure sale claims that did not meet the sale proceeds criteria and were, therefore, not eligible in accordance with the program requirements. This condition occurred because HUD did not design program controls to ensure that program objectives are met and that it only pays preforeclosure sale claims that meet the sale proceeds requirements. FHA stated that it would review the threshold established for minimum net preforeclosure sale proceeds and perform a cost benefit analysis for alternative criteria. Further, it agreed to reevaluate its minimum net sales and use its Quality Assurance Division to review a sample of preforeclosure claims to ensure that the minimum net sale proceeds requirements are met. The Department has made progress in resolving the recommendations resulting from another preforeclosure sale audit that was completed last fiscal year. In that audit, OIG found that FHA did not always pay claims for only those preforeclosure transactions that met the criteria for participation in the program. FHA agreed that existing program policy and lender execution against that policy are inconsistent. To improve alignment and ensure that the long-term interests of the FHA insurance fund are met, FHA issued Mortgagee Letter 2013-13 in July 2013, (1) establishing documentation requirements for verifying assets, income, and expenses and (2) specifying income documentation requirements for the income deficit test that must be met for borrowers that do not meet the streamline requirements.

We remain concerned that increases in demand on the FHA program are having collateral implications for the integrity of Ginnie Mae mortgage-backed securities (MBS) program, including the potential for increases in fraud. Ginnie Mae securities are the only mortgage-backed securities to carry the full faith and credit guaranty of the United States. If an issuer fails to make the required pass-through payment of principal and interest to MBS investors, Ginnie Mae is required to assume responsibility for it. Typically, Ginnie Mae defaults the issuer and assumes control of the issuer's government or agency MBS pools. By the end of fiscal year 2013, Ginnie Mae's MBS portfolio exceeded \$ 1.457 trillion. Among Ginnie Mae's key challenges is to enhance MBS issuer monitoring to assess the risk of the imminent default of a "top tier" (top-10-ranked) lender effectively and in a timely manner. Historically, Ginnie Mae issuer defaults have been infrequent, involving small to moderate-size issuers. However, major unanticipated issuer defaults beginning in 2009 have led to a multi-billion-dollar rise in Ginnie Mae's nationwide mortgage servicing as well as its repurchase of billions of dollars in defaulted

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whole loans to meet its guarantees to MBS investors. In the near term, these changes have strained both operating and financial resources. In fiscal 2013, another designated “top tier” lender is going through bankruptcy court supervision. Ginnie Mae is depending upon several court-selected large hedge fund investors and their subsidiary servicers to acquire the \$46 billion government servicing portfolios as well as major financial investment by the U.S. Treasury to achieve a successful outcome.

With the approval of OMB and Congress, Ginnie Mae significantly increased its management capacity in fiscal year 2012. However, Ginnie Mae continues to rely heavily on third-party contractors to perform almost all key operating loan servicing, pool processing, and other functions.

HOME Program

HUD’s ability to accumulate and provide data to monitor compliance with HOME Investment Partnership Act (HOME statute) requirements for committing and expending funds will remain a concern until appropriate system changes in the Integrated Disbursement and Information System (IDIS) are implemented. The HOME program is the largest Federal block grant to State and local governments, designed to create affordable housing for low-income households. Because HOME is a formula-based grant, funds are awarded to the participating jurisdictions noncompetitively on an annual basis. The formula is based, in part, on factors including age of units, substandard occupied units, number of families below the poverty level, and population in accordance with U.S. Census data. IDIS is a nationwide database that stores funding data and other current information regarding program activities, which are used to monitor grantee performance and compliance and to support information reported to Congress.

In 2009, OIG challenged HUD’s cumulative method for determining compliance with section 218(g) of the HOME statute, which requires that any uncommitted funds be reallocated or recaptured after the expiration of the 24-month commitment deadline. After a continuous impasse with HUD, in 2011, we contacted GAO and requested a formal legal opinion on this matter. In July 2013, GAO issued its legal opinion affirming OIG’s position on the issue and cited HUD with noncompliance with section 218(g). In its decision, GAO reiterated that the language within the statute regarding compliance with section 218(g) was clear and unambiguous and to that end, HUD’s cumulative method did not comply with the statute. Accordingly, GAO advised HUD to cease the use of the cumulative method and to take steps to identify and recapture funds that remain uncommitted after the statutory commitment deadline.

The ramifications of the GAO legal opinion will require extensive reprogramming and modification to HUD’s IDIS system. HUD estimates that the changes will cost \$3-\$5 million and will take between 12 and 15 months to complete. However, we believe that with a more robust, up-to-date, and compliant information system, HUD would be able to better monitor grantee performance in a more timely, efficient, and transparent way; strengthen its internal controls; bring the system into compliance with HOME statute requirements; and accurately and reliably report financial transactions. Our oversight work in this program continues. To its credit, HUD has worked quickly to develop a plan to modify its IDIS system.

Our external audit work, which focuses on problem grantees, commonly found a lack of adequate controls. These findings included issues with subgrantee activities, resale and recapture provisions to enforce HUD's affordability requirements, incorrectly reporting program accomplishments, and incurring ineligible expenses. There is also a repetitive thread of not always meeting the objectives of the program to provide affordable housing or not always meeting local building code requirements. HUD focuses its monitoring activities at the grantee level through its field offices. Grantees, in turn, are responsible for monitoring their subgrantees. Our audits have found that, in some instances, little or no monitoring was occurring, particularly at the subgrantee level.

Our work in this program continues, and we have been working with Appropriations Committee staff to help the Department strengthen controls. To its credit and in part in response to our prior audit work, HUD proposed new rules that were finalized on July 24, 2013. The new rules should strengthen HUD's future enforcement authority for the HOME program and provide jurisdictions with regulatory guidance to enhance the efficiency and effectiveness of the program. The new rules include a 4-year completion deadline, an assessment of project underwriting, developer capacity and market need, and conversion of home-buyer units to rental units.

Before the revised rule became final, OIG issued a report concluding that the proposed regulation changes and controls, if properly implemented, should mitigate the systemic deficiencies identified in prior HUD OIG audit reports with the exception of (1) the program's oversight of grantee monitoring and (2) validating the reliability of HOME data. The Department has taken steps to improve HOME program management, and OIG continues with its oversight work in this area.

Public and Assisted Housing Program Administration

HUD provides housing assistance funds under various grant and subsidy programs to public housing agencies (PHA) and multifamily project owners. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. The Office of Public and Indian Housing (PIH) and the Office of Multifamily Housing provide funding for rent subsidies through public housing operating subsidies and the tenant-based Section 8 Housing Choice Voucher and Section 8 multifamily project-based programs. These programs are administered by more than 4,058 intermediaries and provide affordable housing for 1.1 million households through the low-rent operating subsidy public housing program, 2.3 million households through the Housing Choice Voucher program, and nearly 1.2 million households through the multifamily project-based program.

HUD has a challenge in monitoring the Housing Choice Voucher program. The program is electronically monitored through PHAs' self-assessments and other self-reported information collected in PIH's systems. Based on recent audits and HUD's onsite confirmatory reviews, it is clear that the self-assessments are not always accurate, and there remains some question as to the reliability of the information contained in PIH systems. PIH management believes it will address these limitations with the Next Generation Management System, which is under development, and the Portfolio Management Tool, which has recently been implemented. Until the two

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systems are completely implemented, HUD will continue to face challenges in monitoring this program.

During 2012 and 2013, Congress approved funding reductions to the Housing Choice Voucher program amounting to \$975 million. These reductions provide PIH with a significant challenge to provide housing to the same number of families with much less funding. To accomplish this, PIH needs to ensure optimum use of program funding. PIH developed a spreadsheet tool for use by PHAs and PIH staff to assist in projecting leasing, spending, and funding over a 2-year period. The purpose is to facilitate decision making by PHAs and guide HUD oversight and technical assistance so that PHAs can fully use their funding. The goal is to avoid large cyclical swings of participant lease-up followed by attrition and to eliminate abrupt funding cutbacks that may cause the canceling of vouchers. In a recent audit report, we identified areas for improvement in PIH's protocols and controls for monitoring PHAs to assist in identifying funding shortfalls.

HUD's monitoring and oversight of PHAs participating in the Moving to Work demonstration program (MTW) is particularly challenging. The MTW program provides PHAs the opportunity to design and test innovative, locally designed strategies that are designed to use Federal dollars more efficiently, help residents become self-sufficient, and increase housing choices for low-income families. In the more than 14 years since the demonstration program was implemented, HUD has not been able to report on whether the program is meeting its objectives. HUD has requested and Congress is considering expanding the program to include more participants. However, this is being done without first understanding whether participating PHAs are reducing costs to gain increased housing choices and incentives for families to work. HUD is experiencing challenges in developing programwide performance indicators that will not inhibit the participants' abilities to creatively impact the program.

This conclusion is also supported by a 2012 GAO report, which found that MTW guidance does not specify that PHA MTW plans provide that performance be quantifiable and outcome oriented. By not identifying the performance data needed to assess the results of the MTW program, HUD is unable to effectively evaluate this demonstration program. In fiscal year 2013, OIG continued to report that participating PHAs have significantly departed from their MTW agreements. HUD needs to quantify a formal process for terminating participants from the demonstration program for failure to comply with their agreement. We are looking further into controls over legal and lobbying expenses by participating PHAs.

We also noted that executive directors removed or leaving under questionable circumstances are appointed as executive directors at other agencies in different parts of the country. This is concerning since it allows someone who has a poor track record to continue poor management practices or possible malfeasance elsewhere. This will be a challenge to HUD as it does not track the movement of executive directors between PHAs.

Since the passage of the Improper Payments Information Act of 2002, HUD has made an effort to reduce erroneous payments in its PIH programs; however, departmentwide progress has stalled.

Last year, we noted that estimated errors were made by the intermediaries and tenants intentionally underreported income in three major rental housing assistance programs, resulting in improper subsidy payments. HUD had a total gross error amount of \$1.23 billion in improper payments for fiscal year 2011. This reflects an overall error rate of 3.9 percent, which is a 1 percent increase from the fiscal year 2010 study.

Administering Programs Directed Toward Victims of Natural Disasters

Congress has frequently provided supplemental appropriations through HUD's Community Development Block Grant (CDBG) program to help communities recover from natural and man-made disasters. The CDBG program is flexible and allows CDBG Disaster Recovery (CDBG-DR) grants to address a wide range of challenges. These grants have been used to help New York recover from the attack on the World Trade Center on September 11, 2011, to help towns in the upper Midwest recover from severe flooding (in 1993, 1997 and 2008), and to help the Gulf Coast in the wake of the hurricanes of 2005. Although HUD has made progress in recent years with assisting communities recovering from disasters, HUD faces several management challenges in administering these grants.

As a result of the high number of disasters, HUD faces difficulties in monitoring disaster program funds because of limited resources to perform the oversight, the broad nature of HUD program requirements, and the lack of understanding of CDBG-DR grants by the recipients. Since HUD disaster assistance may fund a variety of recovery activities, HUD can help communities and neighborhoods that otherwise might not recover. However, HUD must be diligent in its oversight duties to ensure that grantees have completed their projects in a timely manner and that they use the funds for intended purposes.

CDBG-DR appropriations generally grant the HUD Secretary broad authority to issue waivers and alternative requirements. Because HUD is waiving some of the standard CDBG program requirements, HUD must ensure that each disaster recovery activity includes performance and expenditure schedules as part of its action plan for overall accountability. HUD must be consistent in granting of waivers and may do so as long as such waivers or alternative requirements are not inconsistent with purpose and rules governing the CDBG program. One such inconsistency occurred in fiscal year 2013 when CPD waived some Road Home Incentive Elevation Program requirements after agreeing to enforce them in the audit resolution process.

Keeping up with communities in the recovery process can be a challenging proposition for HUD. HUD CDBG-DR funding over the past several years has exceeded \$35 billion. These active disaster grants nationwide have approximately \$30 billion in obligations and \$24 billion in disbursements. Although many years have passed since some of the specific disasters occurred, significant disaster funds remain unexpended. HUD must continue to maintain its oversight efforts to ensure that funds are expended as needed.

Management Response To The OIG Report On Management And Performance Challenges

The Department's management and the OIG have worked in a close, collaborative manner during the past year, recognizing the challenges facing the Department and the country. Management's comments and updates on the department's progress in addressing each challenge are set forth below.

Human Capital Management

Office of the Chief Human Capital Officer

HUD agrees with the OIG's assessment of a critical need for the Department to correct shortcomings in Human Capital Management at HUD. The Department followed recommendations from the National Academy of Public Administration (NAPA), the Office of Personnel Management's (OPM), and the U.S. Government Accountability Office (GAO) in framing a set of actions designed to transform human capital programs at HUD. Since a number of these actions did not appear in OIG's report, several of the more important actions, are listed here as supplemental information.

HUD intends to make fact-based workforce decisions using data collected through the Department's Time Estimate and Allocation Mechanism (TEAM). HUD developed the FY 2015 annual budget at a functional level (reflected in 134 functions) for the twenty-one HUD offices using the new functionally organized TEAM data collection system. The Department also used FY 2013 TEAM time and workload data as the baseline to project FY 2015 FTE and funding requirements for the OMB budget submission. A training package for TEAM reporting and data analysis has been developed to train staff to utilize TEAM data to make resource allocation decisions during the annual budget planning process and throughout the year. Over 400 managers, Budget Officers and Analysts, TEAM Program Coordinators, and TEAM National Program Coordinators will participate.

A process to implement the Human Resources End-to-End (HR E2E) solution was initiated in FY 2012 and is still on-going to respond to GAO's recommendation for more definitive strategic management of human capital resources. Implementation of HR E2E will permit the full integration of HUD human resources data for reporting and management purposes. HR E2E includes a talent management component with the capability for effective succession management planning, ongoing workforce analyses, and the creation of a hierarchical organizational view to meet forecasted needs. HR E2E solution is expected to be fully operational in FY 2014.

To establish a clear workforce planning strategy, HUD initiated a comprehensive approach to workforce and human capital strategic planning. The Workforce Planning Committee was established in FY 2012, to address resource management strategies in the Department. The Human Capital Strategy Working Group was created in FY 2013, to develop strategies for the 2014 — 2018 HUD Strategic Plan. In FY 2013, OCHCO/Office of Human Capital Services (HCS) collaborated with OCFO to implement a new process to ensure submission of timely and comprehensive hiring plans. Additionally, second review procedures were initiated to ensure correct coding of SF-50s, Notification of Personnel Action forms, to ensure better controls over the accuracy of processing of personnel actions. The OCHCO Accountability Team worked with HCS to establish protocols and procedures for reviewing the hiring process, from beginning to end. The review team established quality control measures to improve job opportunity announcements, the adjudication of veterans, qualifications analysis, specialized experience, and the

Management Response To The OIG Report On Management And Performance Challenges

overall technical aspects of hiring. The Department's revised Human Capital Framework (to be implemented in FY 2014) and HUD's Human Capital Strategic Plan will align with OPM's Human Capital Assessment and Accountability Framework.

Office of Multifamily Housing

With reference to the transformation initiative introduced in the Office of Multifamily Housing, the OIG noted a challenge for Multifamily Housing to ensure that this new style of functioning will continue to maintain adequate monitoring of properties and access to clients. In fact, the transformation is designed to enhance monitoring and make local engagement more consistent and efficient across our programs and throughout our geographic footprint.

The "Transformation" initiative, introduced in April 2013, proposes to modernize an operating model that was originally developed in the 1970's. By doing so, Multifamily will adapt industry best practices, improve its ability to manage risk, and increase accountability and consistency nationwide.

Under the new operating model, Multifamily will differentiate between three types of asset managers. The Multifamily portfolio of assets has already been segmented by risk and complexity, so we can match assets with the proper level of staff expertise, rather than by geography. Project Managers (PMs) in Asset Management will be able to monitor their assigned properties more closely. Rather than be tasked with the entire breadth of the portfolio, PMs will manage similar properties, creating specialists in each class of assets (troubled or non-troubled).

Today, PMs perform about 30 different types of activities which include about 115 different tasks, nearly all of which can be performed remotely. Only extraordinary events require on-site asset management visits. Additionally, we will continue to rely on third parties for 'feet on the street,' including both HUD employees and contractors, such as HUD's REAC (Real Estate Assessment Center) and PBCAs (performance-based contract administrators). Travel and third party support will ensure monitoring, as well as access to clients.

On the production side, Multifamily is developing an underwriter model that provides for single-source contacts. Lenders will work with one HUD staff person (with assigned back-up) from the initial application through closing. This increases accountability for HUD staff as well as visibility for the lenders. This system has been tested in the Atlanta Hub with great success. In addition to the Asset Management and Production operational changes outlined above, Multifamily is also planning on augmenting its travel budget to enable staff to conduct quarterly affordable housing preservation visits as well as training one Field Policy & Management staff member in each consolidating office to serve as a local Multifamily representative.

Financial Management Governance of HUD

HUD agrees with the observations and conclusions in the OIG report concerning Financial Management Governance at HUD, noting that the Office of the CFO has limited resources and authority with which to structure and execute the financial management controls needed for effective financial management governance.

Plans for improving financial management governance include some of the financial management systems changes discussed in the next section of the OIG report as well implementation of the interagency

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agreement (signed August 7, 2013) with the Bureau of the Fiscal Service (BFS) to obtain full Federal shared services support.

It should also be noted that HUD has made substantial progress in effectively monitoring the Department's administrative control of funds. During FY 2013, the OCFO performed 46 compliance reviews to ensure that program offices followed their established funds control plans.

Financial Management Systems

Office of the Chief Financial Officer

HUD management concurs with the OIG report in the need to implement a new core financial system for HUD. Management offers a few clarifications on matters discussed in the report.

The New Core program's scope is not a good comparison to the HUD Integrated Financial Management Improvement Project (HIFMIP). New Core has a five-year phased implementation approach that will modernize HUD's core financials and other systems, but utilizes a production ready application with the Administrative Resource Center (ARC) of the Bureau of the Fiscal Service (BFS).

- Phase One – migrate HUD's core financial, procurement, time and attendance, and travel system functionalities to a shared services provider
- Phase Two – evaluate the replacement of the functionality in HUD's legacy administrative and accounting system services associated with budgeting, accounting, finance, and reporting with a shared service solution
- Phase Three – evaluate the replacement of the core financials of the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) in the shared services environment

Regarding an October 1, 2014, "go live" date, October 1, 2014, is the current target working date for implementation of Phase One of New Core. After the requirements gathering and business process validation sessions are completed and all identified gaps are analyzed, New Core will finalize the timeline and sequencing for implementation. Impacts of the Federal Government shutdown have also not been fully determined, since all requirements sessions had to endure re-planning efforts.

Implementation challenges seen with data conversion and legacy system interfaces on the previous HIFMIP project have a completely different approach under New Core.

- New Core is not developing individual interfaces for each mixed system as in HIFMIP, but instead is developing a middleware solution that will transform and translate the mixed system data to enable utilization of the standard Oracle application programming interfaces (APIs) and reduce interface complexity and risk.
- New Core is incorporating the two primary legacy contractors into the project team who support and maintain HUDCAPS and PAS – the core processing legacy applications – with their specialized expertise for interfaces, data conversion, PIH Section 8, and data warehousing.

The New Core program has engaged an Independent Verification & Validation (IV&V) partner to review all New Core activities, provide recommendations, and actively participate in performance improvements early on in the project. The IV&V contractor will report to the Deputy Secretary on project progress.

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The combination of the factors described above will help mitigate the risks and challenges experienced during HIFMIP.

Office of Housing – Federal Housing Administration

FHA leadership concurs with OIG’s characterization that insufficient and unpredictable funding is the most significant constraint to timely completion of new application development and retiring antiquated legacy systems. We remain committed to transforming through business process reengineering and modernizing associated IT systems that support Single Family, Multifamily and Healthcare (insured and non-insured) programs that enable program success and agile risk management.

Information Security

HUD agrees with the OIG’s assessment and aims to implement corrective actions.

Single Family Programs*Office of Single Family Housing*

Over the past five years, FHA has executed the most sweeping changes to its programs and practices in the agency’s nearly eighty year history. Through substantial changes to borrower credit and underwriting requirements and significant increases in mortgage insurance premiums, FHA has ensured that loans being endorsed today are both high quality and priced adequately for the risk they present to FHA’s insurance fund. In fact, books of business insured since FY 2010 have been increasingly more profitable each year. In addition, FHA has significantly improved its counterparty risk management efforts through increased capital requirements for FHA-approved lenders, improved and risk-based reviews of lenders and loan files, and the removal of large numbers of non-compliant lenders. Finally, faced with large numbers of defaulted loans as a result of the recession, FHA has made vast changes to its loss mitigation and asset disposition policies and processes to reduce losses to the insurance fund from non-performing loans, and to increase recoveries associated with loans that cannot be made to re-perform. In total, the changes FHA has made in the past five years have improved the value of FHA’s MMI Fund by more than \$30 billion.

The statement that “FHA now has the authority to seek indemnification from its direct endorsement lenders” is not correct. This authority has been proposed in various legislation, but nothing has passed yet. Thus while FHA can request indemnification from all lenders, we still only have authority to demand indemnification from Lender Insurance (LI) lenders.

In May 2012, Single Family and the OIG reached agreement on a methodology to review loans for which FHA paid a claim on the mortgage insurance (pre-foreclosure and conveyance claims) within 24 months from endorsement date. In September 2012, Single Family implemented the processes and procedures necessary to accomplish this review. The OIG conducted a follow-up audit in FY 2013 to evaluate Single Family’s progress and noted that Single Family’s loan selection algorithm failed to identify all loans for which a claim was paid and that claim reviews were not conducted in a timely manner. Single Family re-evaluated its algorithm and concluded that its initial programming inadvertently omitted certain claim loans. Single Family promptly re-programmed its algorithm to address this deficiency in August 2013. Housing remains committed to reviewing all early cohort claim loans. However, with respect to the OIG’s concern regarding file review timing, Housing has had to integrate this increase in workload to its QC process and manage to do so with existing staff resources. Single Family will

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continue to refine its operations and systems to improve the timeliness and effectiveness of its entire Quality Control (QC) workload, including claim file reviews.

In addition, Single Family has taken several actions over the last year to improve the consistency and effectiveness of underwriting quality reviews, e.g. the process for identifying, classifying and requesting remedies for defects has been standardized across the office, the sampling methodology has been revised to focus on loans with defaults in the first two years. In addition, we've enhanced the transparency of our findings to the lender community through individual meetings and our new Lender Insight Newsletter, which highlights trends and issues based on our underwriting reviews so that lenders can begin taking corrective actions to their processes. Beyond the actions already taken, we continue to take steps to enhance our quality assurance program. In July 2013, Single Family issued an Advance Notice of Proposed Rule-Making seeking comments on several potential areas of enhancements to our quality assurance program. As a result we have identified potential improvements to our process for classifying defects that will provide more transparency and clarity to lenders; we are seeking resources to grow the nominal number of loan file reviews undertaken each year to ensure a more statistically relevant review of our endorsements and we are considering adjustments to our performance standards that will more clearly indicate relative performance of loans and the quality with which loans were underwritten. Thus while we concur with the OIG that enhancements to our quality assurance programs would be beneficial, we are proactively taking steps toward that goal while being mindful of the limited resources at our disposal.

Ginnie Mae

Ginnie Mae agrees with the Inspector General regarding the need to enhance MBS portfolio monitoring. Ginnie Mae has already taken steps by increasing staff who manage issuer relations and issuer performance. Additionally, Ginnie Mae has developed tools to track and monitor counterparty default risk in its Office of Enterprise Risk Management.

The Inspector General's reference to a large issuer default in 2009 due to irregularities uncovered by Ginnie Mae's monitoring group eventually resulted in a joint effort by the HUD IG, Ginnie Mae, and Department of Justice to recover the funds and prosecute those responsible for the irregularities.

There is currently a trend of private capital entering housing finance, sometimes through private equity funds, but such funds are not themselves the Ginnie Mae counterparty. Ginnie Mae counterparties are held to the same standards no matter the source of their capital. The acquirer of the bankrupt "top tier" lender alluded to in the memorandum is not owned by private equity or hedge funds but rather is publicly-held. Ginnie Mae, because of its approval rights, had the opportunity to perform substantial due diligence before the award of the government-insured MSR portfolio in that instance.

Ginnie Mae has made significant investments recently in procedures to identify situations where there is elevated risk of default. The Office of Enterprise Risk ("ERO") has developed a system that centralizes the identification of counterparty exposure and provides a tool to manage exposure by establishing limits. "CorporateWatch" assigns each Issuer a risk grade that is derived either by leveraging ratings published by external rating agencies for publicly rated institutions or using an internally developed proprietary risk-rating model. Issuers that are assigned one of the two higher grades are automatically placed on the Watch List, and managed according to the Watch List protocols.

While Ginnie Mae has increased staff and brought some key functions in-house, contractors remain critical to Ginnie Mae's operations: Pool processing, field reviews, and systems development are among

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those tasks for which outsourcing remains the Government's best option. Ginnie Mae has requested in the FY-2015 budget to increase S&E funds to allow for the transfer of some technical functions from contractors to Ginnie Mae staff. If this funding is approved the risks associated with Ginnie Mae's reliance on contractors will be reduced. Also, Ginnie Mae's Office of the Chief Financial Officer does contract assessment reviews on all contracts that \$1 million is expended on annually. These reviews give Ginnie Mae and the auditor's assurance that the contracts have support for proper invoicing.

HOME Program

The Department issued the HOME rule which will mitigate the systemic deficiencies identified in HUD OIG audit reports. The Department has also taken steps to improve HOME program management and will be revising the HOME Monitoring Exhibits in the CPD Monitoring Handbook to add questions that will direct CPD monitors to compare project data entered in IDIS with information in the participating jurisdiction's files.

Also the change in methodology for determining compliance with HOME commitment deadlines is now tied to the elimination of FIFO in CPD programs. CPD has developed a draft plan to eliminate FIFO within IDIS to be completed by June 2016, provided that the Department receives funding to make the necessary changes. CPD has requested roughly \$2.7 million in fiscal year 2014 to begin the project. The latest technical approach will perform the work in three phases.

Phase 1a and 1b will make immediate enforcement to matching of funding amounts to specific grant years. These would be smaller / quicker releases to make quick progress. Phase 2 would address all the various embedded remnants of FIFO throughout the system, and also other issues such as supporting the USSGL at the transaction level. This part would be longer than a 1 year effort.

Public and Assisted Housing Program Administration

With reference to remarks made in describing HUD's challenge in monitoring the Housing Choice Voucher program, the OIG mentioned a belief by management of the Office of Public and Indian Housing (PIH) that it will address the limitations cited using the Portfolio Management Tool (PMT) and the Next Generation Management System (NGMS). In this discussion, PIH management has the following points of clarification. While the PMT has recently been implemented, the effectiveness of the NGMS, which is currently under development, is dependent upon the availability of funding to bring the NGMS project to completion. Furthermore, although these tools will assist in the oversight of the program, PIH management notes that HUD will continue to face challenges in monitoring this program unless adequate resources are available to provide data verification via remote and onsite reviews.

In discussing the challenge facing HUD in the monitoring and oversight of PHAs participating in the Moving to Work demonstration program (MTW), the OIG stated a need for HUD to quantify a formal process for terminating participants from the demonstration program for failure to comply with their agreement. With respect to this statement, PIH management points out that MTW agencies are bound both by the terms of standardized MTW agreements and, as all PHAs, by the terms of Annual Contributions Contracts. In the standardized MTW agreements and the Annual Contributions Contracts, the Department has included procedures which have been established to bring agencies back into compliance short of termination, and additionally, to terminate if the agencies fail to follow such measures. In those rare instances in which agencies have failed to meet the terms of either document, the Department has taken appropriate steps and brought such agencies into compliance.

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Administering Programs Directed Toward Victims of Natural Disasters

HUD implemented several internal controls to ensure that disaster recovery funds are accurately disbursed in a timely manner. Specifically, HUD placed additional controls on the LOCCS system, including restricting all unbudgeted balances, providing for line-item budgets instead of an undifferentiated grant, and including warning flags for draws over \$5 million and over \$25 million. The flags can only be removed, allowing drawdown completion, after a CPD manager reviews and accepts accompanying documentation. Additionally, HUD's Disaster Recovery Grant Reporting (DRGR) system was integrated with LOCCS on January 5, 2009.

HUD conducts Front-End Risk Assessments (FERAs) for Disaster Recovery grants as those grants are an increase in the established CDBG program funding level. A FERA was conducted for disaster recovery grants awarded to New York for the events of September 11, as well as, the first appropriation for the Gulf Coast recovery states (MS, AL, TX, and LA). HUD acknowledges that the FERAs for subsequent appropriations have not been completed in a timely manner and is revising its internal Disaster Recovery procedures manual to correct this deficiency and can point to measureable improvements this fiscal year. Aside from the appropriation of funds under the Disaster Recovery Appropriations Act, 2013 (P.L. 113-2), FERAs are now in place for all of the Division's disaster recovery appropriations. With respect to the FERA developed to P.L. 113-2, the Division submitted its initial FERA to the Office of the Chief Financial Officer (CFO) within ninety days of the enactment of the appropriation. CFO comments have now been incorporated into the FERA and will be resubmitted to shortly.

Additionally, HUD provides technical assistance to states and HUD CPD Field Office prior to grant awards, including reviewing eligible activities, protocols for waiver requests, etc. CPD also reviews performance data and CDBG audits for each state to identify risks associated with disbursements of formula CDBG funds and compliance with CDBG program requirements. In September 2011, HUD issued the Disaster Recovery Policy and Procedures manual to ensure consistency in program review requires for both headquarters and field staff. Disaster Recovery staff also submitted new risk management guidance for the field as part of the CPD Risk Analysis process that will specifically include a separate analysis of disaster recovery grants. The CDBG-DR risk analysis worksheets have been incorporated into the Grants Management Process (GMP) system for Fiscal Year 12 risk analysis. The Disaster Recovery staff has also submitted an update to the CPD Monitoring Handbook that will include CDBG-DR specific monitoring checklists. A new release for the GMP Monitoring Module was deployed as of September 21, 2012. This release is largely designed to incorporate changes made to existing Exhibits and the addition of new Exhibits as a result of Chg-1 to the *CPD Monitoring Handbook 6509.2 Rev-6*, which was issued in March 2012. As of September 26th staff can now directly enter their monitoring information into the GMP Monitoring Module for all Exhibits, including any monitoring that used the new Exhibits, 6-2 through 6-8 (disaster recovery) and/or 8-19 (NSP-3).

Disaster recovery assistance provided by the Federal government is governed by the Stafford Act—which was designed to designate the Federal government as a *supplemental* source of available funding—providing assistance in instances where local, state, private-sector, and nonprofit resources are inadequate in addressing disaster response and recovery. Therefore, the Act forbids a recipient of federal disaster relief benefits from receiving “any part of such loss as to which he has received financial assistance under any other program or from insurance or any other source.” 42 U.S.C. § 5155(a). Further, a recipient of assistance will be liable to the United States “to the extent that such assistance duplicates benefits

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available to the person for the same purpose from another source.” 42 U.S.C. § 5155(c) (*emphasis added*). FEMA guidance indicates that grants or donations from *private* sources can lead to duplication of benefits under the Stafford Act if the funds are made available to a recipient for the same purpose as a federal program (FEMA Disaster Assistance Policy 9525.3 *Duplication of Benefits – Non-Government Funds*). HUD recently determined that private loans need **not** be included in the DOB analysis. More specifically, a private loan should not reduce the amount of Community Development Block Grant (CDBG) disaster recovery assistance available to an applicant. The Department worked with the Small Business Administration (SBA) to determine the correct usage of CDBG disaster recovery funds in relation to a SBA loan. In addition, the Department has developing guidance on meeting unmet needs and avoiding duplication of benefits with other federal (i.e. FEMA, etc.) programs. The Notice describing how grantees can prevent the duplication of benefits was published in the Federal Register Vol.76, No. 221, dated November 16, 2011.

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Summary Of Financial Statement Audit And Management Assurances

For FY 2013, four material weaknesses were identified by the Office of Inspector General. Table one provides a summary of financial audit findings with regard to audit opinion. The first table is a summary of the results of the independent audit of HUD's consolidated financial statements, as well as information reported by HUD's auditors in connection with the FY 2013 Financial Statement Audit. Table two is a summary of HUD's FMFIA management assurances.

Table 1:

Audit Opinion	Qualified **				
Restatement	Yes				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Substantial Compliance with Federal Financial Management Improvement Act (FFMIA)	1	0	0	0	1
Utilization of FIFO Method	0	1	0	0	1
Presentation of Balance Sheet Accounts	0	1	0	0	1
PIH Cash Management	0	1	0	0	1
<i>Total Material Weaknesses</i>	1	3	0	0	4

** Contingent upon the final decision from OIG

Other Information

Summary Of Financial Statement Audit And Management Assurances

Table 2

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Utilization of FIFO Method	0	1	0	0	0	1
Presentation of Balance Sheet Accounts	0	1	0	0	0	1
PIH Cash Management	0	1	0	0	0	1
<i>Total Material Weaknesses</i>	0	3	0	0	0	3
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Human Capital Operations	1	0	0	0	0	1
<i>Total Material Weaknesses</i>	1	0	0	0	0	1
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform except for the below non-conformances					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Management Systems - FFMA Non-Compliance	1	0	0	0	0	1
FISMA Non-Compliance	0	1	0	0	0	1
<i>Total Material Weaknesses</i>	1	1	0	0	0	2
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
FIRMS	1	0	0	0	0	1
HPS	1	0	0	0	0	1
SPS	1	0	0	0	0	1
IDIS	1	0	0	0	0	1

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HIAMS	1	0	1	0	0	0
GFAS	0	1	0	0	0	1
<i>Total non-conformances</i>	5	1	1	0	0	5
Compliance with Federal Financial Management Improvement Act (FFMIA)						
	Agency			Auditor		
1. System Requirements	Noncompliance noted			Noncompliance noted		
2. Accounting Standards	Noncompliance noted			Noncompliance noted		
3. USSGL at Transaction Level	No noncompliance noted			Noncompliance noted		

Material Weakness	Status at End of FY 2013	Expected Resolution Date
Departmental Financial Management Systems	Open	September 2015
Strategic Management of Human Capital Operations	Open	September 2014
FIFO Method	New	June 2015
Presentation of Balance Sheet Accounts	New	September 2014
PIH Cash Management	New	September 2014
FISMA Non-Compliance	New	TBD

Significant Deficiency	Status at End of FY 2013	Expected Resolution Date
PHA Monitoring	Open	April 2014
Controls over HUD's Computing Environment	Open	September 2014
Obligation Balances	Open	December 2013
Resource Management	Open	March 2014

Other Information

Summary Of Financial Statement Audit And Management Assurances

Controls Over Rental Housing Assistance	Open	October 2014
Controls over Community Planning and Development (CPD) Grantees	Closed	N/A
Administrative Control of Funds	Open	September 2014
Payroll Reconciliation	Open	Ongoing
Internal Controls over Financial Reporting	Open	December 2014
Financial Management Governance	New	TBD
Accounting Accrual for Grants	New	September 2014
Non-Compliance with Laws and Regulations	Status at End of FY 2013	Expected Resolution Date
Federal Financial Management Improvement Act (FFMIA)	Open	September 2015
Anti-Deficiency Act	Open	March 2014
FHA's Mutual Mortgage Insurance Fund Capitalization National Affordable Housing Act of 1990	Open	Ongoing
FISMA Non-Compliance	New	TBD
HOME Statute	New	TBD

** Reported as a Material Weakness in accordance with FISMA reporting requirements

Departmental Financial Management Systems	Achieving substantial compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) continued to challenge HUD
FY 2013 Accomplishments	<input type="checkbox"/> Resolved all past records associated with reconciliation issues between HUDCAPS and HIAMS. <input type="checkbox"/> Established procedures to perform periodic reviews to ensure obligation balances between HIAMS and HUD's financial system of record remain in sync. <input type="checkbox"/> Held monthly meetings to provide status updates on processing acquisition transactions. <input type="checkbox"/> Submitted a draft plan to change the accounting method being used in

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	IDIS.
FY 2014 Planned Actions	<input type="checkbox"/> Ensure new HIAMS discrepancies are resolved timely. <input type="checkbox"/> Continue monthly status updates meetings. <input type="checkbox"/> Modify IDIS online to eliminate the FIFO issue. <input type="checkbox"/> Prepare for implementation of “New Core” Financial Management system in FY 2015.
Strategic Management of Human Capital Operations	Deficiencies exist with HUD’s Human Capital Management Environment
FY 2013 Accomplishments	<input type="checkbox"/> Established a new process to ensure submission of timely and comprehensive hiring plans. <input type="checkbox"/> Initiated Quality Control review procedures to ensure correct coding of SF-50 Personnel Actions. <input type="checkbox"/> Created “Workforce Planning Committee”. <input type="checkbox"/> Established the Human Capital Strategy Working Group.
FY 2014 Planned Actions	<input type="checkbox"/> Continuous improvement in human resource practices with regular revisions to the Quality Review process <input type="checkbox"/> Finalize HUD’s Human Capital Strategic and Workforce plans. <input type="checkbox"/> Continue to develop comprehensive staffing plans by each program office. <input type="checkbox"/> Implement an ongoing workforce planning process.
FIFO Method	Use of FIFO caused IDIS to be noncompliant with FFMIA
FY 2013 Accomplishments	<input type="checkbox"/> Analyzed FIFO accounting principles in accordance with internal controls and system requirements. <input type="checkbox"/> Completed analysis of IDIS assignments and disbursing budget fiscal year funding sources in accordance with Federal financial accounting standards. <input type="checkbox"/> Obtained opinion from GAO. <input type="checkbox"/> Developed a draft plan to eliminate FIFO with IDIS. <input type="checkbox"/> Implemented DRGR corrective actions to increase internal controls.
FY 2014 Planned Actions	<input type="checkbox"/> Re-engineer IDIS from FIFO to Grant-Specific Commitments - Disbursement System. <input type="checkbox"/> Amend monitoring handbook exhibit referencing voucher revision reports and instructions for Grantees and field office staff.
Presentation of Balance Sheet Accounts	Weaknesses identified in HUD’s financial statement consolidation, preparation and reporting related to Ginnie Mae
FY 2013 Accomplishments	<input type="checkbox"/> Restated the Agency FY 2012 Financial Statements.
FY 2014 Planned Actions	<input type="checkbox"/> Develop a Budgetary Accounting system. <input type="checkbox"/> Ongoing monitoring and reporting.
PIH Cash Management	PIH’s Housing Choice Voucher Program Cash Management process departed from GAAP and Treasury requirements

Other Information

Summary Of Financial Statement Audit And Management Assurances

FY 2013 Accomplishments	<input type="checkbox"/> Drafted procedures to identify agencies unable to account for cash matching Net Restricted Assets (NRA) balances and established repayment agreements. <input type="checkbox"/> Recorded transactions properly in the Agency's general ledger.
FY 2014 Planned Actions	<input type="checkbox"/> Establish procedures for recording activity in HUD accounting records. <input type="checkbox"/> Provide data for recording activity when procedures are established. <input type="checkbox"/> Continue implementation of Cash Management policies.
FISMA Non-Compliance	HUD did not comply with the Federal Information Security Management Act (FISMA)
FY 2013 Accomplishments	<input type="checkbox"/> Updated Security policies and procedures to ensure compliance with NIST-800-53 Rev 3 guidance. <input type="checkbox"/> Developed a comprehensive enterprise-wide Cyber Security Continuous Monitoring Strategy program. <input type="checkbox"/> Implemented a configuration management baseline. <input type="checkbox"/> Refined the capital planning and investment control process to comply with Federal guidelines.
FY 2014 Planned Actions	<input type="checkbox"/> Update current policies and procedures to ensure compliance with NIST-800-53 Rev 4 guidance. <input type="checkbox"/> Ensure security plans and Certification and Accreditation plans are updated in accordance with NIST guidance. <input type="checkbox"/> Strengthen security awareness and training program and activities, as well as security assessments.
PHA Monitoring	HUD management must continue to improve oversight and monitoring of subsidy calculations, intermediate performance and utilization of Housing Choice Voucher Funds
FY 2013 Accomplishments	<input type="checkbox"/> Continued utilization of the Portfolio Management and National Risk Assessment Tool. <input type="checkbox"/> Requested offset reallocation authority from Congress. <input type="checkbox"/> Tracked the recovery implementation by Field Offices and network teams for the troubled and substandard portfolio. <input type="checkbox"/> Developed NGMS which included a Portfolio Management tool and Risk Monitoring tool (PRMT) <input type="checkbox"/> Obtained approval from OMB on the revised reporting requirements.
FY 2014 Planned Actions	<input type="checkbox"/> Ongoing monitoring. <input type="checkbox"/> Implement utilization of PRMT and standardized protocols to ensure effective oversight and evaluation of performance goals, monitoring, and oversight of PHAs. <input type="checkbox"/> Develop methodology to evaluate performance of Moving to Work (MTW) agencies. <input type="checkbox"/> Revise Annual MTW plan and reporting requirements. <input type="checkbox"/> Make 100% threshold reports available to MFH with April 2014 EIV release. <input type="checkbox"/> Review recommendation with OMB for approval to add as a supplemental measure.
Controls over HUD's Computing Environment	Controls over HUD's computing environment can be further strengthened to reduce the risks associated with safeguarding funds, property, and assets from unauthorized use or misappropriation.

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<p>FY 2013 Accomplishments</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Implemented a grid card solution as a two-factor authentication process for remote access. <input type="checkbox"/> Disabled IBM and UNIX accounts after 90 days of inactivity. <input type="checkbox"/> Enforced password complexity to IBM application owners. <input type="checkbox"/> Reviewed user access ensuring proper level of access based on job function. <input type="checkbox"/> Updated policies and procedures to include proper management of local user accounts. <input type="checkbox"/> Strengthened policies and procedures for secure transportation of information media outside of controlled areas. <input type="checkbox"/> Developed the Office of Housing IT portfolio management structure collaboratively with Office of the Chief Information Officer. <input type="checkbox"/> Designated a representative to oversee and report on the remediation of control deficiencies in general support systems that affect Housing systems and data. <input type="checkbox"/> Determined the role of Housing's Office of Risk Management in IT risk assessments for FHA applications. <input type="checkbox"/> Updated Housing's IT Risk Management framework. <input type="checkbox"/> Upgraded the Oracle environment. <input type="checkbox"/> Employed the use of Change and Configuration Management Suite that includes software tracking, version controls, auto-detection of new software, software deployment, discovery, Baseline Configuration, acquisition tracking and auditing.
<p>FY 2014 Planned Actions</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Maintain a repository of information for users requiring remote access and incorporate into the identity access management system. <input type="checkbox"/> Ensure potentially introduced vulnerabilities by mobile devices to IT infrastructure are adequately addressed. <input type="checkbox"/> For all mobile devices require encryption, content protection, password complexity protection and other security features that comply with HUD policy. <input type="checkbox"/> Develop and publish an official mobile device management standard operating procedure policy. <input type="checkbox"/> Assign a senior OCIO manager to document plan of action and provide regular status reports. <input type="checkbox"/> Address the IA and SI environments identified in NIST SP 800-53, Rev 3 and the SP 800-63. <input type="checkbox"/> Complete recertification process for all systems. <input type="checkbox"/> Review all Risk Assessments, Contingency Plans, POAMs, Security Assessment Report, E-Risk Assessments, and Privacy Impact Analysis for accuracy.
<p>Obligation Balances</p>	<p>HUD needs to improve controls over the monitoring of obligated balances to determine whether they remain needed and legally valid as of the end of the fiscal year.</p>
<p>FY 2013 Accomplishments</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Implemented a policy that all open obligations be reviewed annually regardless of the established monetary threshold. <input type="checkbox"/> De-obligated 115 out of 310 transactions deemed invalid. <input type="checkbox"/> Obtained documentation to retain or de-obligate the identified balances. <input type="checkbox"/> De-obligated PIH transactions deemed not valid and transactions closed. <input type="checkbox"/> Established a Closeout Taskforce to assist the field in closing out grants and resolve outstanding audit findings. <input type="checkbox"/> Reduced the balance of unliquidated obligations from \$50.6M to \$34.4M through review of grant agreements that have not been granted extension.

Other Information

Summary Of Financial Statement Audit And Management Assurances

	<input type="checkbox"/> De-obligated 17 inactive obligations totaling \$8276.67. <input type="checkbox"/> Identified and de-obligated all OHHLHC unliquidated obligations. <input type="checkbox"/> Recaptured \$102,430 for Housing's Section 202 and 811 programs combined. <input type="checkbox"/> Implemented procedures to provide LOCCS, HPS, SPS and HUDCAPS financial screenshots to assist Housing Program Offices in preparing closeout documentation. <input type="checkbox"/> Reviewed the identified 75 obligations totaling \$52,078 and de-obligated all un-liquidated obligations not needed and legally valid.
FY 2014 Planned Actions	<input type="checkbox"/> Prepare written guidance reminding Headquarters managers and Field Office Directors the criteria for reviewing the validity of open obligations; and update guidance approved to start the open obligation review. <input type="checkbox"/> Develop standard closeout policies and procedures to expedite the grant closeout process. <input type="checkbox"/> Coordinate Housing's re-capture of remaining outstanding Sections 202 and 811 debts and others.
Resource Management	HUD needs to develop a comprehensive strategy to manage its resources and better estimate staffing needs and support its staffing requests.
FY 2013 Accomplishments	<input type="checkbox"/> Analyzed the effectiveness of current resource allocation methods for determining workload and human capital requirements. <input type="checkbox"/> Identified Workforce and Human Capital plan challenges and needs. <input type="checkbox"/> Addressed the short-and long-term needs of the Department. <input type="checkbox"/> Established a process to ensure submission of comprehensive hiring plans.
FY 2014 Planned Actions	<input type="checkbox"/> Develop a baseline staffing structure by program office. <input type="checkbox"/> Reallocate staffing as needed for increased workloads. <input type="checkbox"/> Implement strict guidelines with greater accountability for managing staff years to budget. <input type="checkbox"/> Empower managers to engage with HR specialists during the hiring process. <input type="checkbox"/> Prioritize efforts and facilitate transformation in planning programs and services.
Controls over Rental Housing Assistance	Continued efforts are needed to improve housing authority monitoring to ensure that program funds are expended in compliance with laws and regulations.
FY 2013 Accomplishments	<input type="checkbox"/> Conducted quality control inspections of 1,000 recently completed Housing Quality Standards (HQS) inspections at 22 of the nation's largest PHAs. <input type="checkbox"/> Conducted 40 on-site and 159 remote financial reviews which identified material reporting and recording weaknesses. <input type="checkbox"/> Conducted 28 on-site and 113 remote Voucher Management System (VMS) reviews identifying errors. <input type="checkbox"/> Triaged 282 PHAs preventing HCV terminations.
FY 2014 Planned Actions	<input type="checkbox"/> Conduct quality control inspections of HQS at the 100 largest PHAs.
Controls over Community Planning and Development (CPD) Grantees	CPD needs to improve its oversight of grantees

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FY 2013 Accomplishments	<input type="checkbox"/> Re-issued HUD A-133 Single Audit Act guidance establishing a tracking and reporting mechanism for monitoring and reporting follow-up results. <input type="checkbox"/> Developed a template for testing field office compliance with A-133. <input type="checkbox"/> Issued HUD guidance and notices regarding risk analyses and monitoring for grant programs.
FY 2014 Planned Actions	<input type="checkbox"/> Perform periodic compliance reviews.
Administrative Control of Funds	HUD needs to improve its administrative control of funds
FY 2013 Accomplishments	<input type="checkbox"/> Initiated an effort to update all 56 PIH funds control plans. <input type="checkbox"/> Updated funds control plans for approval. <input type="checkbox"/> Initiated a portfolio management concept whereby analysts re responsible for all aspects of their portfolios including completing required revisions and respective funds control plans. <input type="checkbox"/> Completed training on the administrative control of funds for the staff in the Office of Native American Program Grants Management and Grants Evaluation Divisions. <input type="checkbox"/> Updated funds control plans that had missing codes.
FY 2014 Planned Actions	<input type="checkbox"/> Annually review Funds Control plans to ensure proper codes are used. <input type="checkbox"/> Continue efforts to familiarize staff involved in the processing of actions for commitment, obligation, or expenditure of HUD funds with the content of funds control plans and Handbook 1830.2 Rev. 5.
Payroll Reconciliation	HUD needs to strengthen controls in the payroll process
FY 2013 Accomplishments	<input type="checkbox"/> Held payroll adjustment meetings with program office representatives. <input type="checkbox"/> Agreed not to request a temporary fix regarding "Stored" accounting data/string, SSN data load in the PPS, MASC Table, webTA, etc.
FY 2014 Planned Actions	<input type="checkbox"/> Continue payroll adjustment meetings. <input type="checkbox"/> Began process and procedures for WebTA (4.2) upgrade. <input type="checkbox"/> Complete and submit Software Change Request (SCR) for all updates and changes, etc.
Internal Controls over Financial Reporting	Improvements are needed in the area of Financial Reporting
FY 2013 Accomplishments	<input type="checkbox"/> Developed and implemented internal procedures to ensure amounts owed to HUD are properly accounted for, collected and reported. <input type="checkbox"/> Developed a methodology to calculate an appropriate estimate of anticipated amount owed to HUD to ensure an appropriate accounts receivable amount is accrued. <input type="checkbox"/> Developed an appropriate allowance for loss methodology and adjustment for receivables established to ensure that an appropriate accounts receivable amount is accrued for costs that have not been finalized.
FY 2014	<input type="checkbox"/> Update Debt collection Handbook. <input type="checkbox"/> Implement standardized financial management policies and procedures.

Other Information

Summary Of Financial Statement Audit And Management Assurances

Planned Actions	
<i>Non Compliance with FFMLA</i>	HUD did not substantially comply with the Federal Financial Management Improvement Act (FFMIA) regarding system requirements.
FY 2013 Accomplishments	<input type="checkbox"/> Updated planned actions for each financial management system. <input type="checkbox"/> Analyzed FIFO in accordance with accounting principles, internal controls, and system requirements. <input type="checkbox"/> Completed analysis of IDIS assignments and disbursing budget fiscal year funding sources in accordance with Federal financial accounting standards. <input type="checkbox"/> Obtained opinion from GAO. <input type="checkbox"/> Developed a draft plan to eliminate FIFO with IDIS. <input type="checkbox"/> Implemented DRGR corrective actions to increase internal controls.
FY 2014 Planned Actions	<input type="checkbox"/> Update FMS plan throughout FY. <input type="checkbox"/> Continued collection of information for monitoring FMS development and operations. <input type="checkbox"/> Continuous monitoring. <input type="checkbox"/> Develop a budgetary accounting system in appropriate program offices. <input type="checkbox"/> Re-engineer IDIS from FIFO to Grant-Specific Commitments/Disbursement System. <input type="checkbox"/> Amend monitoring handbook exhibit referencing voucher revision reports and instructions for Grantees and field office staff.
Non Compliance with Anti-deficiency Act	HUD did not substantially comply with the Anti-deficiency Act
FY 2013 Accomplishments	<input type="checkbox"/> Completed backlog of old investigations, including six cited by OIG in prior audits.
FY 2014 Planned Actions	<input type="checkbox"/> Develop and/or strengthen internal controls related to contracts funded over multiple fiscal years based on results of ADA investigations. <input type="checkbox"/> Closeout the known ADA issues. <input type="checkbox"/> Review final reports to determine if reportable ADA violations have occurred.
Non Compliance with FHA's Mutual Mortgage Fund / National Affordable Housing Act of 1990	FHA's Mutual Mortgage Insurance fund capitalization was not maintained at a minimum capital ratio of two percent, which is required under the Cranston-Gonzalez national Affordable Housing Act of 1990
FY 2013 Accomplishments	<input type="checkbox"/> Initiated new underwriting standards. <input type="checkbox"/> Increased enforcement reviews and established a risk management protocol that will strengthen FHA. <input type="checkbox"/> Introduced new servicing rules that require early intervention and clear rule for both qualifying delinquent borrowers for home-retention assistance, and targeting the level of assistance to sustainable payment

HUD FY 2013 Agency Financial Report

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	ratios. <input type="checkbox"/> Increased the MMI Fund capital over 26 billion by FYE. <input type="checkbox"/> Increased annual premium charge by 10 basis points. <input type="checkbox"/> Contracted for second independent Actuarial assessment.
FY 2014 Planned Actions	<input type="checkbox"/> Continue to monitor economic conditions, business trends and actuarial assessments. <input type="checkbox"/> Initiate actions to strengthen the MMI fund. <input type="checkbox"/> Implement new underwriting standards.
Non Compliance with FISMA	HUD did not comply with the Federal Information Security Management Act (FISMA)
FY 2013 Accomplishments	<input type="checkbox"/> Updated Security policies and procedures to ensure compliance with NIST-800-53 Rev 3 guidance. <input type="checkbox"/> Developed a comprehensive enterprise-wide Cyber Security Continuous Monitoring Strategy program. <input type="checkbox"/> Implemented a configuration management baseline. <input type="checkbox"/> Refined the capital planning and investment control process to comply with Federal guidelines.
FY 2014 Planned Actions	<input type="checkbox"/> Update current policies and procedures to ensure compliance with NIST-800-53 Rev 4 guidance. <input type="checkbox"/> Ensure security plans and Certification and Accreditation plans are updated in accordance with NIST guidance. <input type="checkbox"/> Strengthen security awareness and training program and activities, as well as security assessments.
Non Compliance with HOME Statute	HUD was not in compliance with the HOME Investment Partnership Act (HOME Statute) Section 218 (g)
FY 2013 Accomplishments	<input type="checkbox"/> N/A
FY 2014 Planned Actions	<input type="checkbox"/> Change the methodology for determining compliance with HOME commitment deadline.

Secretary's Audit Resolution Report To Congress

This information on the Department of Housing and Urban Development's audit resolution and follow-up activity covers the period October 1, 2012, through September 30, 2013. It is required by Section 106 of the Inspector General Act Amendments (Public law 100-504), and provides information on the status of audit recommendations with management decisions, but no final action. The report also furnishes statistics for FY 2013 on the total number of audit reports and dollar value for both disallowed costs and for recommendations that funds be put to better use.

Audit Resolution Highlights

Overall the Department achieved 710 approved management decisions and successfully implemented 919 recommendations. The Department also made good progress in reducing its inventory of potential

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Secretary's Audit Resolution Report To Congress

significantly overdue final actions, which are those recommendations which could potentially be significantly overdue on September 30, 2013. This inventory was successfully addressed and the Department resolved 121 recommendations in this category, which was a reduction of 53.5 percent.

Summary of Management Decisions On Audit Recommendations

Opening Inventory Requiring Decisions	308
New Audit Recommendations Requiring Decisions	810
Management Decisions Made *	(710)
Audit Recommendations Still Requiring Decisions **	408
Recommendations Beyond Statutory Resolution Period **	18

*Management decisions were made on a total of 710 recommendations (120 audits of which 65 had final management decisions). Of these, 304 recommendations were in the opening inventory.

**This reporting period ended with 408 recommendations without management decisions. Of these, 18 recommendations are over 6 months old.

Summary of Recommendations With Management Decisions And No Final Action

Opening Inventory – Final Actions Pending *	1,384
Management Decisions Made During Report Period	710
Sub-Total Final Actions Pending	2094
Final Actions Taken **	(919)
Audit Recommendations Reopened During Period (Without Final Actions)	0
Total Audit Recommendations Still Requiring Final Actions ***	1,175

* This Opening Inventory was increased by 2 due to retroactive entries by the OIG for two recommendations.

** Final Action was taken on a total of 919 recommendations (243 audits of which 140 had final actions taken, thus closing the audits). The number of recommendations where a management decision and final action were concurrent was 336 in 121 audits.

*** Of the 216 open audits, 49.5 percent or 107 are under repayment plans.

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Management Report on Final Action On Audits With Disallowed Costs

Audit Reports	Number of Audit Reports	Questioned Costs
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period.	290	\$667,148,645
B. Audit Reports on which management decisions were made during the period.	62	1,251,679,604
C. Total audit reports pending final action during period (total of A and B)	352	1,918,828,249
D. Audit Reports on which final action was taken during the period		
1. Recoveries *	72	849,603,776
(a) Collections and offsets	62	829,521,309
(b) Property	0	0
(c) Other	23	20,082,467
2. Write-offs	54	88,431,806
3. Total of 1 and 2 **	88	938,035,582
E. Audit Reports needing final action at the end of the period (subtract D3 from C) ***	264	980,792,667
F. Open Recommendations (with disallowed costs) ****	[535]	[\$616,330,898]

[Please note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total disallowed costs in the report are reported as open until all recommendations in a report are closed.]

* Audit Reports are duplicated in D.1.(a), D.1.(b) and D.1.(c); thus the total is reduced by 13.

** Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 38.

*** Litigation, legislation, or investigation is pending for 41 audit reports with costs totaling \$139,702,910.

**** Figures in brackets represent data at the recommendation level as compared to the audit level as described in E.

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Secretary's Audit Resolution Report To Congress

Management Report on Final Action On Audits With Recommendations That Funds Be Put To Better Use

Audit Reports	Number of Audit Reports	Funds to be put to Better Use
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period.	173	5,013,677,041
B. Audit Reports on which management decisions were made during the period.	33	1,644,832,017
C. Total audit reports pending final action during period (total of A and B)	206	6,658,509,058
D. Audit Reports on which final action was taken during the period		
1. Value of Audit Reports implemented (completed)	41	228,068,864
2. Value of Audit Reports that management concluded should not or could not be implemented	11	14,579,548
3. Total of 1 and 2 *	46	242,648,412
E. Audit Reports needing final action at the end of the period (subtract D3 from C) **	160	6,415,860,646
F. Open Recommendations (with funds put to better use) ***	[106]	[\$1,324,594,995]

[Please note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total disallowed costs in the report are reported as open until all recommendations in a report are closed.]

* Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 6.

** Litigation, legislation, or investigation is pending for 26 audit reports with costs totaling \$787,192,650.

*** Figures in brackets represent data at the recommendation level as compared to the audit level as described in E.

Improper Payments Elimination And Recovery Act Reporting Details

The Requirements

The Improper Payments Elimination and Recovery Improvement Act (IPERIA), Public Law 112-248, signed into law by the President on January 10, 2013, amends the Improper Payments Elimination and Recovery Act (IPERA) of 2010 (Public Law 111-204) which amended the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300), and repealed the Recovery Auditing Act (Section 831 of the FY 2002 Defense Authorization Act, Public Law 107-107). Under the IPERIA and OMB implementing guidance in Appendix C of Circular A-123, agencies are to assess all programs and activities they administer and identify those that may be susceptible to significant improper payments. Where the risk of improper payments is assessed as potentially significant, agencies are required to estimate the annual amount of improper payments and report the estimates in their annual report (PAR or AFR) to OMB, along with plans and targets to reduce improper payments.

The statute defines a “significant” level of improper payments as annual improper payments exceeding 1) both 2.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported, or 2) \$100 million (regardless of the improper payment percentage of total program outlays).

An “improper payment” is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts consist of overpayments and underpayments (including inappropriate denials of payment or service). Improper payments also include:

- Any payment that was made to an ineligible recipient or for an ineligible good or service;
- Duplicate payments;
- Payments for goods or services not received;
- Payments that do not account for applicable discounts; and
- Payments for which there is insufficient or lack of documentation to determine whether it was proper.

In addition to identifying substantive errors that might warrant repayment, HUD’s statistical sampling of support for payments also identified “process” errors that increase the risk of substantive payment errors, which are included in HUD’s improper payment estimate.

HUD’s Commitment

At the time of implementation of the IPIA, the Secretary designated the Chief Financial Officer as the lead official for overseeing HUD actions to address improper payment issues and bring HUD into compliance with requirements of the IPIA and OMB implementing guidance. The Office of the Chief Financial Officer (OCFO) implemented the IPIA requirements and continues to address improper payment issues under the IPERIA. HUD’s plans, goals, and results for identifying and reducing improper payments are tracked and reported in the annual AFR. Additionally, managers are held accountable for achieving improper payment reduction targets via goals established for their program.

On November 20, 2009, the President signed Executive Order (EO) 13520: *Reducing Improper Payments and Eliminating Waste in Federal Programs*. The purpose of the EO is to reduce improper payments by boosting transparency, holding agencies accountable for reducing improper payments, examining the creation of incentives for states and other entities to reduce improper payments, and increasing penalties for contractors who fail to timely disclose improper payments. HUD is largely in compliance with the requirements of the EO and the OMB implementing guidance in Circular A-123, Appendix C, Part III. As such, HUD has established and reported supplemental measures for reducing improper payments in its designated high-priority program, the Rental Housing Assistance Programs (RHAP). HUD has also submitted an Accountable Official Annual Report to the Inspector General detailing HUD's methodology for identifying and measuring improper payments in the high-priority program, plans for meeting reduction targets, and plans for ensuring that initiatives undertaken pursuant to the EO do not unduly burden program access and participation by eligible beneficiaries.

HUD's Process

HUD's process for complying with the IPERIA consists of four steps:

- 1) Conduct a survey of all program and administrative activities for potential indicators of significant improper payments. (Under IPIA, the first annual assessment was conducted in FY 2004, based on the \$52.9 billion in payments made during FY 2003 in support of over 200 programs and administrative activities.)
- 2) Perform a detailed risk assessment of program activities identified in the first step with annual expenditures in excess of \$40 million¹¹. (Under the initial IPIA assessment, HUD identified ten activities, representing 57 percent of all payments, as potentially "at risk" of significant improper payments.)
- 3) Test a statistical sample of payments in program activities determined to be susceptible to significant improper payments. (Under IPIA, statistical sampling and analysis performed by independent reviewers during the initial assessment determined that only five of the ten activities actually had a significant improper payment problem).
- 4) Establish, execute, and monitor corrective action plans for reducing improper payments in the programs identified as at risk.

Summary of HUD Results to Date

Prior to enactment of the IPIA, IPERA, and IPERIA, OMB requested agency input on improper payments in select programs, including the Community Development Block Grant (CDBG) Entitlement and Non-Entitlement (States and Small Cities programs). These CDBG programs were identified through statistical sampling in HUD's initial annual risk assessment to be at low risk of improper payments and did not warrant reporting. OMB subsequently revised its guidance to clarify that agencies should

¹¹ The OCFO determined that programs with expenditures of less than \$40 million would not be included in the risk assessment. OMB Circular A-123, Appendix C, Part 1, defines "significant erroneous payments" as annual erroneous payments in the program exceeding 1) both 2.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or 2) \$100 million (regardless of the improper payment percentage of total program outlays). Based on the Office of the Chief Financial Officer's (OCFO's) analysis of the programs and their funds control activities, OCFO concluded that no program was susceptible to having an error rate in excess of 25 percent (i.e., 25 percent of \$40 million = \$10 million).

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continue to report on programs until they could document a minimum of two consecutive years in which improper payments are less than \$10 million annually, after which they could submit to OMB a request for relief from annual reporting.

HUD's analysis for two consecutive years determined that the CDBG Programs were below the \$10 million threshold for required reporting, and on March 14, 2007, OMB approved HUD's request for relief from annual improper payment reporting for those programs. HUD will continue to conduct an annual risk assessment of the CDBG programs and provide results annually to OMB by June 30.

Corrective actions were developed and completed for two of the five remaining activities identified as having significant improper payments (the Single Family Acquired Asset Management System and the Public Housing Capital Fund). These two activities were subsequently removed from the improper payments reporting requirement, leaving three high-risk program areas:

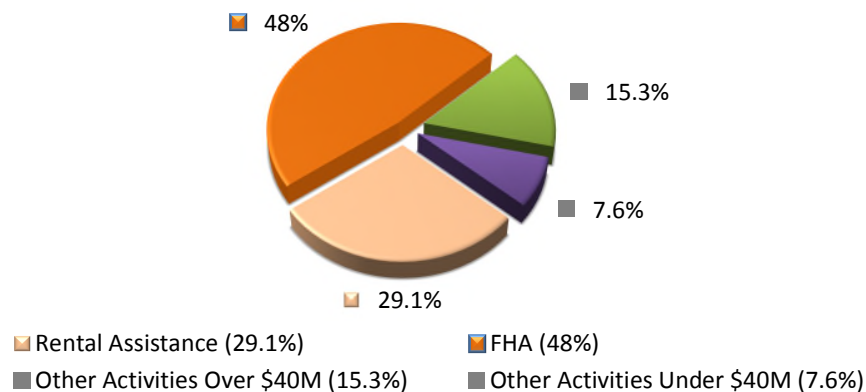
- Public Housing,
- Section 8 Housing Choice Vouchers and Moderate Rehabilitation, and
- Owner-administered Project-based Assistance Programs (Section 8, Section 202, and Section 811).

These programs are collectively referred to as HUD's RHAP. HUD has reduced the combined baseline gross improper rental housing assistance payment estimates of \$3.43 billion¹² to \$1.324 billion in Fiscal Year 2012, a reduction of 61 percent.

Results of Annual Risk Assessment Update and Continued Payment Testing

The FY 2013 risk assessment update was based on payments and other relevant activities that occurred during FY 2012. Approximately 200 distinct program and administrative payment activities were

HUD's \$106.4 Billion Payment Universe



identified from all of HUD's financial management systems in FY 2012, with total payments of \$106.4 billion. The payment universe consisted of the following distribution: HUD's risk assessment

¹² This figure combines the FY 2000 baseline estimate of \$3.22 billion for two types of improper payments (i.e., program administrator and tenant income reporting errors), with the FY 2005 baseline estimate of \$214 million, based on FY 2003 expenditures for the third type of improper payment (i.e., billing errors).

update in FY 2013 did not identify any new activities as being at risk of significant improper payments. Programs that previously tested below the improper payment threshold established by the IPERIA were removed from HUD's at risk inventory and are not subject to re-testing unless there is significant change in the nature of the activity, HUD's internal control structure, or operating environment.

Rental Housing Assistance Programs

HUD's RHAP had previously been assessed as being at high risk of significant improper payments – and continues to be reported as such – with corresponding error measurement methodologies, corrective action plans, and error reduction goals described below. These programs constituted \$31 billion¹³, or 29 percent, of HUD's total payments in FY 2012.

In FY 2001, prior to enactment of the IPIA, IPERA, and IPERIA, HUD established the Rental Housing Integrity Improvement Project to reduce an acknowledged improper payment problem in its rental assistance programs. This project is directed by the responsible HUD program offices, with oversight by the OCFO and statistical sampling¹⁴ support from the Office of Policy Development and Research. HUD's RHAP are administered by over 26,000 Public Housing Agencies (PHAs) and multifamily housing owners or management agents on HUD's behalf. In general, beneficiaries pay up to 30 percent of their adjusted income as rent, and HUD payments cover the remainder of the rental cost (or the operating cost, in the case of public housing).

There are three major components of potential errors which could result in improper payments in these complex programs:

- 1) Program administrator error – the administrator's failure to properly apply income exclusions and deductions and correctly determine income, rent, and subsidy levels;
- 2) Tenant income reporting error – the tenant beneficiary's failure to properly disclose all income sources and amounts upon which subsidies are determined; and

¹³ In response to an OIG report, HUD removed certain expenditures (i.e., Public and Indian Housing (PIH) Administrative Fees, Multifamily Housing Capital Advances, PIH Technical Assistance Grants, PIH Resident Opportunity Self-Sufficiency Grants, and PIH Family Self-Sufficiency Grants) from the universe of RHAP expenditures due to the fact that these expenditures do not have a direct correlation to Rental Assistance. Accordingly, HUD's improper payment error rate will be calculated without including these expenditures in the denominator.

¹⁴ HUD's methodology for statistical sampling in FY 2012 was to select 600 projects that were considered to be nationally representative of the 26,000 PHAs and multifamily housing owners or management agents that administer rental housing assistance on HUD's behalf. Projects were selected with probabilities proportional to size. Projects having a size exceeding the sampling interval were selected from larger projects for eight, twelve, or more households in the project and were counted as more than one project for purposes of determining the sampling size. Certain projects were excluded from the study due to their different eligibility and rent calculation rules, such as Owner-administered RAP/SUP projects. Projects were allocated approximately equally among the three assisted program types, and 200 projects were sampled from each major program type data was collected for a multiple of four households from each project. Additionally, data was collected for four households in one additional PHA to ensure that, given any unexpected circumstances, the sample would include a minimum of 2,400 households. This resulted in a total of 2,404 households with representation from among the three program areas. Because some large projects were selected multiple times, the study sample included 554 distinct projects in 59 geographic areas across the United States and Puerto Rico. The sample is designed to obtain a 95 percent likelihood that estimated aggregate national rent errors for all programs are within two percentage points of the true population rent calculation error, assuming an error of ten percent of the total rents (based on OMB criteria). Previous studies determined that a tenant sample size of 2,400 will yield an acceptable precision for estimates of the total average error.

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- 3) Billing error – errors in the billing and payment of subsidies due between HUD and third party program administrators and/or housing providers.

From FY 2000 through FY 2012, HUD reduced the gross improper payments for the first two of these three categories of error from \$3.22 billion to \$1.22 billion, a reduction of 62 percent. A baseline measurement for the third component, billing error, was completed in FY 2005, based on FY 2003 expenditures, and was estimated to be \$214 million. In FY 2012, the billing error was estimated to be \$106 million. This estimate was derived from the most recent billing error estimates for the Public Housing Program and the Owner-administered Project-based Assistance programs. The following chart provides a summary for all three error components for FY 2012 as compared to FY 2011 and the baseline year (FY 2000). Actual results are not presented for FY 2013 because HUD reports on prior year data (i.e., FY 2013 studies are conducted using FY 2012 data).

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IMPROPER RENTAL ASSISTANCE PAYMENTS
DOLLARS IN THOUSANDS

Administration/ Error Type	2012 Subsidy Over- Payments	2012 Subsidy Under- Payments	2012 Net Erroneous Payments	2012 Gross Erroneous Payments	2011 Gross Erroneous Payments	2000 Gross Erroneous Payments
Public Housing						
Administrator Error	\$118,049	\$72,801	\$45,248	\$190,850	\$139,885	\$602,557
Income Reporting Error	\$203,685	-	\$203,685	\$203,685	\$78,622	\$294,000
Billing Error*	\$35,000	\$14,000	\$21,000	\$49,000	\$49,000	Not available
Subtotal:	\$356,734	\$86,801	\$269,933	\$443,535	\$267,507	\$896,557
Section 8 Voucher						
Administrator Error	\$272,915	\$157,801	\$115,114	\$430,716	\$436,155	\$1,096,535
Income Reporting Error	\$168,802	-	\$168,802	\$168,802	\$265,696	\$418,000
Billing Error	-	-	-	-	-	Not available
Subtotal:	\$441,717	\$157,801	\$283,916	\$599,518	\$701,851	\$1,514,535
Total PHA Administered						
Administrator Error	\$390,964	\$230,602	\$160,362	\$621,566	\$576,040	\$1,699,092
Income Reporting Error	\$372,487	-	\$372,487	\$372,487	\$344,318	\$712,000
Billing Error	\$35,000	\$14,000	\$21,000	\$49,000	\$49,000	Not available
PHA Subtotal:	\$798,451	\$244,602	\$553,849	\$1,043,053	\$969,358	\$2,411,092
Total Project Based/Owner Administered						
Administrator Error	\$131,523	\$45,711	\$85,812	\$177,234	\$119,168	\$539,160
Income Reporting Error	\$46,713	-	\$46,713	\$46,713	\$84,175	\$266,000
Billing Error*	\$21,000	\$36,000	(\$15,000)	\$57,000	\$57,000	Not available
Project Based Subtotal:	\$199,236	\$81,711	\$117,525	\$280,947	\$260,343	\$805,160
Total Improper Payments						
Administrator Error	\$522,487	\$276,313	\$246,174	\$798,800	\$695,208	\$2,238,252
Income Reporting Error	\$419,200	-	\$419,200	\$419,200	\$428,493	\$978,000
Billing Error	\$56,000	\$50,000	\$6,000	\$106,000	\$106,000	Not available
GRAND Total:	\$997,687	\$326,313	\$671,374	\$1,324,000	\$1,229,701	\$3,216,252
TOTAL PROGRAM PAYMENTS	-	-	-	\$30,949,038	\$31,896,542	\$18,800,000
IMPROPER PAYMENT RATE	-	-	-	4.3%	3.9%	17.1%

*Billing error estimates are based on FY 2004 data for Public Housing and FY 2009 data for Owner Administrators.

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Percent Reductions in Improper Payments

Dollars in Billions

Error Type	Baseline Estimates	FY 2012 Estimates	Percent Reduction
Administrator Error	* \$2.238	\$0.799	64%
Income Reporting Error	* \$0.978	\$0.419	57%
Billing Error	* \$0.214	\$0.106	50%
Total	\$3.430	\$1.324	61%

* Administrator and Income Reporting Error Estimates are from FY 2000; the Billing Error Estimate is from FY 2005.

Corrective Actions Taken to Reduce Improper Payments

The overall reduction in improper payments for HUD's three major types of RHAP over the past 12 years has been primarily attributed to HUD's efforts to work with its housing industry partners through enhanced program guidance, training, oversight, and enforcement.

Collectively, these efforts have had a positive impact on the program administrators' ability to reduce their errors in the calculation of income, rent, and subsidies. Although the Administrator Error increased from \$695 million in FY 2011 to \$799 million in FY 2012, the findings were on par with the findings from FY 2004 through FY 2011, within the statistical margin of error, and do not represent statistically significant differences. There is an increase in the error rate in FY 2012, because the population totals used in HUD's RHAP sample to assess errors were updated based on the FY 2012 sampling frame which included Moving to Work PHAs. Therefore, a portion of the changes in total gross dollar error may be due to an increase in population, and not due to an increase in rent error.

In the Housing Choice Voucher Program, the establishment of a budget based funding methodology was implemented in FY 2005 to eliminate the opportunity for billing errors.

HUD also uses the Enterprise Income Verification (EIV) system to reduce the level of improper payments. The EIV system makes integrated income data available from one source for PHAs and multifamily property owners to improve income verification during income reexaminations. Increased availability and use of the EIV system by PHAs, owners, management agents, and contract administrators for HUD's rental assistance programs have a direct correlation to the reduction of improper payments associated with income reporting errors. Use of EIV by PHAs, owners, management agents, and contract administrators became mandatory effective January 31, 2010.

HUD continues to operate in accordance with its Do Not Pay Implementation plan (as approved by OMB) and is committed to using Treasury's Do Not Pay solution to reduce improper payments.

PIH implemented a "Do Not Pay List" on September 20, 2009 within the EIV system. This feature identifies individuals who currently have outstanding debts with PHAs nationwide. PHAs are required to use this feature to screen applicants. The feature alerts PHAs of current assisted families when there is a report of an outstanding debt to another PHA so that the current PHA may terminate the family's assistance in accordance with PHA established policies and prevent subsequent improper payments.

During FY 2011, HUD formed an Improper Payments Assessment Team to monitor PHAs reporting of information to the Public and Indian Housing Information Center (PIC). The intended outcome of this

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monitoring effort is to confirm PHA compliance with PIC reporting and effective use of the EIV system to reduce improper payments within PIH RHAP.

In FY 2010, HUD also implemented reporting in the EIV system to aid PHAs in recovering payment errors at the local level. One of these reports is the Deceased Tenant Report which measures the number of deceased single member households within a public housing agency's jurisdiction. The measure helps Public Housing Agencies reduce improper payments made to deceased beneficiaries. In the first three years of monitoring the Deceased Tenants Report, \$6.9 million in improper payments have been recovered.

HUD's Improper Payment Reduction Forecast

HUD will continue to take aggressive steps to address the causes of improper rental housing assistance payments to ensure that the right benefits go to the right people. Based on the above results for the three types of rental housing assistance errors, as well as plans to address known causes and levels of improper payments, HUD provides the statistical results for FY 2012 and the outlook for improper payment percentages on a combined program basis from FY 2013 – FY 2015 as follows:

Rental Assistance Improper Payment Reduction Outlook FY 2013-FY 2015

(Dollars shown in billions)

	FY 2011 Payments	FY 2011 IP	FY 2011 IP% Goal/Actual	FY 2012 Payments	FY 2012 IP	FY 2012 IP% Goal/Actual	FY 2013 IP% Goal and IP Dollar Amount	FY 2014 IP% Goal and IP Dollar Amount	FY 2015 IP% Goal and IP Dollar Amount
Rental Assistance	\$31.897	\$1.229	2.8/3.9	\$30.949	\$1.324	3.8/4.3	4.2% / \$1.302	4.2% / \$1.302	4.2% / \$1.302
Estimated Payments							\$31	\$31	\$31

The annual Improper Payment calculation is based on prior year data. Accordingly, the FY 2013, FY 2014, and FY 2015 results will be reported in the FY 2014, FY 2015, and FY 2016 AFRs respectively.

During FY 2011, the improper payment rate was 3.9 percent thus missing HUD's FY 2011 goal of 2.8 percent. During FY 2012, the improper payment rate increased to 4.3 percent, thus missing HUD's FY 2012 goal of 3.8 percent. The increase in the error rate can largely be explained by sampling variance and the updating of the population totals for FY 2012 as previously mentioned.

Also, as noted previously, HUD agreed to remove certain expenditures from the denominator (universe of RHAP expenditures) when calculating HUD's improper payment error rate, which also contributed to the increase in HUD's error rate. To meet future goals, Public Housing Agencies and Multifamily Housing owners must put more discipline into the mandatory use of the EIV system to reduce income errors. HUD's corrective action plans will include addressing this issue during the Management and Occupancy Reviews and Rental Integrity Monitoring reviews. HUD believes that the goals for FY 2013 and beyond are realistic and achievable. In addition, program simplification, via revised legislation, could lead to additional reductions in rental subsidy errors for HUD's RHAP.

Recovery Auditing Activity

Under the requirements of the IPERIA, recovery audits of each program and activity of an agency that expends \$1 million or more annually shall be conducted if performing such audits would be cost-

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effective. The IPERIA significantly increases agency payment recapture efforts by expanding the scope of recovery audits to all programs and activities (e.g., grants, loans, benefits, and contract outlays), and lowering the threshold for conducting payment recapture audits from \$500 million in annual outlays to \$1 million in annual outlays. In FY 2012, HUD, with contractor assistance, performed a detailed recovery auditing review on payments made from the Department's FY 2011 Administrative Expense Appropriation. The results of the review disclosed one minor instance with potential recoveries. However, HUD's Government Technical Representative subsequently validated the payment as proper. Therefore, in FY 2013, HUD did not procure a contractor to perform recovery auditing services on payments made from the Department's FY 2012 Administrative Expenses Appropriation, as it was determined to not be cost-effective.

HUD is still in the process of implementing the recovery audit requirements under the IPERA. Currently, HUD does not have any information to report for Tables 2-5 as displayed in OMB Circular A-136. Certain programs within HUD do not have the means to capture and report the amounts of improper payments identified and recovered. A significant number of appropriations under RHAP are "no year money," and according to guidance in the revised Parts I and II to Appendix C of OMB Circular A-123, recovered overpayments from an appropriation that have not expired are not available to pay contingency fee contracts. As such, the Department has requested an exemption from payment recovery auditing for programs that are funded with "no year money."

An initiative in Multifamily Housing is in the planning stages for the development of an electronic Error Tracking Log to be incorporated as part of the Tenant Rental Assistance Certification System (TRACS) along with the creation of the new Integrated Subsidy Error Reduction System (iSERs) for tracking the specific dollar impact of income and rent discrepancies and the corresponding resolution and/or recapture. However, it is not expected to be operational until at least FY 2014 due to budgetary constraints. The monthly electronic reporting will assist Multifamily Housing to target training to those areas where most errors are occurring, and to ensure that the Department continues to monitor program administrators while increasing efforts to ensure that subsidy payments are being calculated correctly.

In addition, PIH has implemented additional functionalities within EIV and has a team dedicated to monitoring PHA progress in addressing other issues (other than tenant unreported income) which may result in documenting the occurrence of improper payments and HUD's recovery of the improper payments.

The chart on the next page displays improper payments identified and recovered through post-payment reviews outside of payment recapture audits.

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Overpayments Recaptured Outside of Payment Recapture Audits

Agency Source	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PY)	Amount Recovered (PY)	Cumulative Amount Identified (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
PIH Post Payment Reviews of Payments made on Behalf of Deceased Tenants	\$1,593,892	\$1,591,497	\$756,057	\$740,902	\$2,349,949	\$2,332,399
PIH Post Payment Reviews of Grants	\$1,902,253	\$0	-	-	\$1,902,253	\$0
PIH Subtotal	\$3,496,145	\$1,591,497	\$756,057	\$740,902	\$4,252,202	\$2,332,399
Office of Sustainable Housing and Communities Post Payment Reviews of Grants	\$7,744	\$7,744	-	-	\$7,744	\$7,744
CPD Post Payment Reviews of Grants	\$13,300,000	\$448,000	\$39,176,063	\$19,962,485	\$52,476,063	\$20,410,485
FHA Lender Reviews	\$31,000,000	\$26,000,000	\$22,000,000	\$19,000,000	\$53,000,000	\$45,000,000
OIG Reviews	\$937,229,372	\$2,077,200	\$1,300,177,753	\$1,145,256,247	\$2,237,407,125	\$1,147,333,447
Total	\$985,033,261	\$30,124,441	\$1,362,109,873	\$1,184,959,634	\$2,347,143,134	\$1,215,084,075

Accountability

The Department currently ensures that responsible personnel are held accountable for reducing and recovering improper payments. HUD's implementation of OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A requirements continues to ensure that the Agency's internal control over financial reporting and systems are well documented, sufficiently tested, and properly assessed. In turn, improved internal controls resulting from these reviews enhance safeguards against improper payments, fraud, and waste and better ensure that the Department's resources continue to be used effectively and efficiently to meet the intended program objectives.

In addition, the Office of the Chief Financial Officer enforces its *Administrative Control of Funds: Policies and Procedures Handbook No. 1830.2 Rev-5* protocols via allotment holder and funds control

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officer certifications as well as reviews and approvals of funds control plans for all program and administrative accounts.

Agency Information Systems and Other Infrastructure

The internal controls, human capital, information systems, and other infrastructure are sufficient to reduce improper payments to the levels targeted by HUD. Since 2010, the U.S. Department of Housing and Urban Development (HUD) has invested in a series of critical Information Technology (IT) Transformation Initiatives (TI) to revolutionize HUD's mission services. As a result, HUD's IT investments are advancing the mission to create strong, sustainable, inclusive communities and quality, affordable homes for all. Today, as the housing market and economy continue to improve, HUD remains focused on transforming service delivery in response to the needs of its customers, promoting an innovative, supportive workplace for its employees, and reducing improper payments.

HUD's information technology, comprised of systems created decades ago, has led to increased operating costs, risks associated with obsolescence, and program capability gaps that increase the risk of fraud, waste and abuse. To address these challenges, HUD is executing a multi-year effort to modernize the IT-enabled services it provides to our citizens. Through the IT initiatives, HUD is improving its underlying technology and decreasing its reliance on legacy environments. Successful modernization is critical to HUD's continued progress in reducing improper payments, preventing homelessness, helping homeowners refinance, avoiding foreclosure, finding affordable and suitable rental properties, and living in healthier homes.

Barriers

The principal cause of improper payments in HUD's rental assistance programs is a function of program complexity, the administrative nature of the process, the scope of the program, and the legacy systems used at HUD.

An example of the program complexity can be demonstrated by the fact that there are over 45 different types of income that should or may (depending on local options) be excluded from the subsidy calculation. Additionally, rules exist for determining a family's adjusted income that consider medical expenses, child care expenses, income of full-time students, treatment of assets, and application of earned income, disregard rules (if required) and the correlation between bedroom size, payment standard, the contract rent, and utility allowances. This increases program complexity and the probability that errors will be made.

In addition to continued use of EIV and monitoring efforts to improve the quality of PHA-submitted data to the Public and Indian Housing Information Center (PIC), HUD is currently implementing a new initiative, the Next Generation Management System (NGMS). NGMS will enhance HUD's affordable housing program management, streamline complex business processes, and integrate disparate IT systems into a common platform. NGMS will provide a business solution to manage all facets of HUD's RHAP. Ultimately, NGMS will improve how housing authorities and HUD work together in providing affordable housing programs to citizens. By streamlining processes, HUD aims to modernize and simplify business operations to maximize investment returns on modern business-driven, service-oriented solutions that employ shared and standardized technology. NGMS is a comprehensive development plan that can serve as a tool to help reduce improper payments and improve the business process moving forward for administering HUD's RHAP. NGMS will fundamentally improve the business performance by

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eventually improving automated tracking controls across the full line of RHAP business processes. It will allow HUD to implement cash management requirements efficiently and effectively by eliminating manual processes and streamlining funding allocations, disbursements and reconciliations. By aligning current and future RHAP processes in NGMS, HUD aims to simplify business operations and maximize investment returns for the Department with business-driven, service-oriented solutions that employ shared and standardized technology. As a result of this simplification and streamlining, NGMS will reinforce HUD's monitoring systems to detect waste, fraud and abuse and lead to a reduction of improper payments in HUD's RHAP.

HUD is also in the process of implementing the New Core Initiative. The New Core Initiative will provide HUD with a modern, compliant, integrated core financial system that will summarize financial data, control funds, prepare annual financial statements, and meet all internal and external reporting requirements. HUD's current financial information application portfolio is comprised of compartmentalized legacy systems that combine both program and traditional accounting functionality and are at an increasing risk of system failure. These systems are in need of enterprise consolidation and modernization in order to improve the stability and efficiency of financial management operations.

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Schedule of Spending

The Schedule of Spending is a recent addition to the Agency Financial Report. Starting in FY 2014, comparative statements will be required. This year, FY 2012 statements in this document are restated. The reader is directed to Note 30 for further information.

Department of Housing and Urban Development Schedule of Spending For the Year Ended September 30, 2013 (In Millions of Dollars)				
	FHA Programs	GNMA Programs	CFO Programs	HUD Total FY 2013
Consolidated Schedule of Spending				
What Money is Available to Spend?				
Total Resources	148,867,295,307	14,555,089,007	63,740,327,608	227,162,711,922
Less: Amount Available but not Agreed to be Spent	(25,075,327,053)	(1,619,307)	(17,632,611,599)	(42,709,557,959)
Less: Amount Not Available to be Spent	(33,616,682,333)	(10,953,103,179)	(1,505,428,345)	(46,075,213,857)
Total Amounts Agreed to be Spent	90,175,285,921	3,600,366,521	44,602,287,664	138,377,940,106
How was the money Spent?				
Category A Programs (Apportioned Quarterly)				
10 Personnel Compensation and Benefits			892,997,030	892,997,030
20 Contractual Services and Supplies			-	-
30 Acquisition of Assets			-	-
40 Grants and Fixed Assets			-	-
99 Other			-	-
Category B Programs (Not Apportioned Quarterly)				
10 Personnel Compensation and Benefits		21,953,423		21,953,423
20 Contractual Services and Supplies	242,094,567		876,041,823	1,118,136,390
30 Acquisition of Assets	1,413,861,252		15,571,839	1,429,433,091
40 Grants and Fixed Assets	88,058,488,820		42,817,676,972	130,876,165,792
99 Other		3,587,757,177		3,587,757,177
Total Spending	89,714,444,639	3,609,710,600	44,602,287,664	137,926,442,903
Amount Remaining to be Spent	460,841,281	(9,344,079)		451,497,202
Total Amounts Agreed to be Spent	90,175,285,920	3,600,366,521	44,602,287,664	138,377,940,105
Where Did the Money Go To?				
For Profit Organizations	31,772,473,150	2,408,273,689	9,429,734,382	43,610,481,221
Non Profit Organizations	58,402,812,771		10,217,763,460	68,620,576,231
Government Organizations		1,170,139,409		
PHA Administered Programs			25,539,825,172	25,539,825,172
Other Organizations		21,953,423	(585,035,350)	(563,081,927)
Total Amounts Agreed to be Spent	90,175,285,921	3,600,366,521	44,602,287,664	138,377,940,106
How was the money issued?				
Non Federal Assistance Direct Payments			44,841,226,520	44,841,226,520
Contracts	576,521,404	337,819,910		914,341,314
Loans and Guarantees	57,481,781,157		(238,938,856)	57,242,842,301
Non Credit Reform Loans		1,170,139,409		1,170,139,409
Financial Assistance Direct Payments				-
Other Financial Assistance		3,851,437		3,851,437
Insurance	29,655,676,049			29,655,676,049
Interest and Dividends	921,031,614			921,031,614
Other Payment Types	1,540,275,696	2,088,555,765		3,628,831,461
Total Amounts Agreed to be Spent	90,175,285,920	3,600,366,521	44,602,287,664	138,377,940,105
<i>Figures may not add to totals due to rounding</i>				

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Schedule Of Spending

Department of Housing and Urban Development Schedule of Spending For the Year Ended September 30, 2012 (In Millions of Dollars)				
	FHA Programs	GNMA Programs	CFO Programs	HUD Total FY 2013
Consolidated Schedule of Spending				
What Money is Available to Spend?				
Total Resources	95,423,050,626	12,683,611,557	51,043,645,085	159,150,307,268
Less: Amount Available but not Agreed to be Spent	(18,404,345,878)	-	(4,307,272,495)	(22,711,618,373)
Less: Amount Not Available to be Spent	(25,944,002,388)	(8,706,446,349)	(1,387,663,202)	(36,038,111,939)
Total Amounts Agreed to be Spent	51,074,702,360	3,977,165,208	45,348,709,388	100,400,576,956
How was the money Spent?				
Category A Programs (Apportioned Quarterly)				
10 Personnel Compensation and Benefits			947,226,820	947,226,820
20 Contractual Services and Supplies			-	-
30 Acquisition of Assets			-	-
40 Grants and Fixed Assets			-	-
99 Other			-	-
Category B Programs (Not Apportioned Quarterly)				
10 Personnel Compensation and Benefits		13,702,516		13,702,516
20 Contractual Services and Supplies	240,723,448		772,141,276	1,012,864,724
30 Acquisition of Assets	1,340,959,597			1,340,959,597
40 Grants and Fixed Assets	49,197,754,442		49,783,191,600	98,980,946,042
99 Other		4,137,661,724		4,137,661,724
Total Spending	50,779,437,487	4,151,364,240	51,502,559,696	106,433,361,423
Amount Remaining to be Spent	295,264,872	(174,199,032)	(6,153,850,308)	(6,032,784,468)
Total Amounts Agreed to be Spent	51,074,702,359	3,977,165,208	45,348,709,388	100,400,576,955
Where Did the Money Go To?				
For Profit Organizations	22,146,635,816	3,084,793,944	9,242,275,034	34,473,704,794
Non Profit Organizations	28,928,066,544		11,481,058,927	40,409,125,471
Government Organizations		877,393,740		877,393,740
PHA Administered Programs			25,181,857,596	25,181,857,596
Other Organizations		14,977,524	(556,482,169)	(541,504,645)
Total Amounts Agreed to be Spent	51,074,702,360	3,977,165,208	45,348,709,388	100,400,576,956
How was the money issued?				
Non Federal Assistance Direct Payments			44,739,266,877	44,739,266,877
Contracts	411,137,900	220,412,858	230,385,436	861,936,194
Loans and Guarantees	28,463,571,835		(328,325,372)	28,135,246,463
Non Credit Reform Loans		877,393,740		877,393,740
Financial Assistance Direct Payments				-
Other Financial Assistance		7,171,676		7,171,676
Insurance	20,269,687,898			20,269,687,898
Interest and Dividends	464,494,709			464,494,709
Other Payment Types	1,465,810,017	2,872,186,935	707,382,446	5,045,379,398
Total Amounts Agreed to be Spent	51,074,702,359	3,977,165,209	45,348,709,387	100,400,576,955
<i>Figures may not add to totals due to rounding</i>				

Appendices

Appendix A: Glossary of Acronyms

AFR	Agency Financial Report
APG	Agency Priority Goal
APP	Annual Performance Plan
APR	Annual Performance Report
ASC	Accounting Standards Codification
CCW	Consolidated Claims Workout Ratio
CDBG	Community Development Block Grant
CEAR	Certificate of Excellence in Accountability Reporting
CFO	Chief Financial Officer
CMHI	Cooperative Management Housing Insurance
CPD	Office of Community Planning and Development
DASP	Distressed Asset Stabilization Program
DOE	U.S. Department of Energy
DOL	U.S. Department of Labor
DOT	U.S. Department of Transportation
EHLP	Emergency Homeowners' Loan Program
EIV	Enterprise Income Verification System
EO	Executive Order
EPA	U.S. Environmental Protection Agency
EPCs	Energy Performance Contracts
EVS	Employee Viewpoint Survey
Fannie Mae	Federal National Mortgage Association
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FCRA	Federal Credit Reform Act of 1990
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act (Pub. L. No. 104-208)
FHA	Federal Housing Administration

FHEO	Office of Fair Housing and Equal Opportunity
FICO	Fair Isaac Corporation (source of FICO credit risk scores)
FIFO	First-in, First-out
FMFIA	Federal Managers' Financial Integrity Act (Pub. L. No. 97-255)
FMS	Department of the Treasury Financial Management Service
Freddie Mac	Federal Home Loan Mortgage Corporation
FSP	Federal Strategic Plan to Prevent and End Homelessness
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GI	General Insurance Fund
Ginnie Mae	Government National Mortgage Association
GPRA	Government Performance and Results Act of 1993 (Pub. L. No. 103.62)
GPRAMA	GPRA Modernization Act of 2010 (Pub. L. No. 111-352)
H4H	HOPE for Homeowners
HAMP	Home Affordable Modification Program
HCV	Housing Choice Voucher
HECM	Home Equity Conversion Mortgage
HIAMS	HUD Integrated Acquisition Management System
HIFMIP	HUD Integrated Financial Management Improvement Project
HOME	HOME Investment Partnerships Program
HOPWA	Housing Opportunities for Persons with AIDS
HRP	Homelessness Prevention and Rapid Re-housing Program
HUD	U.S. Department of Housing and Urban Development
HUDCAPS	HUD's Central Accounting and Program System
IDIS	Integrated Disbursement and Information System
IIF	Insurance-in-Force
IPERA	Improper Payments Elimination and Recovery Act (Pub. L. No. 111-204)
IPIA	Improper Payments Information Act of 2002 (Pub. L. No. 107-300)
IT	Information Technology
LLG	Liability for Loan Guarantees
MBS	Mortgage-Backed Securities

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MD&A	Management's Discussion and Analysis
MHA	Making Home Affordable Program
MMI	Mutual Mortgage Insurance Fund
MNAs	Mortgage Notes Assigned
MSR	Mortgage Servicing Rights
MTW	Moving to Work
NAHA	National Affordable Housing Act of 1990
NAPA	National Academy of Public Administration
NOFA	Notice of Funding Availability
NRA	Net Restricted Assets
NSP	Neighborhood Stabilization Program
OCFO	Office of the Chief Financial Officer
OCHCO	Office of the Chief Human Capital Officer
OCIO	Office of the Chief Information Officer
OFO	PIH Office of Field Operations
OGC	Office of General Counsel
OHHLHC	Office of Healthy Homes and Lead Hazard Control
OIG	Office of Inspector General
OMB	Office of Management and Budget
ONAP	Office of Native American Programs
OSHC	Office of Sustainable Housing and Communities
OSPM	Office of Strategic Planning and Management
PBRA	Project-Based Rental Assistance
PD&R	Office of Policy Development and Research
PHA	Public Housing Agency
PIH	Office of Public and Indian Housing
PJs	Participating Jurisdictions
RAD	Rental Assistance Demonstration
Recovery Act	American Recovery and Reinvestment Act of 2009
REMIC	Real Estate Mortgage Investment Conduits
REO	Real Estate Owned

Appendix A: Glossary Of Acronyms

SFFAS	Statements of Federal Financial Accounting Standards
SNAPS	Special Needs Assistance Programs
SRI	Special Risk Insurance
TBRA	Tenant Based Rental Assistance
TCAP	Tax Credit Assistance Program
TDHEs	Tribally Designated Housing Entities
Treasury	U.S. Department of the Treasury
USDA	U.S. Department of Agriculture
USSGL	United States Standard General Ledger
VA	U.S. Department of Veterans Affairs
VASH	Veterans Affairs Support of Housing
VMS	Voucher Management System

Appendix B: Table Of Web Sites

HUD's Resources for Homeowners, Renters, Citizens, and Partners

[Sign up for HUD Email Lists](#)

[HUD Toll-Free Hotlines](#)

[HUD's Local Offices](#)

[HUD's Site Index/Quick Links](#)

HUD on social media



Featured Initiatives



[Hurricane Sandy Rebuilding Strategy](#)

[Choice Neighborhoods Program](#)

[Home Affordable Modification Program](#)

[Housing Choice Voucher](#)

[Native American Programs](#)

[Rental Assistance Demonstration](#)

Help for Homeowners, Renters, and Citizens

[Affordable Apartment Search](#)

[Buy Versus Rent Calculator](#)

[Fair Market Rent](#)

[FHA Mortgage Limits](#)

[Foreclosure Avoidance Counseling](#)

[Homeownership Mortgage Calculator](#)

[HUD Approved Condominium Projects](#)

[HUD Approved Housing Counseling Agencies](#)

[HUD Homes for Sale](#)

[Lender Locator](#)

[Loan Estimator Calculator](#)

[Mortgage Servicing Settlement](#)

HUD Program Offices and Field Offices

[Center for Faith-Based and Neighborhood Partnerships](#)

[Chief Financial Officer](#)

[Chief Information Officer](#)

[Community Planning and Development](#)

[Fair Housing and Equal Opportunity](#)

[Federal Housing Administration \(FHA\)](#)

[General Counsel](#)

[Ginnie Mae](#)

[Healthcare Programs](#)

[Healthy Homes and Lead Hazard Control](#)

[Home Investment Partnership Program](#)

[Housing](#)

[Housing Counseling Program](#)

[Multifamily Housing](#)

[Policy Development and Research](#)
[Programs of HUD](#)
[Public and Indian Housing](#)
[Single Family Housing](#)
[Strategic Planning and Management](#)
[Sustainable Housing and Communities](#)

Help for Mortgagees

[Appraiser Selection by Lender](#)
[Approved Appraisers](#)
[Holding the Mortgage Industry Accountable](#)
[Housing Scorecard](#)
[Mortgagee Letters](#)
[Neighborhood Watch](#)

Access for Housing Authorities and other HUD Partners

[CPD's eCon Planning Suite](#)
[FHA Connection](#)
[Information for Housing Counselors](#)
[Public and Indian Housing One-Stop Tool \(POST\) for PHAs](#)

Links to Other Resources and HUD Research

[Frequently Asked Questions](#)
[HUD's Budget and Performance Reports](#)
[HUD's FY 2010-2015 Strategic Plan](#)
[HUD's FY 2012 Annual Performance Report
& FY 2014 Annual Performance Plan](#)
[HUD Webcasts](#)
[Online Library](#)
[Performance.gov](#)
[Research](#)

Appendix C: Data Sources, Limitations and Advantages, and Validation

This section is organized by strategic goal, measure and program.

Strategic Goal 1: Strengthen the Nation's Housing Market To Bolster the Economy and Protect Consumers

Measure 1a: Prevent foreclosures. By September 30, 2013, assist 700,000 homeowners who are at risk of losing their homes due to foreclosure.

- **500,000 homeowners will be assisted through FHA early delinquency intervention.**
 - **Data source:** FHA Single Family Data Warehouse Meta Tables.
 - **Limitations/advantages of the data:** The data originate in the Single Family Insurance System-Claims Subsystem, and for convenience are reported from FHA Single Family Housing Enterprise Data Warehouse, Loss Mitigation Table. The resolutions that are counted as loss mitigation are forbearance agreements, loan modifications, partial claims, preforeclosure sales, and Deeds in Lieu of foreclosure. A small and decreasing number of “other” resolutions that were previously counted, along with supplemental claims, are now excluded. Total claims comprise loss mitigation plus conveyance claims.
 - **Validation, verification, and improvement of measure:** No data limitations are known to affect this indicator. The loan servicers enter the FHA data, and the FHA monitors the data entry.
- **200,000 homeowners will be assisted through FHA loss mitigation programs.**
 - **Data source:** FHA Single Family Data Warehouse Meta Tables.
 - **Limitations/advantage of the data:** The data originate in the Single Family Insurance System-Claims Subsystem, and for convenience are reported from FHA Single Family Housing Enterprise Data Warehouse, Loss Mitigation Table. The resolutions that are counted as loss mitigation are forbearance agreements, loan modifications, partial claims, preforeclosure sales, and Deeds in Lieu of foreclosure. A small and decreasing number of “other” resolutions that were previously counted, along with supplemental claims, are now excluded. Total claims comprise loss mitigation plus conveyance claims.
 - **Validation, verification, and improvement of measure:** No data limitations are known to affect this indicator. The loan servicers enter the FHA data, and the FHA monitors the data entry.
- **For all FHA borrowers that receive loss mitigation assistance, achieve a Consolidated Claims Workout (CCW) ratio of 50 percent in FY 2012.**
 - **Data source:** FHA Single Family Data Warehouse Meta Tables.
 - **Limitations/advantages of the data:** The data originate in the Single Family Insurance System-Claims Subsystem, and for convenience are reported from FHA Single Family Housing Enterprise Data Warehouse, Loss Mitigation Table. The resolutions that are counted as loss mitigation are forbearance agreements, loan modifications, partial claims, preforeclosure sales, and Deeds in Lieu of foreclosure. A small and decreasing number of “other” resolutions that were previously counted, along with supplemental claims, are now excluded. Total claims comprise loss mitigation plus conveyance claims.

Appendix C: Data Sources, Limitations And Advantages, And Validation

- **Validation, verification, and improvement of measure:** No data limitations are known to affect this indicator. The loan servicers enter the FHA data, and the FHA monitors the data entry.
- **For FHA borrowers receiving a CCW, achieve a 6-month re-default rate of 13 percent or less.**
 - **Data source:** FHA Single Family Data Warehouse Meta Tables.
 - **Limitations/advantages of the data:** The data originate in the Single Family Insurance System-Claims Subsystem, and for convenience are reported from FHA Single Family Housing Enterprise Data Warehouse, Loss Mitigation Table. The resolutions that are counted as loss mitigation are forbearance agreements, loan modifications, partial claims, preforeclosure sales, and Deeds in Lieu of foreclosure. A small and decreasing number of “other” resolutions that were previously counted, along with supplemental claims, are now excluded. Total claims comprise loss mitigation plus conveyance claims.
 - **Validation, verification, and improvement of measure:** No data limitations are known to affect this indicator. The loan servicers enter the FHA data, and the FHA monitors the data entry.

Measure 3a: Reduce vacancy rates. By September 30, 2013, reduce average residential vacancy rate in 70 percent of the neighborhoods hardest hit by the foreclosure crisis relative to comparable areas.

- **Data source:** Disaster Recovery and Grants Reporting System.
- **Limitations/advantages of the data:** As activities are completed, grantees enter the data.
- **Validation, verification, and improvement of measure:** Grantee-entered data are subject to review and verification by HUD staff as part of quarterly performance report reviews.

Strategic Goal 2: Meet the Need for Quality Affordable Rental Homes

Measure 5a: Preserve affordable rental housing. By September 30, 2013, preserve affordable rental housing by continuing to serve 5.4 million total families and serve an additional 61,000 families through HUD’s affordable rental housing programs.

Community Planning and Development

HOME Investment Partnerships

- **Data source:** Integrated Disbursement and Information System.
- **Limitation/advantages of the data:** Data reliability has been enhanced by the re-engineering of the system at the end of FY 2009 into FY 2010.
- **Validation, verification, and improvement of measure:** The Office of Community Planning and Development field staff verifies program data when monitoring grantees.

Housing Opportunities for Persons With AIDS

- **Data source:** Annual performance reports and Integrated Disbursement and Information System.
- **Limitation/advantages of the data:** Data are reported by formula and competitive grantees through the Consolidated Annual Performance and Evaluation Report and the Annual Progress Report, respectively. These reports reflect annual data collection with limited use of

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information management technology systems, pending further upgrades. The Housing Opportunity for Persons With AIDS program collects performance outcomes on housing stability, access to care, and prevention of homelessness. These performance reports completed by grantees provide the program with insights into client demographics, expenditures for eligible activities, and the number of households served. At this time, the program does not have a client-level data system that provides site-specific information on performance outcomes. Pending enhancements to the Integrated Disbursement and Information System, however, will help support data quality and reduce the grantees' burden.

- **Validation, verification, and improvement of measure:** Performance reporting information is reviewed by Housing Opportunities for Persons With AIDS technical assistance providers and recorded in grant profiles and national summaries on the program's web site (HUDHRE.info). HUD guidance and technical assistance assists grantees in verifying data quality and completing reports.

Homeless Assistance Grants

- **Data source:** The Housing Inventory Count, as submitted through the Homelessness Data Exchange.
- **Limitations/advantages of the data:** The data are collected only annually, and it takes nearly a year from the date they are collected to the date they are received at HUD as a clean product. The advantages are that they are a comprehensive source of data and they specifically record the number of new beds in the year preceding the night of the annual homeless inventory.
- **Validation, verification, and improvement of measure:** Grantees perform an annual housing inventory and report the number of homeless shelters in their communities to HUD as a requirement of their homeless assistance grant applications. The data are collected in a database that has several validations built into it. Subsequently, the Office of Special Needs Assistance Programs performs data-quality reviews by calling grantees about suspect data to either get corrected data or an explanation for the data. The Office of Special Needs Assistance Programs annually assesses the data quality and revisits the validations to see if more can be included in the database to reduce the number of callbacks and thus reduce the turnaround time of the data.

Neighborhood Stabilization Program

- **Data source:** Disaster Recovery Grant Reporting System.
- **Limitations/advantages of the data:** As activities are completed, grantees enter the data.
- **Validation, verification, and improvement of measure:** Grantee-entered data are subject to review and verification by HUD staff as part of quarterly performance report reviews.

Tax Credit Assistance Program

- **Data source:** Integrated Disbursement and Information System.
- **Limitations/advantages of the data:** Data reliability has been enhanced by the re-engineering of the system at the end of FY 2009 into FY 2010.
- **Validation, verification, and improvement of measure:** Program staff reviews weekly reports to ensure data validity and resolve identified data problems.

Appendix C: Data Sources, Limitations And Advantages, And Validation

Gulf Coast Disaster

- **Data source:** Disaster Recovery Grant Reporting System.
- **Limitations/advantages of the data:** As activities are completed, grantees enter the data.
- **Validation, verification, and improvement of measure:** Grantee-entered data are subject to review and verification by HUD staff as part of quarterly performance report reviews.

Multifamily Housing

Project-Based Rental Assistance

- **Data source:** Tenant Rental Assistance Certificate System and Integrated Real Estate Management System.
- **Limitations/advantages of data:** The Tenant Rental Assistance Certificate System and Integrated Real Estate Management System have more than 6,000 business rules to ensure data validation. The applications are working with clean, accurate, and meaningful data. Data fields are required for property and project management purposes. These systems serve two primary customers: HUD staff and business partners called performance-based contract administrators.
- **Validation, verification, and improvement of measure:** The system business rules and operating procedures are defined in HUD Occupancy Handbook 4350.3; HUD's IT system security protocols; and financial requirements established in the Office of Management & Budget's Circular A-127. Often referenced as validation rules, these business rules check for data accuracy, meaningfulness, and security of access logic and controls. The primary data element for the Tenant Rental Assistance Certificate System is the HUD 50059 tenant certification, which originates from owner/agents, performance-based contract administrators, and traditional contract administrators. HUD's 50059 transmissions are processed via secure system access and a predetermined system script. Invalid data are identified by an error code and are returned to the sender with a descriptive message and procedures to correct the error. This electronic process approximates that of the paper Form HUD 50059. The Tenant Rental Assistance Certificate System edits every field, according to the HUD rental assistance program policies. The Integrated Real Estate Management System uploads data from the Tenant Rental Assistance Certificate System nightly. These data are used exclusively for project management purposes. Thus, the data edits retain the currency of the source system. The nightly updates ensure data accuracy for reporting in these systems. The Integrated Real Estate Management System was certified and accredited by the Chief Information Security Officer on March 12, 2010, and the Tenant Rental Assistance Certificate System was certified and accredited on June 25, 2008. This system is currently undergoing the certification and accreditation review again, which will be completed in FY 2011.

Project Rental Assistance Contract (Sections 202 Elderly and 811 Persons with Disabilities)

- **Data source:** Tenant Rental Assistance Certificate System and Integrated Real Estate Management System.
- **Limitations/advantages of the data:** The Tenant Rental Assistance Certificate System and Integrated Real Estate Management System have more than 6,000 business rules to ensure data validation. The applications are working with clean, accurate, and meaningful data.

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Data fields are required for property and project management purposes. These systems serve two primary customers: HUD staff and business partners called performance-based contract administrators.

- **Validation, verification, and improvement of measure:** The system business rules and operating procedures are defined in HUD Occupancy Handbook 4350.3; HUD's IT system security protocols; and financial requirements established in the Office of Management & Budget's Circular A-127. Often referenced as validation rules, these business rules check for data accuracy, meaningfulness, and security of access logic and controls. The primary data element for the Tenant Rental Assistance Certificate System is the HUD 50059 tenant certification, which originates from owner/agents, performance-based contractor administrators, and traditional contract administrators. HUD's 50059 transmissions are processed via secure system access and a predetermined system script. Invalid data are identified by an error code and are returned to the sender with a descriptive message and procedures to correct the error. This electronic process approximates that of the paper Form HUD 50059. The Tenant Rental Assistance Certificate System edits every field, according to the HUD rental assistance program policies. The Integrated Real Estate Management System uploads data from the Tenant Rental Assistance Certificate System nightly. These data are used exclusively for project management purposes. Thus, the data edits retain the currency of the source system. The nightly updates ensure data accuracy for reporting in these systems. The Integrated Real Estate Management System was certified and accredited by the Chief Information Security Officer on March 12, 2010, and the Tenant Real Assistance Certificate System was certified and accredited on March 9, 2011.

Insured Tax Exempt/Low-Income Housing Tax Credit

- **Data source:** Office of Housing Development Management Action Plan goals SharePoint site
- **Limitations/advantages of the data:** Completed new LIHTC/TE units are posted on the SharePoint site based on data provided by the HUD Project Managers who have worked on these projects. The data are judged to be reliable for this measure.
- **Validation, verification, and improvement of measure:** HUD field staff provide the data which is reviewed and verified by Multifamily Hub and Headquarters staff.

Public and Indian Housing

Indian Housing Block Grant

- **Data source:** The Office of Native American Programs Performance Tracking Database.
- **Limitation/advantages of data:** The Performance Tracking Database is populated by information reported in the Annual Performance Reports submitted within 90 days of the end of each recipient's program year. Occupied units are not counted, only "completed units."
- **Validation, verification, and improvement of measure:** The last Indian Housing Block Grant program evaluation found that "Tribes have very low vacancy rates (half of the 28 tribes report vacancy rates less than 1.4 percent), and three-fourths of the tribes reported turning over a vacant unit within a month." In addition, The Office of Native American Programs performs routine monitoring and oversight of tribes' overall program management.

Appendix C: Data Sources, Limitations And Advantages, And Validation

Public Housing

- **Data source:** HUD's Inventory Management System/Public and Indian Housing Information Center System.
- **Limitations/advantages of the data:** Public housing agencies self-report the data. Public housing agencies annually certify to the accuracy of the building and unit counts as required by the Office of Capital Improvements. Public housing agencies certify to the accuracy of the data submitted to HUD in the Inventory Management System/Public Housing Information Center system that the Department uses to calculate the formula for allocating Capital Fund and Operating Fund grants.
- **Validation, verification, and improvement of measure:** With the annual recertification process, data inconsistencies are identified in the Inventory Management System/Public Housing Information Center system. Public housing agencies correct errors in the data displayed on the Capital Fund Building and Unit Data Certification tab page and the Development Details web page. These data corrections are required before certifying the accuracy of the data for that development. When a public housing agency encounters errors that the public housing agency or field office staff cannot correct, the public housing agency is required to inform the Real Estate Assessment Center Technical Assistance Center Help Desk. This center assigns a Help Ticket number to the public housing agency, and the public housing agency enters the number on the Development Details web page. Finally, the public housing agency must also provide a comment that indicates what data elements are wrong, what the correct data are, and why the data cannot be corrected through the normal procedures.

Tenant Based Rental Assistance Vouchers

- **Data source:** HUD's Voucher Management System.
- **Limitations/advantages of the data:** The Voucher Management System captures information related to the leasing and Housing Assistance Payment expenses for the Housing Choice Voucher Program. The public housing agencies enter the information, which provides the latest available leasing and expense data. The data, therefore, are subject to human (data-entry) error. The Department, however, has instituted "hard edits" for entries in the system.
- **Validation, verification, and improvement of measure:** A "hard edit" is generated when a public housing agency enters data that are inconsistent with prior months' data input. When a hard edit is generated, a financial analyst reviews the data and, if necessary, contacts the public housing agency to resolve differences. If the issue cannot be resolved successfully, the transaction is rejected and the public housing agency is required to re-enter the correct information. This process provides additional assurance that the reported data are accurate. The Housing Choice Voucher Program uses four other means to ensure the accuracy of the data:
 1. HUD has developed a voucher utilization projection tool, which will enable the Department and public housing agencies to forecast voucher utilization and better manage the Voucher program.
 2. The Housing Choice Voucher Financial Management Division performs data-validation checks of the Voucher Management System data after the monthly database has been

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submitted to HUD Headquarters for management reporting purposes. Data that appear to be inconsistent with prior months' data are resolved with the public housing agency. Corrections are entered directly into the Voucher Management System to ensure that the data are accurate.

3. The Public and Indian Housing Quality Assurance Division, using onsite and remote Voucher Management System reviews, validates the data. The division staff reviews source documents on site at the public housing agency to determine if the leasing, Housing Assistance Program expenses, and Net Restricted Assets are consistent with data reported in the Voucher Management System. REAC also compares VMS to FASS data and rejects it if it is materially different.

PIH Moderate Rehabilitation

- **Data source:** Each year, public housing agencies provide data to the Public and Indian Housing field offices, including which Moderate Rehabilitation contracts will be renewed. The field offices calculate renewal rents and forward all data to the Financial Management Center, which confirms the data and also calculates and requests total required renewal and replacement funding. After funding has been received, the Financial Management Center obligates and disburses funding for Moderate Rehabilitation Renewals or Replacement vouchers with Housing Choice Vouchers funds.
- **Limitations/advantages of the data:** Timeliness and validity of data are dependent on multiple entities, including the Moderate Rehabilitation project owners, Public and Indian Housing field offices, and the Financial Management Center. It is primarily a detailed, time-consuming, manual process.
- **Validation, verification, and improvement of measure:** The Financial Management Center reviews the data provided by the field offices and follows-up on incorrect or suspect data before submitting funding requests. A Financial Management Center division director or team leader must approve funding obligation and disbursement. The Office of Housing Voucher Programs is currently working to develop a more streamlined and automated process to validate and improve the validation.

Strategic Goal 3: Utilize Housing as a Platform for Improving Quality of Life

Measure 6: Reduce homelessness. By September 30 2013, in partnership with the VA, reduce the number of homeless Veterans to 35,000 by serving 35,500 additional homeless Veterans. HUD is also committed to making progress towards reducing family and chronic homelessness and is working towards milestones to allow for tracking of these populations.

Continuums of Care

- **Data source:** The point-in-time data are used as the baseline and the Annual Performance Report shows incremental changes annually.
- **Limitations/advantages of the data:** The Annual Performance Report is reported throughout the year and each grantee is required to submit its APR 90 days after the end of its operating year, which creates a 90-day time lag for HUD to receive a full year of data. HUD needs additional time to ensure the data's accuracy. HUD has implemented greater quality checks in the reporting database and a uniform review process for its field office staff to ensure greater consistency of review.

Appendix C: Data Sources, Limitations And Advantages, And Validation

- **Validation, verification, and improvement of measure:** The Office of Special Needs Assistance Programs has several validation checks on the data. The Office does some extrapolation of the Annual Performance Report data to account for the missing data submissions. HUD has implemented a minimum standard review process for all of its field offices to use when reviewing an APR. Additionally, due to changes under the HEARTH Act, HUD is able to prevent renewal grants from receiving renewal funds until the APR is submitted. The point-in-time data are based on an annual count performed by all Continuums of Care in the last week of January. These data are entered into a database, where they are analyzed for accuracy and callbacks are performed. A point-in-time count is required biennially for both sheltered and unsheltered homeless people. These data are different from the Annual Performance Report data, which have only sheltered data.

Homelessness Prevention and Rapid Re-housing Program

- **Data source:** Homelessness Prevention and Rapid Re-housing Annual Performance Reports.
- **Limitations/advantages of the data:** These data are all required to come from the Homeless Management Information System (HMIS), which provides a more accurate means for collecting the data as compared to other forms of data collection, because HMIS allows a longitudinal history of clients with the ability to de-duplicate across programs within a single HPRP jurisdiction.
- **Validation, verification, and improvement of measure:** The Office of Special Needs Assistance Programs performs data analysis and verification when the data are received. The database for the HPRP Annual Performance Report has several validations to improve data quality.

HUD-VASH

- **Data source:** The Department of Veterans Affairs sends monthly field reports to HUD. HUD reviews the data and then converts them to a PHA-specific format. These monthly data include the number of Veterans referred to public housing agencies, the number of vouchers issued, and the number of Veterans who have leased units.
- **Limitations/advantages of the data:** The data quality and accuracy of VA data are deemed high because of the numerous levels of oversight by VA (including senior staff at local, regional, and national levels) and HUD's review of data for quality-control purposes. Under HUD's systems, the Public and Indian Housing Information Center and Voucher Management System, HUD is not able to collect information on referrals, and the data on voucher issuance, although improving, are still not as reliable as the data reported by VA.
- **Validation, verification, and improvement of measure:** HUD routinely compares the data reported by VA with data in HUD's systems. In addition, HUD and VA recently executed a data-sharing agreement, signed by both agencies in June 2012, which enables the comparison of records from both agencies' systems on HUD-VASH participants. HUD and VA have started generating discrepancy reports, which then are sent to PHAs and VAMCs in order for them to correct errors identified in participants' records.

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Strategic Goal 4: Build Inclusive and Sustainable Communities Free From Discrimination

Measure 13: Increase the energy efficiency and health of the nation's housing stock. By September 30, 2013, HUD will enable a total of 159,000 cost effective energy efficient and healthy housing units, as a part of a joint HUD-DOE goal of 520,000.

Community Planning and Development

Community Development Block Grant

- **Data source:** Aggregated (summed) raw data on accomplishments reported by Community Development Block Grant grantees in the Integrated Disbursement and Information System.
- **Limitation/advantages of the data:** Data reliability has been enhanced by the re-engineering of the system at the end of FY 2009 into FY 2010.
- **Validation, verification, and improvement of measure:** When monitoring grantees, Community Planning and Development field staff verifies program data.

HOME Investment Partnerships

- **Data source:** HUD's Integrated Disbursement and Information System.
- **Limitation/advantages of the data:** Data reliability has been enhanced by the re-engineering of the system at the end of FY 2009 into FY 2010.
- **Validation, verification, and improvement of measure:** When monitoring grantees, Community Planning and Development field staff verifies program data.

Tax Credit Assistance Program

- **Data source:** HUD's Integrated Disbursement and Information System.
- **Limitations/advantages of the data:** Data reliability has been enhanced by the re-engineering of the system at the end of FY 2009 into FY 2010.
- **Validation, verification, and improvement of measure:** Program staff reviews weekly reports to ensure data validity and resolve identified data problems.

Multifamily Housing

Sections 202 Elderly and 811 Persons with Disabilities

- **Data source:** The source of construction-start data is the Office of Housing Development Application Processing System.
- **Limitations/advantages of data:** The data, in general, are considered to be reliable.
- **Validation, verification, and improvement of measure:** HUD field staff reviews, verifies, and approves the data. The Office of Housing receives copies of the closing documents that are used to verify data system entries.

Mark-to-Market

- **Data source:** The Rehabilitation Escrow Administration database, a system maintained to track and approve retrofit schedules, costs, and specifications, and used to review and approve funding draws on completion and verification of work completion.
- **Limitations/advantages of data:** The Agency has a high degree of confidence in the accuracy of the data. Basic transaction parameters are derived from official record sources—

Appendix C: Data Sources, Limitations And Advantages, And Validation

Mark-to-Market system and Rehabilitation Escrow Administrations database—and locked down in the independently maintained database.

- **Validation, verification, and improvement of measure:** Limited and finite number of properties being tracked; independently maintained database; accessible only by a limited number of highly trained professionals, minimizing the opportunity for user input errors or data corruption; regular reports from the database allow for a reality check period over period; Approved Funds Control Plans and Front End Risk Assessments require a high degree of review and approval for accuracy (that is, the process ensures quality data).

Green Retrofit

- **Data source:** The Rehabilitation Escrow Administration database, a system maintained to track and approve retrofit schedules, costs, and specifications and used to review and approve funding, draws on completion and verification of work completion.
- **Limitations/advantages of data:** The Agency has a high degree of confidence in the accuracy of the data. Basic transaction parameters are derived from official record sources—Mark-to-Market system and Rehabilitation Escrow Administrations database—and locked down in the independently maintained database.
- **Validation, verification, and improvement of measure:** Limited and finite number of properties being tracked; independently maintained database; accessible only by a limited number of highly trained professionals, minimizing the opportunity for user input errors or data corruption; regular reports from the database allow for a reality check period over period; Approved Funds Control Plans and Front End Risk Assessments require high degree of review and approval for accuracy (that is, the process ensures quality data); expenditure information is cross-checked to another official source—LOCCS—at the time of each disbursement for grants. The greatest potential exposure regarding erroneous reporting is likely to be contained in RA/PAE reporting of loan disbursements. See clause 3 above, plus strict procedural requirements for regular updating by our highly trained professional staff and contractors. Database reports contain mathematical checks of PAE-provided numbers. Management review of those reports provides logical checks of reported data, that is, prevents a report that indicates spending above total authorized amounts.

Public and Indian Housing

Public Housing Capital Fund/Indian Housing Block Grant

- **Data source:** PIH has created the Energy and Performance Information Center (EPIC) which collects information on energy conservation measures implemented by housing authorities. Using a checklist, public housing agencies also report on all units that include 1 or more of 39 Energy Conservation Measures, as well as on new or substantial rehabilitation projects that meet ENERGY STAR for New Homes or one or more green standards.
- **Limitations/advantages of the data:** The energy data collected is self-reported and limited; each Energy Conservation Measure is reported separately for each unit (by project) but not bundles so as to report on which bundle of Energy Conservation Measures was installed in a particular unit. A “unit equivalent” method was developed to address these data limitations, using the top 10 most cost-effective measures. Other data limitations are that HUD does not collect pre- and post-retrofit consumption data for these measures, or Energy Conservation

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Measure costs, so determinations of cost effectiveness for these investments must be estimates, using recognized engineering or costs methods.

- **Validation, verification, and improvement of measure:** Public and Indian Housing staff validates the data entered into the system in terms of completeness of information. Public and Indian Housing staff also provides information to grantees to ensure that the definitional boundaries of data prompts are fully understood. Data may also be confirmed through remote and onsite reviews of public housing agencies.

Energy Performance Contracts

- **Data source:** The data used for reporting for the Energy Performance Contract program were gathered through the Energy Performance Contract Inventory, which all Public and Indian Housing field offices are required to complete annually.
- **Limitations/advantages of the data:** For the first time, during FY 2010, the Energy Performance Contract Inventory was restructured to gather data at the asset management project level rather than at the contract level. Training was provided to the field offices to increase the reporting accuracy and completeness. Despite this effort, the Energy Performance Contract Inventory frequently contains missing or erroneous data.
- **Validation, verification, and improvement of measure:** The data are reviewed for suspected inaccuracies. When reporting data, the Office of Public and Indian Housing makes a strong effort to confirm the data are valid and makes corrections as noted. The Office of Public and Indian Housing is endeavoring to improve the Energy Performance Contract Inventory to make it easier to complete, thus improving accuracy and completeness. At the same time, the Office of Public and Indian Housing is working to integrate the Energy Performance Contract Inventory with its existing reporting systems, which tend to be more sophisticated, yet easier to use.

HOPE VI

- **Data source:** The HOPE VI Grants Management System.
- **Limitations/advantages of the data:** For the first time, during FY 2010, the Grants Management System was expanded to collect information on whether the HOPE VI units being built were achieving a comprehensive green standard (for example, LEED for Homes), a non-comprehensive energy-efficiency standard (for example, ENERGY STAR for New Homes), or meeting the local building code. The Grants Management System has some limitations. In particular, the data are self-reported. The data collected through the system are limited in scope to the achievement of green standards. Although these standards are the highest ideal, no data are collected about building practices that are better than the minimum, but yet, the practices do not reach the level of a green standard.
- **Validation, verification, and improvement of measure:** Grantees are required to use the data system quarterly. Each quarter, the grants manager in charge of each project checks the data for reasonableness. In addition, the HOPE VI program has a data collection contractor on staff to provide technical assistance to grantees that are completing their reporting requirements.

Appendix C: Data Sources, Limitations And Advantages, And Validation

Lead and Healthy Homes

Lead Hazard Control

- **Data source:** Office of Healthy Homes and Lead Hazard Control's web-based Grantee Quarterly Progress Reporting System.
- **Limitations/advantages of the data:** The data represent direct accomplishments as reported by grantees and confirmed by HUD staff through monitoring. The data do not include housing units that are indirectly made lead safe through leveraged private sector investment, state and local programs, and other federal housing programs.
- **Validation, verification, and improvement of measure:** A rigorous scientific evaluation of the program indicates that the program is effective in achieving its goals. The study, conducted by the National Center for Healthy Housing in conjunction with the University of Cincinnati, found that the lead hazard control methods used by grantees reduce the blood lead levels of children occupying treated units and also significantly reduce lead dust levels in the treated homes. The number of units made lead safe is validated by both Office of Healthy Homes and Lead Hazard Control data and data from HUD's National Lead-Based Paint Survey. The Office of Healthy Homes and Lead Hazard Control reviews data provided through its web-based Quarterly Progress Reporting System. HUD grant staff performs both onsite and remote monitoring of grant files and unit completion progress.

Healthy Homes

- **Data source:** Office of Healthy Homes and Lead Hazard Control's web-based Grantee Quarterly Progress Reporting System.
- **Limitations/advantages of the data:** The data represent direct accomplishments as reported by grantees and confirmed by HUD staff through monitoring. The data do not include housing units that are indirectly made lead safe through leveraged private sector investment, state and local programs, and other federal housing programs.
- **Validation, verification, and improvement of measure:** The Healthy Homes program builds on the Department's existing activities in housing-related environmental health and safety issues—including lead hazard control, building structural safety, electrical safety, and fire protection—to address multiple childhood diseases and injuries in the home. The program takes a holistic approach to these activities by addressing housing-related hazards in a coordinated fashion, rather than addressing a single hazard at a time. An evaluation of the program that was completed in 2007 indicated that grantees were successful in achieving the objectives of the program as identified in the Notice of Funding Availability and the program's strategic plan. Grantees had conducted assessments and low cost interventions that addressed priority hazards and conditions in 9,700 homes in high-risk neighborhoods, and healthy homes outreach efforts had reached approximately 2.8 million people. Program-supported research was successful in improving our understanding of residential hazards and documenting the effectiveness of interventions to reduce children's asthma symptoms. The Office of Healthy Homes and Lead Hazard Control reviews data provided through its web-based Quarterly Progress Reporting System. HUD grant staff performs both onsite and remote monitoring of grant files and unit completion progress.

The Green and Healthy Homes Initiative

- **Data source:** A centralized Green and Healthy Homes Initiative database of assessments and interventions was established to collect data from the pilot cities.
- **Limitations/advantages of the data:** The data represent direct accomplishments as reported by the Green and Healthy Homes Initiative pilot cities and confirmed by HUD and the Green and Healthy Homes Initiative contractor through monitoring. The data include housing units that are made energy efficient and healthy through leveraged private sector investment, state and local programs, and other federal housing programs.
- **Validation, verification, and improvement of measure:** Data collection relies on remote monitoring of Green and Healthy Homes Initiative sites by the contractor; results are verified through on-site monitoring. In early FY 2012, responding to the increasing amount of data, the contractor implemented a new, comprehensive data collection system using a web-based platform. This system is accessible from each site, is updated by each site's Green and Healthy Homes Initiative coordinator, and downloads all data to a central database. The system enables partners to track data on measurable cost efficiencies through leveraging, energy consumption per unit, cost savings per unit, health outcomes for residents, direct and secondary green job creation and retention, and worker training.

Strategic Goal 5: Transform the Way HUD Does Business

Measure 27: Improve program effectiveness by awarding funds fairly and quickly. By September 30, 2013, HUD will improve internal processes to ensure that we can obligate 90 percent of NOFA programs within 180 calendar days from budget passage.

- **Data source:** Office of Strategic Planning and Management's Bi-Weekly NOFA tracking reports (until such time as an automated system for tracking is implemented).
- **Limitations/advantages of the data:** As discussed for Measure 27, the NOFA processes are not automated and procedures are lacking. Because of this, all tracking as a NOFA moves through different stages is done effectively by hand. Many individuals are involved; therefore, the data are subject to several forms of error or omission such as simple miscommunication, transcription errors, and the unavailability of responsible parties having needed information when requested. Additionally, due to limitations in the financial systems, a lag can exist between the time funds are obligated in the field offices to when they are reflected in HUD's central accounting system.
- **Validation, verification, and improvement of measure:** Developing standardized procedures, centralized communications portals, and automated workflows will greatly improve the quality of the measures. Until such time, several levels of reviews exist to identify discrepancies and errors.

If you have any questions or comments about this report, please send inquiries to:

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