U.S. Department of Housing and Urban Development

Agency Financial Report

Fiscal Year 2014

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) 2014 APR with its Congressional Budget Justification and will post it on the Department's web site at www.hud.gov.

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.

Side-by-side comparison of a wooden home before demolition and the replacement concrete structure.

With many homes in low income areas in Puerto Rico not storm resistant, the Puerto Rico's Housing Finance Authority used HOME funds to build storm resistant, concrete homes. This brand new, three bedroom, one bath home, with a cost of $74,175 including demolition and new construction, is ready for hurricane season.

In Alaska, Idaho, Oregon, and Washington state, affordable homes are offered to more than 22,000 households. Only households earning 80 percent or less of area median income are eligible to live in these homes and they must contribute 30 percent of their monthly income to rent. The balance of the rent - as well as maintenance and upkeep costs - is borne by the local housing authority with, in the Northwest, almost $125 million a year in operating and capital funds from HUD.

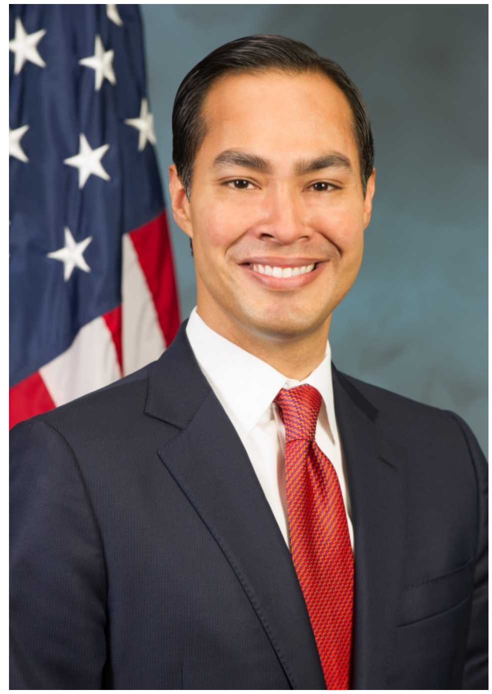
With its leaded glass windows, cast iron furnace grates, and essential historic character, this 100 year old home was saved from demolition as part of HUD's Neighborhood Stabilization Program 3 (NSP3). The U.S. Department of Housing and Urban Development developed NSP3 to help stabilize communities that have suffered from foreclosures and abandonment. Through this program, HUD has been able to positively impact communities like Centerville, SD, one rehabilitated home at a time.

The Fiscal Year 2014 Agency Financial Report is Available on the Web at:
http://portal.hud.gov/hudportal/documents/huddoc?id=afr2014.pdf

Table of Contents

Message from the Secretary

March 3, 2015



I am pleased to present the U.S. Department of Housing and Urban Development's Agency Financial Report (AFR) for Fiscal Year (FY) 2014. This AFR comes at a time when our nation is building economic momentum.

2014 was the best year for job growth since the 1990s. Much of this growth has been in higher-paying industries like construction and manufacturing. And, in recent years, the housing market has seen existing single-family home sales rise 50 percent, housing starts double, and home equity grow by more than $4 trillion.

HUD has played an important role in this progress. We call ourselves The Department of Opportunity because of the unique impact we make in helping people lift themselves up and build a better future.

Every day, our organization assists families in securing decent, affordable housing, free from discrimination. We help responsible Americans achieve their dreams of homeownership. We also work with local partners to shape vibrant, inclusive, and strong communities.

This report shows in detail how HUD's contributions are making a difference today and helping shape a brighter tomorrow. It outlines our financial results for FY 2014 and performance results as of the end of the 3rd quarter—with a specific focus on the Department's internal two-year (FY 2014−FY 2015) Agency Priority Goals: preserving affordable rental housing, ending homelessness among veterans, increasing energy efficiency, and creating healthy homes.

As HUD looks to the future, we know that to be at our best externally, we have to be at our best internally. That's why, early in my tenure, I made it a priority to build a stronger HUD. This means taking on our operational challenges, like those identified by HUD's Office of Inspector General.

FY 2014 and prior year audits identified 10 material internal control weaknesses: (1) Departmental Financial Management Systems Weakness, (2) Utilization of FIFO Method, (3) PIH Cash Management, (4) FISMA Non-Compliance, (5) Accounting Accrual for Grants, (6) Asset Balances for Non- Pooled Loans, (7) Internal Controls over Financial Reporting—Ginnie Mae, (8) Mortgage Backed Securities (MBS)—Loss Liability, (9) Financial Management Governance, and (10) Claims Notes and Legal Settlements Receivable. One additional material internal control weakness, Strategic Management of Human Capital Operations, was identified by HUD management.

The entire HUD team is committed to tackling these challenges head on. Specifically, we are focused on four areas of operational improvement: accountability, transparency, increased interagency collaboration, and a greater commitment to measuring our outcomes. These actions will go a long way in making HUD more efficient and effective, allowing us to maximize our impact for the people we serve.

I am able to provide reasonable assurance regarding the reliability of the performance data in this report. Due to the material weaknesses noted above, I am unable to provide assurance that the financial data in this report are reliable and complete, and HUD is taking immediate action to address these concerns. 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.

All of this work is critical to building on HUD's rich tradition of providing help and hope to people in every corner of our nation. For the last 50 years, our dedicated public servants have done remarkable work to meet the challenges of their time. Today, we are focused on laying the foundation for the next 50 years. Housing and urban development not only shapes communities, it shapes lives. And we remain firmly committed to creating a future where opportunity is available to all.

Julián Castro
Secretary

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

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (Ginnie Mae)

FUNCTION

- 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 MBS backed by federally insured or guaranteed loans.
- Does not buy or sell loans or issue mortgage-backed securities (MBS); therefore, Ginnie Mae's balance sheet does not use derivatives to hedge or carry long-term debt.

OFFICE OF HOUSING

FUNCTION

- Primarily insures mortgages for single family homes, multifamily properties, and hospitals.
- Oversees the Federal Housing Administration (FHA), one of the largest mortgage insurers in the world, as well as regulates housing industry business.
- Oversees properties providing affordable rental housing to over 1.3 million low-income households.
- Housing Counseling programs administer grants and support a network of 2,400 approved housing counseling agencies.

Within the Office of Housing are three primary business areas:

- Single Family Housing
- Multifamily Housing
- Healthcare Programs

OFFICE OF PUBLIC AND INDIAN HOUSING (PIH)

FUNCTION

- 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.

PIH has a workforce of more than 1,500 within 10 major offices at Headquarters and 46 field offices, and annual program budget representing approximately 57 percent of HUD's annual budget, all overseeing three major business areas:

- Housing Choice Voucher Programs
- Public Housing Program
- Native American Program (ONAP)

OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT (CPD)

FUNCTION

- 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.

Within CPD are three primary business areas:

- Community Development Block Grant (CDBG)
- HOME Investment Partnerships Program
- Special Needs Assistance Programs (SNAPS)

OFFICE OF FAIR HOUSING AND EQUAL OPPORTUNITY (FHEO)
FUNCTION
• 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.

OFFICE OF LEAD HAZARD CONTROL AND HEALTHY HOMES AND (OLHCHH)
FUNCTION
• 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.

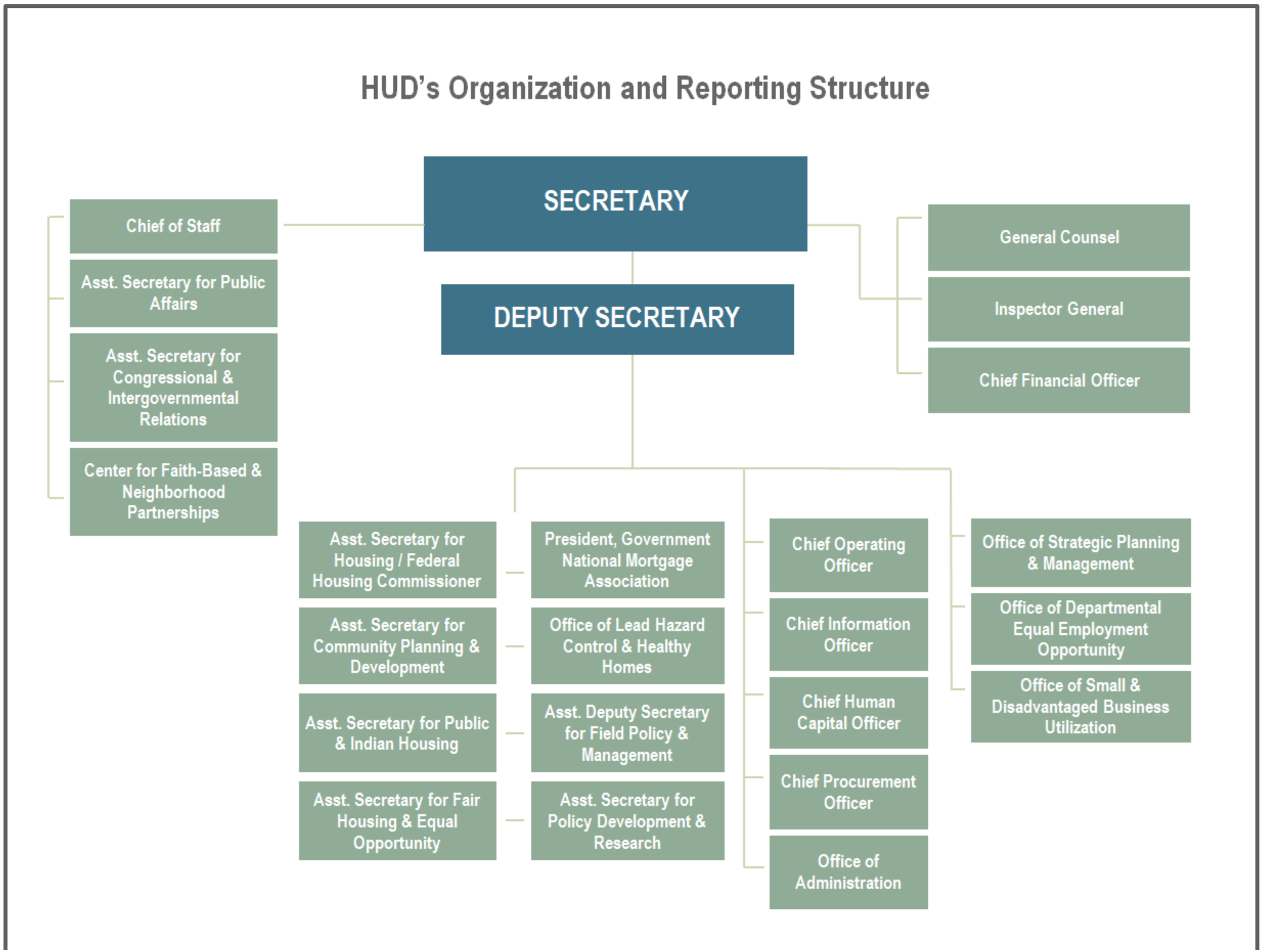
OFFICE OF POLICY DEVELOPMENT AND RESEARCH (PD&R)
FUNCTION
• Conducts research on priority housing and community development issues, provides objective program evaluation, data and analysis to inform policy decisions and improve program results, and maintains a repository of resources on housing needs, market conditions, and existing programs.

OFFICE OF STRATEGIC PLANNING AND MANAGEMENT (OSPM)
FUNCTION
• Responsible for driving organizational, programmatic, and operational change across the department, in order to maximize agency performance.

HUD's mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all.

Our vision is to improve lives and strengthen communities to deliver on America's dreams. Therefore, we pledge—

- For our residents: we will improve lives by creating affordable homes in safe, healthy communities of opportunity, and by protecting the rights and affirming the values of a diverse society.
- For our partners: we will be a flexible, reliable problem solver and source of innovation.
- For our employees: we will be a great place to work, where employees are valued, mission-driven, results-oriented, innovative, and collaborative.
- For the public: we will be a good neighbor, building inclusive and sustainable communities that create value and investing public money responsibly to deliver results that matter.



Strategic Goals & Agency Priority Goals

The HUD Strategic Plan FY 2014-2018 contains agency strategic goals and each goal has corresponding strategic objectives with over 50 outcome measures of success, as revised by new targets established in the Department's most recent Annual Performance Plan. For a two-year period, in this case FY 2014 to FY 2015, HUD is focusing on three agency priority goals (APGs). These programmatic agency strategic goals and corresponding strategic objectives and agency priority goals are displayed below for reference. Note that this management portion of the AFR focuses on the agency priority goals and is meant to reflect HUD's selected performance improvement opportunities through these areas; the agency priority goals do not reflect the full scope of the agency's strategic goals and mission. For detailed quarterly assessments of progress, readers may consult the archived quarterly updates on Performance.gov.

HUD's FY 2014 – 2018 Strategic Framework

Mission: Create strong, sustainable, inclusive communities and quality, affordable homes for all.

Strategic Goals			
Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers	**Meet the Need for Quality Affordable Rental Homes**	**Use Housing as a Platform to Improve Quality of Life**	**Build Strong, Resilient, and Inclusive Communities**
Strategic Objectives			
Housing Market Establish a sustainable housing finance system that provides support during market disruptions, with a properly defined role for the U.S. Government.	**Rental Investment** Ensure sustainable investments in affordable rental housing.	**End Homelessness** End homelessness for Veterans, people experiencing chronic homelessness, families, youth, and children.	**Fair Housing** Reduce housing discrimination, affirmatively further fair housing through HUD programs, and promote diverse, inclusive communities.
Credit Access Ensure equal access to sustainable housing financing and achieve a more balanced housing market, particularly in underserved communities.	**Rental Alignment** Preserve quality affordable rental housing, where it is needed most, by simplifying and aligning the delivery of rental housing programs.	**Economic Prosperity** Promote advancements in economic prosperity for residents of HUD-assisted housing.	**Green and Healthy Homes** Increase the health and safety of homes and embed comprehensive energy efficiency and healthy housing criteria across HUD programs.
FHA's Financial Health Restore the Federal Housing Administration's financial health, while supporting the housing market recovery and access to mortgage financing.		**Health and Housing Stability** Promote the health and housing stability of vulnerable populations.	**Disaster Resilience** Support the recovery of communities from disasters by promoting community resilience, developing state and local capacity, and ensuring a coordinated federal response that reduces risk and produces a more resilient built environment.
			Community Development Strengthen communities' economic health, resilience, and access to opportunity.

Highlighted areas denote Agency Priority Goals.

HUD's Agency Priority Goals (APGs), a subset of the Strategic Plan's measures of success, include targets to be achieved over a two year performance period. These APGs reflect the top implementation-focused, performance improvement priorities of agency leadership and the Administration, and therefore do not reflect the full scope of the agency mission. Although the APGs cover a two-year performance period (in this case, FY 2014 and FY 2015), our analysis will focus on our annual progress toward our FY 2014 targets. The specific goals upon which HUD will focus during FY 2014 to FY 2015 are as follows:

Strategic Goal: Meet the Need for Quality Affordable Rental Homes

Agency Priority Goal: Preserve Affordable Rental Housing. By September 30, 2014, HUD's goal was to preserve affordable rental housing for an additional 48,219 households, toward a two-year target goal of 136,061 households. HUD is already serving approximately 5.4 million total households through its affordable rental housing programs.

Strategic Goal: Use Housing as a Platform to Improve Quality of Life

Agency Priority Goal: End Veterans Homelessness. By September 30, 2014, in partnership with the Department of Veterans Affairs (VA), HUD's goal was to reduce the number of Veterans experiencing homelessness to 27,500. HUD's two-year goal is to reduce the number of homeless Veterans temporarily living in shelters or transitional housing to 12,500, while reducing the number of Veterans living on the street to zero.

Strategic Goal: Build Strong, Resilient, and Inclusive Communities

Agency Priority Goal: Increase the Energy Efficiency and Health of the Nation's Housing Stock. By September 30, 2014, HUD's goal was to complete a total of 74,297 energy efficient or healthy green retrofitted units, toward HUD's two-year target goal of 163,590.

In the following section, we explain for readers how the agency has progressed on each of these priority goals. As detailed in the new Strategic Plan (2014-2018) and accompanying Annual Performance Plan (APP), HUD has established a revised set of two-year priority goals to be accomplished during the FY 2014 and FY 2015 performance period.

FY 2014–2015 Agency Priority Goal: Preserve Affordable Rental Housing

Between October 1, 2013 and September 30, 2014, HUD's goal was to preserve affordable rental housing by continuing to serve 5.4 million total households and an additional 48,219 households through its affordable rental housing programs. The agency's two-year target is to increase the reach of HUD's affordable rental programs by a total of 136,061 by the end of FY 2015.

OVERVIEW

During the past 75 years, the federal government has invested billions of dollars in the development and maintenance of affordable public (publicly-owned) and multifamily (privately-owned) rental housing. Despite the sizable investment and the great demand for affordable rental housing, the supply of affordable housing units continues to diminish. While some units have been lost because of their deteriorated physical condition, others have been removed from the affordable inventory because of owners' decisions or because periods of affordability have expired. Some multifamily housing programs either have no option for owners to renew their subsidy contracts with HUD or their contracts cannot be renewed on terms that attract sufficient capital to preserve long-term affordability. Moreover, the public housing stock faces an estimated $26 billion capital needs backlog, which will be difficult to meet, given federal fiscal constraints.

Affordable Housing in Tampa

The residents from Aqua are ecstatic to call this Tampa building home. With a beautiful view of Hillsborough River, the location is great and they also are very proud of the new energy saving appliances, the new painting, and the entire renovation.

A new owner acquired the property in 2012, committed to several more decades of affordable housing for seniors, and began the renovation. For 13 months the radical transformation took place while the residents still lived on the property. Now that the job is finally done, the mood is very festive and celebratory among the tenants of the 197 units.

The renovation of Aqua provided a positive impact to the economy of Tampa by involving over 400 construction workers. HUD's component is the rental assistance contract that safeguards affordable housing for these low income Tampa seniors for the next 20 years.

To enable public housing agencies to address the immediate and longer-term needs of their properties, HUD's Rental Assistance Demonstration (RAD) allows public housing agencies and owners of Moderate Rehabilitation, Rent Supplement, and Rental Assistance Payment developments to convert to long-term Section 8 rental assistance contracts, thereby allowing access to private funding sources.

Preservation of an expanded range of HUD-assisted properties will be facilitated by the establishment of a Recapitalization Office that will provide an easier "one-stop shop" for owners to handle a variety of complicated preservation transactions. Moreover, HUD's participation in the White House Rental Policy Working Group has spurred improvements in rental housing across agencies, particularly in the area of unit physical inspections and HUD's Real Estate Assessment Center's role.

STRATEGIES

Implement and expand the Rental Assistance Demonstration (RAD) to preserve and transition existing affordable HUD-assisted rental units to the Section 8 platform.

Establish the Recapitalization Office to reposition HUD-assisted multifamily and public housing assets and improve opportunities for residents. The office will bring together staff and a wide array of recapitalization programs, such as RAD and Mark-to-Market, creating a one-stop shop for public housing agencies and other partners working to support affordable housing and revitalize neighborhoods. This office will better integrate place-based initiatives and facilitate interactions with external partners who are using programs throughout HUD to develop and reposition their assets.

Develop and adopt a uniform asset management model across program platforms and divisions by using both property-level oversight and counterparty entity oversight. A uniform asset risk assessment management model will help to ensure consistent, timely interventions and minimize risk.

Revise the Real Estate Assessment Center's scoring system, timeframes, and operation of physical and financial assessments of HUD-assisted properties.

Support the development and preservation of affordable housing through FHA Multifamily Mortgage Insurance, in conjunction with other resources such as the FHA Low Income Housing Tax Credit (LIHTC) pilot.

Ensure that households currently served by HUD rental assistance programs are able to remain in their assisted properties by creating proactive asset management approaches to work with owners. Reaching owners before affordability contracts expire or HUD-insured mortgages mature will increase the likelihood of preserving a greater number of affordable rental units.

CONTRIBUTING PROGRAMS

All of HUD's programs that provide affordable rental assistance are integral to achieving this goal, including programs administered by the Office of Housing, Community Planning and Development, and the Office of Public and Indian Housing. In addition, FHA Multifamily mortgage, Low Income Housing Tax Credits, tax-exempt bonds, and other state and local resources support the preservation of affordable housing. 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

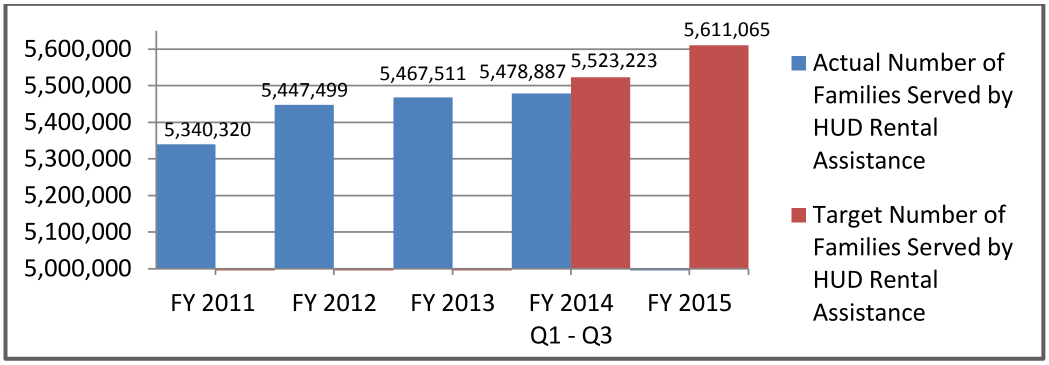
HUD monitors performance based on the following indicators:

Key Indicator:

- ***Number of households served through HUD rental assistance*** (cumulative)

Through the third quarter of FY 2014, HUD reached 8 percent of its target for the year, serving 3,883 new households. The difference between the FY 2014 target and the third quarter results is due to disruptions caused by the government shutdown, sequestration, and the lack of data from programs that only report annually. While HUD may still fall short of this year's target, fourth quarter results will be higher due to the inclusion of annual results and programs that are expected to gain back earlier losses.

Nationwide Rental Assistance Units



Supporting Indicators:

- ***Number of units converted using the Rental Assistance Demonstration (RAD): First Component*** (cumulative)

The first component of the Rental Assistance Demonstration allows projects funded under the public housing and Section 8 Moderate Rehabilitation (Mod Rehab) programs to convert their assistance to long-term, project-based Section 8 rental assistance contracts. Under this component of RAD, public housing agencies (PHAs) and Mod Rehab owners may choose between two forms of Section 8 Housing Assistance Payment (HAP) contracts: project-based vouchers (PBVs) or project-based rental assistance (PBRA). The number of converted contracts has increased from 32 in FY 2013 to 3,936 in FY 2014 (Q1 – Q3), with a target of 15,000. The target for FY 2015 is 21,000 converted contracts.

- ***Number of units converted using the Rental Assistance Demonstration (RAD): Second Component*** (cumulative)

The second component of the Rental Assistance Demonstration allows owners of projects funded under the Rent Supplement (Rent Supp), Rental Assistance Payment (RAP), and Mod Rehab programs to convert tenant protection vouchers (TPVs) to project-based vouchers (PBVs). The FY 2014 target includes 3,661 units remaining to be converted at the end of FY 2013 as well as 1,500 new units under extended authority for 2014.

- ***Housing Choice Voucher budget utilization rate***

The calendar year to date (January 1, 2014-June 30, 2014) Housing Assistance Payment (HAP) spending is 97.31 percent of calendar year-to-date budget authority. The target percentage of calendar year to date spending is 97.65 percent.

- ***Public Housing occupancy rate***

Public Housing occupancy rates across the country remain strong at the target level of 96 percent, despite funding decreases and inventory fluctuations.

- ***Project Based Rental Assistance (PBRA) occupancy rate***

Project Based Rental Assistance occupancy has increased from 95.2 percent in calendar year 2013 to a year-to-date (January 1, 2014-June 30, 2014) rate of 95.9 percent in calendar year 2014.

FINAL PROGRESS UPDATE

Because this document is published before Q4 data are available, the numbers do not indicate the total progress towards this year's targets. Nevertheless, first component RAD, LIHTC, TBRA, HOME Rental, and HOME TBRA seem likely to fall short of the targets set for the year based on straight-line projections of current performance. The actual changes in each program are individually small relative to the size of the population assisted by HUD affordable rental programs; even in the face of fiscal constraints the graph on the previous page shows that HUD's affordable rental assistance has grown steadily every year. The current work with RAD is laying the groundwork for several years of significant preservation activity.

ASSISTED HOUSING UNITS				
Program	**FY 2013 Cumulative Baseline**	**FY 2013-14 Cumulative Actual (Q3)**	**FY 2014 Cumulative Target**	**FY 2015 Cumulative Target**
Multifamily Project Based Rental Assistance[1]	1,164,765	1,178,966	1,160,765	1,156,765
Rental Assistance Demonstration units move to PBRA	30	3,951	7,155	15,660[2]
Other Multifamily Subsidies[3]	181,823	159,790	167,878	152,915
Project Rental Assistance Contract (Sect. 202 & 811)	145,624	149,061	148,192	151,500
Insured Tax Exempt or Low-Income Housing Tax Credit[4]	126,165	156,218	161,800	200,987
Mortgage Insurance for Residential Care Facilities (Sect. 232)[5]	3,864	4,673	4,614	5,364
TOTAL Housing Programs	**1,622,271[6]**	**1,652,659**	**1,650,404**	**1,683,191**
PIH Mainstream and Tenant Based Rental Assistance	2,193,545	2,168,633	2,195,877	2,245,870
Rental Assistance Demonstration units move to TBRA	4,565	8,913	16,593	26,057
Public Housing	1,090,471	1,086,333	1,071,998	1,049,926
Indian Housing Block Grant	11,885	12,129	12,479	13,023
PIH Mod Rehab[7]	22,438	22,438	21,370	20,418
TOTAL Public and Indian Housing	**3,322,904**	**3,298,446**	**3,318,317**	**3,355,294**

[1] Multifamily Project Based Rental Assistance includes Section 8, Rent Supplement, and Rental Housing Assistance Programs.
[2] Previous target of 17,130 was based on cumulative data; FY14 conversions are now reflected in PBRA. Starting in FY15, RAD occupancy assumed to be 87% to reflect occupancy in converting Public Housing units.
[3] Other Multifamily Subsidies includes Old Section 202, Section 221(d)(3) Below Market Interest Rate, and Section 236 Interest Reduction Payment only.
[4] The notable increase in the FY 2014 target is caused by the addition of renewals with at least 15 years of affordability remaining.
[5] Units reported here for the Section 232 program include only units added since the beginning of FY12, when the program was added to this goal.
[6] FY13 baseline for several Housing programs changed to reflect new database behavior.
[7] FY14 data will not be available until end of Q4. Data for this program is reported on an annual basis only.

ASSISTED HOUSING UNITS				
Program	**FY 2013 Cumulative Baseline**	**FY 2013-14 Cumulative Actual (Q3)**	**FY 2014 Cumulative Target**	**FY 2015 Cumulative Target**
HOME Tenant Based Rental Assistance (new method)	1,394	1,001	N/A	1,095
HOME Rental	275,256	272,830	295,256	275,000[8]
Housing Opportunities for Persons Living With AIDS[9]	25,034	25,034	24,688	24,612
Homeless Assistance Grants[10]	125,564	125,564	130,583	135,660
Neighborhood Stabilization Program	15,532	14,813	N/A	21,544
Tax Credit Assistance Program	59,499	59,499	N/A	59,580
Gulf Coast (Disaster)	27,550	29,041	N/A	55,089
TOTAL Community Planning and Development	**529,829**	**527,782**	**554,502[11]**	**572,580**
HUD TOTAL	**5,475,004**	**5,478,887**	**5,523,223**	**5,611,065**

FY 2014–2015 Agency Priority Goal: End Homelessness among Veterans

By September 30, 2014, in partnership with VA, HUD's goal was to reduce the number of Veterans experiencing homeless to 27,500. HUD's two-year goal is to reduce the number of homeless Veterans temporarily living in shelters or transitional housing to 12,500, while reducing the number of Veterans living on the street to zero.

OVERVIEW

Developed by Cloudbreak Phoenix, LLC, Victory Place Phase III, which is supported by HUD VASH Vouchers, provides housing for Veterans in Arizona.

Veterans are overrepresented in the homeless population; while only 9.3 percent of the U.S. adult population has Veteran status, Veterans represented approximately 11.3 percent of homeless adults at a given point in time in 2014. On a single night in January 2014, there were 49,933 Veterans reported as experiencing homelessness (unpublished data as of September 2014). Veterans experiencing homelessness often face the same issues that lead others into homelessness, including a lack of affordable housing and inadequate income and savings. Service men and women returning from active duty may also have specific challenges, such as lingering effects of post-traumatic stress disorder and substance abuse, which can make it more difficult for them to find and maintain adequate employment and, consequently, to pay for housing.

[8] Reduction to targets due to new analysis of HOME Rental units with ending affordability periods; not counted here as they receive some project- or tenant-based rental assistance.
[9] FY14 data will not be available until end of Q4. Data for this program is reported on an annual basis only.
[10] Ibid.
[11] FY 2014 cumulative target for CPD carries over the FY 2013 actuals for these programs that do not set targets: TCAP, CDBG-DR, NSP, and HOME TBRA.

Effectively transitioning Veterans experiencing homelessness to permanent housing requires access to healthcare, employment, and benefits. Because Veterans have greater medical and mental health needs than non-Veterans, healthcare and its associated 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 Veterans the income required to support housing and other daily living expenses.

HUD and VA continue to implement proven systems of service delivery to end Veteran homelessness, especially among those experiencing chronic homelessness, such as the Housing First approach. Housing First offers individuals and families experiencing homelessness immediate access to permanent affordable or supportive housing. By reducing clinical and economic barriers, Housing First yields higher housing retention rates, lower returns to homelessness, and significant reductions in the use of crisis service and institutions.[12]

STRATEGIES

HUD's strategies to end Veterans homelessness vary according to the time and extent of homelessness and eligibility 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 and Continuum of Care programs are the appropriate vehicles to offer services and housing packages needed to move Veterans ineligible for VA health services off the street and out of shelters and transitional housing.

CONTRIBUTING PROGRAMS

The HUD programs contributing to the achievement of this goal include:

- HUD-VA Supportive Housing (HUD-VASH) Program
- McKinney-Vento Permanent Supportive Housing
- McKinney-Vento Transitional Housing.

MEASURING OUR PROGRESS

Veterans placed in permanent housing

Through the third quarter of FY 2014, HUD and VA placed 37,354 Veterans into permanent housing through the HUD–Veterans Affairs Supportive Housing (HUD-VASH) Program, rapid

[12] Larimer, D. Malone, M. Garner, et al. "Health Care and Public Service Use and Costs Before and After Provision of Housing for Chronically Homeless Persons with Severe Alcohol Problems." Journal of the American Medical Association, April 1, 2009, pp. 1349-1357.

rehousing placements through Supportive Services for Veteran Families (SSVF) program, and exits from VA residential treatment programs into permanent housing. HUD is confident it will exceed the targets for these programs in FY 2014.

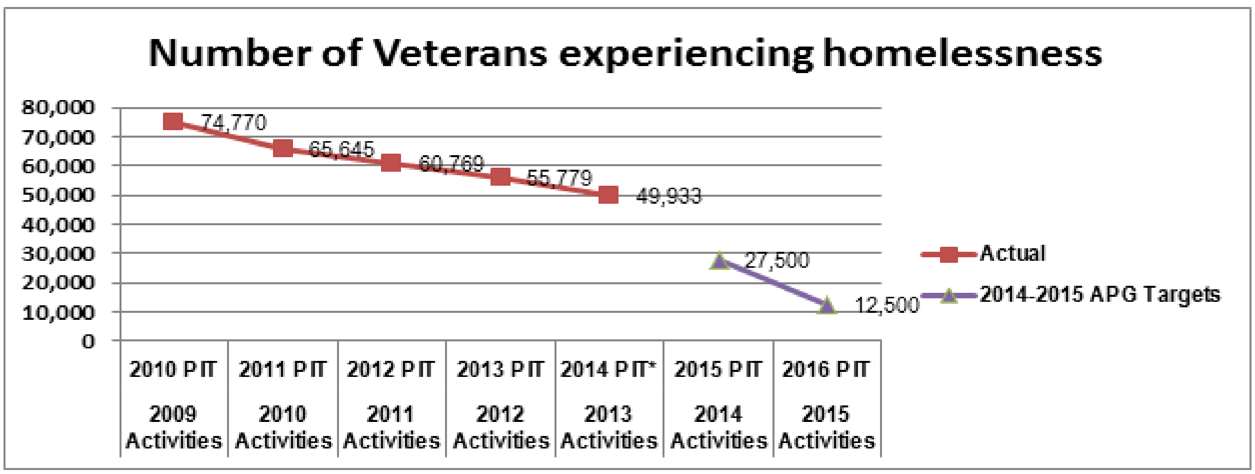
FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2014 Target	FY 2015 Target
NA	48,061	37,354†	40,000	49,000[13]

†progress through FY 2014 Q3

Veterans served by Continuum of Care (CoC) Program resources, including transitional housing and permanent supportive housing, are reported annually and will be available in May 2015.

FINAL PROGRESS UPDATE

A final summary of the permanent housing placements in FY 2014 will be presented in HUD's Annual Performance Review, available in February 2015. HUD's progress to prevent and end homelessness among Veterans in FY 2014 will be assessed with the data from the 2015 Point-in-time (PIT) count. HUD continues to work towards its FY 2014-2015 Agency Priority Goal, with an FY 2014 target of reducing the total number of homeless Veterans to 27,500, as counted in the January 2015 PIT Count. According to the 2014 PIT count, homelessness among Veterans decreased by 33 percent since 2009.



In order to meet the goal of eliminating street homelessness among Veterans by the end of 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 CoCs and other local partners. HUD is also working to implement

[13] HUD and VA together are proposing an increased FY15 target. The FY 2015 target reflects our agencies' commitment to serving Veterans experiencing homelessness, while targeting resources most effectively to an increasingly vulnerable population left to serve.

and improve coordinated assessment systems in CoCs, to effectively target resources to Veterans ineligible for Veteran Healthcare Administration (VHA) services.

FY 2014–2015 Agency Priority Goal: Energy Efficiency and Healthy Homes

Between October 1, 2013 and September 30, 2014, HUD aimed to complete 74,347 energy or healthy green retrofits. The two year target is to increase the number of completed energy or healthy green retrofits by a total of 163,590. Through the third quarter of 2014, HUD had completed 36,698 energy or healthy green retrofits. Of the completed green or healthy units, 21,088 units, or 57 percent, were energy-related, and the remaining 15,610 units were lead hazard control or healthy housing retrofits.

OVERVIEW

HUD has committed to creating energy-efficient, green, and healthy housing as part of a broader effort to foster the development of inclusive, sustainable communities. The residential sector is responsible for fully 21 percent of the nation's greenhouse gas emissions. HUD itself spends an estimated $6.4 billion annually on utilities (both water and energy) in the form of allowances for tenant-paid utilities, direct operating grants for public housing, and housing assistance payments for privately owned assisted housing. Utility costs account for around 22 percent of public housing operating budgets and a similar share in the assisted housing sector. Reducing these rising costs—generating savings for residents and owners, as well as for taxpayers—is a key HUD priority. Housing is also an important determinant of health, and poor housing conditions are associated with a wide range of health conditions, including respiratory infections, asthma, lead poisoning, injuries, and other housing-related health hazards. Significant progress has been made over the past 4 years with completed energy retrofits,

The newly completed St. Polycarp Village in Somerville, Mass. includes 84 affordable rental units in a sustainable transit oriented development.

Somerville celebrates completion of St. Polycarp Village

This project includes 84 new affordable rental units, 6200 square feet of commercial space, a new community room, and outdoor spaces. St. Polycarp was awarded a HUD Door Knocker Award in 2011 for the first phase of the project. The project utilized $2.5 million in HUD HOME funds through the City of Somerville.

St. Polycarp Village was designed with a strong focus on open space and green building. The project is completely energy efficient with such features as solar panels to generate electricity and hot water, an air filtration system, a green roof, onsite storm water infiltration through a rain-garden, medium density insulation, and energy efficient windows and appliances. The project received a LEED Silver award for phase 1 construction; phase II achieved LEED Silver certificate; and Phase III is expected to receive LEED Gold certification.

healthy housing interventions, or new energy projects in more than 360,000 housing units. From 2014-2018, HUD aims to continue to focus on energy and health investments in HUD-assisted housing, as well as in market-rate housing, to support the goals of President Obama's Climate Action Plan to cut energy waste in half by 2030 and accelerate clean energy leadership. HUD will reduce barriers to financing energy efficiency as well as onsite renewable energy, help unlock innovative and traditional sources of capital, and raise the bar on codes and standards that promote energy efficiency and healthy housing.

STRATEGIES

- ***Strengthen HUD's programs and policies to meet the President's goal of cutting energy waste in half by 2030 in new and existing HUD-assisted housing.*** This includes continuing to update energy codes and standards, and supporting the adoption of comprehensive utility benchmarking protocols across HUD's portfolio. This strategy will help HUD stakeholders reduce energy consumption and improve building performance. This will be accomplished through voluntary efforts such as the Better Buildings Challenge, partnerships with the U.S. Department of Energy, the Environmental Protection Agency, USDA, and other federal agencies, and leveraging HUD's technical assistance resources.
- ***Implement national partnerships to triple the amount of onsite renewable energy across the federally assisted housing stock by 2020.*** This joint effort of HUD, USDA, and the Department of the Treasury will for the first time focus on solar and renewable energy in federally assisted housing, by implementing a key goal of the President's Climate Action Plan, to reach 100 megawatts—equivalent to the energy used by over 30,000 homes—of on-site renewable energy in federally assisted housing.
- ***Overcome barriers to leveraging private sector and other innovative sources of capital for energy efficiency and renewable energy investments.*** HUD, in concert with federal and state partners, will help expand the pool of private and public capital investment for energy efficiency and renewable energy programs across the residential spectrum.

CONTRIBUTING PROGRAMS

This performance goal involves every HUD program that produces, manages, or finances HUD's portfolio of affordable housing. The program lead is the Office of Economic Resilience, which coordinates a broad-based Departmental effort to reduce HUD's outlays for energy. The Office of Lead Hazard Control and Healthy Homes funds green improvements in unassisted housing.

MEASURING OUR PROGRESS

HUD is continuing its work to document its commitment to mainstream energy and green building across the residential sector. HUD is: (1) outlining a comprehensive approach to strengthen energy and green building requirements; (2) using incentives for borrowers or grantees to agree to green standards; (3) developing large-scale solutions and tools; and (4) assembling new sources of public and private investment in energy efficiency and clean energy across the residential sector. HUD is involved in several components of the President's Climate Action Plan and is working towards achieving the goals outlined in the plan. To assess our progress towards increasing the energy efficiency and health of the nation's housing stock, HUD tracks the number of new or retrofitted housing units that are healthy, energy-efficient, or meet green building standards. This measure tracks the number of retrofits and units of new construction meeting energy efficiency standards each reporting period. Through fiscal year 2014, Quarter 3, HUD has completed 36,698 energy or healthy green retrofits. Of the completed green or healthy units, 21,088 units, or 57 percent, were energy-related, and the remaining 15,610 units were lead hazard control or healthy housing retrofits funded through HUD's Office of Lead Hazard Control and Healthy Homes. All units from HUD's Energy Performance Contracting program, one of the larger contributing programs, are reported in the fourth quarter.

Partly funded with HUD tax credits, Westlawn Gardens in Milwaukee, a LEED-certified project, achieved LEED ND, Stage 3 Silver level certification in October 2013.

Key Indicator:

- ***Cost-effective, healthy, energy efficient and green retrofits and new housing (incremental)***

Number of HUD-assisted or -associated units completing energy efficient or healthy retrofits or new construction, by program office						
	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual (Q1- Q3)	FY 2014 Target	FY 2015 Target
PIH	54,609	40,652	37,242	5,417[14]	24,445	23,248
CPD	9,349	15,915	14,546	5,924	8,924	8,711
Housing	17,927	15,311	14,464	9,747	17,965	34,068
OLHCHH	22,754	13,115	10,663	15,610	23,013	23,216
HUD Total	104,639	84,993	76,915	36,698	74,347	89,243

[14] Energy Performance Contact (EPC) units comprise a large portion of PIH's share of energy efficient or healthy retrofits or new construction. Since EPC units are only reported annually, in Q4; the number of EPC units completed to date in 2014 is yet to be determined.

FINAL PROGRESS UPDATE

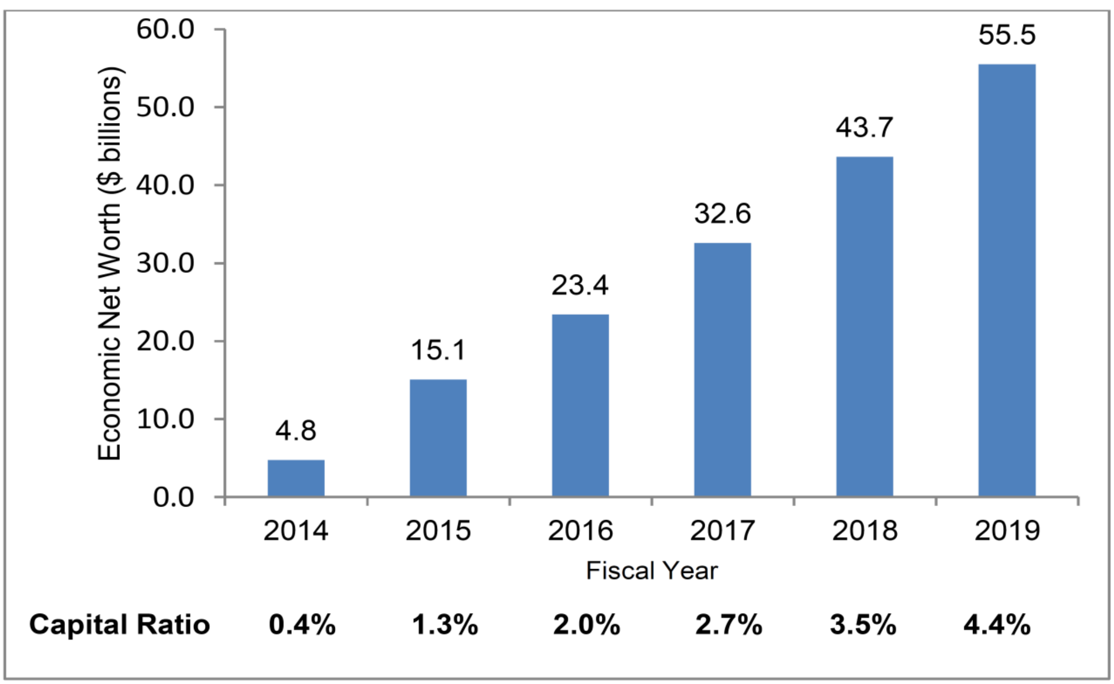
In light of funding challenges, the progress made in achieving this objective is noteworthy. Early in 2014, the former Secretary charged program offices with matching our prior two-year targets on green and healthy homes, despite the expiration of the Recovery Act funds which had funded a significant portion of our units towards this goal over the past four years. Through the first two quarters of 2014, HUD is on track to meet this stretch FY14-FY15 target of completing 163,590 green or healthy retrofits or new constructions. All units from HUD's Energy Performance Contracting program, one of the larger contributing programs, are reported in the fourth quarter. The objective leads also debuted a new model to estimate energy cost and consumption for HUD's programs, which is a significant step towards tracking and targeting energy outcomes in addition to retrofit and construction activities.

Mutual Mortgage Insurance (MMI) Capital Ratio

FHA's Mutual Mortgage Insurance (MMI) Fund encompasses nearly all of FHA's single family business, including reverse mortgages insured through the Home Equity Conversion Mortgage program. As a way of gauging the financial status of FHA's MMI Fund and assuring that sufficient funds are available to meet future needs, Congress introduced a 2 percent capital-ratio requirement in the National Affordable Housing Act of 1990, encoded at 12 USC 1711(f)(4). 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.

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 2013. This year, the capital ratio, as calculated based on the independent actuary's report, has improved to 0.41 percent and is expected to reach 2.0 percent in FY 2016. The value of the Fund has improved significantly and now stands at $4.8 billion, representing a $6.1 billion increase over the past year and a $21 billion gain over the last two years.

Annual Projection of MMI Fund Economic Net Worth and Capital Ratio
FY 2014 – FY 2019



SOURCE: FY 2014 Actuarial Review of the MMI Fund; analysis by U.S. Department of HUD/FHA.

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 approach creates a higher threshold of required net income from FHA loan guarantee operations before reaching the two percent capital ratio target.

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 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 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.

Constrained federal funding levels continued to affect most HUD programs during FY 2014 and are likely to continue in the foreseeable future. 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 (PHAs) receive lower amounts of administrative fees, operating subsidies, and capital subsidies for addressing the capital needs backlog of the affordable housing stock. Such financial constraints increase demand by PHAs for administrative and operational flexibility, as reflected by high levels of interest in the Rental Assistance Demonstration and the Moving to Work demonstration.

The prolonged period of high unemployment eased substantially by the end of FY 2014. The unemployment rate fell below 6.0 percent in September for the first time since June 2008. Job losses and unemployment since 2007 had put pressure on household incomes and credit ratings and contributed to the foreclosure crisis. A stronger job market will improve the ability of first-time home buyers to enter the housing market, strengthen demand for home purchases, and reduce the rate of mortgage defaults.

Financial markets generally anticipate that if unemployment rates improve further, or signs of inflation appear, the Federal Reserve may scale back on accommodative policies that have kept interest rates low. If this should occur, then interest rates for long-term debt and mortgage loans may increase from the low levels that prevailed during the recent post-recessionary period, which would reduce levels of both homebuying and mortgage refinancing.

A rule issued by the Consumer Finance Protection Bureau under the Dodd-Frank Act took effect in January 2014. The rule requires lenders to consider and verify factors that indicate a consumer has the ability to repay the loan before originating the mortgage. Mortgage loans that have lower costs (limited points and fees) and lower risk features (no negative amortization) are considered Qualified Mortgages that are presumed to comply with this new rule. The rule is expected to increase the proportion of home loans that are sustainable, and thus reduce risk of a new financial crisis linked to the mortgage market. However, there is a possibility that the new requirements could cause reductions in access to credit and low interest rates for some homebuyers. Many lenders tightened credit standards substantially after the financial crisis, which has disproportionately reduced availability of mortgage credit for lower-income and minority households.

The rate of household formation, at 0.5 percent in 2013, remained weak compared with more typical rates of 0.9 percent observed in the Current Population Survey since 2000. Further, both the homeownership rate and absolute numbers of owner households continued to decline in 2013, while the number of rental households has been increasing rapidly.

Increasing numbers of renter households and relatively weak household incomes have, for a number of years, created significant new demands on the stock of affordable rental homes, resulting in rent increases for very low-income renters. The most recent estimates from HUD's *Worst Case Housing Needs: Report to Congress* show that only 64.6 affordable rental units were available per 100 very low income renters in 2011. Such unmet demand for affordable housing puts pressure on waiting lists for public and assisted housing, fair market rents, and HUD's subsidy costs. By 2013, however, continuing increases in the number of renter households were being offset by decreases in the proportion of these renters with very low and extremely low incomes, while rental vacancy rates have continued to decline.

Shortages of affordable housing also contribute to doubling up and homelessness, especially for families. Veterans experiencing homelessness 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.

With the expansion of private health insurance and Medicaid under the Affordable Care Act, some assisted households will face different choices and incentive structures than they previously had. Health coverage could affect HUD housing assistance programs in undetermined ways. Effects potentially could include changes in tenant earnings that affect HUD subsidy levels and changes in length of participation in public and assisted housing.

Under the *National Response Framework* developed since Hurricane Katrina, HUD has a major role in helping implement disaster recovery. Further, executive orders require federal agencies to plan for climate-change related risk and modernize programs to support climate-resilient investment. Over the longer term, new disasters and emerging national needs have the potential to create new needs and require significant changes in the Department's program operations.

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

Summarized Financial Data
(Dollars in Billions)

	2014	**2013**
Total Assets	$145.4	$152.9
Total Liabilities	$65.4	$74.6
Net Position	$80.1	$78.4
FHA Insurance-In-Force	$1,292.0	$1,293.0
Ginnie Mae Mortgage-Backed Securities Guarantees	$1,526.0	$1,457.1
Other HUD Program Commitments	$40.7	$43.5

HUD's FY 2014 Financial Statements reflect restatements of the Department's Fiscal Year 2013 Financial Statements in the following areas:

- HUD's Recognition of Net Restricted Balances (NRA) as a result of funding provided by the Department under PIH's Section 8 Housing Choice Voucher Program.
- HUD's recognition of Grant Accrual Estimates in conformance with FASAB's, FFA Technical Release 12 as recommended by OIG.

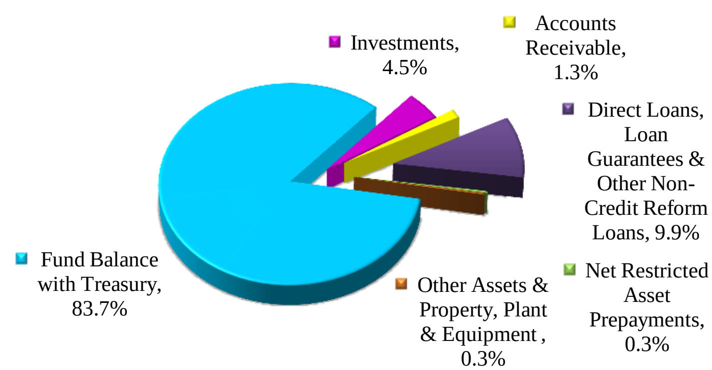
The Notes to the Financial Statements in Section II, Note 30, provides further details.

Analysis of Financial Position

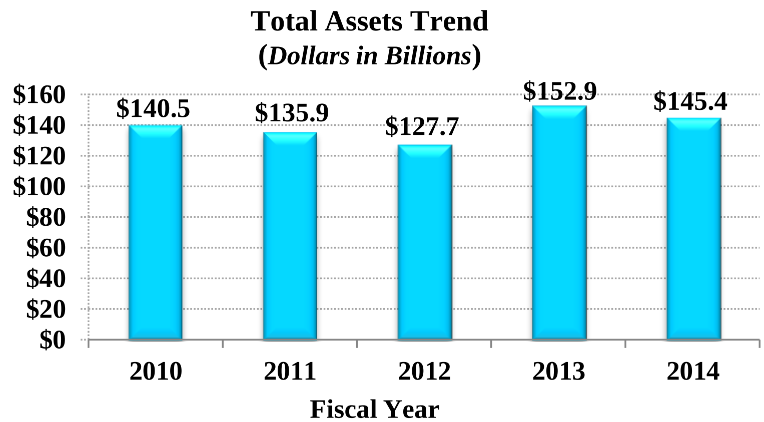
Assets - Major Accounts

Total Assets for FY 2014, as reported in the Consolidated Balance Sheet, are displayed in the graph below. *Total Assets* of $145.4 billion are comprised of *Fund Balance with Treasury* of $121.7 billion (83.7 percent), *Accounts* Receivable of $1.9 billion, *Direct Loans & Loan Guarantees* of $10.9 billion, *Other Non-Credit Reform Loans* of $3.6 billion, *Investments* of $6.6 billion, *Net Restricted Asset Prepayments* of $0.4 billion, and *Other Assets and Property, Plant & Equipment* of $0.4 billion at September 30, 2014.

Composition of HUD Assets - FY14



Total Assets decreased $7.5 billion (4.9 percent) from $152.9 billion at September 30, 2013. The net decrease was due primarily to a decrease of $13.9 billion (10.3 percent) in *Fund Balance with Treasury*, a decrease of $0.4 billion (10.8 percent) in *Other Non-Credit Reform Loans*, a decrease of $0.4 billion (52.7 percent) in *Other Assets and Property, Plant & Equipment*, a decrease of $0.1billion (23.4 percent) in *Net Restricted Asset Prepayments*, being offset by a increase of $4.7 billion (257.8 percent) in *Intragovernmental Investments*, an increase of $1.7 billion (956.11 percent) in *Accounts Receivable*, and an increase of $0.9 billion (8.8 percent) in *Direct Loans & Loan Guarantees*. The table below shows *Total Assets* for FY 2014 and the four preceding years. The changes and trends affecting *Total Assets* are discussed below.



Fund Balance with Treasury of $121.7 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. *Fund Balance with Treasury* decreased $13.9 billion due primarily to decreases of $13.2 billion for FHA, $3.3 billion for CDBG, $0.4 billion for PIH, and $1.6 billion for All Others, offset by an increase of $3.8 billion for Ginnie Mae, $0.6 billion for Section 8, and $0.1 for Homeless.

The FHA decrease is primarily due to an increase in MMI and Cooperative Management Housing Insurance Fund (CMHI) investments in U.S Treasury securities. Its disbursements (claim payments) also exceeded premium collections and proceeds from the sale of assets. Furthermore, FHA's receipt accounts were swept effective FY 2014 thus decreasing the fund balance. Community Development Block Grant (CDBG) program funding decreased by $3.3 billion due primarily to decreased funding level and an increase in expenditures from the previous year FY 2013 to FY 2014. Ginnie Mae's fund balance increased primarily because of an increase in claims processed and payments received.

Investments of $6.6 billion consist primarily of investments by FHA's MMI/CMHI and by Ginnie Mae, in non-marketable, intra-governmental, Treasury securities (i.e., investments not sold in public markets). FHA's investments increased by $6.4 billion and Ginnie Mae's investments decreased by $1.7 billion.

Accounts Receivable of $1.9 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. FHA's increase of $1.4 billion was primarily due to the reclassification of single family note cases that were originally in loans receivable to accounts receivable. The OCFO's office also recognized $32 million of sustained audit costs as recommended by OIG. A 100 percent allowance for loss is established for all delinquent debt 90 days and over.

Direct Loan and Loan Guarantees of $10.9 billion 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. FHA's 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 $3.6 billion consists of Ginnie Mae Advances Against Defaulted Mortgage-Backed Security Pools, Mortgage Loans Held for Investment, Short Sale Claims Receivable, and Foreclosed Property.

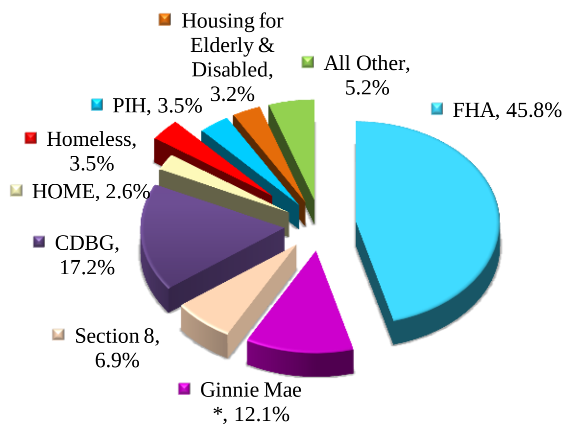
Net Restricted Asset Prepayments of $0.4 billion are the Department's estimates of Net Restricted Assets (NRA) balances maintained by Public Housing Authorities under the Housing Choice Vouchers Program. NRA balances represent cash reserves used by PHAs to cover program expenses reported by these entities as a result of recent funding shortfalls faced by the Department. The NRA balances were restated in HUD's 2013 financial statements. PIH has estimated NRA balances of $0.4 billion and $0.6 billion for Fiscal Year 2014 and Fiscal Year 2013 respectively.

Other Assets and Property, Plant & Equipment of $0.4 billion comprises of primarily internal use software, furniture and fixtures, and other assets.

Assets - Major Programs

The chart below presents *Total Assets* for FY 2014 by major responsibility segment or program.

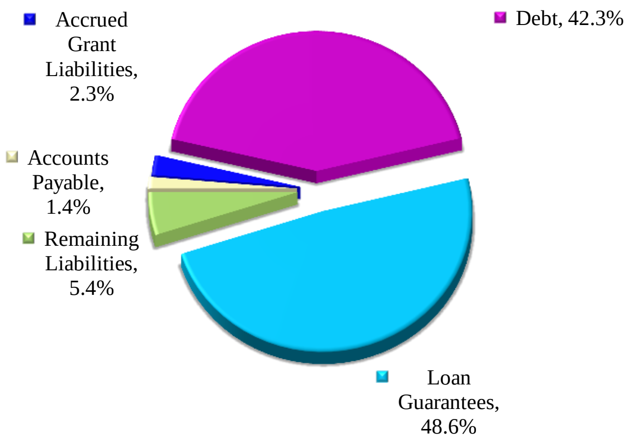
Assets by Responsibility Segment



Liabilities – Major Accounts

Total Liabilities for FY 2014, as reported in the Consolidated Balance Sheets, are displayed in the chart below.

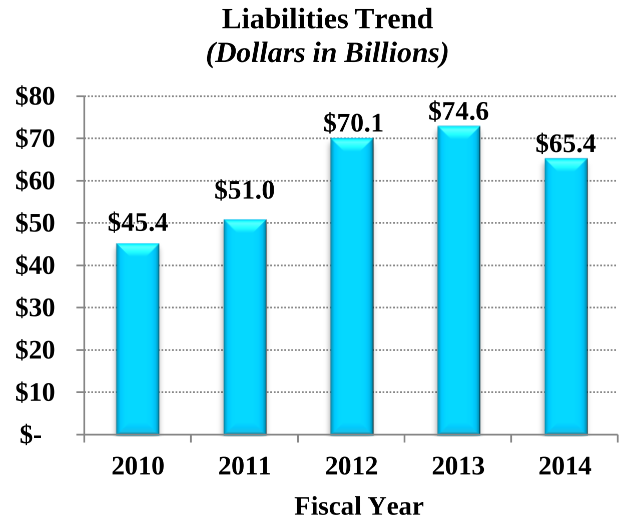
Composition of HUD Liabilities



Total Liabilities of $65.4 billion consist primarily of *Loan Guarantees* of $31.8 billion (48.6 percent), *Debt* in the amount of $27.7 billion (42.3 percent), *Accounts Payable* of $0.9 billion (1.4 percent), *Accrued Grant Liabilities* of $1.5 billion (2.3 percent), and *Remaining Liabilities* amounting to $3.5 billion (5.4 percent) at September 30, 2014.

Total Liabilities decreased by $9.2 billion, due primarily to a decrease of $7.5 billion of *Loan Guarantees*, a decrease of $2.9 billion of *Intragovernmental Other Liabilities*, a decrease of $0.7 billion of *Accrued Grant Liabilities, and an* offset by an increase of $1.6 billion of *Intragovernmental Debt*, $0.2 billion of *Liabilities. Total Liabilities* decreased primarily due to a decrease in FHA's GI downward re-estimate from FY 2012 to FY 2013 and GI/SRI negative subsidy transfers; borrowings in MMI Cohort of negative subsidy transferred to the capital reserve fund to offset premium collection, and receipt accounts were swept effective FY 2014. CDBG, HOME, & Homeless liabilities decreased by $0.8 billion primarily due to grant accruals. The department implemented the grant accrual policy in FY 2014. Based on this policy HUD determined the current and prior year accruals.

The chart below presents *Total Liabilities* for FY 2014 and the four preceding years. A discussion of the changes and trends impacting Total Liabilities is presented in the subsequent paragraphs.



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 $7.5 billion (19.2 percent) decrease in *Loan Guaranty Liability* is primarily due to $9 billion negative subsidy forecast for FHA's MMI Fund. The HECM/LLG increase by $1.6 due to housing price forecasts that showed a stronger long-term housing price appreciation recovery. In addition, a decrease in Multifamily LLG is related to conveyance claim costs, which were adjusted to reflect increased maintenance, and operation cost for projected conveyances. The increased costs will lower future expected recoveries so hence, increased liability. In addition, the multifamily LLG decrease attributed to decreases in several multifamily programs. The increase in Ginnie Mae's Loss Reserves was attributed to a change in Master Sub Servicers, Contract Service fees and Foreclosures timeline.

Debt includes primarily *Intragovernmental Debt* of $27.7 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.

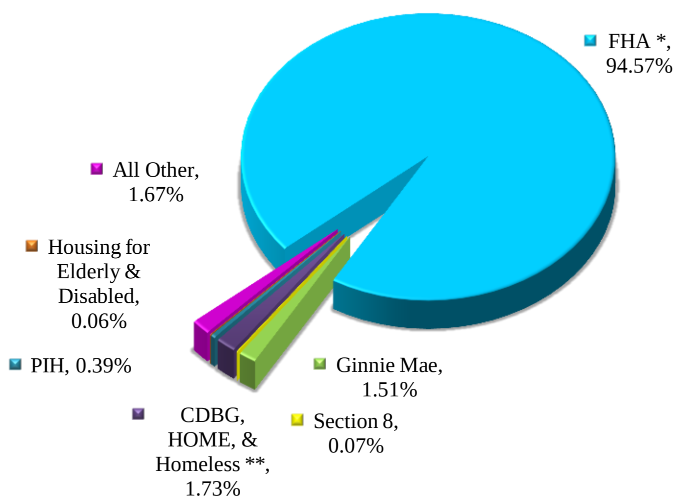
Accrued Grant Liabilities decreased by $0.7 billion. In response to OIG's recommendation, a policy for estimating accruals for grant programs was administered by HUD. HUD then restated its FY 2013 financial statements to reflect the implementation of the OCFO policy. The estimates provided by the program offices resulted in decreasing the Department's liabilities from \$2.2 billion and \$1.5 billion for FY 2013 and FY 2014 respectively.

Remaining Liabilities of \$3.5 billion consist of *Intragovernmental Liabilities*, *Federal Employee and Veteran Benefits*, *Loss Reserves* and *Other Liabilities*. The FHA decrease of \$2.1 billion is primarily due to a decrease of GI downward re-estimate from FY 2012 to FY 2013 and GI/SRI negative subsidy transfers and also a decrease due to the receipt accounts being swept in FY 2014.

Liabilities – Major Programs

The chart below presents *Total Liabilities* for FY 2014 by responsibility segment.

Liabilities by Responsibility Segment



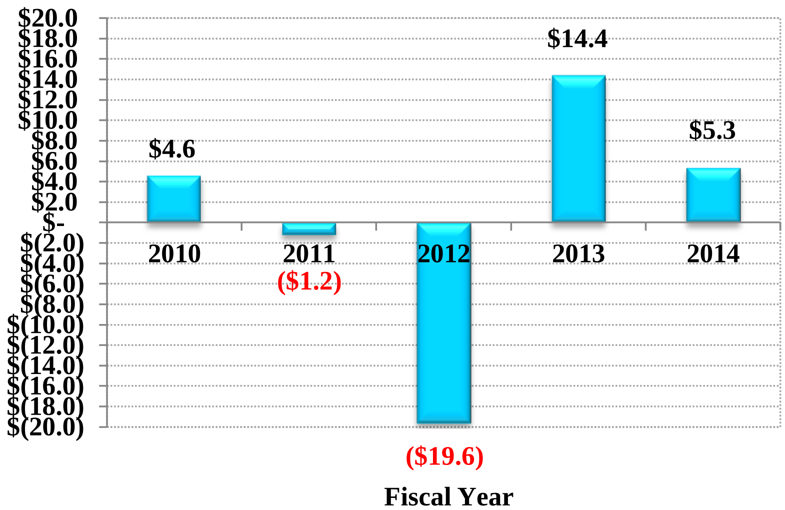
Changes in Net Position

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 \$1.7 billion (2.2 percent) from the prior fiscal year. The net increase in *Net Position* is primarily attributable to a \$3.6 billion decrease in *Unexpended Appropriations* and a \$5.3 billion increase in *Cumulative Results of Operations*.

The combined effect of HUD's *Net Cost of Operations* and *Financing Sources* resulted in a decrease in *Net Change in Cumulative Results of Operations* of \$9.1 billion during FY 2014. Net Cost of Operations increased by \$3.1 billion and Total Financing Sources increased by \$6.0 billion.

This chart presents HUD's *Net Change in Cumulative Results of Operations* for FY 2014 and the four preceding years.

Net Change in Cumulative Results of Operations
(*Dollars in Billions*)

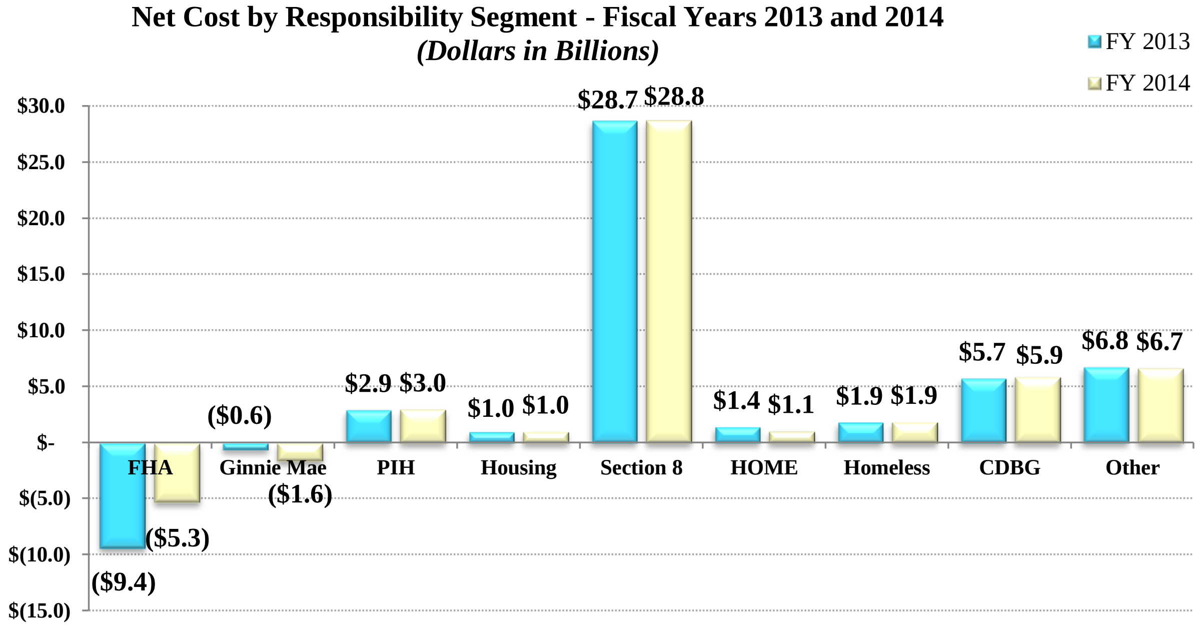


Unexpended Appropriations: The decrease of $3.6 billion (6.0 percent) from $59.8 billion in FY 2013 to $56.2 billion is due primarily to additional expenditure of $2.8 billion for CDBG, $0.4 billion in PIH, $0.6 billion for Housing for the Elderly and Disabled, and $0.4 billion for All Other programs, and an offset of additional funding of $0.5 billion in Section 8. The $2.8 billion of additional expenditure for the Community Development Block Grant (CDBG) program was primarily due to increase in expenditures from the previous year FY 2013 to FY 2014.

Financing Sources: As shown in HUD's *Statement of Changes in Net Position*, HUD's financing sources for FY 2014 totaled $46.8 billion. This amount is comprised primarily of $49.4 billion in *Appropriations Used*, offset by approximately $2.6 billion in other financing sources.

Net Cost of Operations: As reported in the *Consolidated Statement of Net Cost, Net Cost of Operations* amounts to $41.4 billion for FY 2014, an increase of $3.1 billion (8.0 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 2014 by responsibility segment.



As shown in the chart, *Cost of Operations* was primarily a result of spending of $28.8 billion, (69.5 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 $0.1 billion (0.3 percent) more than the prior fiscal year. FHA *Net Cost* decreased by $4.1 billion (43.7 percent), due primarily to a decrease in gross costs and a decrease in HECM LLG liability for all programs.

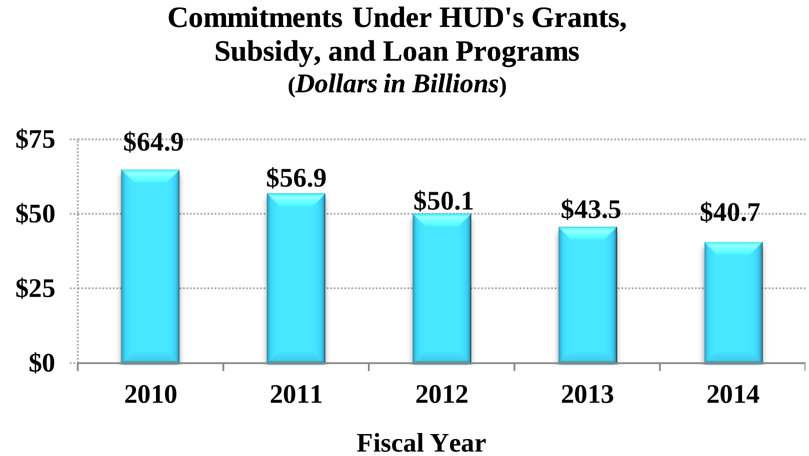
Analysis of Off-Balance-Sheet Risk

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 $40.7 billion in FY 2014 represent HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. *Administrative Commitments* (reservations) of $9.2 billion relate to specific projects, for which funds will be provided upon execution of the related contract.

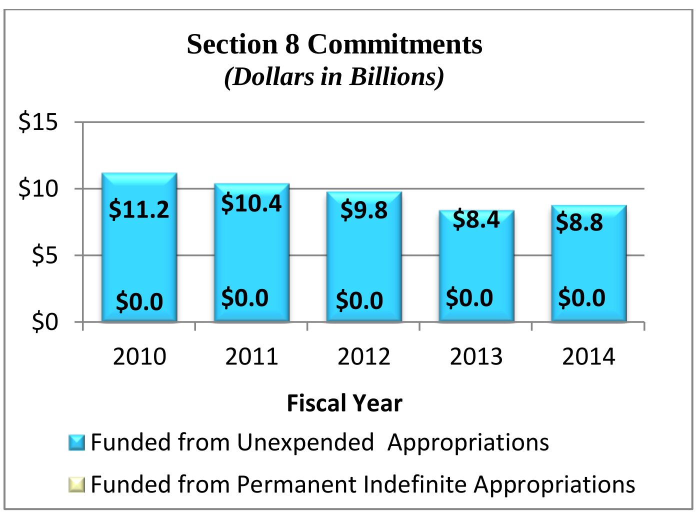
The chart on the next page presents HUD's *Contractual Commitments* for FY 2014 and the four preceding years.



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) increased by $1.4 billion (2.9 percent) during FY 2014. The change is primarily attributable to an increase of $3.1 billion in CDBG program commitments and an increase of $0.4 billion in Section 8 commitments, offset by a decrease in *All Other Commitments* of $2.2 billion.

The chart below presents HUD's Section 8 *Contractual Commitments* for FY 2014 and the four preceding years.

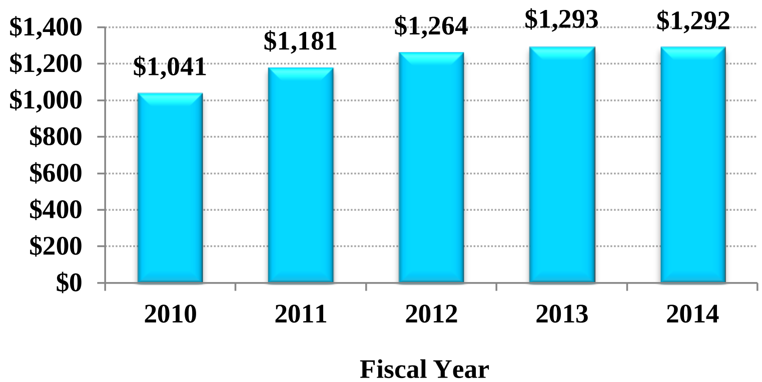


To contain the costs of future Section 8 contract renewals, HUD began converting all expiring contracts to one-year terms during FY 1996. By changing to one-year contract terms, HUD effectively reduced the annual budget authority needed from Congress to fund the subsidies while still maintaining the 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 2014 and the four preceding years. This is a decrease of $1 billion (0.1 percent) from the FY 2013 FHA Insurance-In-Force of $1,293 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
(Dollars in Billions)

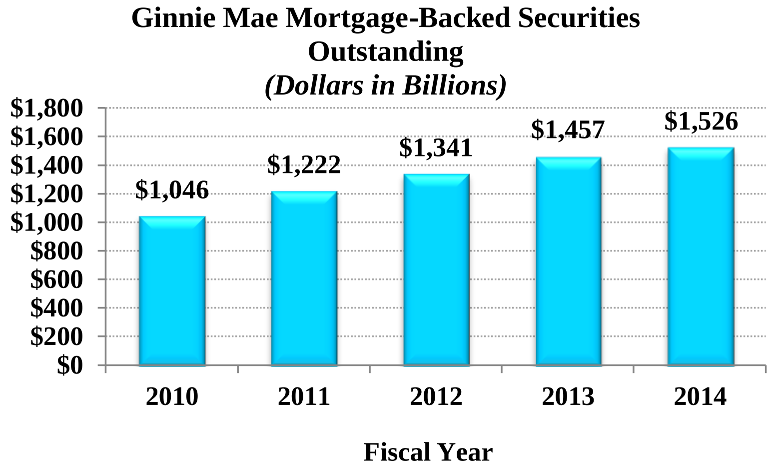


Ginnie Mae Guarantees

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, 2014 and 2013 were approximately $1,526.0 billion and $1,457.1 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, 2014 and 2013 were $98.0 billion and $118.1 billion, respectively.

The chart below presents Ginnie Mae MBS for FY 2014 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 2014 and 2013, Ginnie Mae issued a total of $114.0 billion and $99.0 billion, respectively, in its multi-class securities program. The estimated outstanding balance of multiclass securities in the total MBS securities balance at September 30, 2014 and 2013 were $487.0 billion and $468.0 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 2014 ANNUAL ASSURANCE STATEMENT

The Department of Housing and Urban Development's management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), Sections 2 and 4. HUD conducted its annual assessment of the effectiveness of internal control to support effective and efficient programmatic operations and compliance with applicable laws and regulations.

Based on the results of this evaluation, HUD can provide a qualified statement of assurance of its internal controls over the effectiveness and efficiency of operations (Section 2) as of September 30, 2014, with the exception of one material weakness in the area of Human Capital Management.

The Department conducted an assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A, of OMB Circular A-123. Due to the eight material weaknesses relating to financial reporting, the Department is unable to provide assurance that internal controls over financial reporting were operating effectively as of September 30, 2014. Additionally, HUD has two material weaknesses related to the Department's noncompliance with the Federal Financial Management Improvement Act (FFMIA) and Federal Information Security Management Act (FISMA) which does not conform to the objectives of FMFIA Section 4.

Nani A Coloretti for

Julián Castro February 27, 2015

Secretary

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 require 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 financial management systems conform to financial systems requirements.

HUD's 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 assurance statements are the basis for the Secretary's Statement of Assurance.

HUD can provide a qualified statement of assurance for internal controls over operations with the exception of one material weakness. However, HUD cannot provide assurance of its internal control over financial reporting (Section 2) and financial management systems (Section 4) of FMFIA, as of September 30, 2014. HUD is reporting four additional material weaknesses related to the internal controls over financial reporting for Ginnie Mae. The Office of Inspector General (OIG) was not able to express an opinion on Ginnie's Mae's financial statement due to their inability to obtain sufficient appropriate evidence. The Department is working aggressively on improvements to financial systems, policies, and processes to provide sufficient data and ensure that OIG will be able to express an opinion on their FY 2015 financial statements. A detailed listing for all material weaknesses are discussed further in the information below.

Section 2 — Internal Control over Operations

HUD's core responsibilities are centered on supporting homeownership, affordable housing, and livable communities. In the FY 2013 FMFIA Statement of Assurance, HUD reported a material weakness in its ***Human Capital Management*** environment. HUD continues to strengthen the controls within its Human Capital Management practices. In FY 2014, HUD developed a revised Human Capital Strategic Plan (HCSP). The plan addresses HUD's recent focus based on HUD's revised Human Capital Strategic goals. The revised HCSP was developed in accordance with Government Performance and Results Act (GPRA) requirements. This plan is HUD's human capital roadmap for accomplishing the Department's mission and implementing HUD's Strategic Plan goals.

In order to achieve the goal of "Operational Excellence", HUD developed a 3x5 Human Capital Strategy. The 3x5 approach will facilitate and strengthen the integration of HUD's Human Capital programs and services by providing a clear focus on goals and strategies. In addition, this strategy expresses HUD's responsibilities in three (3) functional areas; – 1) strategic consulting, 2) compliance expertise, and 3) transactional services which links them to five (5) priorities in human capital management programs – a) recruitment and hiring, b) leadership effectiveness, c) employee engagement, d) HUD transformation, and e) performance results. This integrated methodology will strengthen HUD's ability to perform analyses on its human capital programs. HUD plans to continue to make great strides in eliminating the identified deficiencies or weaknesses in FY 2015.

Section 2 — Internal Control over Financial Reporting

In FY 2013, a new significant deficiency was identified related to ***Accounting Accrual for Grant Expenses.*** HUD lacked policies and procedures that required the preparation and implementation of accrual estimates for liabilities. The absence of an accrual estimate for significant transactions may result in misstatements on HUD's consolidated financial statements due to underreporting of liabilities, expenses, and obligations. In FY 2014, HUD had significant accomplishments related to the grant accruals significant deficiency. HUD developed a departmental accrual policy, which included an algorithm to estimate accruals and suggested accrual methodologies. However, this significant deficiency was upgraded to a new material weakness because the Department lacked adequate procedures to validate accrual estimates. For FY 2015, HUD plans to continue to execute and improve the accrual reporting process by validating the estimates and making adjustments to the methodologies as necessary based upon programmatic data.

In FY 2014, a new issue related to the Federal Housing Administration's (FHA), ***Claims Notes and Legal Settlements Receivable,*** for not recording accruals for accounts receivable for legal settlements. FHA did not recognize receivables related to settlement fees and claims partially paid without corresponding promissory notes. Generally Acceptable Accounting Principles (GAAP) requires the recognition of receivables that represent claims for cash from settled legal claims at the point of legal settlement rather than when cash was received. This material weakness resulted because FHA could not provide promissory notes to support $1.5 billion net loans receivable balances. The $1.5 billion is made up of 57,164 partial claims for previously delinquent loans for which partial claims were paid by FHA to mortgagees as part of its loss mitigation efforts to bring these delinquent loans current. The promissory note contains the borrower's promise to repay the amount borrowed and established the existence of the loans receivable recorded by FHA. FHA's contractor responsible for processing and documenting the receipt of partial claim second notes and second mortgages was not keeping up with the workload, resulting in a backlog of unprocessed documents. Because of the backlog, FHA's note servicing system did not reflect documents received.

FHA has initiated steps to comply with OIG noted recommendations and is working with a new loan servicing contractor to immediately address the backlog of unprocessed documents and ensure that the SMART system accurately reflects the status of the second notes and second mortgages. FHA plans to draft a Mortgagee Letter to align policy on partial claim document delivery with FHA's regulatory requirements and initiate the billing process for any claims paid plus incentives where the lender did not provide the original note and security instrument within policy deadlines. The processing of the backlog is expected to take approximately 60 to 90 days, at which time, an accurate Missing Documents Report will be available to support the billing process.

The ***PIH Cash Management*** material weakness is related to HUD not complying with Department of the Treasury cash management regulations. The Department made a determination to implement a budget-based model for the Tenant-Based Renewal Account with the sole purpose of preventing additional requests to Congress for supplemental renewal funding. Prior to that, HUD was disbursing 1/12 of the renewal funding on a monthly basis which caused Net Restricted Assets (NRA) balances to accumulate over $1 billion. HUD began processing NRA reconciliations to monitor the accumulations. HUD worked on the notice and procedures in Calendar Year (CY) 2012, and began implementing cash management procedures that would transfer the NRA balances to HUD-held reserves in accordance with Treasury cash management requirements. Over the past several years, HUD spent considerable effort to reduce the accumulation and planned to reduce NRA amounts by adjusting Budget Authority (BA) disbursements to Public Housing Agencies (PHAs) closer to their actual need and transitioning unspent BA to HUD-held reserves. As a result of this effort, the outstanding NRA balance was significantly reduced. In FY 2014, HUD performed cash reconciliations for non-Moving to Work (MTW) PHAs only. HUD did not complete cash management reconciliations on accumulated MTW funds; thereby, allowing these PHAs to hold funds in excess of their immediate disbursing needs. Additionally, HUD cannot quantify the amount MTW PHAs are holding.

HUD's remaining corrective actions to implement are to; (1) reduce NRA amounts accumulated through September 2014 to December 2014 and (2) reinstitute cash management quarterly reconciliations for all MTW PHAs in FY 2015.

The ***first in, first out (FIFO) method*** material weakness is related to HUD's accounting of formula grant program disbursements not being in compliance with GAAP. This resulted in misstatements on HUD's financial statements. The financial management system used for disbursing funds for these programs, Integrated Disbursement Information System (IDIS), does not comply with the internal controls and Federal financial accounting standards, as required by the Federal Financial Management Improvement Act (FFMIA) because of its use of the FIFO method to account for and disburse formula grant obligations. HUD's use of the FIFO method within the IDIS system prevented HUD from properly accounting for its formula grant funds in accordance with GAAP. HUD developed a plan and started executing an IT project to eliminate the FIFO method of funds disbursement from IDIS. This project will undertake three main phases:

1. Eliminate the FIFO method of funds attribution for grants loaded into IDIS. (Started on September 1, 2014.)
2. Address changes required in program income and other receipt funds (loan income, recaptures) to support program specific needs where the receipt and use of these funds may span activities and grant years. (Planned Deployment in FY 2016; contingent upon funding.)
3. Address changes related to adjustments required to the disbursements to a specific commitment and to support the USSGL at the transaction level. (Planned Deployment no later than FY 2016.)

The FY 2014 material weakness titled ***Internal Control Weaknesses in Financial Reporting*** is related to an ineffective system of internal control over financial reporting processes at Ginnie Mae. This material weakness is associated with Ginnie Mae's 1) improper classification and presentation of financial information on its balance sheet, 2) non-reporting of escrows deposits held in trust by Ginnie Mae, 3) errors in the preparation of financial reports and 4) improper accounting and accrued interest earned on non-pooled loans. These deficiencies resulted in material misstatements in Ginnie Mae's financial statements.

The ***Asset Balances for non-pooled loans*** material weakness is related to Ginnie Mae's master-subservicers failing to adequately maintain sufficient records and transactional data for the loans to support the non-pooled loan asset balances reported in Ginnie Mae's financial statements. Ginnie Mae's master-subservicers' systems lack of handling loan level transaction accounting at the granular level along with the poor performance from the previous subservicers contributed to the OIG's inability to obtain sufficient evidence to express an opinion on fairness of the $6.6 billion non-pooled loan assets on the balance sheet.

Another Ginnie Mae material weakness related to insufficient support for the ***Mortgage-Backed Securities loss liability*** amount reported on the balance sheet. The amount reported as a line item on the balance sheet does not agree with the supporting documentation. OIG determined that this error occurred due to an oversight in Ginnie Mae's review and consolidation of estimated loss amounts. This error resulted in a misstatement of Ginnie Mae's liability balances.

The ***Financial Management Governance*** material weakness is related to deficiencies in HUD's financial management governance structure and internal controls over financial reporting processes. Specifically, a number of critical financial management senior leadership positions remained vacant which created a gap in HUD's financial management organizational structure. This structural gap increased the risk that weaknesses in HUD's financial management oversight and operational environment will occur. As a result, multiple deficiencies developed in the area of internal controls over financial reporting resulting in misstatements on HUD's financial statements and instances of noncompliance with laws and regulations. In FY 2014, HUD filled a number of critical financial management positions and awarded a contract to assess financial management processes throughout HUD.

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

The Federal Financial Management Improvement Act requires 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 U.S. Government Standard General Ledger (USSGL) at the transaction level. Additionally, Section 4 of FMFIA 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 OIG's assessment, HUD has determined its financial management systems are not substantially compliant with FFMIA. HUD's noncompliance with federal financial management systems requirements is related to the material weaknesses for the use of the FIFO method related to one grant management system and the Department's noncompliance with the Federal Information Security Management Act (FISMA).

HUD's financial management systems strategy is to integrate, strengthen and improve its financial management systems framework. This will be accomplished by using a Federal Shared Service Provider (SSP) to implement HUD's New Core Project (New Core). New Core will transform HUD's core financial management processes and systems to improve its strategic decision making.

In FY 2014, HUD changed the New Core implementation strategy. The revised strategy is a phased implementation approach to deploy functionality incrementally over at least four (4) releases in the first phase. This approach reduces risk and promotes successful implementation.

The New Core project aligns with HUD's management objectives as part of HUD's Strategic Plan for FY 2014-2018. The project will be implemented in a phased approach and will perform HUD's general ledger, payments, receipts, cost, funds management, and reporting functions. It will interface with other systems to uniformly support HUD's ability to manage funds and achieve program goals. In addition, it will have the capability to share relevant information with other government agencies, such as the U.S. Department of the Treasury (Treasury), and disseminate core financial management information to all internal and external stakeholders.

At the beginning of FY 2014, HUD had 40 financial management systems of which five (5) were identified as non-compliant with FFMIA. These systems are Facilities Integrated Resources Management System **(FIRMS)**, Integrated Disbursement and Information System **(IDIS)**, HUD Procurement System **(HPS),** Small Purchase System **(SPS)** and Ginnie Mae Financial

Accounting System **(GFAS).** During the fiscal year**,** GFAS became compliant. As a result, four of the five systems remain non-compliant.

FIRMS remained a non-compliant system because HUD experienced significant problems and delays in getting FIRMS operational. In order to resolve this problem, HUD implemented a two phased plan to bring HUD's Property Management System into full compliance with the Joint Financial Management Improvement Program (JFMIP) and other requirements. The plan entails awarding a contract to replace FIRMS.

HUD awarded a contract for the Federal Asset Management Enterprise System (FAMES), FIRMS replacement system, in September 2014. FAMES is expected to be fully operational by March 2015.

IDIS does not comply with the internal controls and Federal financial accounting standards, as required by FFMIA, because 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. Additionally, data coming from IDIS does not post to HUD's core financial system using proper USSGL accounts. In FY 2014, HUD began executing an IT project to eliminate the FIFO method of funds attribution within IDIS. The expected completion date for the FIFO elimination project is FY 2016.

The functionality of the **HPS** and **SPS** systems was replaced by the HUD Integrated Acquisition Management System (**HIAMS**). In FY 2014, HUD was still closing out actions in HPS and SPS. Most of HUD's users have been deactivated in the systems, with the exception of those that require access to perform the closeouts.

Additionally, HUD experienced some technical difficulties with migrating the data from HPS and SPS to HIAMS, which attributed to the delay in decommissioning these systems. HUD developed a solution regarding the technical issues to migrate the data into the HIAMS Enterprise Acquisition Reporting Tool. Once the data is migrated into the reporting tool, the decommissioning of HPS and SPS systems will begin. HUD plans to decommission these systems in FY 2015.

Ginnie Mae implemented a new module within **GFAS** to enable automated budgetary accounting. The module was operational at the end of FY 2014; thereby allowing GFAS to be compliant with FFMIA.

Other Assurances

American Recovery and Reinvestment Act (ARRA)

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.

Implementation of the Government Charge Card Abuse Prevention Act of 2012

The Department can provide reasonable assurance that the government issued charge cards are used for their intended purposes, and that appropriate policies and controls are in place to safeguard against fraud, waste, abuse and inappropriate charge card practices. HUD assessed its internal controls over the implementation of the Government Charge Card Abuse Prevention Act of 2012. The assessment included a review of: 1) government purchase card program policy guide; 2) FY 2013 annual purchase card review; 3) semi-annual violation report; 4) internal memorandums; and 5) the statistical purchase card reporting.

Disaster Relief Appropriations Act (Sandy Funds)

The Disaster Relief Appropriations Act (Sandy Funds) of 2013 provided the Department with additional funding to assist in the Hurricane Sandy recovery. During this year's OMB A-123 Appendix A review, HUD reviewed the Hurricane Sandy Relief Program. Key controls were evaluated to determine whether they were effectively designed, while operational testing sought to validate that well-designed controls were actually operating as intended. Based on the results of this evaluation, the Department can provide reasonable assurance that HUD established appropriate policies and controls to mitigate the risk of fraud and inappropriate spending practices and ensure that Sandy Funds are used for their intended purpose.

Memorandum for Improving Data Quality for USAspending.gov

In accordance with the Memorandum for Improving Data Quality for USAspending.gov, agencies are required to develop procedures to validate USAspending.gov and prime Federal award financial data; and provide a separate statement of assurance for the quality of USAspending.gov financial data. Based on the evaluation conducted during this year's OMB A-123 Appendix A review, HUD can provide reasonable assurance that: 1) the prime Federal award financial data reported on USAspending.gov is correct at the reported percentage of accuracy; 2) the agency has adequate internal controls over the underlying spending; and 3) the agency has implemented processes to ensure data completeness and accuracy on USAspending.gov by using control totals with financial statement data and comparing samples of financial data to actual award documents.

Federal Information Security Management Act (FISMA)

During HUD's FY 2014 annual evaluation of the Department's information security program, as required by FISMA, the OIG identified a significant deficiency in HUD's enterprise-wide Information Technology Security program and provided 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 2014.

In FY 2014, HUD updated the *HUD's IT Security Handbook* to comply with National Institute of Standards and Technology (NIST) 800-53 Rev 4; updated the continuous monitoring program by publishing the Information Security Continuous Monitoring Strategy and Program Ver. 2.0; updated the authority to operate (ATO) process to ensure proper authority to operate all HUD systems by publishing the Security Assessment and Authorization (SA&A) and Continuous Monitoring Guide Version 1.1; and held regular monthly meetings with Information System Security Officers (ISSOs) to provide training and information. Some meetings included a lecture from NIST representatives and training sessions by Department of Justice Cyber Security and Access Management support staff.

In addition, HUD awarded a contract to develop HUD's enterprise-wide Cybersecurity Framework in accordance with NIST guidelines. This contract provides the following:

a. Identify security standards and guidelines applicable across sectors of critical infrastructure;
b. Assist system owners and operators of critical infrastructure to identify, assess, and manage cyber risk;
c. Enable technical innovation and account for organizational differences;
d. Provide technical guidance that is technology neutral and enables critical infrastructure sectors to benefit from a competitive market for products and services;
e. Include guidance for measuring the performance of implementing the Cybersecurity Framework; and
f. Identify areas for improvement that should be addressed through future collaboration with particular sectors and standards-developing organizations.

For FY 2015, HUD plans to improve its enterprise-wide security measures by: (1) updating and improving its incident response handling procedures and ensuring program offices are properly informed of the process; (2) developing monitoring as an ongoing authorization process and; (3) adopting the NIST cybersecurity framework. The estimated completion date is March 2016.

HUD's Financial Management Systems Framework

In order to integrate, strengthen and improve its financial management systems framework, the Department will use a SSP to implement HUD's New Core to transform HUD's core financial management processes and systems to better support strategic decision making. The New Core system will ensure accountability, control of resources and produce accurate, consistent, timely and useful financial information while linking to program information.

The New Core project established a phased implementation approach during FY 2014 to deploy functionality incrementally over at least four (4) releases in the first phase. This approach reduces risk and promotes successful implementation.

1. Release 1: Travel and Relocation – Release date 10/1/2014
2. Release 2: web T&A – Release date 2/8/2015
3. Release 3: Financial Management & Procurement – Planned release date 10/1/2015
4. Release 4: Grant and Loan Accounting - Planned release date TBD

As part of Phase I of the project, New Core will implement an enterprise-wide financial system that will replace three Administrative systems: travel/relocation, time & attendance, and procurement. In subsequent phases, New Core will consolidate FHA's Subsidiary Ledger and Ginnie Mae's Financial Accounting System onto a single HUD platform.

This modernization effort is part of HUD's Transformation Initiative (TI) that will move the Department closer to: (1) resolving material weaknesses and significant deficiencies, (2) resolving major management challenges and program deficiencies, and (3) enhancing and supporting HUD's current and future business needs.

Completed Actions

1. Established a phased implementation approach to deploy functionality incrementally over at least four releases in the first phase. This approach reduces risk and promotes successful implementation.
2. Base-lined the scope and schedule for Releases 1 and 2, approved the scope and developed the schedule for Release 3.
3. Completed implementation activities for the first phase of the program. This included conducting requirements validation sessions, defining the scope and schedule for Releases 1 through 3, and conducting configuration and design activities for Releases 1 and 2.
4. Prepared to deploy Release 1 to migrate HUD's travel and relocation services, including base-lining requirements, conducting configuration and design activities for shared services applications, testing applications, training HUD's end users, and preparing for deployment. This migration includes transitioning to the SSP's Oracle Federal Financials for travel and relocation accounting.
5. Prepared to implement the Concur Government Edition (CGE) for HUD.
6. Completed an Authorization to Operate (ATO) statement and the related security review for the New Core Interface Solution (NCIS) in a condensed three month time frame to authorize the go-live of the New Core Phase 1, Release 1 on October 1, 2014.

7. Completed privacy documents Initial Privacy Assessment (IPA), Privacy Impact Assessment (PIA), System of Records Notices (SORN) for mLINQs, NCIS and Enterprise Data Warehouse (EDW).

Planned Activities

1. Implement Release 1 to migrate eTravel and mLINQS to SSP's Concur Government Edition for HUD's travel services. This migration includes transitioning to SSP's Oracle Federal Financials for travel and relocation expenses. This includes the deployment of the interface solution for Release 1.
2. Implement Release 2 to migrate to the SSP's web T&A system, which will provide the framework to implement managerial cost accounting practices.
3. Prepare to implement Release 3 to migrate to SSP's Oracle Federal Financials platform and PRISM system. This will include the migration of functionality for budgeting, accounting, and financial reporting, as well as deployment of an integrated procurement system.

Anti-Deficiency Act

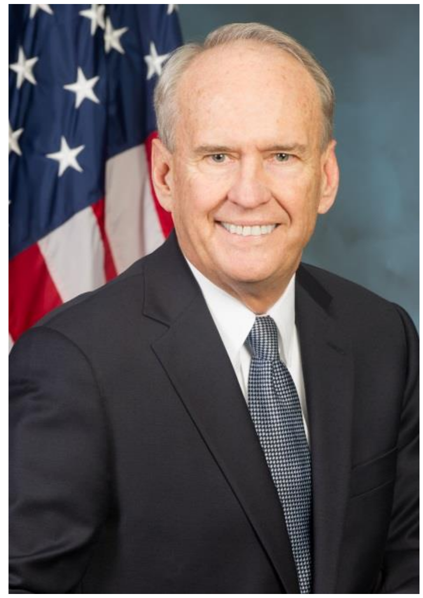
The Anti-Deficiency Act (ADA) is legislation enacted by the United States Congress to prevent the incurring of obligations or the making of expenditures (outlays) in excess of amounts available in appropriations or funds. HUD was previously cited for not substantially complying with the Anti-Deficiency Act. HUD has made progress in FY 2014 by forwarding old Anti-Deficiency Act (ADA) cases to the Office and Management and Budget (OMB) for review and approval.

Prompt Payment Act

The Prompt Payment Act (PPA) ensures that federal agencies pay vendors in a timely manner. PPA assesses late interest penalties against agencies that pay vendors after a payment due date. HUD complies with the Prompt Pay Act by executing processes and procedures that require vendors to be paid timely. Management monitors the effectiveness of processes and procedures to ensure the Department is in compliance. A monthly analysis is performed using Prompt Pay results to capture trends and/or patterns, and measures are implemented to maintain compliance. Prompt Pay Act reporting is submitted to OMB and Treasury in accordance with established guidelines.

Message from the Chief Financial Officer

February 27, 2015



In a fiscal year that commenced with a government shutdown and witnessed much change within HUD, the Office of the Chief Financial Officer (OCFO) has continued the effort to complete the New Core Project (New Core). New Core is a HUD initiative to replace the Department's aging financial systems through the use of a Federal Shared Services Provider. At the same time, OCFO has increased efforts to resolve audit deficiencies and taken actions to improve financial governance by filling a number of senior financial positions which fell vacant due to turnover, retirements, and funding shortfalls.

Update on the New Core Project

I want to share the progress achieved by the Department in working on New Core with HUD's Federal Shared Service Provider, the Administrative Resources Center (ARC) of the U.S. Department of Treasury's Bureau of Fiscal Service. HUD has established a phased implementation approach to deploy functionality incrementally over at least four releases in the first phase of New Core. Implementation activities completed in Fiscal Year (FY) 2014 included validation requirements sessions between HUD and ARC, definition of the scope and schedule for the first three releases of New Core, and configuration and design activities for Releases 1 and 2. The first release in Phase 1 of New Core has been completed with the transition of the Department's travel and relocation transactions to ARC.

Fiscal Year 2014 Financial Statement Audit

In the current fiscal year audit, the Department received a disclaimer of opinion on its FY 2014 financial statements from HUD's Office of Inspector General (OIG). The disclaimer is based on issues that existed in the Department which prevented the OIG from obtaining sufficient appropriate evidence to express an opinion on the financial statements. The Department is currently working aggressively on improvements to financial systems, processes, and policies to provide sufficient appropriate data and ensure that the OIG is able to express an opinion on HUD's FY 2015 financial statements.

In the HUD, FHA and Ginnie Mae financial statement audit reports, the OIG identified nine material weaknesses. In addition, during FY 2013 the Department self-identified 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 identified ten significant deficiencies and five instances in which HUD has not complied with certain provisions of laws and regulations. These material weaknesses, significant deficiencies and instances of non-compliance are serious and represent huge challenges in multiple areas. OCFO is working together with the ARC (HUD's shared service provider), Ginnie Mae, CPD, PIH, FHA and other Program Offices throughout the Department to implement new systems, processes, and policies. Significant resources, particularly on New Core and in improvement of accounting processes throughout HUD, are focused on the correction of these weaknesses and deficiencies. Given the magnitude of the systematic issues and long standing ingrained processes which need to be changed and corrected, this resolution effort is a major objective for the Department that will extend over the next three to five years.

Notable Events and Accomplishments in OCFO during FY 2014

- Resolved a material weakness cited in the FY 2013 audit on HUD's financial statement preparation and reporting process.
- Completed the first release in Phase 1 of New Core with the transition of the Department's travel and relocation transactions to ARC.
- Collaborated with CPD officials on a redesign of CPD's grants management system, the Integrated Disbursement and Information System (IDIS), to modify the system to comply with Federal financial management system requirements. An elimination in IDIS of the use of the non-compliant first in, first out (FIFO) method to disburse obligations will begin in FY 2015.
- Awarded a financial management review contract to the National Academy of Public Administration (NAPA), which addresses an audit finding.
- Developed accounting handbooks, policies and procedures on Accounts Receivable, Debt Collection, Grant Accruals, Purchase Card Expense Accruals, and Accruals for Goods and Services Received but Not Invoiced.
- Provided the Office of Management and Budget with extensive analysis to support a critical request for additional funding needed to fully fund a shortfall and address a lack of resources in the Section 236 Interest Reduction Payment (IRP) Program, established under the National Housing Act (Public Law 90-448) for the purpose of reducing rental payments for lower income families.

I would like to thank employees throughout the Department who contributed to these achievements.

Sincerely,

Brad Huther
Chief Financial Officer

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, 2014 and 2013, 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, 2014, and 2013. 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, 2014, and 2013.

The **Combined Statement of Budgetary Resources**, which presents the budgetary resources available to HUD during FY 2014 and 2013, the status of these resources at September 30, 2014, and 2013, and the outlay of budgetary resources for the years ended September 30, 2014, and 2013.

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

U.S. Department of Housing and Urban Development
Consolidated Balance Sheet
For the Period Ending September 30, 2014, and 2013
(Dollars in Millions)

	2014	2013 (Restated)
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 4)	$ 121,703	$ 135,596
Investments (Note 5)	6,529	1,825
Accounts Receivable Net (Note 6)	-	1
Other Assets (Note 11)	33	15
Total Intragovernmental Assets	128,265	137,437
Investments (Note 5)	41	56
Accounts Receivable, Net (Note 6)	1,901	180
Direct Loan and Loan Guarantees, Net (Note 7)	10,868	9,986
Other Non Credit Reform Loans (Note 8)	3,569	4,001
General Property Plant and Equipment, Net (Note 9)	297	351
PIH Prepayments (10)	423	552
Other Assets (Note 11)	48	378
TOTAL ASSETS	**$ 145,412**	**$ 152,941**
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 12)	16	17
Debt (Note 13)	27,661	26,078
Other Intragovernmental Liabilities (Notes 16)	1,802	4,660
Total Intragovernmental Liabilities	29,479	30,755
Accounts Payable (Note 12)	863	803
Accrued Grant Liabilities (Note 12)	1,501	2,213
Loan Guarantee Liability (Note 7)	31,779	39,306
Debt Held by the Public (Note 13)	8	20
Federal Employee and Veteran Benefits (Note 14)	74	77
Loss Reserves (Note 15)	735	700
Other Governmental Liabilities (Notes 16)	918	709
TOTAL LIABILITIES	**$ 65,357**	**$ 74,583**
Commitments and Contingencies (Note 17)	15	-
NET POSITION		
Unexpended Appropriations - Funds From Dedicated Collections (Note 19)	(224)	(215)
Unexpended Appropriations - Other Funds	56,442	59,995
Cumulative Results of Operations - Funds From Dedicated Collections (Note 19)	19,773	18,151
Cumulative Results of Operations - Other Funds	4,064	427
TOTAL NET POSITION - Funds From Dedicated Collections	19,549	17,936
TOTAL NET POSITION - All Other Funds	60,506	60,422
TOTAL NET POSITION	80,055	78,358
TOTAL LIABILITIES AND NET POSITION	**$ 145,412**	**$ 152,941**

The accompanying notes are an integral part of these statements.

U.S. Department of Housing and Urban Development
Consolidated Statement of Net Cost
For the Period Ending September 30, 2014, and 2013
(Dollars in Millions)

	2014	2013 (Restated)
COSTS		
Federal Housing Administration		
Gross Cost (Note 22)	$ (3,108)	$ (6,718)
Less: Earned Revenue	(2,181)	(2,680)
Net Program Costs	(5,289)	(9,398)
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	(5,289)	(9,398)
Government National Mortgage Association		
Gross Cost (Note 22)	(59)	602
Less: Earned Revenue	(1,543)	(1,225)
Net Program Costs	(1,602)	(623)
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	(1,602)	(623)
Section 8		
Gross Cost (Note 22)	28,772	28,690
Less: Earned Revenue	-	-
Net Program Costs	28,772	28,690
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	28,772	28,690
Low Rent Public Housing Loans and Grants		
Gross Cost (Note 22)	2,995	2,941
Less: Earned Revenue	-	-
Net Program Costs	2,995	2,941
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	2,995	2,941
Homeless Assistance Grants		
Gross Cost (Note 22)	1,881	1,915
Less: Earned Revenue	-	-
Net Program Costs	1,881	1,915
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	1,881	1,915
Housing for the Elderly and Disabled		
Gross Cost (Note 22)	1,196	1,161
Less: Earned Revenue	(178)	(192)
Net Program Costs	1,018	969
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	1,018	969
Community Development Block Grants		
Gross Cost (Note 22)	5,905	5,675
Less: Earned Revenue	-	-
Net Program Costs	5,905	5,675
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	5,905	5,675
HOME		
Gross Cost (Note 22)	1,064	1,407
Less: Earned Revenue	-	-
Net Program Costs	1,064	1,407
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	1,064	1,407
Other		
Gross Cost (Note 22)	6,504	6,620
Less: Earned Revenue	(40)	(34)
Net Program Costs	6,464	6,586
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	6,464	6,586
Costs Not Assigned to Programs	218	200
Earned Revenue Not Attributed to Programs	-	-
Consolidated		
Gross Cost (Note 22)	45,368	42,489
Less: Earned Revenue	(3,942)	(4,127)
NET COST OF OPERATIONS	**$ 41,426**	**$ 38,362**

The accompanying notes are an integral part of these statements.

U.S. Department of Housing and Urban Development
Consolidated Statement of Changes in Net Position
For the Period Ending September 30, 2014, and 2013
(Dollars in Millions)

	2014			2013 (Restated)		
	FUNDS FROM DEDICATED COLL.	**ALL OTHER FUNDS**	**CONSOLIDATED TOTAL**	**FUNDS FROM DEDICATED COLL.**	**ALL OTHER FUNDS**	**CONSOLIDATED TOTAL**
CUMULATIVE RESULTS OF OPERATIONS:						
Beginning of Period	$ 18,151	$ 426	$ 18,577	$ 17,525	$ (13,360)	$ 4,165
Adjustments:						
Corrections of Errors	-	(99)	(99)	-	(1)	(1)
Beginning Balances, As Adjusted	18,151	327	18,478	17,525	(13,361)	4,164
BUDGETARY FINANCING SOURCES:						
Appropriations Used	28	49,341	49,368	456	56,215	56,670
Non-exchange Revenue	1	-	1	1	-	1
Transfers In/Out Without Reimbursement	1	(1)	-	2	(2)	-
OTHER FINANCING SOURCES (NON-EXCHANGE):						
Transfers In/Out Without Reimbursement	(5)	5	-	(1)	(13)	(14)
Imputed Financing	1	78	79	1	76	77
Other	-	(2,663)	(2,663)	-	(3,959)	(3,959)
Total Financing Sources	26	46,760	46,785	459	52,317	52,776
Net Cost of Operations	1,596	(43,023)	(41,427)	167	(38,529)	(38,362)
Net Change	1,622	3,737	5,358	626	13,788	14,414
CUMULATIVE RESULTS OF OPERATIONS	**$ 19,773**	**$ 4,064**	**$ 23,836**	**$ 18,151**	**$ 427**	**$ 18,578**
UNEXPENDED APPROPRIATIONS:						
Beginning of Period	$ (215)	$ 59,995	$ 59,780	$ 240	$ 52,229	$ 52,469
Adjustments:						
Corrections of Errors	21	22	43	-	(1,151)	(1,151)
Beginning Balances, As Adjusted	(194)	60,017	59,823	240	51,078	51,318
BUDGETARY FINANCING SOURCES:						
Appropriations Received	-	46,103	46,103	1	68,574	68,575
Other Adjustments	(2)	(337)	(339)	-	(3,442)	(3,442)
Appropriations Used	(28)	(49,341)	(49,369)	(456)	(56,215)	(56,671)
Total Budgetary Financing Sources	(30)	(3,575)	(3,605)	(455)	8,917	8,462
UNEXPENDED APPROPRIATIONS	**(224)**	**56,442**	**56,218**	**(215)**	**59,995**	**59,780**
NET POSITION	**$ 19,549**	**$ 60,506**	**$ 80,054**	**$ 17,936**	**$ 60,422**	**$ 78,358**

The accompanying notes are an integral part of these statements.

U.S. Department of Housing and Urban Development
Combined Statement of Budgetary Resources
For the Period Ending September 30, 2014, and 2013
(Dollars in Millions)

	2014		2013 (Restated)	
	Budgetary	NonBudgetary Credit Program Financing Accounts	Budgetary	NonBudgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated Balance Brought Foward, October	$ 28,153	$ 60,416	$ 17,483	$ 41,267
Adjustments to Unobligated Balance, Brought Forward, October 1	-	-	3	(3)
Unobligated balance brought forward, October 1, adjusted	28,153	60,416	17,486	41,264
Recoveries of prior year unpaid obligations	643	781	627	404
Other changes in unobligated balance	(611)	(8)	(496)	-
Unobligated balance from prior year budget authority, net	28,185	61,189	17,617	41,668
Appropriations (discretionary and mandatory)	45,790	-	65,002	-
Borrowing Authority (discretionary and mandatory)	-	8,770	-	19,194
Spending Authority from offsetting collections	14,305	27,683	24,315	59,366
Total Budgetary Resources	**$ 88,280**	**$ 97,642**	**$ 106,934**	**$ 120,228**
Status of Budgetary Resources:				
Obligations Incurred (Note 31)				
Direct	53,277	45,866	78,117	56,673
Reimbursable	270	2,018	449	3,139
Subtotal	53,547	47,884	78,566	59,812
Unobligated Balances				
Apportioned	16,096	13,580	17,581	25,128
Unapportioned	18,637	36,178	10,787	35,288
Unobligated balance, end of year	34,733	49,758	28,368	60,416
Total Status of Budgetary Resources	**$ 88,280**	**$ 97,642**	**$ 106,934**	**$ 120,228**
Change in Obligated Balance				
Unpaid Obligations:				
Unpaid obligations, brought forward, Oct 1	44,234	2,691	49,196	2,634
Adjustments to unpaid obligations, start of year (+ or -) (Note 28)	10	-	(4)	-
Obligations Incurred	53,547	47,884	78,566	59,812
Outlays, (gross) (-)	(55,950)	(47,395)	(82,897)	(59,352)
Actual Transfers, unpaid obligations (net) (+ or -)	(114)	115	-	-
Recoveries of prior year unpaid obligations (-)	(643)	(781)	(627)	(404)
Unpaid obligations, end of year (gross)	41,084	2,514	44,234	2,690
Uncollected Payments:				
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	(17)	(66)	(16)	(74)
Change in uncollected customer payments, Fed sources (+ or -)	5	13	(1)	8
Uncollected payments, Fed sources, end of year (-)	(12)	(53)	(17)	(66)
Obligated balance, start of year (+ or -)	**$ 44,228**	**$ 2,625**	**$ 49,176**	**$ 2,560**
Obligated balance, end of year (net)	**$ 41,072**	**$ 2,461**	**$ 44,217**	**$ 2,625**
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	60,095	36,453	89,318	78,560
Actual offsetting collections (discretionary and mandatory) (-)	(14,706)	(34,876)	(24,826)	(64,054)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	5	12	(1)	9
Budget Authority, net (discretionary and mandatory)	**$ 45,394**	**$ 1,589**	**$ 64,491**	**$ 14,515**
Outlays, gross (discretionary and mandatory)	55,950	47,395	82,897	59,352
Actual offsetting collections (discretionary and mandatory) (-)	(14,706)	(34,877)	(24,826)	(64,054)
Outlays, net (discretionary and mandatory)	41,244	12,518	58,071	(4,702)
Distributed offsetting receipts	(2,719)	-	(1,495)	-
Agency Outlays, net (discretionary and mandatory)	**$ 38,525**	**$ 12,518**	**$ 56,576**	**$ (4,702)**

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

September 30, 2014 and 2013

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 grants provide funds for the Emergency Solutions Grant and Continuum of Care which award funds through formula and competitive processes.

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) program annually provides funds to more than 1200 metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services. Between FY 2010 and FY 2015, annual CDBG appropriations have ranged between $2.9 billion and $3.9 billion. Congress also uses the CDBG framework as a vehicle to deliver funding to states and local governments for other purposes. One example is the use of CDBG for long-term disaster recovery, and Congress has appropriated more than $47 billion in supplemental funding since 2001 to address long-term recovery in the wake of the attacks of September 11, 2001, Hurricanes Katrina, Rita, and Wilma in 2005, Hurricanes Ike and Gustav and Midwest flooding in 2008, and Hurricane Sandy in 2012. Most CDBG disaster recovery funding is available until expended with the exception of the Hurricane Sandy funding which must be obligated by the end of FY 2017. A second example was the establishment of the Neighborhood Stabilization Program (NSP) in 2008 and subsequent appropriation of almost $7 billion to assist states and local governments in addressing the effects of abandoned and blighted housing arising from the housing crisis. Virtually all NSP funding has been expended and grantees have generated more than $1.3 billion in program income to carry out additional NSP-eligible activities.

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 14 percent of HUD's consolidated revenues and financing sources for FY 2014 and 9 percent of HUD's consolidated revenues and financing sources for FY 2013.

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 2014 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 2014 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.

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 and Indian Housing Authorities (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 2013 and FY 2014.

In response to the OIG finding, HUD implemented a grant accrual policy on September 4, 2014, and restated its FY 2013 financial statements. The Department continues to refine its methodologies and the underlying assumptions used by program offices to develop the estimates. Described below are the methodologies used by our major program offices which are CPD, PIH and the Office of Housing.

- CPD developed a statistical model for its grant programs based on recent historical data in the Integrated Disbursement Information System (IDIS). Utilizing activity type, funding and disbursement information in IDIS, CPD was able to extrapolate the relationship between accrued expenses over a specified period of time and when the services are generally billed to the government by the grantees.

- PIH administrative programs use disbursement data from the Department's Electronic Line of Credit Control Systems (ELOCCS) and evaluated it for reasonableness based on unauditied data using the Financial Subsystem for Public Housing (FASS-PIH).

- The Office of Housing, similar to the PIH administered programs, utilizes disbursement data recorded in ELOCCS over a 12 month period and assumes a 30 day processing time from when the entity incurs eligible expenses and the associated drawdown of funds by the grantee occurs.

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 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 disbursal 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 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.

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, 2014, and 2013, were as follows (dollars in millions):

Description	2014			2013		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury (Note 4)	$ 121,668	$ 35	$ 121,703	$ 133,310	$ 2,286	$ 135,596
Investments (Note 5)	6,529	-	6,529	1,822	3	1,825
Accounts Receivable, Net (Note 6)	-	-	-	1	-	1
Other Assets (Note 11)	33	-	33	15	-	15
Total Intragovernmental Assets	$ 128,230	$ 35	$ 128,265	$ 135,148	$ 2,289	$ 137,437
Investments (Note 5)	41	-	41	56	-	56
Accounts Receivable, Net (Note 6)	1,856	45	1,901	159	21	180
Loan Receivables and Related Foreclosed Property, Net (Note 7)	10,868	-	10,868	9,986	-	9,986
Other Non-Credit Reform Loans Receivable, Net (Note 8)	3,569	-	3,569	4,001	-	4,001
General Property, Plant and Equipment, Net (Note 9)	297	-	297	351	-	351
PIH Prepayments (Note 10)	423	-	423	552	-	552
Other Assets (Note 11)	7	41	48	331	47	378
Total Assets	**$ 145,291**	**$ 121**	**$ 145,412**	**$ 150,584**	**$ 2,357**	**$ 152,941**

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, 2014, and 2013, were as follows (dollars in millions):

Description	2014	2013
Revolving Funds	$ 62,861	$ 64,404
Appropriated Funds	57,780	61,889
Trust Funds	13	7,066
Other	1,049	2,237
Total - Fund Balance	**$ 121,703**	**$ 135,596**

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.

HUD's fund balances with the U.S. Treasury as reflected in the entity's general ledger as of September 30, 2014, and 2013, were as follows (dollars in millions):

Status of Resources - 2014

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 13,579	$ 40,142	$ 2,816	$ (8)	$ 56,529	$ 50,158	$ 6,371	$ 56,529
Ginnie Mae	4	12,777	546	(2)	13,325	13,175	150	13,325
Section 8 Rental Assistance	687	49	8,865	-	9,601	9,601	-	9,601
PIH Loans and Grants	116	33	4,871	-	5,020	5,020	-	5,020
Homeless Assistance Grants	2,039	422	2,605	-	5,066	5,066	-	5,066
Section 202/811	324	246	2,303	-	2,873	2,873	-	2,873
CDBG	12,158	19	12,861	-	25,038	25,038	-	25,038
Home	177	23	3,568	-	3,768	3,768	-	3,768
Section 235/236	34	7	1,216	-	1,257	1,072	185	1,257
All Other	557	1,096	3,948	(54)	5,547	5,547	12	5,559
Total	**$ 29,675**	**$ 54,814**	**$ 43,599**	**$ (64)**	**$ 128,024**	**$ 121,318**	**$ 6,718**	**$ 128,036**

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	$ 13,579	$ 33,771	$ 2,816	$ (8)	50,158	$ 74	$ 50,232
Ginnie Mae	4	12,627	546	(2)	13,175	295	13,470
Section 8 Rental Assistance	687	49	8,865	-	9,601	-	9,601
PIH Loans and Grants	116	33	4,871	-	5,020	-	5,020
Homeless Assistance Grants	2,039	422	2,605	-	5,066	-	5,066
Section 202/811	324	246	2,303	-	2,873	-	2,873
CDBG	12,158	19	12,861	-	25,038	-	25,038
Home	177	23	3,568	-	3,768	-	3,768
Section 235/236	19	5	1,048	-	1,072	-	1,072
All Other	557	1,096	3,948	(54)	5,547	16	5,563
Total	**$ 29,660**	**$ 48,291**	**$ 43,431**	**$ (64)**	**$ 121,318**	**$ 385**	**$ 121,703**

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	$ -	$ 6,371	$ -	$ -	$ -	$ 6,371	$ -
Ginnie Mae	-	150	-	-	-	150	-
Section 8 Rental Assistance	-	-	-	-	-	-	-
PIH Loans and Grants	-	-	-	-	-	-	-
Section 202/811	-	-	-	-	-	-	-
Section 235/236	15	2	168	-	185	-	-
All Other	-	12	-	-	-	-	12
Total	**$ 15**	**$ 6,535**	**$ 168**	**$ -**	**$ 185**	**$ 6,521**	**$ 12**

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 74
Ginnie Mae	$ 295
Section 8 Rental Assistance	-
All Other	16
Total	**$ 385**

Breakdown of All Other

Description	Fund Balance
All Other HUD suspense/deposit funds	$ 16
	-
Total	**$ 16**

Status of Resources - 2013

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 25,075	$ 33,617	$ 3,170	$ (3)	$ 61,859	$ 61,856	$ 3	$ 61,859
Ginnie Mae	2	10,953	480	(19)	11,416	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	4,289	(61)	5,677	5,665	12	5,677
Total	**$ 42,711**	**$ 46,087**	**$ 46,917**	**$ (83)**	**$ 135,632**	**$ 133,356**	**$ 482**	**$ 133,838**

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	$ 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	4,289	(61)	5,665	604	6,269
Total	**$ 42,687**	**$ 44,270**	**$ 46,482**	**$ (83)**	**$ 133,356**	**$ 2,240**	**$ 135,596**

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	$ -	$ 3	$ -	$ -	$ -	$ 3	$ -
Ginnie Mae	-	1,794	-	-	-	1,794	-
Section 8 Rental Assistance	-	-	-	-	-	-	-
PIH Loans and Grants	-	-	-	-	-	-	-
Section 202/811	-	-	-	-	-	-	-
Section 235/236	24	8	435	-	467	-	-
All Other	-	12	-	-	-	-	12
Total	**$ 24**	**$ 1,817**	**$ 435**	**$ -**	**$ 467**	**$ 1,797**	**$ 12**

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ 1,625
Section 8 Rental Assistance	11
All Other	604
Total	**$ 2,240**

Breakdown of All Other

Description	Fund Balance
Other Repayments of Capital Investments and Recoveries and Manufactured Housing Fees Trust Fund	$ 545
Negative Subsidies and Downward Restimates of Subsidies	59
Total	**$ 604**

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 established by the U.S. Treasury as of September 30, 2014, were 0.01 percent. During FY 2013, interest rates ranged from 1.88 percent to 2.00 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2014, and 2013, were as follows (dollars in millions):

	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
FY 2014	$ 6,521	$ 1	$ 7	$ 6,529	$ 6,530
FY 2013	$ 1,816	$ (1)	$ 10	$ 1,825	$ 1,868

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 Risk Sharing Debentures as of September 30, 2014, and 2013, (dollars in millions):

	Beginning Balance	New Acquisitions	Share of Earnings or Losses	Return of Investment	Redeemed	Ending Balance
2014						
601 Program	$ 56	$ -	$ -	$ -	$ (15)	$ 41
Risk Sharing Debentures	-	-	-	-	-	-
Total	**$ 56**	**$ -**	**$ -**	**$ -**	**$ (15)**	**$ 41**
2013						
601 Program	$ -	$ -	$ -	$ -	$ -	$ -
Risk Sharing Debentures	57	1	-	-	(2)	56
Total	**$ 57**	**$ 1**	**$ -**	**$ -**	**$ (2)**	**$ 56**

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.

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, 2014, and 2013, HUD was due $15 million and $17 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 following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2014, and 2013, (dollars in millions):

	2014			2013		
Description	Gross Accounts Receivable	Allowance for Loss	Total, Net	Gross Accounts Receivable	Allowance for Loss	Total, Net
Intragovernmental	$ -	$ -	$ -	$ 1	$ -	$ 1
Public						
Sustained Audit Costs	$ 64	$ -	$ 64	$ 10	$ -	$ 10
Bond Refundings	15	-	15	17	-	17
Section 8 Settlements	4	1	5	9	-	9
Section 236 Excess Rental Income	5	(1)	4	6	(2)	4
Other Receivables:	-					
FHA	2,328	(868)	1,460	109	(96)	13
Ginnie Mae	692	(360)	332	121	-	121
Other Receivables	24	(3)	21	8	(2)	6
Total Accounts Receivable	**$ 3,132**	**$ (1,231)**	**$ 1,901**	**$ 281**	**$ (100)**	**$ 181**

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.

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 2014 and FY 2013:

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

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

2014

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans, Net
FHA					
a) MMI/CHMI Direct Loan Program	$ -	$ -	$ (6)	$ -	(6)
b) GI/SRI Direct Loan Program	14	12	(7)	-	19
Housing for the Elderly and Disabled	1,778	19	(10)	-	1,787
All Other					
a) CPD Revolving Fund	5	-	(5)	2	2
b) Flexible Subsidy Fund	451	82	(32)	-	501
Total	**$ 2,248**	**$ 113**	**$ (60)**	**$ 2**	**$ 2,303**

2013

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans, Net
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**

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

Direct Loan Programs	2014 Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
All Other					
a) Green Retrofit Program	$ 70	$ 1	$ (66)	$ -	$ 5
b) Emergency Homeowners' Loan Program	82	-	(81)	-	1
c) EHLP Receipt Account	39	-	-	-	39
Total	**$ 191**	**$ 1**	**$ (147)**	**$ -**	**$ 45**

Direct Loan Programs	2013 Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
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**

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

Direct Loan Programs	Current Year	Prior Year
All Other		
a) Green Retrofit Program	$ -	$ -
b) Emergency Homeowners' Loan Program	5	19
Total	**$ 5**	**$ 19**

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

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

Direct Loan Programs	2014 Interest Differential	Defaults	Fees and Other Collections	Other	Total
All Other					
a) Green Retrofit Program	$ -	$ -	$ -	$ -	$ -
b) Emergency Homeowners' Loan Program	-	-	-	5	5
Total	**$ -**	**$ -**	**$ -**	**$ 5**	**$ 5**

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

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

	2014			
Direct Loan Programs	**Total Modification**	**Interest Rate Re-estimates**	**Technical Re-stimates**	**Total Re-estimates**
All Other				
a) Green Retrofit Program	$ -	$ -	$ -	$ -
b) Emergency Homeowners' Loan Program	-	-	-	-
Total	**$ -**	**$ -**	**$ -**	**$ -**

	2013			
Direct Loan Programs	**Total Modification**	**Interest Rate Re-estimates**	**Technical Re-stimates**	**Total Re-estimates**
All Other				
a) Green Retrofit Program	$ -	$ -	$ -	$ -
b) Emergency Homeowners' Loan Program	-	-	-	-
Total	**$ -**	**$ -**	**$ -**	**$ -**

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

Direct Loan Programs	**Current Year**	**Prior Year**
All Other		
a) Green Retrofit Program	$ -	$ -
b) Emergency Homeowners' Loan Program	5	18
Total	**$ 5**	**$ 18**

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

Budget Subsidy Rates for Direct Loans

	2014				
Direct Loan Programs	**Interest Differential**	**Defaults**	**Fees and Other Collections**	**Other**	**Total**
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%

	2013				
Direct Loan Programs	**Interest Differential**	**Defaults**	**Fees and Other Collections**	**Other**	**Total**
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):

Beginning Balance, Changes, and Ending Balance	FY 2014	FY 2013
Beginning balance of the subsidy cost allowance	$ 151	$ 137
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	5	18
Total of the above subsidy expense components	5	18
Adjustments:		
a) Loan modifications	-	-
b) Fees received	-	-
c) Foreclosed properties acquired	-	-
d) Loans written off	(5)	(5)
e) Subsidy allowance amortization	1	1
f) Other	-	-
Ending balance of the subsidy cost allowance before re-estimates	152	151
Add or subtract subsidy re-estimates by component:		
a) Interest rate re-estimate	(5)	-
b) Technical/default re-estimate	-	-
Total of the above re-estimate components	(5)	-
Ending balance of the subsidy cost allowance	**$ 147**	**$ 151**

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

2014

	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) Single Family	$ 21	$ -	$ (13)	$ 20	$ 28
b) Multi Family	2,078	231	(857)	1	1,453
c) HECM	5	2	(2)	(2)	3
Total	**$ 2,104**	**$ 233**	**$ (872)**	**$ 19**	**$ 1,484**

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) Single Family	$ 18	$ -	$ (33)	$ 30	$ 15
b) Multi Family	2,225	228	(935)	1	1,519
c) HECM	5	2	(2)	7	12
Total	**$ 2,248**	**$ 230**	**$ (970)**	**$ 38**	**$ 1,546**

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

	2014				
	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) Single Family	$ 5,423	$ 1	$ (4,332)	$ 2,510	$ 3,602
b) Multi Family	818	-	(319)	1	500
c) HECM	3,506	1,563	(2,246)	85	2,908
All Other	-	-	-	-	-
a) Indian Housing Loan Guarantee	-	-	-	26	26
b) Native Hawaiian Housing Loan Guarantee	-	-	-	1	1
Total	**$ 9,747**	**$ 1,564**	**$ (6,897)**	**$ 2,623**	**$ 7,037**

	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) Single Family	$ 3,023	$ 10	$ (4,875)	$ 4,651	$ 2,809
b) Multi Family	619	-	(212)	1	408
c) HECM	2,568	1,106	(1,243)	69	2,500
All Other					
a) Indian Housing Loan Guarantee	-	-	-	30	30
b) Native Hawaiian Housing Loan Guarantee	-	-	-	1	1
Total	**$ 6,210**	**$ 1,116**	**$ (6,330)**	**$ 4,752**	**$ 5,748**

	2014	**2013**
Total Credit Program Receivables and Related Foreclosed Property, Net	$10,868	$9,986

J. Guaranteed Loans Outstanding (dollars in millions):

J1. Guaranteed Loans Outstanding (dollars in millions):

	2014	
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 1,168,919	$ 1,075,208
b) GI/SRI Funds	121,597	110,436
c) H4H Progam	109	104
All Other	6,338	6,333
Total	**$ 1,296,963**	**$ 1,192,081**

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

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

Loan Guarantee Programs	2014 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximun Potential Liability
FHA Programs	$ 13,473	$ 105,523	$ 149,885

Loan Guarantee Programs	2013 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximun Potential Liability
FHA Programs	$ 14,671	$ 100,869	$ 145,918

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

Loan Guarantee Programs	2014 Outstanding Principal, Guaranteed Loans, Face Value	2014 Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 135,235	$ 133,955
b) GI/SRI Funds	14,227	14,147
c) H4H Program	-	-
All Other	656	656
Total	**$ 150,118**	**$ 148,758**

Loan Guarantee Programs	2013 Outstanding Principal, Guaranteed Loans, Face Value	2013 Amount of Outstanding Principal Guaranteed
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**

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

Loan Guarantee Programs	2014 Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	2014 Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	2014 Total Liabilities For Loan Guarantees
FHA Programs	$ 9	$ 31,494	$ 31,503
All Other	-	276	276
Total	**$ 9**	**$ 31,770**	**$ 31,779**

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

L. Subsidy Expense for Post-1991 Guarantees:

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

Loan Guarantee Programs	2014 Endorsement Amount	2014 Default Component	2014 Fees Component	2014 Other Component	2014 Subsidy Amount
FHA					
a) MMI/CMHI Funds, Excluding HECM	$ 135,235	$ 3,953	$ (13,747)	$ -	$ (9,794)
b) MMI/CMHI Funds, HECM	13,473	878	(934)	-	(56)
c) GI/SRI Funds	14,227	263	(871)	-	(608)
d) H4H Program	-	-	-	-	-
All Other	-	7	-	-	7
Total	**$ 162,935**	**$ 5,101**	**$ (15,552)**	**$ -**	**$ (10,451)**

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

Loan Guarantee Programs	2013 Endorsement Amount	2013 Default Component	2013 Fees Component	2013 Other Component	2013 Subsidy Amount
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)**

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

	2014			
Loan Guarantee Programs	**Total Modifications**	**Interest Rate Re-estimates**	**Technical Re-estimates**	**Total Re-estimates**
FHA				
a) MMI/CMHI Funds	$ -	$ -	$ 3,380	$ 3,380
b) GI/SRI Funds	-	-	544	544
All Other	-	-	94	94
Total	**$ -**	**$ -**	**$ 4,018**	**$ 4,018**

	2013			
Loan Guarantee Programs	**Total Modifications**	**Interest Rate Re-estimates**	**Technical Re-estimates**	**Total Re-estimates**
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**

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

Loan Guarantee Programs	**Current Year**	**Prior Year**
FHA		
a) MMI/CMHI Funds	$ (6,470)	$ (7,582)
b) GI/SRI Funds	(64)	(2,356)
c) H4H Program	-	-
All Other	$ 101	$ 11
Total	**$ (6,433)**	**$ (9,927)**

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

Budget Subsidy Rates for Loan Guarantees for FY 2014 Cohorts

Loan Guarantee Program	**Default**	**Fees and Other Collections**	**Other**	**Total**
FHA Programs				
MMI/CMHI				
Single Family - Forward	2.9%	(10.2%)		(7.3%)
Single Family - HECM	6.5%	(6.9%)		(0.4%)
Single Family - Refinancing	11.4%	(11.4%)	0.0%	0.0%
Multi Family - Section 213	0.0%	0.0%		0.0%
GI/SRI				
Multifamily				
Section 221(d)(4)	2.5%	(6.1%)		(3.6%)
Section 207/223(f)	0.4%	(4.6%)		(4.2%)
Section 223(a)(7)	0.4%	(4.6%)		(4.2%)
Section 232	2.8%	(6.8%)		(4.0%)
Section 242	3.2%	(7.3%)		(4.1%)
H4H				
Single Family - Section 257				0.0%
All Other Programs				
CDBG, Section 108(b)	2.6%			2.6%
Loan Guarantee Recovery	50.0%			50.0%
Indian Housing (weighted average)	0.5%			0.5%
Native Hawaiian Housing	0.1%			0.1%
Title VI Indian Housing	12.1%			12.1%

Budget Subsidy Rates for Loan Guarantees for FY 2013 Cohorts

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
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%			1.4%
Native Hawaiian Housing	0.5%			0.5%
Title VI Indian Housing	10.9%			10.9%

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

Beginning Balance, Changes, and Ending Balance	2014	2013
Beginning balance of the loan guarantee liability	$ 41,638	$ 55,144
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	-	-
(b) Default costs (net of recoveries)	5,101	8,256
(c) Fees and other collections	(15,552)	(26,593)
(d) Othe subsidy costs	-	(7)
Total of the above subsidy expense components	$ (10,451)	$ (18,344)
Adjustments:		
(a) Loan guarantee modifications	-	-
(b) Fees Received	12,233	12,029
(c) Interest supplemental paid	-	-
(d) Foreclosed property and loans acquired	11,871	11,835
(e) Claim payments to lenders	(27,960)	(29,417)
(f) Interest accumulation on the liability balance	1,165	1,687
(g) Other	524	(27)
Ending balance of the subsidy cost allowance before re-estimates	$ 29,020	$ 32,907
Add or Subtract subsidy re-estimates by component:		
(a) Interest rate re-estimate	-	-
(b) Technical/default re-estimate	5,387	1,316
(c) Adjustment of prior years credit subsidy re-estimates	(658)	7,414
Total of the above re-estimate components	4,729	8,730
Ending balance of the subsidy cost allowance	**$ 33,749**	**$ 41,637**
Less: unrealized Ginnie Mae claims from defaulted loans	$ (1,970)	$ (2,332)
Ending balance of the subsidy cost allowance	**$ 31,779**	**$ 39,305**

O. Administrative Expenses (dollars in millions):

Loan Guarantee Program	2014	2013
FHA	$ 576	$ 647
All Other	-	-
Total	**$ 576**	**$ 647**

Note 8: Other Non-Credit Reform Loans

The following shows HUD's Other Non-Credit Reform Loans Receivable as of September 30, 2014 and September 30, 2013, (dollars in millions):

	2014		
Description	**Ginnie Mae Reported Balances**	**Allowance for Loan Losess Due to Payment of Probable Claims by FHA**	**Value of Assets Related to Loans**
Mortgage Loans Held for Investment	$ 4,844	$ (1,747)	$ 3,097
Advances Against Defaulted Mortgage-Backed Security Pools, net	82	-	82
Properties Held for Sale, net	14	-	14
Foreclosed Property	577	(204)	373
Short Sale Claims Receivable	22	(19)	3
Total	**$ 5,539**	**$ (1,970)**	**$ 3,569**

	2013		
Description	**Ginnie Mae Reported Balances**	**Allowance for Loan Losess Due to Payment of Probable Claims by FHA**	**Value of Assets Related to Loans**
Mortgage Loans Held for Investment	$ 5,668	$ (2,332)	$ 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	**$ 6,333**	**$ (2,332)**	**$ 4,001**

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. Below is a description of each type of asset recorded by Ginnie Mae.

Mortgage Loans Held for Investment

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. 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. Mortgage loans HFI, net as of September 30, 2014, and 2013, was $4,844 billion and $3,336 billion, respectively based on probable claims paid by FHA and recognized as an elimination in the Department's financial statements.

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 discussed above. 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 $82 million in FY 2014 and $99 million in FY 2013.

Properties Held for Sale, Net

Properties held for sale represent assets that Ginnie Mae has received the title of the underlying collateral (e.g. completely foreclosed upon and repossessed) and intends to sell the collateral. For instances in which Ginnie Mae does not convey the property to the insuring agency, Ginnie Mae holds the title until the property is sold. As the properties are available for immediate sale in their current condition and are actively marketed for sale. The Properties held for sale are reported at the lower of the carrying amount or fair value less estimated cost to sell. The properties are appraised by independent entities on a regular basis throughout the year. Ginnie Mae expects sale of the property to occur prior to one year from the date of the foreclosure. As a result, Ginnie Mae does not depreciate these assets. Ginnie Mae records an allowance to account for potential sale costs including maintenance and miscellaneous expenses, along with a loss percentage based on historical data, which includes declines in the fair value of foreclosed properties. Properties Held for Sale, net, as of September 30, 2014 and 2013 was $14 and $23 million, 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, 2014, was $577 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, 2014, and 2013, was $22 and $62 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 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, 2014, and September 30, 2013, (dollars in millions):

Description	2014			2013		
	Cost	Accumulated Depreciation and Amortization	Book Value	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	$ 3	$ -	$ 3	$ 3	$ (1)	$ 2
Leasehold Improvements	-	-	-	-	-	-
Internal Use Software	166	(132)	34	186	(158)	28
Internal Use Software in Development	260	-	260	321	-	321
Total	**$ 429**	**$ (132)**	**$ 297**	**$ 510**	**$ (159)**	**$ 351**

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. NRA balances represent disbursements to PHAs that are in excess of their expenses. PHAs can use NRA to cover any valid HAP expenses. Since the recognization of NRA in the FY 2013 financial statements, approximately $1 billion has either been transitioned to HUD project reserves or spent by the PHAs on program expenses. PIH has estimated NRA balances of $423 million and $552 million for FY 2014 and FY 2013 respectively.

Note 11: Other Assets

The following shows HUD's Other Assets as of September 30, 2014, and September 30, 2013, (dollars in millions):

Description	2014				
	FHA	Ginnie Mae	Section 8	All Other	Total
Intragovernmental Assets:					
Other Assets	$ 1	$ -	$ 2	$ 30	$ 33
Total Intragovernmental Assets	**1**	**-**	**2**	**30**	**33**
Mortgagor Reserves for Replacement - Cash	$ 41	$ -	$ -	$ -	$ 41
Other Assets	6	-	-	1	7
Total	**$ 48**	**$ -**	**$ 2**	**$ 31**	**$ 81**

Description	2013				
	FHA	Ginnie Mae	Section 8	All Other	Total
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**

Note 12: Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2014, and 2013, (dollars in millions):

Description	2014			2013		
	Covered	Not-Covered	Total	Covered	Not-Covered	Total
Intragovernmental						
Accounts Payable	$ 16	$ -	$ 16	$ 17	$ -	$ 17
Debt	27,661	-	27,661	26,078	-	26,078
Other Intragovernmental Liabilities	1,786	16	1,802	4,643	17	4,660
Total Intragovernmental Liabilities	$ 29,463	$ 16	$ 29,479	$ 30,738	$ 17	$ 30,755
Accounts Payable	863	-	863	803	-	803
Accrued Grant Liabilities	1,501	-	1,501	2,213	-	2,213
Liabilities for Loan Guarantees	31,779	-	31,779	39,306	-	39,306
Debt	8	-	8	20	-	20
Federal Employee and Veterans' Benefits	-	74	74	-	77	77
Loss Liability	735	-	735	700	-	700
Other Liabilities	816	102	918	627	82	709
Total Liabilities	**$ 65,165**	**$ 192**	**$ 65,357**	**$ 74,407**	**$ 176**	**$ 74,583**

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, 2014, (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Debt to the U.S. Treasury	$ 26,079	$ 1,582	$ 27,661
Held by the Public	20	(12)	8
Total	$ 26,099	$ 1,570	$ 27,669
Classification of Debt:			
Intragovernmental Debt			$ 27,661
Debt held by the Public			8
Total			**$ 27,669**

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):

Description	Beginning Balance	Net Borrowings	Ending Balance
Debt to the U.S. Treasury	$ 11,566	$ 14,512	$ 26,078
Held by the Public	60	(40)	20
Total	$ 11,626	$ 14,472	$ 26,098
Classification of Debt:			
Intragovernmental Debt			$ 26,078
Debt held by the Public			20
Total			**$ 26,098**

Interest paid on borrowings as of September 30, 2014, and 2013, was $963 million and $921 million, respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from the U.S. Treasury

In FY 2014 and FY 2013, FHA borrowed $27,528 million and $25,940 million, 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 0.75 percent to 7.59 percent during FY 2014 and FY 2013.

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 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 2014, HUD recorded imputed costs of $79 million which consisted of $42 million for pension and $37 million for 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. 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 $74 million as of September 30, 2014, and $77 million as of September 30, 2013. Future payments on this liability are to be funded by future financing sources.

In addition to the imputed costs of $79 million noted above, HUD recorded benefit expenses totaling $170 million for FY 2014 and $172 million for FY 2013.

Note 15: MBS Loss Liability

For FY 2014 and FY 2013, Ginnie Mae's MBS loss liability was $735 million and $700 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.

Note 16: Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2014, (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ 1,689	$ -	$ 1,689
Unfunded FECA Liability	16	-	16
Employer Contributions and Payroll Taxes	-	5	5
Miscellaneous Receipts Payable to Treasury	-	82	82
Advances to Federal Agencies	-	10	10
Total Intragovernmental Liabilities	$ 1,705	$ 97	$ 1,802
Other Liabilities			
FHA Other Liabilities	$ 323	$ -	$ 323
FHA Escrow Funds Related to Mortgage Notes	307	-	307
Ginnie Mae Deferred Income	107	22	129
Deferred Credits	-	18	18
Deposit Funds	-	15	15
Accrued Unfunded Annual Leave	80	-	80
Accrued Funded Payroll Benefits	-	29	29
Contingent Liability	-	15	15
Other	-	2	2
Total Other Liabilities	**$ 2,522**	**$ 198**	**$ 2,720**

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

Description	Non-Current	Current	Total
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	-	642	642
Advances to Federal Agencies	-	15	15
Total Intragovernmental Liabilities	$ 4,000	$ 660	$ 4,660
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	**$ 4,506**	**$ 863**	**$ 5,369**

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, 2014, and 2013, was $1,291 billion and $1,283 billion, respectively. The amount of outstanding principal guaranteed (insurance-in-force) as of September 30, 2014, and 2013, was $1,186 billion and $1,192 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, 2014, and 2013, was $150 billion and $146 billion, respectively. As of September 30, 2014, and 2013, the insurance-in-force (the outstanding balance of active loans) was $106 billion and $101 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, 2014, and 2013, was approximately $1,526 billion and $1,457 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, 2014, and 2013, were $98 billion and $118 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 2014 and FY 2013, Ginnie Mae issued a total of $114 billion and $99 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, 2014, and 2013, were $487 billion and $468 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, 2014, and 2013, 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. There are pending or threatened legal actions where judgment against FHA is reasonably possible with an estimated potential loss of $24 million or more. 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, 2014. As a result, no contingent liability has been recorded.

Ginnie Mae 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 have an effect on Ginnie Mae's consolidated financial statements as of September 30, 2014. As a result, a contingent liability of $14.9 million 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 be HUD's assisted housing programs is probable at this time and as a result, the Department has recorded a contingent liability of $117 thousand in its 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 2014, Ginnie Mae was authorized to use $19.5 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.

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.

The following shows funds from dedicated collections as of September 30, 2014 (dollars in millions):

	Ginnie Mae	Rental Housing Assistance	Flexible Subsidy	Manufactued Housing Fees Trust Fund	Recovery Act Funds	Other	Eliminations	Total Earmarked Funds
Balance Sheet								
Fund Balance w/Treasury	$ 13,470	$ 6	$ 337	$ 12	$ 134	$ -	$ -	$ 13,959
Investments	151	-	-	-	-	-	-	151
Accounts Receivable	333	4	-	-	21	-	(4)	354
Loans Receivable	-	-	501	-	6	-	-	507
Other Non-Credit Reform Loans Receivable	5,539	-	-	-	-	-	-	5,539
General Property, Plant and Equipment	32	-	-	-	-	-	-	32
Other	-	-	-	-	-	-	-	-
Total Assets	**$ 19,525**	**$ 10**	**$ 838**	**$ 12**	**$ 161**	**$ -**	**$ (4)**	**$ 20,542**
Debt - Intragovernmental	$ -	$ -	$ -	$ -	$ 9	$ -	$ -	$ 9
Accounts Payable - Intragovernmental		-	-	-	-	-	(2)	(2)
Accounts Payable - Public	108	-	-	-	-	-	-	108
Loan Guarantees	-	-	-	-	-	-	-	-
Loss Liability	735	-	-	-	-	-	-	735
Other Liabilities - Intragovernmental	-	-	-	-	-	-	(2)	(2)
Other Liabilities - Public	145	-	-	-	-	-	-	145
Total Liabilities	$ 988	$ -	$ -	$ -	$ 9	$ -	$ (4)	$ 993
Unexpended Appropriations	$ 1	$ -	$ (377)	$ -	$ 152	$ -	$ -	$ (224)
Cumulative Results of Operations	18,536	10	1,215	12	-	-	-	19,773
Total Net Position	$ 18,537	$ 10	$ 838	$ 12	$ 152	$ -	$ -	$ 19,549
Total Liabilities and Net Position	**$ 19,525**	**$ 10**	**$ 838**	**$ 12**	**$ 161**	**$ -**	**$ (4)**	**$ 20,542**
Statement of Net Cost For the Period Ended								
Gross Costs	$ (59)	$ -	$ (14)	$ 9	$ 23	$ 3	$ -	$ (38)
Less Earned Revenues	(1,543)	(2)	(6)	(5)	(1)	(1)	-	(1,558)
Net Costs	**$ (1,602)**	**$ (2)**	**$ (20)**	**$ 4**	**$ 22**	**$ 2**	**$ -**	**$ (1,596)**
Statement of Changes in Net Position for the Period Ended								
Net Position Beginning of Period	$ 16,935	$ 8	$ 817	$ 15	$ 179	$ 2	$ -	$ 17,956
Appropriations Received	-	-	-	1	-	-	-	1
Transfers In/Out Without Reimbursement	-	-	-	-	(4)	-	-	(4)
Imputed Costs	1	-	-	-	(1)	-	-	-
Other Adjustments	(1)	-	-	-	-	-	-	(1)
Donations and Forfeitures of Cash & Cash Equivalen	-	-	-	-	-	-	-	-
Penalties, Fines, and Administrative Fees Revenue	-	-	1	-	-	-	-	1
Net Cost of Operations	1,602	2	20	(4)	(22)	(2)	-	1,596
Change in Net Position	$ 1,602	$ 2	$ 21	$ (3)	$ (27)	$ (2)	$ -	$ 1,593
Net Position End of Period	**$ 18,537**	**$ 10**	**$ 838**	**$ 12**	**$ 152**	**$ -**	**$ -**	**$ 19,549**

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

	Ginnie Mae	Rental Housing Assistance	Flexible Subsidy	Manufactued Housing Fees Trust Fund	Recovery Act Funds	Other	Eliminations	Total Earmarked 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	-	(11)	125
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**	**$ (11)**	**$ 18,949**
Debt - Intragovernmental	$ -	$ -	$ -	$ -	$ 15	$ -	$ -	$ 15
Accounts Payable - Intragovernmental		-	-	-	1	-	(10)	(9)
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	$ -	$ (11)	$ 1,013
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**	**$ (11)**	**$ 18,949**
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 Equivalen	-	-	-	-	-	-	-	-
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**

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.

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

2014	Federal Housing Administration	Ginnie Mae	Section 8 Rental Assistance	Low Rent 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
Intragovernmental Costs	$ 980	$ 3	$ 65	$ 34	$ 11	$ 47	$ 15	$ 9	$ 308	$ -	$ 1,472
Public Costs	(4,088)	(62)	28,707	2,961	1,870	1,149	5,890	1,055	6,196	-	43,678
Subtotal Costs	$ (3,108)	$ (59)	$ 28,772	$ 2,995	$ 1,881	$ 1,196	$ 5,905	$ 1,064	$ 6,504	$ -	$ 45,150
Unassigned Costs									$218		$218
Total Costs											$ 45,368
Intragovernmental Earned Revenue	$ (2,119)	$ (153)	$ -	$ -	$ -	$ -	$ -	$ -	$ (25)	$ -	$ (2,297)
Public Earned Revenue	(62)	(1,390)	-	-	-	(178)	-	-	(15)	-	(1,645)
Total Earned Revenue	(2,181)	(1,543)	-	-	-	(178)	-	-	(40)	-	(3,942)
Net Cost of Operations	**$ (5,289)**	**$ (1,602)**	**$ 28,772**	**$ 2,995**	**$ 1,881**	**$ 1,018**	**$ 5,905**	**$ 1,064**	**$ 6,682**	**$ -**	**$ 41,426**

2013	Federal Housing Administration	Ginnie Mae	Section 8 Rental Assistance	Low Rent 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
Intragovernmental Costs	$ 943	$ 3	$ 71	$ 34	$ 30	$ 61	$ 19	$ 10	$ 309	$ (4)	$ 1,476
Public Costs	(7,661)	599	28,619	2,907	1,885	1,100	5,656	1,397	6,311	-	40,813
Subtotal Costs	$ (6,718)	$ 602	$ 28,690	$ 2,941	$ 1,915	$ 1,161	$ 5,675	$ 1,407	$ 6,620	$ (4)	$ 42,289
Unassigned Costs									$200		$200
Total Costs											$ 42,489
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)**	**$ 28,690**	**$ 2,941**	**$ 1,915**	**$ 969**	**$ 5,675**	**$ 1,407**	**$ 6,786**	**$ -**	**$ 38,362**

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 2014 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 983	$ (2,272)	$ (1,289)
Community and Regional Development	71	(7)	64
Income Security	422	(11)	411
Other Multiple Functions	(2)	(8)	(10)
Financial Statement Eliminations	$ -	$ -	$ -
Total Intragovernmental	1,474	(2,298)	(824)
With the Public:			
Commerce and Housing Credit	$ (4,041)	$ (1,621)	$ (5,662)
Community and Regional Development	6,057	(1)	6,056
Income Security	41,271	(22)	41,249
Administration of Justice	64	-	64
Other Multiple Functions	325	-	325
Total with the Public	$ 43,676	$ (1,644)	$ 42,032
Not Assigned to Programs:			
Income Security	218	-	218
Total with the Public	$ 218	$ -	$ 218
TOTAL:			
Commerce and Housing Credit	$ (3,058)	$ (3,893)	$ (6,951)
Community and Regional Development	6,128	(8)	6,120
Income Security	41,911	(33)	41,878
Administration of Justice	64	-	64
Other Multiple Functions	323	(8)	315
Financial Statement Eliminations	-	-	-
TOTAL:	**$ 45,368**	**$ (3,942)**	**$ 41,426**

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	(6)	85
Income Security	446	(12)	434
Other Multiple Functions	(3)	(2)	(5)
Financial Statement Eliminations	$ (3)	$ 3	$ -
Total Intragovernmental	1,477	(2,721)	(1,244)
With the Public:			
Commerce and Housing Credit	$ (7,084)	$ (1,396)	$ (8,480)
Community and Regional Development	5,794	(1)	5,793
Income Security	41,657	(10)	41,647
Administration of Justice	72	-	72
Other Multiple Functions	374	-	374
Total with the Public	$ 40,813	$ (1,407)	$ 39,406
Not Assigned to Programs:			
Income Security	200	-	200
Total with the Public	$ 200	$ -	$ 200
TOTAL:			
Commerce and Housing Credit	$ (6,138)	$ (4,100)	$ (10,238)
Community and Regional Development	5,885	(7)	5,878
Income Security	42,303	(22)	42,281
Administration of Justice	72	-	72
Other Multiple Functions	371	(2)	369
Financial Statement Eliminations	(3)	3	-
TOTAL:	**$ 42,490**	**$ (4,128)**	**$ 38,362**

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 2014 (dollars in millions):

Programs	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Total
FHA	$ (3,438)	$ (793)	$ (212)	$ (846)	$ -	$ (5,289)
Ginnie Mae	(1,201)	(401)	-	-	-	(1,602)
Section 8 Rental Assistance	-	23,528	188	5,056	-	28,772
Low Rent Public Housing Loans and Grants	418	2,198	75	304	-	2,995
Homeless Assistance Grants	-	1,317	564	-	-	1,881
Housing for the Elderly and Disabled	-	634	89	295	-	1,018
Community Development Block Grants	1,181	295	886	3,543	-	5,905
HOME	287	575	-	202	-	1,064
All Other Programs	308	3,901	797	1,428	30	6,464
Total	(2,445)	31,254	2,387	9,982	30	41,208
Costs Not Assigned To Programs						$ 218
Total						41,426

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

Programs	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Total
FHA	$ (6,109)	$ (1,410)	$ (376)	$ (1,503)	$ -	$ (9,398)
Ginnie Mae	(467)	(156)	-	-	-	(623)
Section 8 Rental Assistance	-	23,461	187	5,042	-	28,690
Low Rent Public Housing Loans and Grants	410	2,158	74	299	-	2,941
Homeless Assistance Grants	-	1,340	575	-	-	1,915
Housing for the Elderly and Disabled	-	603	85	281	-	969
Community Development Block Grants	1,135	284	851	3,405	-	5,675
HOME	380	760	-	267	-	1,407
All Other Programs	412	3,788	799	1,591	(4)	6,586
Total	(4,239)	30,828	2,195	9,382	(4)	38,162
Costs Not Assigned To Programs						$ 200
Total						38,362

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.

The following table shows the Department's cross-cutting costs among its major program areas for FY 2014 (dollars in millions):

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8					
Intragovernmental Gross Costs	$ 33	$ 33	$ -	$ -	$ 66
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ 33	$ 33	$ -	$ -	$ 66
Gross Costs with the Public	$ 18,686	$ 9,936	$ 80	$ 4	$ 28,706
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 18,686	$ 9,936	$ 80	$ 4	28,706
Net Program Costs	**$ 18,719**	**$ 9,969**	**$ 80**	**$ 4**	**$ 28,772**
Low Rent Public Housing Loans & Grants					
Intragovernmental Gross Costs	$ 34	$ -	$ -	$ -	$ 34
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ 34	$ -	$ -	$ -	$ 34
Gross Costs with the Public	$ 2,960	$ -	$ -	$ 1	$ 2,961
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 2,960	$ -	$ -	$ 1	$ 2,961
Net Program Costs	**$ 2,994**	**$ -**	**$ -**	**$ 1**	**$ 2,995**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$ -	$ -	$ -	$ 12	$ 12
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ -	$ -	$ -	$ 12	$ 12
Gross Costs with the Public	$ -	$ -	$ 1,845	$ 25	$ 1,870
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ -	$ -	$ 1,845	$ 25	$ 1,870
Net Program Costs	**$ -**	**$ -**	**$ 1,845**	**$ 37**	**$ 1,882**
CDBG					
Intragovernmental Gross Costs	$ -	$ -	$ 15	$ -	$ 15
Intragovernmental Earned Revenues	-	-	-	(1)	(1)
Intragovernmental Net Costs	$ -	$ -	$ 15	$ (1)	$ 14
Gross Costs with the Public	$ 67	$ -	$ 5,742	$ 81	$ 5,890
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 67	$ -	$ 5,742	$ 81	$ 5,890
Net Program Costs	**$ 67**	**$ -**	**$ 5,757**	**$ 80**	**$ 5,904**
All Other					
Intragovernmental Gross Costs	$ 84	$ 144	$ 47	$ 33	$ 308
Intragovernmental Earned Revenues	(1)	-	-	(24)	(25)
Intragovernmental Net Costs	$ 83	$ 144	$ 47	$ 9	$ 283
Gross Costs with the Public	$ 4,755	$ 497	$ 903	$ 41	$ 6,196
Earned Revenues	-	(13)	-	(1)	(14)
Net Costs with the Public	$ 4,755	$ 484	$ 903	$ 40	$ 6,182
Direct Program Costs	**$ 4,838**	**$ 628**	**$ 950**	**$ 49**	**$ 6,465**
Costs Not Assigned to Programs	$ 69	$ 93	$ 56	$ -	$ 218
Net Program Costs (including indirect costs)	**$ 4,907**	**$ 721**	**$ 1,006**	**$ 49**	**$ 6,683**

The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas for FY 2013 (dollars in millions):

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8					
Intragovernmental Gross Costs	$ 44	$ 27	$ -	$ -	$ 71
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ 44	$ 27	$ -	$ -	$ 71
Gross Costs with the Public	$ 18,872	$ 9,666	$ 78	$ 3	$ 28,619
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 18,872	$ 9,666	$ 78	$ 3	28,619
Net Program Costs	**$ 18,916**	**$ 9,693**	**$ 78**	**$ 3**	**$ 28,690**
Low Rent Public Housing Loans & Grants					
Intragovernmental Gross Costs	$ 34	$ -	$ -	$ -	$ 34
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ 34	$ -	$ -	$ -	$ 34
Gross Costs with the Public	$ 2,904	$ -	$ -	$ 3	$ 2,907
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 2,904	$ -	$ -	$ 3	$ 2,907
Net Program Costs	**$ 2,938**	**$ -**	**$ -**	**$ 3**	**$ 2,941**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$ -	$ -	$ -	$ 30	$ 30
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ -	$ -	$ -	$ 30	$ 30
Gross Costs with the Public	$ -	$ -	$ 1,830	$ 55	$ 1,885
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ -	$ -	$ 1,830	$ 55	$ 1,885
Net Program Costs	**$ -**	**$ -**	**$ 1,830**	**$ 85**	**$ 1,915**
CDBG					
Intragovernmental Gross Costs	$ -	$ -	$ 19	$ -	$ 19
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ -	$ -	$ 19	$ -	$ 19
Gross Costs with the Public	$ 77	$ -	$ 5,494	$ 85	$ 5,656
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 77	$ -	$ 5,494	$ 85	$ 5,656
Net Program Costs	**$ 77**	**$ -**	**$ 5,513**	**$ 85**	**$ 5,675**
All Other					
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	$ 4,468	$ 559	$ 1,332	$ (48)	$ 6,311
Earned Revenues	-	(14)	-	-	(14)
Net Costs with the Public	$ 4,468	$ 545	$ 1,332	$ (48)	$ 6,297
Direct Program Costs	**$ 4,560**	**$ 699**	**$ 1,373**	**$ (45)**	**$ 6,587**
Costs Not Assigned to Programs	$ 64	$ 91	$ 45	$ -	$ 200
Net Program Costs (including indirect costs)	**$ 4,624**	**$ 790**	**$ 1,418**	**$ (45)**	**$ 6,787**

Note 24: FHA Net Costs

FHA reports its insurance operations in three overall program areas: Single Family Forward mortgages, Multifamily/Healthcare mortgages, and Home Equity Conversion Mortgages (HECM). FHA operates these programs primarily through four insurance funds: Mutual Mortgage Insurance (MMI), General Insurance (GI), Special Risk Insurance (SRI), and Cooperative Management Housing Insurance (CMHI), with the MMI fund being the largest. There is a fifth fund, Hope for Homeowners (H4H), which became operational in fiscal year 2009 which contains minimal activity.

FHA encourages homeownership through its Single Family Forward programs (Section 203(b), which is the largest program, and Section 234) 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 (Section 213, Section 221(d)(4), Section 207/223(f), and Section 223(a)(7)) 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 (Section 232 and Section 242) 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.

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

	Fiscal Year 2014				
	Single Family Forward Program	HECM Program	Multifamily/Healthcare Program	Administrative Costs	Total
Costs					
Intragovernmental Gross Costs	$ 736	$ 59	$ 168	$ 17	$ 980
Intragovernmental Earned Revenues	(1,340)	(712)	(66)	-	(2,118)
Intragovernmental Net Costs	$ (604)	$ (653)	$ 102	$ 17	$ (1,138)
Gross Costs with the Public	$ (6,350)	$ 2,673	$ (1,023)	$ 612	$ (4,088)
Earned Revenues	(17)	(1)	(45)	-	(63)
Net Costs with the Public	$ (6,367)	$ 2,672	$ (1,068)	$ 612	$ (4,151)
Net Program Costs	**$ (6,971)**	**$ 2,019**	**$ (966)**	**$ 629**	**$ (5,289)**

	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 Earned Revenues	(1,720)	(823)	(62)	-	(2,605)
Intragovernmental Net Costs	$ (993)	$ (770)	$ 80	$ 21	$ (1,662)
Gross Costs with the Public	$ (5,839)	$ (565)	$ (1,927)	$ 671	$ (7,660)
Earned Revenues	(28)	(2)	(46)	-	(76)
Net Costs with the Public	$ (5,867)	$ (567)	$ (1,973)	$ 671	$ (7,736)
Net Program Costs	**$ (6,860)**	**$ (1,337)**	**$ (1,893)**	**$ 692**	**$ (9,398)**

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" 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, 2014, (dollars in millions):

Programs	Undelivered Orders: Unexpended Appropriations	Undelivered Orders: Permanent Indefinite	Undelivered Orders: Investment Authority	Undelivered Orders: Offsetting Collections	Undelivered Orders - Obligations, Unpaid
FHA	$ 160	$ 80	$ -	$ 1,679	$ 1,919
Ginnie Mae	4	-	-	418	422
Section 8 Rental Assistance	8,833	-	-	-	8,833
Low Rent Public Housing Loans and Grants	4,624	-	-	-	4,624
Homeless Assistance Grants	2,406	-	-	-	2,406
Housing for the Elderly and Disabled	2,264	-	-	-	2,264
Community Development Block Grants	12,267	-	-	-	12,267
HOME Partnership Investment Program	3,233	-	-	-	3,233
Section 235/236	1,031	185	-	-	1,216
All Other	3,540	-	-	-	3,540
Total	**$ 38,362**	**$ 265**	**$ -**	**$ 2,097**	**$ 40,724**

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	Undelivered Orders: Permanent Indefinite	Undelivered Orders: Investment Authority	Undelivered Orders: 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	5,010	-	-	-	5,010
Homeless Assistance Grants	2,455	-	-	-	2,455
Housing for the Elderly and Disabled	2,824	-	-	-	2,824
Community Development Block Grants	13,316	-	-	-	13,316
HOME Partnership Investment Program	3,274	-	-	-	3,274
Section 235/236	1,100	466	-	-	1,566
All Other	3,962	-	-	-	3,962
Total	**$ 40,475**	**$ 575**	**$ -**	**$ 2,489**	**$ 43,539**

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, 2014, (dollars in millions):

	Reservations			
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance	$ 154	$ -	$ -	$ 154
Low Rent Public Housing Loans and Grants	7	-	-	7
Homeless Assistance Grants	140	-	-	140
Housing for the Elderly and Disabled	96	-	-	96
Community Development Block Grants	8,428	-	-	8,428
HOME Partnership Investment Program	170	-	-	170
Section 235/236	-	-	-	-
All Other	168	-	-	168
Total	**$ 9,163**	**$ -**	**$ -**	**$ 9,163**

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

	Reservations			
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
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**

Note 26: Disaster Recovery Relief Efforts

Over the past years, the Department has developed an allocation process which focuses on unanticipated disaster recovery needs. Administered by the Office of Community Planning and Development, disaster recovery funds supplements the Federal Management Agency, the Small Business Administration, and the United States Army Corps of Engineers. The Department's funds must supplement, not replace, other sources of federal disaster recovery assistance. The funding is provided by grants to assist cities, counties, and States recover from Presidentially-declared disasters. Recent disaster recovery events include severe flooding in the upper Midwest, hurricanes in the Gulf Costs and severe weather systems, including Hurricane Sandy devastating the Mid-Atlantic region.

The following table shows the status of budgetary resources information for HUD's programs funded under the Community Development Block Grant Program to support disaster relief as of September 30, 2014, (dollars in millions):

		Total
Unobligated Balance, beginning of period	$	13,217
Recoveries		-
Budget Authority		-
Spending Authority from Offsetting Collections		-
Non-Expenditure Transfers, net		-
Other Balances Withdrawn		-
Total Budgetary Resources		**13,217**
Status of Budgetary Resources		
Obligations Incurred	$	1,598
Unobligated Balance, available		11,619
Unobligated Balance, not available		-
Total Status of Budgetary Resources	**$**	**13,217**
Change in Obligated Balance		
Obligated Balance, net beginning of period	$	7,480
Obligations Incurred		1,598
Gross Outlays		(3,066)
Recoveries		-
Obligated Balance, net end of period	**$**	**6,012**
Net Outlays	**$**	**3,066**

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	$	14,571	$	13,050	$	1,521
Mississippi		5,539		4,866		673
Texas		3,752		2,139		1,613
Florida		393		356		37
Other States		2,287		2,304		(17)
Total	**$**	**26,542**	**$**	**22,715**	**$**	**3,827**

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

	Total
Unobligated Balance, beginning of period	$ 241
Recoveries	-
Budget Authority	15,181
Spending Authority from Offsetting Collections	-
Non-Expenditure Transfers, net	-
Other Balances Withdrawn	-
Total Budgetary Resources	**15,422**
Status of Budgetary Resources	
Obligations Incurred	$ 2,205
Unobligated Balance, available	13,217
Unobligated Balance, not available	-
Total Status of Budgetary Resources	**$ 15,422**
Change in Obligated Balance	
Obligated Balance, net beginning of period	$ 2,698
Obligations Incurred	2,205
Gross Outlays	(858)
Recoveries	-
Obligated Balance, net end of period	**$ 4,045**
Net Outlays	**$ 858**

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	$ 14,571	$ 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	**$ 26,542**	**$ 21,406**	**$ 5,136**

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.

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

	Category A	Category B	Total
2014			
Direct	$ 929	$ 98,214	$ 99,143
Reimbursable	-	2,288	2,288
Total	**$ 929**	**$ 100,502**	**$ 101,431**

	Category A	Category B	Total
2013			
Direct	$ 893	$ 133,898	$ 134,791
Reimbursable	-	3,587	3,587
Total	**$ 893**	**$ 137,485**	**$ 138,378**

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

The following shows the difference between Budgetary Resources reported in the Statement of Budgetary Resources and the President's Budget for FY 2013 (dollars in millions):

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 227,163	$ 138,378	$ (1,493)	$ 53,369
Difference #1 - Resources related to HUD's expired accounts not reported in the President's Budget	(694)	(31)	-	-
Difference #2 - The negative subsidy reported by Ginnie Mae as an offsetting receipt is reported as a negative outlay in the President's Budget	-	-	-	-
Difference #3 - Activity not included in the President's Budget related to the general fund receipts account	-	-	28	-
Difference #4 - Ginnie Mae amounts precluded from obligation	(216)	-	-	-
Difference #5 - Rounding issues	(6)	-	-	3
United States Budget	**$ 226,247**	**$ 138,347**	**$ (1,465)**	**$ 53,372**

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, 2014, and September 30, 2013, (dollars in millions):

	2014	2013
Budgetary Resources Obligated		
Obligations Incurred	$ 101,431	$ 138,378
Spending Authority from Offsetting Collections and Recoveries	(43,412)	(84,712)
Obligations Net of Offsetting Collections	$ 58,019	$ 53,666
Offsetting Receipts	(2,719)	(1,495)
Net Obligations	$ 55,300	$ 52,171
Other Resources		
Transfers In/Out Without Reimbursement	$ (2,663)	$ (3,959)
Imputed Financing from Costs Absorbed by Others	79	77
Other Resources	-	1
Net Other Resources Used to Finance Activities	$ (2,584)	$ (3,881)
Total Resources Used to Finance Activities	$ 52,716	$ 48,290
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	$ 2,801	$ 4,826
Credit Program Resources that Increase LLG or Allowance for Subsidy	-	80,982
Credit Program Resources not Included in Net Cost (Surplus) of Operations	45,001	(55,840)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(45,435)	(33,354)
Resources that Fund Expenses from Prior Periods	(6,025)	(21)
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(947)	(51)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	$ (4,605)	$ (3,458)
Total Resources Used to Finance the Net Cost of Operations	$ 48,111	$ 44,832
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period		
Upward/Downward Re-estimates of Credit Subsidy Expense	$ 4,613	$ 8,723
Increase in Exchange Revenue Receivable from the Public	(171)	(208)
Change in Loan Loss Reserve	27	(3)
Revaluation of Assets or Liabilities	-	1
Depreation and Amortization	9	16
Changes in Bad Debt Expenses Related to Credit Reform Receivables	(97)	(440)
Reduction of Credit Subsidy Expense from Guarantee Endorsements and Modifications	(10,457)	(18,358)
Increase in Annual Leave Liability	-	-
Other	(609)	3,799
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	$ (6,685)	$ (6,470)
Net Cost of Operations	**$ 41,426**	**$ 38,362**

Note 30: Restatement of the Department's Fiscal Year 2013 Financial Statements

In FY 2014, the Department restated its FY 2013 financial statements to correct material errors in the Consolidated Balance Sheet, the Statement of Net Cost and the Statement of Changes in Net Position. The FY 2013 restatement was due to the restimate of prepayments from our tenant-based rental assistance program and the establishment of grant accruals by the Department. The restated financial statements by HUD also reflect the accounting error relating to net restricted assets maintained by PHAs under the Housing Choice Voucher Program, which resulted in additional assets and operating expenses reported by the Department. The impact of these errors resulted in the Department's equity reported on the consolidated financial statement to be overstated by $565 million for FY 2013.

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

Recognition of NRA Balances

HUD restated its FY 2013 financial statements to correct the impact of the errors resulting from the amount 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 future 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 reported that PIH does not have adequate controls in place to ensure that the Voucher Management System's self-reported data is accurate and deemed that manual processes involved in the calculation to be an internal control weakness. 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 previously reported an error in the beginning balances of $986 million and $452 million dollars in its FY 2013 and FY 2014 financial statements, respectively, as a result of understating its equity reported on its balance sheets for the current and prior fiscal years. A prepayment of $986 million and $452 million was also recognized in the Statement of Budgetary Resources for FY 2013 and FY 2014, respectively, to account for the related asset established in the Department's Consolidated Balance Sheet. Based on revised NRA estimates provided by PIH in FY 2014, the amount of the error disclosed by the Department was increased to $1.1 billion and $552 million for FY 2013 and FY 2014 respectively. The increase in the estimated NRA balances decreased the amount of expenses reported in the Statement of Net Cost by $137 million and $100 million for FY 2013 and FY 2014 respectively. 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.

Recognition of Grant Accrual Estimates

The Federal Accounting Standards Advisory Board issued Federal Financial Accounting Technical Release 12, *Accrual Estimates for Grant Programs*, effective for periods beginning after September 30, 2010. In response to the OIG recommendation, the Department issued a policy for estimating accruals for grant programs administered by HUD and restated its FY 2013 financial statements to reflect the implementation of the OCFO policy. The restatement of HUD's financial statements for FY 2013 focused on significant grant programs administered by Community Planning and Development, Public and Indian Housing and the Office of Housing.

The estimates provided by the program offices resulted in increasing the Department's liabilities by $2.2 billion and $1.5 billion for FY 2013 and FY 2014 respectively. The increase in the estimated liability increased the amount of expenses reported in the Statement of Net Cost by $72 million and $870 million for FY 2013 and FY 2014 respectively as a result of reversing accruals during the fiscal year based on assumptions incorporated in the Department's policy. The reclassification of obligated balances from an undelivered order to a delivered order has no impact on the Statement of Budgetary Resources.

Below are the Department's FY 2013 restated financial statements to correct accounting errors not previously reported (dollars in millions):

Balance Sheet (dollars in millions)	September 30, 2013 Consolidated Financial Statements (without restatement)	September 30, 2013 Consolidated Financial Statements (with restatement)	Change
ASSETS			
Intragovernmental			
Fund Balance with Treasury (Note 4)	$ 135,596	$ 135,596	$ -
Investments (Note 5)	1,825	1,825	-
Accounts Receivable, Net (Note 6)	-	1	(1)
Other Assets (Note 11)	15	15	-
Total Intragovernmental	$ 137,436	$ 137,437	$ (1)
Investments (Note 5)	$ 56	$ 56	$ -
Accounts Receivable, Net (Note 6)	180	180	-
Direct Loan and Loan Guarantees, Net (Note 7)	9,986	9,986	-
Other Non-Credit Reform Loans (Note 8)	4,001	4,001	-
General Property, Plant and Equipment, Net (Note 9)	351	351	-
PIH Prepayments (Note 10)	452	552	(100)
Other Assets (Note 11)	378	378	-
TOTAL ASSETS	$ 152,840	$ 152,941	$ (101)
LIABILITIES			
Intragovernmental Liabilities			
Accounts Payable (Note 12)	$ 17	$ 17	$ -
Debt (Note 13)	26,078	26,078	-
Other Intragovernmental Liabilities (Note 16)	4,660	4,660	-
Total Intragovernmental	$ 30,755	$ 30,755	$ -
Accounts Payable (Note 12)	$ 803	$ 803	$ -
Accrued Grant Liabilities (Note 12)	-	2,213	(2,213)
Loan Guarantee Liability (Note 7)	39,306	39,306	-
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)	709	709	-
TOTAL LIABILITIES	$ 72,370	$ 74,583	$ (2,213)
Net Position			
Unexpended Appropriations - Earmarked Funds (Note 19	$ (215)	$ (215)	$ -
Unexpended Appropriations - Other Funds	62,107	59,995	2,112
Cumulative Results of Operations - Earmarked Funds (Note 19)	18,151	18,151	-
Cumulative Results of Operations - Other Funds	427	427	-
Total Net Position	$ 80,470	$ 78,358	$ 2,112
Total Liabilities and Net Position	$ 152,840	$ 152,941	$ (101)

Statement of Changes in Net Position (dollars in millions)	September 30, 2013 Consolidated Financial Statements (without restatement)	September 30, 2013 Consolidated Financial Statements (with restatement)	Change
Cumulative Results of Operations:			
Beginning Balances	$ 4,165	$ 4,165	$ -
Adjustments			-
Changes in Accounting Principles	-	-	-
Corrections of Errors	(1)	(1)	-
Beginning Balances, As Adjusted	$ 4,164	$ 4,164	$ -
Budgetary Financing Sources:			
Other Adjustments	$ -	$ -	$ -
Appropriations Used	56,696	56,670	26
Non-exchange Revenue	1	1	-
Donations/Forfeitures of Cash & Cash Equivalents	-	-	-
Transfers In/Out Without Reimbursement	-	-	-
Other	-	-	-
Other Financing Sources (Non-Exchange):			
Transfers In/Out Without Reimbursement	$ (14)	$ (14)	$ -
Imputed Financing	77	78	(1)
Other	(3,958)	(3,959)	1
Total Financing Sources	52,802	52,776	26
Net Cost of Operations	(38,388)	(38,362)	(26)
Net Change	$ 14,414	$ 14,414	$ -
Cumulative Results of Operations	**$ 18,578**	**$ 18,578**	**$ -**
Unexpended Appropriations:			
Beginning Balances	$ 52,469	$ 52,469	$ -
Adjustments			
Changes in Accounting Principles	-	-	-
Corrections of Errors	987	(1,151)	2,138
Beginning Balances, As Adjusted	$ 53,456	$ 51,318	$ 2,138
Budgetary Financing Sources:			
Appropriations Received	$ 68,575	$ 68,575	$ -
Appropriations Transferred In/Out	-	-	-
Other Adjustments	(3,443)	(3,443)	-
Appropriations Used	(56,696)	(56,670)	(26)
Total Budgetary Financing Sources	$ 8,436	$ 8,462	$ (26)
Unexpended Appropriations	$ 61,892	$ 59,780	$ 2,112
Net Position	$ 80,470	$ 78,358	$ 2,112

Statement of Net Cost (dollars in millions)	September 30, 2013 Consolidated Financial Statements (without restatement)	September 30, 2013 Consolidated Financial Statements (with restatement)	Change
Program Costs			
Gross Costs	$ 42,515	$ 42,489	$ 26
Less: Earned Revenue	(4,127)	(4,127)	-
Net Program Costs	$ 38,388	$ 38,362	$ 26
Net Cost of Operations	$ 38,388	$ 38,362	$ 26

Restatement of HUD's Statement of Budgetary Resources

In FY 2014, Ginnie Mae's Statement of Budgetary Resources was restated to reflect the proper presentation of its Guarantees of Mortgage Backed Securities Financing Account as a non-budgetary resource as required by OMB Circular A-11 and OMB Circular A-136. This non-budgetary account is used to record all cash flows to and from the Government resulting from the loan guarantees committed in 1992 and beyond (including modifications of loan guarantees that resulted from obligations in any year). The accounting error resulted in the misstatement of budgetary resources initially reported in its FY 2013 financial statements published in Annual Financial Report. In addition, the OCFO restated balances related to the Emergency Homeowner's Relief Financing Account and the Green Retrofit Program for Multifamily Financing Account to comply with the Federal Credit Reform Act of 1990. As in the case of Ginnie Mae's programs, these non-budgetary accounts are used to record all cash flows to and from the Government resulting from the loan guarantees committed in 1992 and beyond (including modifications of loan guarantees that resulted from obligations in any year). For your reference, we have provided a summary report documenting the amount that was reclassified as non-budgetary resources by the Department.

Statement of Budgetary Resources (dollars in millions)	Total Budgetary Resources (without restatement)	Total Budgetary Resources (with restatement)	Difference	Ginnie Mae Non- Budgetrary Resources (with restatement)	CFO Non-Budgetary Resources (with restatement) *
(Dollars in Millions)					
Budgetary Resources:					
Unobligated Balance, Brought Forward	$ 18,266	$ 17,483	$ 783	$ 777	$ 6
Adjustments to Unobligated Balance Brought Forward, October 1	1	3	(2)	(2)	-
Unobligated balance from prior year budget authority, net	18,267	17,486	781	777	4
Recoveries of Prior Year Unpaid Obligations	626	627	(1)	(1)	-
Other changes in unobligated balance	(496)	(496)	-	-	-
Unobligated balance from prior year budget authority, net	$ 18,397	$ 17,617	$ 780	$ 777	$ 3
Appropriations (discretionary and mandatory)	$ 65,002	$ 65,002	$ -	$ -	$ -
Borrowing Authority (discretionary and mandatory)	1	-	1	1	-
Spending Authority from offsetting collections	28,927	24,315	4,612	4,600	12
Total Budgetary Resources	112,327	106,934	5,393	5,377	16
STATUS OF BUDGETARY RESOURCES:					
Obligations Incurred					
Direct	$ 78,124	$ 78,117	$ 7	$ 7	$ -
Reimbursable	3,587	449	3,138	3,139	(1)
Subtotal	81,711	78,566	3,145	3,139	6
Unobligated Balances					
Apportioned	$ 17,600	$ 17,581	$ 19		$ 19
Unapportioned	13,016	10,787	2,229	2,238	(9)
Subtotal	30,616	28,368	2,248	2,238	10
Total Status of Budgetary Resources	$ 112,327	$ 106,934	$ 5,393	$ 5,377	$ 16
CHANGE IN OBLIGATED BALANCE					
Unpaid Obligations					
Unpaid obligations, brought forward, Oct 1	$ 49,357	$ 49,196	$ 161	$ 111	$ 50
Adjustments to unpaid obligations, start of year (+ or -)	(3)	(4)	1		1
Obligations incurred	81,711	78,566	3,145	3,139	6
Outlays (gross) (-)	(86,053)	(82,897)	(3,156)	(3,136)	(20)
Actual Transfers, unpaid obligations (net) (+ or -)	-	-	-	-	-
Recoveries of prior year unpaid obligations (-)	(626)	(627)	1	1	-
Unpaid Obligations, end of year (gross)	44,386	44,234	152	114	38
Uncollected Payments					
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	$ (71)	$ (16)	$ (55)	$ (6)	$ (49)
Adjustments to uncollected payments, Fed sources, start of year	-	-	-		
Change in uncollected payments, Fed sources (+ or -)	10	(1)	11	(2)	13
Actual Transfers, uncollected payments, Fed sources (net) (+ or -)	-	-	-		
Uncollected payments, Fed sources, end of year (-)	(61)	(17)	(44)	(8)	(36)
			$ -		
Obligated Balance, start of year (+ or -)	$ 49,285	$ 49,176	$ 109	$ 105	$ 4
Obligated Balance, end of year (+ or -)	44,325	44,217	108	106	2
BUDGET AUTHORITY, NET					
Budget authority, gross (discretionary and mandatory)	$ 93,929	$ 89,318	$ 4,611	$ 4,600	$ 11
Actual offsetting collections (discretionary and mandatory) (-)	(29,448)	(24,826)	(4,622)	(4,598)	(24)
Change in uncollected customer payments from Federal Sources	10	(1)	11	(2)	13
Budget Authority, net (discretionary and mandatory) SubTotal	$ 64,491	$ 64,491	$ -	$ -	$ -
Outlays, net (discretionary and mandatory)					
Gross Outlays	$ 86,053	$ 82,897	$ 3,156	$ 3,136	$ 20
Actual offsetting collections (discretionary and mandatory) (-)	(29,447)	(24,826)	(4,621)	(4,598)	(23)
	56,605	58,071	(1,466)	(1,462)	(4)
Distributed offsetting receipts	(1,495)	(1,495)	-	-	-
Agency Outlays, net (discretionary and mandatory)	55,110	56,576	(1,466)	(1,462)	(4)

*** Funds 4357 and 4589**

Note: Numbers may not add to total due to rounding.

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), and
- Office of Lead Hazard Control and Healthy Homes (OLHCHH).

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 HOME 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.
- ***Community Compass (formerly 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.
- ***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.

The ***OLHCHH*** 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 2010 through 2014.

Investments in Non-Federal Physical Property
Fiscal Year 2010 – 2014
(Dollars in millions)

Program	2010	2011	2012	2013	2014
CPD					
CDBG	$1,083	$1,132	$1,115	$1,129	$986
Disaster Grants [1]	$357	$303	$286	$301	$301
HOME	$36	$21	$23	$21	$24
SHP/CoC - Homeless [2]	$20	$17	$11	$1	$1
NSP [3]	$19	$27	$6	$4	$0
RIF [4]	N/A	N/A	$0	$3	$1
PIH					
ICDBG	$62	$61	$117	$54	$60
NHHBG	$13	$13	$13	$12	$10
IHBG [5]	$212	$259	$269	$245	$158
HOPE VI	$114	$240	$122	$127	$82
Choice Neighborhoods [6]	N/A	N/A	$0	$3	$22
PH Capital Fund	$3,783	$3,610	$2,223	$1,798	$1,706
TOTAL	**$5,699**	**$5,683**	**$4,185**	**$3,698**	**$3,351**

Notes:

1. *Disasters are unpredictable, which causes material fluctuations resulting in the prior year's number being updated.*
2. *Low dollar value was due to shrinking resources for new programs.*
3. *The prior year's numbers were updated to reflect more accurate data.*
4. *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.*
5. *Historical amounts were updated to reflect corrections made since the last report.*
6. *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.*

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 2010 through 2014.

Investments in Human Capital
Fiscal Year 2010 – 2014
(Dollars in millions)

CPD					
CDBG [1]	$28	$26	$29	$24	$26
Disaster Grants [2]	$214	$195	$165	$263	$479
ESG	$2	$3	$4	$3	$3
NSP TA	$1	$1	$1	$1	$0
SHP/CoC - Homeless	$28	$32	$33	$31	$26
HOPWA	$1	$1	$1	$1	$1
Community Compass [3]	N/A	N/A	$5	$21	$29
PIH					
NHHBG	$1	$1	$0	$0	$0
IHBG	$1	$1	$1	$1	$1
HOPE VI	$10	$42	$15	$12	$14
Choice Neighborhoods [4]	N/A	N/A	$0	$2	$3
OLHCHH					
Lead Technical Assistance	$0	$1	$0	$0	$1
TOTAL	**$286**	**$303**	**$254**	**$359**	**$583**

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. *Prior year's numbers were updated because Disaster Grants activities were previously comingled with other activities.*
3. *FY 2012 was the first year of reporting Community Compass, formerly OneCPD's investment in human capital in the RSSI. Prior year's numbers were updated to reflect more accurate data.*
4. *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 table on the next page presents the results (number of people trained) of human capital investments made by HUD's CPD, PIH, and OLHCHH programs:

Results of Investments in Human Capital
Number of People Trained
Fiscal Year 2010 – 2014

Program	2010	2011	2012	2013	2014
CPD					
CDBG	97,349	303,416	65,741	68,236	54,350
SHP/CoC - Homeless [1]	21.6%	17.8%	27.4%	16.5%	11.9%
HOPWA	2,614	1,662	1,426	1,595	1,415
NSP TA [2]	128	1,207	731	3,373	235
RIF [3]	N/A	N/A	0	1,048	240
Community Compass [4]	N/A	N/A	N/A	9,791	13,722
PIH					
ICDBG [5]	0	122	0	0	0
NHHBG [5]	210	116	0	0	0
IHBG [5]	1,474	1,550	770	1,077	1,167
Choice Neighborhoods (*see table on next page*)					
HOPE VI (*see table on next page*)					
OLHCHH					
Lead Technical Assistance [6]	0	3,000	600	590	1,069
TOTAL	**101,775**	**311,073**	**69,268**	**85,710**	**72,198**

Notes:

1. *SHP/CoC- Homeless 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 FY 2013 for current and prior years. The number of people trained was further updated in FY 2014 because of more reliable data.*
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 Community Compass', formerly OneCPD, 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.*

HOPE VI/Choice Neighborhoods 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 table on the next page presents HOPE VI's key cumulative performance information for fiscal years 2010, 2011, 2012, 2013 and 2014, since the program's inception and Choice Neighborhoods performance in 2014.

Key Results of HOPE VI/Choice Neighborhoods Program Activities
Fiscal Years 2010 – 2014

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

HOPE VI Service	2014 Enrolled	2014 Completed	% Completed	Choice Neighborhoods Service	2014 [2]
Employment Preparation, Placement, & Retention [1]	85,997	N/A	N/A	Current Total Original Assisted Residents	5,813
Job Skills Training Programs	35,001	18,536	53%	Current Total Original Assisted Residents in Case Management	2,900
High School Equivalent Education	18,389	5,315	29%	High School Graduation Rate [3]	N/A
Entrepreneurship Training	3,746	1,649	44%	Number of Residents (in Case Management) Who Completed Job Training or Other Workforce Development Programs	411
Homeownership Counseling	16,650	7,160	43%		

Notes:

1. *Completion data for this service is not provided, as all who enroll are considered recipients of the training.*
2. *2014 was the first year of reporting results for Choice Neighborhoods Human Capital Investments*.
3. *Program level High School Graduation Rate date is currently not available for 2014 due to metric only requires individual grantees to enter rates and not numerator and denominator.*

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.

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

Investments in Research and Development
Fiscal Year 2010 – 2014
(Dollars in millions)

Program	2010	2011	2012	2013	2014
CPD					
Disaster Grants	$0	$6	$0	$0	$0
OLHCHH					
Lead Hazard Control	$5	$1	$1	$2	$3
TOTAL	**$5**	**$7**	**$1**	**$2**	**$3**

Results of Investments in Research and Development: In support of HUD's lead hazard control initiatives, the OLHCHH 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 following table, 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.

Results of Research and Development Investments
Fiscal Year 2010 – 2014
(Dollars)

Program	2010	2011	2012	2013	2014
OLHCHH					
Lead Hazard Control					
Per-Housing Unit Cost	$5,901	$6,247	$5,763	$6,321	$7,755
TOTAL	**$5,901**	**$6,247**	**$5,763**	**$6,321**	**$7,755**

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.

Department of Housing and Urban Development
Consolidating Balance Sheet
As of September 2014
(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)	$ 50,232	$ 13,470	$ 9,601	$ 5,020	$ 5,066	$ 2,873	$ 25,038	$ 3,768	$ 6,635	$ -	$ 121,703
Investments (Note 5)	6,379	150	-	-	-	-	-	-	-	-	6,529
Accounts Receivable Net (Note 6)	-	2	-	-	-	-	-	-	-	(2)	-
Other Assets (Note 11)	1	-	2	-	-	-	-	-	30	-	33
Total Intragovernmental Assets	$ 56,612	$ 13,622	$ 9,603	$ 5,020	$ 5,066	$ 2,873	$ 25,038	$ 3,768	$ 6,665	$ (2)	$ 128,265
Investments (Note 5)	41	-	-	-	-	-	-	-	-	-	41
Accounts Receivable, Net (Note 6)	1,459	332	22	13	8	14	13	5	35	-	1,901
Direct Loan and Loan Guarantees, Net (Note 7)	8,507	-	-	-	-	1,787	-	-	574	-	10,868
Other Non Credit Reform Loans (Note 8)	-	5,539	-	-	-	-	-	-	-	(1,970)	3,569
General Property Plant and Equipment, Net (Note 9)	-	32	-	-	-	-	-	-	265	-	297
PIH Prepayments (10)	-	-	423	-	-	-	-	-	-	-	423
Other Assets (Note 11)	47	-	-	-	-	-	-	-	1	-	48
TOTAL ASSETS	**$ 66,666**	**$ 19,525**	**$ 10,048**	**$ 5,033**	**$ 5,074**	**$ 4,674**	**$ 25,051**	**$ 3,773**	**$ 7,540**	**$ (1,972)**	**$ 145,412**
LIABILITIES											
Intragovernmental Liabilities											
Accounts Payable (Note 12)	3	-	-	-	-	-	-	-	15	(2)	16
Debt (Note 13)	27,528	-	-	-	-	-	-	-	133	-	27,661
Other Intragovernmental Liabilities (Notes 16)	1,689	-	15	2	5	-	-	-	91	-	1,802
Total Intragovernmental Liabilities	$ 29,220	$ -	$ 15	$ 2	$ 5	$ -	$ -	$ -	$ 239	$ (2)	$ 29,479
Accounts Payable (Note 12)	459	108	32	8	13	1	31	4	207	-	863
Accrued Grant Liabilities (Note 12)	-	-	-	235	186	38	563	330	149	-	1,501
Loan Guarantee Liability (Note 7)	33,473	-	-	-	-	-	-	-	276	(1,970)	31,779
Debt Held by the Public (Note 13)	-	-	-	8	-	-	-	-	-	-	8
Federal Employee and Veteran Benefits (Note 14)	-	-	-	-	-	-	-	-	74	-	74
Loss Reserves (Note 15)	-	735	-	-	-	-	-	-	-	-	735
Other Governmental Liabilities (Notes 16)	629	145	-	-	-	1	-	-	143	-	918
TOTAL LIABILITIES	**$ 63,781**	**$ 988**	**$ 47**	**$ 253**	**$ 204**	**$ 40**	**$ 594**	**$ 334**	**$ 1,088**	**$ (1,972)**	**$ 65,357**
Commitments and Contingencies (Note 17)	-	15	-	-	-	-	-	-	-	-	15
NET POSITION											
Unexpended Appropriations - Funds From Dedicated Coll. (Note 19)	-	1	**0**	17	17	-	90	7	(356)	-	(224)
Unexpended Appropriations - Other Funds	872	**(0)**	10,001	4,767	4,853	2,683	24,366	3,432	5,468	-	56,442
Cumulative Results of Operations - Funds From Dedicated Coll. (Note 19)	-	18,536	-	-	-	-	-	-	1,237	-	19,773
Cumulative Results of Operations - Other Funds	2,013	-	**0**	(4)	**0**	1,951	1	**0**	103	**(0)**	4,064
TOTAL NET POSITION - Funds From Dedicated Collections	**-**	**18,537**	**0**	**17**	**17**	**-**	**90**	**7**	**881**	**-**	**19,549**
TOTAL NET POSITION - All Other Funds	**2,885**	**(0)**	**10,001**	**4,763**	**4,853**	**4,634**	**24,367**	**3,432**	**5,571**	**(0)**	**60,506**
TOTAL NET POSITION	**2,885**	**18,537**	**10,001**	**4,780**	**4,870**	**4,634**	**24,457**	**3,439**	**6,452**	**(0)**	**80,055**
TOTAL LIABILITIES AND NET POSITION	**$ 66,666**	**$ 19,525**	**$ 10,048**	**$ 5,033**	**$ 5,074**	**$ 4,674**	**$ 25,051**	**$ 3,773**	**$ 7,540**	**$ (1,972)**	**$ 145,412**

The accompanying notes are an integral part of these statements.

Department of Housing and Urban Development
Consolidating Balance Sheet
As of September 2013 (Restated)
(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	$ -	$ 135,596
Investments (Note 5)	4	1,821	-	-	-	-	-	-	-	-	1,825
Accounts Receivable Net (Note 6)	-	8	-	-	-	-	-	-	4	(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	$ 7,429	$ (11)	$ 137,437
Investments (Note 5)	56	-	-	-	-	-	-	-	-	-	56
Accounts Receivable, Net (Note 6)	13	121	26	4	1	-	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)	-	37	-	-	-	-	-	-	314	-	351
PIH Prepayments (10)	-	-	552	-	-	-	-	-	-	-	552
Other Assets (Note 11)	378	-	-	-	-	-	-	-	-	-	378
TOTAL ASSETS	**$ 71,209**	**$ 17,942**	**$ 9,552**	**$ 5,405**	**$ 4,963**	**$ 5,519**	**$ 28,314**	**$ 4,025**	**$ 8,355**	**$ (2,343)**	**$ 152,941**
LIABILITIES											
Intragovernmental Liabilities											
Accounts Payable (Note 12)	8	-	-	-	-	-	-	-	19	(10)	17
Debt (Note 13)	25,940	-	-	-	-	-	-	-	138	-	26,078
Other Intragovernmental Liabilities (Notes 16)	3,984	-	27	-	-	-	1	-	649	(1)	4,660
Total Intragovernmental Liabilities	$ 29,932	$ 0	$ 27	$ -	$ -	$ -	$ 1	$ -	$ 806	$ (11)	$ 30,755
Accounts Payable (Note 12)	403	167	3	10	11	3	33	9	164	-	803
Accrued Grant Liabilities Note 12)	-	-	-	233	226	36	1,070	536	112	-	2,213
Loan Guarantee Liability (Note 7)	41,465	-	-	-	-	-	-	-	173	(2,332)	39,306
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 (Notes 16)	424	140	-	-	-	1	-	-	144	-	709
TOTAL LIABILITIES	**$ 72,224**	**$ 1,007**	**$ 30**	**$ 263**	**$ 237**	**$ 40**	**$ 1,104**	**$ 545**	**$ 1,476**	**$ (2,343)**	**$ 74,583**
NET POSITION											
Unexpended Appropriations - Funds From Dedicated coll. (Note 19)	-	2	-	7	7	-	120	5	(356)	-	(215)
Unexpended Appropriations - Other Funds	869	-	9,522	5,150	4,719	3,312	27,090	3,475	5,858	-	59,995
Cumulative Results of Operations - Funds From Dedicated coll.(Note 19)	-	16,933	-	-	-	-	-	-	1,218	-	18,151
Cumulative Results of Operations - Other Funds	(1,884)	-	-	(15)	-	2,167	-	-	159	-	427
TOTAL NET POSITION - Funds From Dedicated Collections	**-**	**16,935**	**-**	**7**	**7**	**-**	**120**	**5**	**862**	**-**	**17,936**
TOTAL NET POSITION - All Other Funds	**(1,015)**	**-**	**9,522**	**5,135**	**4,719**	**5,479**	**27,090**	**3,475**	**6,017**	**-**	**60,422**
TOTAL NET POSITION	**(1,015)**	**16,935**	**9,522**	**5,142**	**4,726**	**5,479**	**27,210**	**3,480**	**6,879**	**-**	**78,358**
TOTAL LIABILITIES AND NET POSITION	**$ 71,209**	**$ 17,942**	**$ 9,552**	**$ 5,405**	**$ 4,963**	**$ 5,519**	**$ 28,314**	**$ 4,025**	**$ 8,355**	**$ (2,343)**	**$ 152,941**

The accompanying notes are an integral part of these statements.

Department of Housing and Urban Development
Consolidating Statement of Net Cost
For the Period Ending September 2014 and 2013
(Dollars in Millions)

2014	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
PROGRAM COSTS											
Gross Costs (Note 22)	$ (3,108)	$ (59)	$ 28,772	$ 2,995	$ 1,881	$ 1,196	$ 5,905	$ 1,064	$ 6,504	$ -	$ 45,150
Less: Earned Revenues	(2,181)	(1,543)	-	-	-	(178)	-	-	(40)	-	(3,942)
Net Program Costs	(5,289)	(1,602)	28,772	2,995	1,881	1,018	5,905	1,064	6,464	-	41,208
Net Program Costs including Assumption Changes	(5,289)	(1,602)	28,772	2,995	1,881	1,018	5,905	1,064	6,464	-	41,208
Costs Not Assigned to Programs	-	-	-	-	-	-	-	-	218	-	218
Net Cost of Operations	$ (5,289)	$ (1,602)	$ 28,772	$ 2,995	$ 1,881	$ 1,018	$ 5,905	$ 1,064	$ 6,682	$ -	$ 41,426

Figures may not add to totals because of rounding.

2013 (Restated)	Federal Housing Administration	Government 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 22)	$ (6,718)	$ 602	$ 28,690	$ 2,941	$ 1,915	$ 1,161	$ 5,675	$ 1,407	$ 6,620	$ (4)	$ 42,289
Less: Earned Revenues	(2,680)	(1,225)	-	-	-	(192)	-	-	(34)	4	(4,127)
Net Costs	(9,398)	(623)	28,690	2,941	1,915	969	5,675	1,407	6,586	-	38,162
Net Program Costs including Assumption Changes	(9,398)	(623)	28,690	2,941	1,915	969	5,675	1,407	6,586	-	38,162
Costs Not Assigned to Programs	-	-	-	-	-	-	-	-	200	-	200
Net Cost of Operations	$ (9,398)	$ (623)	$ 28,690	$ 2,941	$ 1,915	$ 969	$ 5,675	$ 1,407	$ 6,786	$ -	$ 38,362

Figures may not add to totals because of rounding.

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Period Ending September 2014
(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	$ -	$ 16,933	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,218	$ -	$ 18,151
All Other Funds	(1,884)	-	-	(15)	-	2,167	-	-	158	-	426
Beginning Balances	(1,884)	16,933	-	(15)	-	2,167	-	-	1,376	-	18,577
Adjustments								-			
Changes in Accounting Principles											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-	-
Corrections of Errors											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	(99)	-	(99)
Beginning Balances, As Adjusted											
Funds From Dedicated Collections	-	16,933	-	-	-	-	-	-	1,218	-	18,151
All Other Funds	(1,884)	-	-	(15)	-	2,167	-	-	59	-	327
Total Beginning Balances, As Adjusted	(1,884)	16,933	-	(15)	-	2,167	-	-	1,277	-	18,478
Budgetary Financing Sources											
Other Adjustments (Rescissions, etc)											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-	-
Appropriations Used											
Funds From Dedicated Collections	-	-	-	-	(4)	-	31	-	1	-	28
All Other Funds	327	-	28,616	2,910	1,849	1,112	5,830	1,038	7,659	-	49,341
Non-exchange Revenue											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	1	-	1
All Other Funds	-	-	-	-	-	-	-	-	-	-	-
Donations/Forfeitures-Cash and Cash Equivalents											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	1	-	1
All Other Funds	-	-	-	-	-	(394)	-	-	(1)	394	(1)
Other Budgetary Financing Sources											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	156	97	36	84	44	26	(443)	-	-
Other Financing Sources:											
Donations and Forfeitures of Property											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	(5)	-	(5)
All Other Funds	497	-	-	-	-	-	-	-	(98)	(394)	5
Imputed Financing From Costs Absorbed From Others											
Funds From Dedicated Collections	-	1	-	-	-	-	-	-	-	-	1
All Other Funds	15	-	-	-	-	-	-	-	63	-	78
Other											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	(2,230)	-	-	-	-	-	-	-	(433)	-	(2,663)
Total Financing Sources											
Funds From Dedicated Collections	-	1	-	-	(4)	-	31	-	(2)	-	26
All Other Funds	(1,391)	-	28,772	3,007	1,885	802	5,874	1,064	6,747	-	46,760
Total Financing Sources	(1,391)	1	28,772	3,007	1,881	802	5,905	1,064	6,745	-	46,786
Net Cost of Operations											
Funds From Dedicated Collections	-	1,602	-	1	4	-	(31)	-	20	-	1,596
All Other Funds	5,289	-	(28,772)	(2,995)	(1,885)	(1,019)	(5,873)	(1,064)	(6,704)	-	(43,023)
Net Change											
Funds From Dedicated Collections	-	1,603	-	-	-	-	-	-	19	-	1,622
All Other Funds	3,897	-	-	11	-	(216)	1	-	44	-	3,737
Total All Funds											
Funds From Dedicated Collections	-	18,536	-	-	-	-	-	-	1,237	-	19,773
All Other Funds	2,013	-	-	(4)	-	1,951	1	-	103	-	4,064
Total All Funds	**$ 2,013**	**$ 18,536**	**$ -**	**$ (4)**	**$ -**	**$ 1,951**	**$ 1**	**$ -**	**$ 1,340**	**$ -**	**$ 23,837**

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	$ -	$ 8	$ 7	$ -	$ 120	$ 5	$ (356)	$ -	$ (215)
All Other Funds	869	-	9,522	5,150	4,719	3,312	27,090	3,475	5,858	-	59,995
Beginning Balances	869	2	9,522	5,158	4,726	3,312	27,210	3,480	5,502	-	59,780
Adjustments											
Corrections of Errors											
Funds From Dedicated Collections	-	-	-	9	6	-	2	2	1	-	21
All Other Funds	-	-	-	10	1	-	9	3	1	-	22
Beginning Balances, As Adjusted											
Funds From Dedicated Collections	-	2	-	17	13	-	122	7	(355)	-	(194)
All Other Funds	869	-	9,522	5,160	4,720	3,312	27,098	3,477	5,859	-	60,017
Total Beginning Balances, As Adjusted	869	2	9,522	5,177	4,733	3,312	27,220	3,484	5,504	-	59,823
Budgetary Financing Sources											
Appropriations Received											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	367	-	29,131	2,523	2,105	510	3,100	1,000	7,368	-	46,103
Appropriations Transfers In/Out											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	2	(1)	-	-	-	-	(1)		-
Other Adjustments (Rescissions, etc)											
Funds From Dedicated Collections	-	(1)	-	-	-	-	-	-	(1)	-	(2)
All Other Funds	(37)	-	(38)	(5)	(124)	(26)	(2)	(7)	(97)	-	(337)
Appropriations Used											
Funds From Dedicated Collections	-	-	-	1	4	-	(31)	-	(1)	-	(28)
All Other Funds	(327)	-	(28,616)	(2,910)	(1,849)	(1,112)	(5,830)	(1,038)	(7,659)	-	(49,341)
Other Financing Sources:											
Total Financing Sources											
Funds From Dedicated Collections	-	(1)	-	1	4	-	(31)	-	(2)	-	(30)
All Other Funds	3	-	479	(393)	132	(629)	(2,733)	(45)	(389)	-	(3,575)
Total Financing Sources	3	(1)	479	(392)	136	(629)	(2,764)	(45)	(391)	-	(3,605)
Net Change											
Funds From Dedicated Collections	-	1	-	17	17	-	90	7	(356)	-	(224)
All Other Funds	872	-	10,001	4,767	4,853	2,683	24,366	3,432	5,469	-	56,442
Total Unexpended Appropriations	**872**	**1**	**10,001**	**4,784**	**4,870**	**2,683**	**24,456**	**3,439**	**5,113**	**-**	**56,218**
Total All Funds											
Funds From Dedicated Collections	-	18,537	-	17	17	-	90	7	881	-	19,549
All Other Funds	2,885	-	10,001	4,763	4,853	4,634	24,367	3,432	5,571	-	60,506
Net Position	**$ 2,885**	**$ 18,537**	**$ 10,001**	**$ 4,780**	**$ 4,870**	**$ 4,634**	**$ 24,457**	**$ 3,439**	**$ 6,452**	**$ -**	**$ 80,055**

Figures may not add to totals because of rounding.

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Period Ending September 2013 (Restated)
(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	$ -	$ 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	-	28,502	2,876	1,824	1,066	5,175	1,380	7,902	-	56,215
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)	-	-	-	-	-	-	-	(585)	-	(3,959)
Total Financing Sources											
Funds From Dedicated Collections	-	1	-	(1)	6	-	444	-	9	-	459
All Other Funds	4,684	-	28,690	2,982	1,909	624	5,231	1,407	6,789	-	52,317
Total Financing Sources	4,684	1	28,690	2,981	1,915	624	5,675	1,407	6,798	-	52,776
Net Cost of Operations											
Funds From Dedicated Collections	-	623	-	1	(6)	-	(444)	-	(8)	-	167
All Other Funds	9,398	-	(28,690)	(2,942)	(1,908)	(969)	(5,231)	(1,407)	(6,779)	-	(38,529)
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	-	-	159	-	427
Total All Funds	**$ (1,884)**	**$ 16,933**	**$ -**	**$ (15)**	**$ -**	**$ 2,167**	**$ -**	**$ -**	**$ 1,377**	**$ -**	**$ 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	Financial Statement Eliminations	Consolidating
Net Position - Beginning of Period											
Funds From Dedicated Collections	$ -	$ 2	$ -	$ 6	$ 13	$ -	$ 564	$ 5	$ (350)	$ -	$ 240
All Other Funds	862	-	10,118	5,911	4,835	3,922	15,152	4,489	6,941	-	52,229
Beginning Balances	862	2	10,118	5,917	4,848	3,922	15,716	4,494	6,591	-	52,469
Adjustments											
Corrections of Errors											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	1,124	(252)	(123)	(43)	(1,181)	(576)	(101)	-	(1,151)
Beginning Balances, As Adjusted											
Funds From Dedicated Collections	-	2	-	6	13	-	564	4	(350)	-	240
All Other Funds	862	-	11,242	5,659	4,713	3,879	13,971	3,913	6,840	-	51,078
Total Beginning Balances, As Adjusted	862	2	11,242	5,665	4,726	3,879	14,535	3,917	6,490	-	51,318
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)	-	(3,442)
Appropriations Used											
Funds From Dedicated Collections	-	-	-	1	(6)	-	(444)	-	(7)	-	(456)
All Other Funds	(7,490)	-	(28,502)	(2,876)	(1,824)	(1,066)	(5,175)	(1,380)	(7,902)	-	(56,215)
Other Financing Sources:											
Total Financing Sources											
Funds From Dedicated Collections	-	-	-	1	(6)	-	(444)	-	(6)	-	(455)
All Other Funds	7	-	(1,719)	(508)	6	(567)	13,119	(438)	(983)	-	8,917
Total Financing Sources	7	-	(1,719)	(507)	-	(567)	12,675	(438)	(989)	-	8,462
Net Change											
Funds From Dedicated Collections	-	2	-	8	7	-	120	5	(356)	-	(215)
All Other Funds	869		9,522	5,150	4,719	3,312	27,090	3,475	5,858	-	59,995
Total Unexpended Appropriations	**869**	**2**	**9,522**	**5,158**	**4,726**	**3,312**	**27,210**	**3,480**	**5,502**	**-**	**59,780**
Total All Funds											
Funds From Dedicated Collections	-	16,935	-	8	7	-	120	5	862	-	17,937
All Other Funds	(1,015)	-	9,522	5,135	4,719	5,479	27,090	3,475	6,016	-	60,421
Net Position	**$ (1,015)**	**$ 16,935**	**$ 9,522**	**$ 5,143**	**$ 4,726**	**$ 5,479**	**$ 27,210**	**$ 3,480**	**$ 6,878**	**$ -**	**$ 78,358**

Figures may not add to totals because of rounding.

Department of Housing and Urban Development
Consolidating Statement of Budgetary Resources
For the Period Ending September 2014
(Dollars in Millions)

	Federal Housing Administration Budgetary	Government National Mortgage Association Budgetary	Section 8 Rental Assistance	Public and Indian Housing Loans & Grants	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Budgetary Total	Federal Housing Administration Non Budgetary	Government National Mortgage Association Non Budgetary	Other NonBudgetary Credit Program Accounts	Total NonBudgetary Credit Program Financing Accounts	Financial Statement Eliminations	Total
Budgetary Resources:																
Unobligated Balance Brought Foward, October	$ 837	$ 8,501	$ 601	$ 144	$ 2,271	$ 549	$ 13,890	$ 206	$ 1,155	$ 28,153	$ 57,855	$ 2,238	$ 323	$ 60,416	$ -	$ 88,569
Adjustments to Unobligated Balance, Brought Forward, October 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unobligated balance brought forward, October 1, adjusted	837	8,501	600	144	2,271	549	13,890	206	1,155	28,153	57,855	2,238	323	60,416	-	88,569
Recoveries of prior year unpaid obligations	71	59	91	11	157	20	5	25	203	643	765	-	16	781	-	1,423
Other changes in unobligated balance	(271)	-	(1)	(5)	(123)	(103)	(2)	(7)	(98)	(611)	(1)	-	(7)	(8)	-	(619)
Unobligated balance from prior year budget authority, net	637	8,560	690	150	2,305	466	13,893	224	1,260	28,185	58,619	2,238	332	61,189	-	89,373
Appropriations (discretionary and mandatory)	367	-	29,096	2,522	2,105	510	3,100	1,000	7,091	45,790	-	-	-	-	-	45,790
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	8,769	-	1	8,770	-	8,770
Spending Authority from offsetting collections	13,317	757	-	3	10	167	1	-	50	14,305	24,002	3,531	150	27,683	-	41,989
Total Budgetary Resources	**$ 14,321**	**$ 9,317**	**$ 29,786**	**$ 2,675**	**$ 4,420**	**$ 1,143**	**$ 16,993**	**$ 1,224**	**$ 8,401**	**$ 88,280**	**$ 91,390**	**$ 5,769**	**$ 483**	**$ 97,642**	**$ -**	**$ 185,922**
Status of Budgetary Resources:																
Obligations Incurred																
Direct	6,169	20	29,050	2,525	1,958	573	4,816	1,024	7,141	53,277	45,820	-	46	45,866	-	99,143
Reimbursable	-	268	-	-	-	-	-	-	2	270	-	2,018	-	2,018	-	2,288
Subtotal	6,169	288	29,050	2,525	1,958	573	4,816	1,024	7,143	53,547	45,820	2,018	46	47,884	-	101,431
Unobligated Balances																
Apportioned	85	4	687	117	2,039	324	12,159	177	504	16,096	13,494	-	85	13,580	-	29,676
Unapportioned	8,067	9,025	49	33	423	246	18	23	754	18,637	32,076	3,751	350	36,178	-	54,815
Subtotal	8,152	9,029	736	150	2,462	570	12,177	200	1,258	34,733	45,570	3,751	435	49,758	-	84,491
Total Status of Budgetary Resources	**$ 14,321**	**$ 9,317**	**$ 29,786**	**$ 2,675**	**$ 4,420**	**$ 1,143**	**$ 16,993**	**$ 1,224**	**$ 8,401**	**$ 88,280**	**$ 91,390**	**$ 5,769**	**$ 481**	**$ 97,642**	**$ -**	**$ 185,922**
Change in Obligated Balance																
Unpaid Obligations:																
Unpaid obligations, brought forward, Oct 1	634	371	8,363	5,257	2,691	2,862	14,418	3,819	5,819	44,234	2,539	114	38	2,691	-	46,925
Adjustments to unpaid obligations, start of year (+ or -) (Note 28)	-	-	-	10	-	-	-	-	-	10	-	-	-	-	-	10
Obligations Incurred	6,169	288	29,050	2,525	1,958	573	4,816	1,024	7,143	53,547	45,820	2,018	46	47,884	-	101,431
Outlays, (gross) (-)	(6,145)	(205)	(28,457)	(2,911)	(1,887)	(1,112)	(6,369)	(1,250)	(7,615)	(55,950)	(45,366)	(1,981)	(48)	(47,395)	-	(103,345)
Actual Transfers, unpaid obligations (net) (+ or -)	-	(114)	-	-	-	-	-	-	-	(114)	-	115	-	115	-	-
Recoveries of prior year unpaid obligations (-)	(71)	(60)	(91)	(11)	(157)	(20)	(5)	(25)	(203)	(643)	(765)	-	(16)	(781)	-	(1,423)
Unpaid obligations, end of year (gross)	587	280	8,865	4,871	2,605	2,303	12,860	3,568	5,144	41,084	2,228	266	20	2,514	-	43,598
Uncollected Payments:																
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	(3)	(10)	-	-	-	-	-	-	(3)	(17)	-	(8)	(58)	(66)	-	(82)
Change in uncollected customer payments, Fed sources (+ or -)	(6)	10	-	-	-	-	-	-	-	5	-	7	6	13	-	17
Uncollected payments, Fed sources, end of year (-)	(9)	-	-	-	-	-	-	-	(3)	(12)	-	(1)	(52)	(53)	-	(65)
Obligated balance, start of year (+ or-)	**$ 631**	**$ 362**	**$ 8,363**	**$ 5,267**	**$ 2,691**	**$ 2,862**	**$ 14,418**	**$ 3,819**	**$ 5,815**	**$ 44,228**	**$ 2,540**	**$ 106**	**$ (20)**	**$ 2,625**	**$ -**	**$ 46,853**
Obligated balance, end of year (net)	**$ 578**	**$ 280**	**$ 8,865**	**$ 4,871**	**$ 2,605**	**$ 2,303**	**$ 12,861**	**$ 3,568**	**$ 5,141**	**$ 41,072**	**$ 2,229**	**$ 264**	**$ (32)**	**$ 2,461**	**$ -**	**$ 43,533**
Budget Authority and Outlays, Net:																
Budget authority, gross (discretionary and mandatory)	13,684	757	29,096	2,525	2,115	677	3,101	1,000	7,140	60,095	32,771	3,531	151	36,453	-	96,548
Actual offsetting collections (discretionary and mandatory) (-)	(13,311)	(847)	-	(3)	(10)	(484)	(1)	-	(50)	(14,706)	(31,182)	(3,538)	(157)	(34,876)	-	(49,582)
Change in Uncollected Customer Payments From Fed Sources (Dis and Man) (+ or -)	(6)	10	-	-	-	-	-	-	-	5	-	7	6	12	-	17
Budget Authority, net (discretionary and mandatory)	367	(79)	29,096	2,522	2,105	193	3,100	1,000	7,090	45,394	1,589	-	1	1,589	-	46,983
Outlays, gross (discretionary and mandatory)	6,145	205	28,457	2,911	1,887	1,112	6,369	1,250	7,615	55,950	45,366	1,981	48	47,395	-	103,345
Actual offsetting collections (discretionary and mandatory) (-)	(13,311)	(847)	-	(3)	(10)	(484)	(1)	-	(50)	(14,706)	(31,182)	(3,538)	(158)	(34,877)	-	(49,582)
Outlays, net (discretionary and mandatory)	(7,166)	(642)	28,457	2,908	1,877	628	6,368	1,250	7,565	41,244	14,184	(1,557)	(110)	12,518	-	53,763
														-		
Distributed offsetting receipts	(2,668)	-	(9)	-	-	-	-	-	(42)	(2,719)	-	-	-	-	-	(2,719)
Agency Outlays, net (discretionary and mandatory)	**$ (9,834)**	**$ (642)**	**$ 28,448**	**$ 2,908**	**$ 1,877**	**$ 628**	**$ 6,368**	**$ 1,250**	**$ 7,523**	**$ 38,525**	**$ 14,184**	**$ (1,556)**	**$ (110)**	**$ 12,518**	**$ -**	**$ 51,043**

Figures may not add to totals because of rounding.

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

	Federal Housing Administration Budgetary	Government National Mortgage Association Budgetary	Section 8 Rental Assistance	Public and Indian Housing Loans & Grants	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Budgetary Total	Federal Housing Administration Non-Budgetary	Government National Mortgage Administration Non Budgetary	Other NonBudgetary Credit Program Accounts	Total NonBudgetary Credit Program Financing Accounts	Financial Statement Eliminations	Total
Budgetary Resources:																
Unobligated Balance Brought Foward, October	$ 4,074	$ 7,929	$ 360	$ 147	$ 2,393	$ 468	$ 746	$ 163	$ 1,202	$ 17,483	$ 40,275	$ 777	$ 216	$ 41,267	$ -	$ 58,750
Adjustments to Unobligated Balance, Brought Forward, October 1	1	-	-	2	-	-	-	-	-	3	-	-	(3)	(3)	-	1
Unobligated balance brought forward, October 1, adjusted	4,075	7,929	360	150	2,393	468	746	163	1,202	17,486	40,275	777	213	41,264	-	58,750
Recoveries of prior year unpaid obligations	87	1	173	24	133	31	26	20	132	627	404	-	-	404	-	1,030
Other changes in unobligated balance	(208)	-	(32)	(23)	(103)	(48)	(22)	(6)	(54)	(496)	-	-	-	-	-	(496)
Unobligated balance from prior year budget authority, net	3,954	7,930	500	150	2,423	451	750	177	1,281	17,617	40,678	777	213	41,668	-	59,285
Appropriations (discretionary and mandatory)	7,525	(1)	26,815	2,391	1,933	511	18,316	948	6,564	65,002	-	-	-	-	-	65,002
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	19,092	-	102	19,194	-	19,193
Spending Authority from offsetting collections	22,922	1,249	-	3	1	80	-	-	60	24,315	54,696	4,600	70	59,366	-	83,682
Total Budgetary Resources	**$ 34,401**	**$ 9,178**	**$ 27,315**	**$ 2,545**	**$ 4,357**	**$ 1,042**	**$ 19,067**	**$ 1,125**	**$ 7,905**	**$ 106,934**	**$ 114,466**	**$ 5,377**	**$ 385**	**$ 120,228**	**$ -**	**$ 227,163**
Status of Budgetary Resources:																
Obligations Incurred																
Direct	33,564	22	26,715	2,401	2,086	493	5,176	919	6,741	78,117	56,611	-	62	56,673	-	134,791
Reimbursable	-	440	-	-	-	-	-	-	9	449	-	3,139	-	3,139	-	3,587
Subtotal	33,564	462	26,715	2,401	2,086	493	5,176	919	6,749	78,566	56,611	3,139	62	59,812	-	138,378
Unobligated Balances																
Apportioned	77	2	560	114	1,871	391	13,875	190	502	17,581	24,999	-	129	25,128	-	42,710
Unapportioned	761	8,715	40	29	400	158	15	15	653	10,787	32,856	2,238	194	35,288	-	46,075
Subtotal	837	8,717	600	144	2,271	549	13,890	206	1,155	28,368	57,855	2,238	323	60,416	-	88,785
Total Status of Budgetary Resources	**$ 34,401**	**$ 9,178**	**$ 27,315**	**$ 2,545**	**$ 4,357**	**$ 1,042**	**$ 19,067**	**$ 1,125**	**$ 7,905**	**$ 106,934**	**$ 114,466**	**$ 5,377**	**$ 385**	**$ 120,228**	**$ -**	**$ 227,163**
Change in Obligated Balance																
Unpaid Obligations:																
Unpaid obligations, brought forward, Oct 1	732	380	9,751	5,792	2,474	3,476	15,037	4,340	7,214	49,196	2,472	111	51	2,634	-	51,830
Adjustments to unpaid obligations, start of year (+ or -) (Note 28)	(1)	-	-	(2)	-	-	-	-	-	(4)	-	-	-	-	-	(3)
Obligations Incurred	33,564	462	26,715	2,401	2,086	493	5,176	919	6,749	78,566	56,611	3,139	62	59,812	-	138,378
Outlays, (gross) (-)	(33,574)	(470)	(27,931)	(2,910)	(1,736)	(1,076)	(5,768)	(1,420)	(8,012)	(82,897)	(56,141)	(3,136)	(76)	(59,352)	-	(142,249)
Recoveries of prior year unpaid obligations (-)	(87)	(1)	(173)	(24)	(133)	(31)	(26)	(20)	(132)	(627)	(404)	-	-	(404)	-	(1,030)
Unpaid obligations, end of year (gross)	634	371	8,363	5,257	2,691	2,862	14,418	3,819	5,819	44,234	2,539	114	38	2,690	-	46,925
Uncollected Payments:																
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	(2)	(11)	-	-	-	-	-	-	(3)	(16)	-	(6)	(68)	(74)	-	(90)
Change in uncollected customer payments, Fed sources (+ or -)	(1)	-	-	-	-	-	-	-	-	(1)	-	(2)	11	8	-	8
Uncollected payments, Fed sources, end of year (-)	(3)	(11)	-	-	-	-	-	-	(3)	(17)	-	(8)	(58)	(66)	-	(82)
Obligated balance, start of year (+ or-)	**$ 729**	**$ 370**	**$ 9,751**	**$ 5,789**	**$ 2,474**	**$ 3,476**	**$ 15,037**	**$ 4,340**	**$ 7,211**	**$ 49,176**	**$ 2,472**	**$ 105**	**$ (17)**	**$ 2,560**	**$ -**	**$ 51,737**
Obligated balance, end of year (net)	**$ 631**	**$ 361**	**$ 8,363**	**$ 5,257**	**$ 2,691**	**$ 2,862**	**$ 14,418**	**$ 3,819**	**$ 5,815**	**$ 44,217**	**$ 2,540**	**$ 106**	**$ (20)**	**$ 2,625**	**$ -**	**$ 46,843**
Budget Authority and Outlays, Net:																
Budget authority, gross (discretionary and mandatory)	30,447	1,248	26,815	2,395	1,934	591	18,316	948	6,623	89,318	73,788	4,600	172	78,560	-	167,878
Actual offsetting collections (discretionary and mandatory) (-)	(22,921)	(1,249)	-	(3)	(1)	(589)	-	-	(62)	(24,826)	(59,375)	(4,598)	(81)	(64,054)	-	(88,880)
Change in Uncollected Customer Payments From Fed Sources (Dis and Man) (+ or -)	(1)	-	-	-	-	-	-	-	-	(1)	-	(2)	11	9	-	8
Budget Authority, net (discretionary and mandatory)	7,525	(1)	26,815	2,391	1,933	2	18,316	948	6,562	64,491	14,413	-	102	14,515	-	79,005
Outlays, gross (discretionary and mandatory)	33,574	470	27,931	2,910	1,736	1,076	5,768	1,420	8,012	82,897	56,141	3,136	76	59,352	-	142,249
Actual offsetting collections (discretionary and mandatory) (-)	(22,921)	(1,249)	-	(3)	(1)	(589)	-	-	(62)	(24,826)	(59,375)	(4,598)	(81)	(64,054)	-	(88,880)
Outlays, net (discretionary and mandatory)	10,653	(779)	27,931	2,906	1,735	487	5,768	1,420	7,951	58,071	(3,235)	(1,462)	(5)	(4,702)	-	53,369
Distributed offsetting receipts	(1,442)	-	(11)	-	-	-	-	-	(42)	(1,495)	-	-	-	-	-	(1,495)
Agency Outlays, net (discretionary and mandatory)	**$ 9,210**	**$ (779)**	**$ 27,920**	**$ 2,906**	**$ 1,735**	**$ 487**	**$ 5,768**	**$ 1,420**	**$ 7,909**	**$ 56,576**	**$ (3,235)**	**$ (1,462)**	**$ (5)**	**$ (4,702)**	**$ -**	**$ 51,874**

Figures may not add to totals because of rounding.

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

INDEPENDENT AUDITOR'S REPORT[1]

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

Report on the Financial Statements

The Chief Financial Officers Act of 1990 requires the U.S. Department of Housing and Urban Development (HUD) to prepare the accompanying consolidated balance sheets as of September 30, 2014 and 2013 (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, and the related notes to the financial statements. We were engaged to audit those financial statements in accordance with generally accepted government auditing standards accepted in the United States of America and Office of Management and Budget (OMB) Bulletin 14-02.

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 three separate reports 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 findings have been updated as needed for inclusion in the internal control and compliance with laws and regulations sections of the Independent Auditor's Report. The supplemental reports are available on the HUD OIG Internet site at http://www.hudoig.gov/reports-publications/audit-reports and are entitled (1) Interim Report on HUD's Internal Controls Over Financial Reporting (Audit Report 2015-FO-0002, issued December 8, 2014), (2) Audit of Federal Housing Administration Financial Statements for Fiscal Years 2014 and 2013 (Audit Report 2015-FO-0001, issued November 14, 2014), and (3) Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2014 and 2013 (Audit Report 2015-FO-0003, issued February 27, 2015).

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 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. With respect to fiscal year 2013, we did not audit the financial statements of the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) for the period ending September 30, 2013, that reflected total assets of 58 percent 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 2014 and 2013 financial statements related to the amounts included for FHA and Ginnie Mae as of September 30, 2013, is based solely on the reports of the other auditor.

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. Because of the matters described in the Basis for Disclaimer of Opinion on 2014 Financial Statements section, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The audit was conducted in accordance with government 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.

Basis for Disclaimer of Opinion on 2014 Financial Statements

Our audit identified two areas in which we were unable to obtain adequate audit evidence to provide a basis of opinion on the fiscal year 2014 financial statements. When evaluating these two areas and their impacts on the financial statements as a whole, we determined, in the aggregate, that they were both material and pervasive to the fiscal year 2014 consolidated financial statements. There were no other satisfactory audit procedures that we could adopt to obtain sufficient appropriate evidence with respect to these unresolved matters. Readers are cautioned that amounts reported in the financial statements and related notes may not be reliable.

Improper budgetary accounting. HUD continues to perform budgetary accounting for the Office of Community Planning and Development (CPD) that is not in accordance with Federal generally accepted accounting principles (GAAP) and has resulted in a material misstatement in HUD's combined statement of budgetary resources. HUD uses cumulative and first-in, first-out (FIFO) methods to disburse, which are both unacceptable and not in accordance with GAAP for grants in the Federal Government, to determine the amount of uncommitted HOME Investment Partnerships Program grant funds that would be subject to reallocation or 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 (approximately $5 billion in annual appropriations to support CPD-related programs, including the HOME Investment Partnerships, Community Development Block Grant, Housing Opportunities 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 GAAP), we determined that financial transactions related to these CPD programs that entered HUD's accounting system were being processed incorrectly. Thus, based on the pervasiveness of their effects, in our opinion, the obligated and unobligated balances brought forward and obligated and unobligated balances reported in HUD's combined statement of budgetary resources for fiscal year 2014 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 yearend due to the inadequacy of evidence available from HUD's mixed accounting and grants management system.

Disclaimer of opinion on Ginnie Mae financial statements. Despite multiple attempts, we were unable to obtain sufficient appropriate evidence to express an opinion on the fairness of the $6.6 billion in nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio. The nonpooled loan assets arose from the acquisition of nonperforming loans (typically over 120 days old delinquent) from Ginnie Mae's defaulted issuers' portfolio. These assets, which represent 26 percent of Ginnie Mae's total assets, were made up of a number of asset line items in the balance sheet. These are (1) mortgage loans held for investment ($5.3 billion), (2) advances against defaulted mortgage-backed security pools ($193 million), (3) short sale claims receivable ($50 million), (4) foreclosed-upon property ($616 million), (5) accrued interest on mortgage loans held for investment ($414 million), and (6) properties held for sale ($17 million). Ginnie Mae was unable to provide relevant documents and data, which we needed to complete our audit testing of these asset balances, because of the functional limitations of financial management systems to perform loan-level accounting as well as poor accounting and record-keeping practices. Additionally, Ginnie Mae improperly accounted for FHA reimbursable costs as an expense. These costs were charged to the mortgage-backed security loss liability account instead of being capitalized as an asset. This error resulted in the misstatement of the asset and net income and may require a restatement of previous years' financial statements, depending on the materiality of misstatements, resulting from multiple years of incorrect accounting. We were not able to determine with sufficient accuracy a proposed adjustment to correct the error due to insufficient available data. Using Ginnie Mae's limited data, our estimate of the error was between $144 million and $248 million. Ginnie Mae also had an insufficient basis to support the fairness of the $735 million in the mortgage-backed security loss liability account. The loss liability represents Ginnie Mae's estimated non-recoverable servicing and foreclosure costs to be incurred from its defaulted issuers' portfolio of nonpooled loans. This loss liability account was based on estimates and consisted of multiple assumptions. The foreclosure cost and loan redefault rate assumptions were two areas of audit concern.

We identified another matter that would have required a modification to the opinion because of materiality; however, it was not pervasive.

<u>*Unvalidated grant accrual estimates*</u>. In reporting on HUD's liabilities, HUD's principal financial statements were not prepared in accordance with the requirements of the Federal Government and Federal Accounting Standards Advisory Board (FASAB) Technical Release (TR) 12. FASAB TR 12 provides guidance to agencies on how to develop a reasonable estimate to report on the financial statements. For the first time, HUD prepared an estimate to accrue for these liabilities on its financial statements, which totaled $1.501 billion and $2.213 billion for fiscal years 2014 and 2013, respectively. While we obtained sufficient appropriate audit evidence indicating that fiscal year 2013's estimate was likely to have been misstated and did not represent a reasonable estimate, we were unable to do so for the fiscal year 2014 estimate. This lack of evidence was due to HUD's not adequately validating its estimates with grantee reporting to substantiate the assumptions used to develop the accrued grant liability estimates and insufficient time to perform all of the audit procedures we deemed necessary to obtain sufficient appropriate audit evidence to form an opinion on the estimate in lieu of adequate validation procedures by HUD. Therefore, we could not form an opinion on HUD's grant accrual estimate for fiscal year 2014.

Disclaimer of Opinion on the Fiscal Year 2014 Financial Statements

Because of the significance of the matters described in the Basis for Disclaimer of Opinion on 2014 Financial Statements section above, we were not able to obtain sufficient appropriate audit evidence to provide an audit opinion on HUD's principal financial statements and accompanying notes as of September 30, 2014, and its net costs, changes in net position, and budgetary resources for the fiscal year then ended. Accordingly, we do not express an opinion on the financial statements.

Qualified Opinion on Fiscal Year 2013 (Restated) Financial Statements

In our opinion, based on our audit and the reports of other auditors, except for the discussion related to improper budgetary accounting included in the Basis for Disclaimer of Opinion on 2014 Financial Statements section, the principal financial statements and accompanying notes presented fairly, in all material respects, the financial position of HUD as of September 30, 2013, and its net costs, changes in net position, and budgetary resources for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

In our prior-year reported opinion, dated December 16, 2013, we reported a modified opinion due to scope limitations related to improper budgetary accounting for Ginnie Mae and the lack of accounting for cash management. During the current year, we obtained sufficient appropriate audit evidence in these areas to support the clearance of these two basses' for qualification. Accordingly, our present opinion on the restated fiscal year 2013 financial statements has been updated to reflect the removal of these bases for qualification. However, the qualification related to improper budgetary accounting related to CPD's use of the FIFO and cumulative methods remains.

At the time of issuance of this auditor's report and as discussed in Note 30 to the financial statements, the 2013 financial statements have been restated for the correction of two material misstatements, the accounting for Office of Public and Indian Housing (PIH) Prepayments and the accrual of liabilities related to grantee expenses incurred but not reimbursed. Additionally, another restatement was made to accurately classify Ginnie Mae's resources as budgetary and non-budgetary. There were other material misstatements in the fiscal year 2014 financial statements related to the current use of the FIFO method to liquidate obligations under CPD's formula grant programs, and no adjustments had been made related to the use of FIFO 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 can be found in Note 30 to the financial statements.

Other Matters

Prior-Period Financial Statements Audited by a Predecessor Auditor

Ginnie Mae's financial statements as of September 30, 2013, were audited by CliftonLarsonAllen LLP (CLA), which expressed in a report on November 25, 2013, an unqualified opinion on those statements. In fiscal year 2014, we communicated to CLA material misstatements in the financial statements that we identified during our audit that affected previously issued financial statements. CLA reviewed the issues raised and concurred with our conclusion. Accordingly, CLA notified OIG that CLA is withdrawing the opinion rendered in connection with its audit of Ginnie Mae's 2013 financial statements because the opinion can no longer be relied upon.

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 FASAB, 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. We were unable to apply certain limited procedures to the required supplementary information in accordance with government auditing standards generally accepted in the United States because management could not provide the information within the timeframe required to allow for us to perform the necessary procedures. We do not express an opinion or provide any assurance on the information.

In its Fiscal Year 2014 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 FASAB and OMB Circular A-136.

Other Information
Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. HUD's Agency Financial Report contains other information that is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the principal financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Additional details on our findings regarding HUD's, FHA's, and Ginnie Mae's internal controls are summarized below and were provided in separate reports to HUD management.[2] 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 noted in our reports the following eight material weaknesses and eight significant deficiencies.

[2] Audit Report 2015-FO-0002, Interim Report on HUD's Internal Controls Over Financial Reporting, issued December 8, 2014
Audit Report 2015-FO-0001, Federal Housing Administration Financial Statements Audit, issued November 14, 2014
Audit Report 2015-FO-0003, Government National Mortgage Association Financial Statement Audit, issued February 27, 2015)

Material Weaknesses

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

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

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

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

<u>HUD's Grant Accrual Estimates Were Not Validated</u>

HUD did not validate its grant accrual estimates, and CPD did not include grants that were recorded and tracked in HUD's Disaster Recovery Grant Reporting (DRGR) system in its estimate. This deficiency was due to a lack of proper validation procedures in HUD's estimation methodologies, CPD's excluding DRGR system grants in its methodologies, and a lack of relevant grantee reporting. As a result, CPD's fiscal year 2013 grant accrual estimate was overstated by at least $378 million. Further, for fiscal year 2014, we were unable to perform all of the audit procedures we deemed necessary to obtain sufficient appropriate audit evidence to form an opinion on HUD's estimate because of the internal control weaknesses in HUD's accrued grant liability estimates.

<u>Financial Management System Weaknesses Continued To Challenge HUD</u>

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

<u>FHA Did Not Recognize Accounts Receivable When Claims to Cash Were Established</u>

In fiscal year 2014, FHA was awarded seven cash settlements totaling $1.2 billion and collected $466.6 million of those settlements. Additionally, during fiscal year 2014, as part of its loss mitigation efforts to bring delinquent loans current, FHA paid $4.4 billion to lenders for partial claims; however, FHA did not receive promissory notes from the mortgagee for $1.5 billion of the claim payments as required. In the absence of a promissory note, the mortgagee was required to return the claim payment to FHA. Due to the nonroutine nature of legal settlements for FHA and the its contractor's backlog for recording promissory notes for partial claim payments, FHA did not properly recognize these receivables. As a result, as of September 30, 2014, adjustments were needed to (1) recognize FHA's anticipated collections of $722.2 million in settlement fees and (2) reclassify $703.2 million in net loans receivable related to partial claims paid without the corresponding promissory note.

<u>Material Asset Balances Related to Nonpooled Loans Were Not Auditable</u>

Due to deficiencies in Ginnie Mae's control environment, accounting practices used, and financial systems deployed, we encountered problems related to the auditability of the accounting data and records used to support the completeness, accuracy, and reliability of the $6.6 billion in nonpooled loan assets reported in Ginnie Mae's financial statements as of September 30, 2014. These assets included (1) mortgage loans held for investment ($5.3 billion), (2) advances against defaulted mortgage-backed security pools ($193 million), (3) short sale claims receivable ($50 million), (4) foreclosed-upon property

($616 million), (5) accrued interest on mortgage loans held for investment ($414 million), and (6) properties held for sale ($17 million).

Factors contributing to these issues included the inability of Ginnie Mae's master-subservicers' servicing systems to handle loan-level transaction accounting at a granular level and the poor servicing performance of its previous master-subservicers as well as a weak and ineffective financial management governance structure. As a result, we were unable to perform all of the audit procedures that we determined necessary for obtaining sufficient appropriate evidence to express an opinion on Ginnie Mae's $6.6 billion in assets as of September 30, 2014.

Ginnie Mae's Internal Controls Over Financial Reporting Had Weaknesses

Ginnie Mae had ineffective internal controls over its financial reporting processes. The material weaknesses in internal controls were issues related to the (1) improper accounting for FHA reimbursable costs incurred and accrued interests earned on Ginnie Mae's $6.6 billion portfolio of nonpooled loans, (2) errors in the preparation of financial reports, (3) nonreporting of escrow deposits held in trust by Ginnie Mae for the borrowers in its financial statements, and (4) improper classification and presentation of financial information in Ginnie Mae's balance sheet and statement of cash flows. Contributing factors were Ginnie Mae's inadequate monitoring, governance, and oversight of its accounting and reporting functions by executive management staff and system limitations in tracking accounting transactions at a loan level. These deficiencies resulted in material misstatements in Ginnie Mae's financial statements.

HUD's and Ginnie Mae's Financial Management Governance Were Ineffective[3]

Overall, we determined that HUD's financial management governance was ineffective. Weaknesses in program and component internal control that impacted financial reporting were able to develop in part due to a lack of financial management governance processes that could detect or prevent significant program and component-level internal control weaknesses.

[3] This was classified as a material weakness, based on the findings on financial management governance reported in Audit Report 2015-FO-0002, Interim Report on HUD's Internal Controls Over Financial Reporting, and Audit Report 2015-FO-0003, Fiscal Years 2014 and 2013 Financial Statements Audit for Ginnie Mae.

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

Our audit of Ginnie Mae found that it had failed to establish an appropriate financial management governance structure to ensure that it was capable of producing accurate, timely information and accounting records to plan, monitor, and report on its business operations. This failure in governance was the underlying cause of the problems cited in the Ginnie Mae financial statement audit report. We noted a number of problems in the oversight, management, and operations of Ginnie Mae's OCFO. Specifically, Ginnie Mae (1) left a number of critical financial management positions unfilled, which weakened its organizational structure and created a gap in its internal control system for monitoring a more than $6 billion portfolio of nonperforming loans; (2) failed to adequately identify, analyze, and respond to changes in the control environment and risk associated with the acquisition of a multi-billion-dollar servicing portfolio; and (3) failed to adequately establish accounting policies, procedures, and accounting systems to manage and control the loan accounting and processing of the activities related to its defaulted issuers' portfolio. This condition occurred because of Ginnie Mae executive management's failure to respond appropriately to changes in its business environment and risks and the void in HUD's senior leadership created by the extended absence of a permanent HUD Chief Financial Officer. The combination of these failures in governance contributed to Ginnie Mae's inability to produce auditable financial statements for use by its external and internal users.

Significant Deficiencies

Weaknesses in HUD's Administrative Control of Funds System Continued

HUD did not have a fully implemented and complete administrative control of funds system, which provided oversight of both obligations and disbursements. Our review noted instances in which (1) disbursements were made before the legal point of obligation was documented in the funds control plan, which authorized the use of funds; (2) program offices did not follow HUD's administrative control of funds; (3) program codes were not included in funds control plans; and (4) funds control plans were out of date or did not reflect the controls and procedures in place. These conditions existed because of (1) decisions made by HUD OCFO, (2) failures by HUD's allotment holders to update their funds control plans and notify OCFO of changes in their obligation process before implementation, (3) a lack of compliance reviews in prior years, and (4) 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.

HUD Continued To Report Significant Amounts of Invalid Obligations

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

Weaknesses in HUD's Rental Housing Assistance Program Monitoring Continued

While weakness in HUD's rental assistance program continued, HUD was working through previous Office of Inspector General (OIG) recommendations to improve monitoring of its more than 2,200 PHAs to ensure that they (1) report accurate financial data in a timely manner, (2) use their funds and leasing capacity, (3) comply with statutory objectives, and (4) verify tenant data to reasonably ensure correct housing subsidy payments. Although HUD had improved some aspects of its internal controls from previous years, more improvements are needed to ensure that these objectives are met. Specifically, (1) PIH continued to lack adequate assurance that the Voucher Management System self-reported data were accurate, (2) PHAs did not fully use their available funding, (3) PHAs continued to make significant amounts of improper payments, and (4) compliance with Moving to Work Demonstration program statutory requirements could not be evaluated because newly required reporting metrics were still under review. We attribute the majority of these shortcomings to agency priorities and the effects of sequestration.

The Emergency Homeowner's Loan Program Data in HUD's Loan Accounting System Were Not Reliable[4]

Data entered into HUD's Loan Accounting System (LAS) for the Emergency Homeowner's Loan Program (EHLP) were not reliable. Specifically, (1) the EHLP loan data initially entered into LAS were inaccurate, (2) the EHLP loan data in LAS were incomplete, (3) the data correction process used by HUD did not result in accurate data, (4) loan-level detail of accounting transactions processed on the EHLP loans in LAS was lost during the rebuild process, and (5) internal control weaknesses in EHLP contributed to the data inaccuracies. These conditions occurred because EHLP was implemented quickly, using existing systems and processes, and did not have a centralized office responsible for the administration and management of the program in its entirety. As a result, the EHLP data in LAS at the 2014 fiscal yearend were unreliable, did not support the loan receivable balances in the general ledger, and did not have the loan-level transaction detail required for a subsidiary ledger. Approximately $116 million in EHLP loans was not recorded in HUD's general ledger and financial statements.

HUD's Computing Environment Controls Had Weaknesses[5]

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 general and application controls over selected information systems that 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.

Liabilities Were Not Recognized for Unearned Premium Collections or Unpaid Supplemental Claims

Regulations require FHA to collect upfront mortgage insurance premiums before the endorsement of Single Family Forward loans and before providing insurance coverage. FHA recognized the premiums collected before loan endorsement as earned rather than deferred revenue, although it did not provide insurance coverage. This condition occurred because FHA's policy is to recognize cash collection as an inflow when received. Recognition of revenue at this point is a departure from GAAP. The inclusion of premium collections in the single-family liability for loan guarantee (LLG) balance for loans closed but not endorsed causes the LLG balance to be overstated and the annual reestimate expense to be understated.

---

[4] Audit Report 2015-DP-0004, Loan Accounting System, issued December 9, 2014

[5] Audit Report 2015-DP-0005, Fiscal Year 2014 Review of Information Systems Controls in Support of the Financial Statements Audit, issued February 24, 2015

In addition, FHA did not have a process to accrue the estimated liability for unpaid single-family suspended supplemental claims filed. FHA assumed that the liability for supplemental claims was accounted for under the LLG. Under that assumption, FHA's accrual process excluded an accrual for unpaid supplemental claims filed but not processed or approved and understated the liability.

Weaknesses Identified in Selected FHA Information Technology Systems

Our review of the general and application controls over the FHA Single Family Housing Enterprise Data Warehouse and the FHA subsidiary ledger system found weaknesses in the data warehouse and the FHA subsidiary ledger information systems. These conditions occurred because some application controls were not sufficient. As a result, the appropriate confidentiality, integrity, and availability of critical information may have been negatively impacted. The information used to provide input to the FHA financial statements could be adversely affected.

Ginnie Mae's Financial Management System Information Security Controls Did Not Fully Comply With Federal Requirements and Its Own Security Policies

Ginnie Mae did not ensure that information security controls over the Ginnie Mae Financial Accounting System (GFAS) fully complied with Federal requirements and Ginnie Mae's own security policies in its financial management system. GFAS is a financial management system that tracks, records, and reports on the agency's accounting information. This process involves information used in the aggregate set of accounting practices and procedures to allow for accurate and effective handling of government revenues, funding, and expenditures. GFAS supports the financial functions required to track financial events and provides financial information significant to the financial management of the agency. It also maintains financial information that is used for the preparation of OMB and U.S. Government Accountability Office (GAO) reporting requirements.

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. 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

We noted instances in which HUD's financial management system did not substantially comply with the Federal Financial Management Improvement Act (FFMIA). HUD's continued noncompliance was largely due to a reliance on legacy financial systems and information security weaknesses. Additionally, we noted FFMIA noncompliance in Ginnie Mae systems. Ginnie Mae was unable to provide adequate support for nonpooled loan asset balances due to the financial system limitations. Manual procedures implemented to compensate for system weaknesses were insufficient to ensure the completeness and accuracy of these account balances, resulting in noncompliance with

Federal financial system requirements, an element of FFMIA. This matter is discussed further in the Material Weaknesses section. While HUD continued to work toward financial management system modernization and FFMIA compliance, significant challenges remained.

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

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

HUD Did Not Comply With the HOME Investment Partnership Act

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

HUD Did Not Comply With the Improper Payments Elimination and Recovery Act of 2010

OMB Circular A-123 defines compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) as meeting all seven of its requirements. For fiscal year 2013, HUD OIG's IPERA audit[6] deemed HUD not to be in compliance with IPERA because it did not meet the following three requirements: to (1) publish corrective action plans in the annual financial report, (2) meet its annual reduction target, and (3) report information on its recapture efforts. The audit found that HUD inaccurately reported on its corrective actions in its agency financial report, did not meet its annual reduction target rate, and did not accurately and sufficiently report on its recapture efforts.

[6] Audit Report 2014-FO-004, Compliance With the Improper Payments Elimination and Recovery Act of 2010, issued April 15, 2014

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 the ratio of capital to unamortized 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 for underwriting loans guaranteed by the MMI Fund. This report for fiscal year 2014 reported the capital reserve ratio at 0.41 percent, which is below the required 2 percent.

Results of the Audit of FHA's Financial Statements

We performed a separate audit of FHA's fiscal years 2014 and 2013 financial statements. Our report on FHA's financial statements, dated November 14, 2014,[7] includes an unqualified opinion on FHA's financial statements, along with discussion of one material weakness, two significant deficiencies in internal controls, and one instance of noncompliance with laws and regulations.

Results of the Audit of Ginnie Mae's Financial Statements

We performed a separate audit of Ginnie Mae's fiscal years 2014 and 2013 financial statements. Our report on Ginnie Mae's financial statements, dated February 27, 2015,[8] includes a disclaimer of opinion on these financial statements, along with discussion of four material weaknesses and one significant deficiency in internal control.

Objectives, Scope, and Methodology

As part of our audit, we considered HUD's internal controls over financial reporting. We are not providing assurance on those internal controls. Therefore, 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.

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

[7] Audit Report 2015-FO-0001, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2014 and 2013, issued November 14, 2014, was incorporated into this report.
[8] Audit Report 2015-FO-0003, Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2014 and 2013, issued February 27, 2015, was incorporated into this report.

deficiencies; or noncompliance with 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.

As stated in "other matters", we were not able to perform limited procedures related to management's discussion and analysis and HUD's Fiscal Year 2014 Agency Financial Report. We do not provide an opinion or provide any assurance on the information.

Because of the matters described in the Basis for Disclaimer of Opinion on 2014 Financial Statements section above, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Agency Comments and Our Evaluation

On November 3, 2014, 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 November 25, 2014, which is included in its entirety in our separate report, along with our complete evaluation of the response. We provided another opportunity for HUD to provide comments to our draft Independent Auditor's Report issued February 23, 2015. HUD did not provide any additional comments for consideration. HUD's response to our separate report 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. Comments to the FHA and GNMA audit reports were evaluated separately and are included in their standalone audit reports.

HUD has implemented a new module within IDIS Online to address the material weakness regarding the Office of Community Planning and Development's use of the FIFO method for formula grant accounting. However, this implementation will not eliminate FIFO retroactively and the Department disagrees that such a change is warranted. Additionally, HUD disagrees with the statement that non-compliance with the HOME Statute will remain until the cumulative method of accounting for commitments is no longer used. OIG will continue to take exception with the continued use of the FIFO method and the cumulative method for determining compliance with the HOME statute until the effects on HUD's financial statements are determined to be immaterial.

HUD generally agreed with our findings regarding weaknesses in HUD's grant accrual estimation process. While CPD has revised its methodology for estimating grant accruals, PIH disagrees that their validation methodology was not sufficient. OIG continues to take the position that PIH's validation procedures were not sufficient in accordance with the accounting standards, which requires subsequent grantee reporting to be used to validate any estimates.

Lastly, HUD stated that they will address the material weakness regarding financial management systems with the conversion to a shared service provider, known as New Core. However HUD objects to the characterization of the financial statement consolidation process as costly and inefficient. OIG's position is supported by the increase in the number of material weaknesses reported over the past several years related to weaknesses in accurate financial reporting. OIG will evaluate and monitor progress in implementing New Core.

This report is intended for the information and use of the management of HUD, OMB, GAO, 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 operations that we are reporting to HUD management in a separate management letter.

Randy W. McGinnis
Assistant Inspector General for Audit

February 27, 2015

Schedule of Spending

U.S. Department of Housing and Urban Development
Schedule of Spending
For the Years Ended September 30, 2014, and 2013
in millions

	FHA Programs	GNMA Programs	CFO Programs	HUD Total
FY 2014				
What Money is Available to Spend?				
Total Resources	105,710	15,087	65,125	185,922
Less: Amount Available but not Agreed to be Spent	(13,579)	(4)	(16,090)	(29,673)
Less: Amount Not Available to be Spent	(40,142)	(12,776)	(1,897)	(54,815)
			-	
Total Amounts Agreed to be Spent	51,989	2,307	47,138	101,434
How was the money Spent?				
Category A Programs				
10 Personnel Compensation and Benefits			929	929
20 Contractual Services and Supplies				
30 Acquisition of Assets				
40 Grants and Fixed Assets				
99 Other				
Category B Programs				
10 Personnel Compensation and Benefits		20		20
20 Contractual Services and Supplies	215		771	986
30 Acquisition of Assets	596		100	696
40 Grants and Fixed Assets	50,700		45,338	96,038
99 Other		2,166		2,166
Total Spending	51,511	2,186	47,138	100,835
Amount Remaining to be Spent	478	120		598
Total Amounts Agreed to be Spent	**51,989**	**2,306**	**47,138**	**101,433**
Where Did the Money Go To?				
For Profit Organizations	29,281	1,581	27,325	58,187
Non Profit Organizations	22,709		11	22,720
Government Organizations		705	353	1,058
PHA Administered Programs			19,303	19,303
Other Organizations		20	147	167
Total Amounts Agreed to be Spent	**51,990**	**2,306**	**47,139**	**101,435**
How was the money issued?				
Non Federal Assistance Direct Payments				
Contracts	594	418	47,214	48,226
Loans and Guarantees	21,746			21,746
Non Credit Reform Loans		705	(76)	629
Financial Assistance Direct Payments				
Oher Financial Assistance		1		1
Insurance	28,954			28,954
Interest and Dividends	695			695
Other Payment Types		1,182		1,182
Total Amounts Agreed to be Spent	**51,989**	**2,306**	**47,138**	**101,433**

U.S. Department of Housing and Urban Development
Schedule of Spending
For the Years Ended September 30, 2014, and 2013
in millions

	FHA Programx	GNMA Programs	CFO Programs	HUD Total
FY 2013 (Restated)				
What Money is Available to Spend?				
Total Resources	148,867	12,691	63,740	225,298
Less: Amount Available but not Agreed to be Spend	(25,075)	(2)	(17,633)	(42,710)
Less: Amount Not Available to be Spend	(33,617)	(8,705)	(1,505)	(43,827)
Total Amounts Agreed to be Spent	90,175	3,984	44,602	138,761
How was the money Spent?				
Category A Programs				
10 Personnel Compensation and Benefits			893	893
20 Contractual Services and Supplies				
30 Acquisition of Assets				
40 Grants and Fixed Assets				
99 Other				
Category B Programs				
10 Personnel Compensation and Benefits		22		22
20 Contractual Services and Supplies	242		876	1,118
30 Acquisition of Assets	1,414		16	1,430
40 Grants and Fixed Assets	88,058		42,818	130,876
99 Other		4,138		4,138
Total Spending	89,714	4,160	44,603	138,477
Amount Remaining to be Spent	461	(175)	-	286
Total Amounts Agreed to be Spent	**90,175**	**3,985**	**44,603**	**138,763**
Where Did the Money Go To?				
For Profit Organizations	31,772	3,085	9,430	44,287
Non Profit Organizations	58,403		10,218	68,621
Government Organizations		877		877
PHA Administered Programs			25,174	25,174
Other Organizations		22	(219)	(197)
Total Amounts Agreed to be Spent	**90,175**	**3,984**	**44,603**	**138,762**
How was the money issued?				
Non Federal Assistance Direct Payments			44,841	44,841
Contracts	577	220	-	797
Loans and Guarantees	57,482		(239)	57,243
Non Credit Reform Loans		877		877
Financial Assistance Direct Payments				-
Oher Financial Assistance		7		7
Insurance	30,577			30,577
Interest and Dividends				-
Other Payment Types	1,540	2,879	-	4,419
Total Amounts Agreed to be Spent	**90,176**	**3,983**	**44,602**	**138,761**

HUD User Fees

In accordance with OMB Circular A-25, *User Charges*, and HUD OCFO Handbook 1830.6, the Office of the Assistant CFO for Budget will provide a summary report of User Fees, User Fee reviews, disposition of User Fees, and changes made in User Fees for inclusion in HUD's annual Agency Financial Report (AFR).

HUD has initiated a required review of User Fees in the FY 2016 budget call and will work with program area budget officers and focus on the User Fee issues during the hearing process with OMB. FY 2016 will be a transition year with a goal of full implementation and documentation of the processes and results for FY 2017. Progress and results will be reported in this section of the AFR in subsequent years.

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

October 21, 2014

Memorandum

TO: Julian Castro, Secretary, S

FROM: David A. Montoya, Inspector General, G

SUBJECT: Management and Performance Challenges for Fiscal Year 2015 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 its 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 2015. Through our audits, evaluations, and investigations, we work with departmental managers to recommend best practices and actions that help address these challenges. More details on our efforts in relation to these issues are included 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 accomplishes 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, oversight of HUD-approved lenders that originate and service FHA-insured loans, and Government National Mortgage Association mortgage-backed security issuers that provide mortgage capital. HUD relies on 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, 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 nine key challenges facing HUD:

1. Human capital management,
2. Financial management governance of HUD,
3. Financial management systems,
4. Information security,
5. Single-family programs,

6. Office of Community Planning and Development programs,
7. Public and assisted housing program administration,
8. Compliance with the Improper Payments Elimination and Recovery Act of 2010, and
9. Administering programs directed toward victims of natural disasters.

Attachment

HUD Management and Performance Challenges
Fiscal Year 2015 and Beyond

1. 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 study this problem. In 1999, a NAPA report noted that HUD did not conduct short- or long-term planning to determine staffing needs. NAPA specifically 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 intra-agency team of senior officials from the Offices of the Chief Financial Officer (OCFO) and Chief Human Capital Officer, as well as administrative and budget officials from major program offices, to assess the causes of HUD's erratic resource management practices and develop a more responsive and predictable staffing process. In addition, NAPA recommended that this team create ongoing, agencywide workforce analysis and planning that is tied to HUD's strategic plan and enhances its longer range capability to recruit and sustain a high quality and skilled workforce.

A June 2012 review 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 are 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 and insufficient strategic management of human capital. Since the completion of OPM's review, HUD management has identified corrective actions, developed action plans, taken steps to remediate identified weaknesses, and provided evidence to OPM that HUD has taken the required actions. While this process will continue throughout 2015, HUD expects OPM to issue a report on OPM's conclusions regarding the documentation provided to date. Meanwhile, we will continue monitoring the status of progress made in establishing an effective human capital management program.
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. GAO's review found that HUD has provided central guidance on how work is defined and collected. However, HUD has not created a reliable system to report accurate workload data. GAO found that the data collected are often not used to inform decision makers, making it difficult to adequately assess HUD's resource needs. This is especially important because 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 its draft 2016 Annual Performance Plan, HUD estimates that 57 percent of its workforce will be eligible to retire in 2015. The Department stated that it

has developed a succession planning tool to assess high-impact positions and successor candidate readiness to assume these positions. To measure this challenge, HUD will need to track employees in high-impact positions and roles whose departure would have a significant detrimental effect to an office's mission or operations.

In September 2013, GAO issued a report evaluating the goals-engagement-accountability-results (GEAR) framework, which was developed to help improve performance management. HUD was one of five Federal agencies participating in this GEAR pilot. The framework was established by Federal agencies, labor unions, and other organizations in response to the longstanding challenge for Federal agencies to develop credible and effective management systems that can serve as a strategic tool to drive internal change and achieve results. In 2013, HUD implemented GEAR agencywide. GAO found that HUD's GEAR plan lacked objectives to identify HUD's purpose for implementing the GEAR framework and the plan does not assign roles and responsibilities to hold individuals and offices accountable for completing the actions. As a result of this review, HUD has taken the following steps:

(1) Training on the new employee evaluation system framework,
(2) Deploying performance management training for managers,
(3) Redefining senior executive service plans,
(4) Developing an awards policy, and
(5) Acquiring a new ePerformance system.

HUD is making sweeping significant changes to the way it operates. While significant new process and technology changes always increase operational risk, HUD's restructuring and reorganization of management and employee roles and responsibilities will further increase that risk. Since a high percentage of employees are nearing retirement eligibility, HUD needs to continue to effectively implement and maintain ongoing and planned human capital management improvements.

2. 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). In our report on HUD's fiscal years 2013 and 2012 (restated) financial statements, we issued a qualified opinion based on improper budgetary accounting and a lack of accounting for cash management. In addition, in our report on internal control, we reported on 4 material weaknesses, 11 significant deficiencies, and 5 instances of noncompliance with laws and regulations. One of the significant deficiencies directly addressed the weaknesses in HUD's financial management governance, and several of the deficiencies have origins that can be directly related to a weak financial management governance structure.

HUD's current financial management structure, which administered $32.8 billion in appropriations (not including receipts and collections) during fiscal year 2014, relies on delegations of several key financial management functions to HUD's program offices, including review and approval of vouchers, reviews of unliquidated obligations, and some budgetary functions. However, program-related issues, concerns, and decisions often take a higher priority than financial management and the requirements for proper financial accounting, thereby limiting the relative importance of program office employees' financial management responsibilities.

HUD still faces several challenges. OCFO continues to lack 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 the Office of Management and Budget (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 accounting procedures are often determined by program office preference without the guidance and oversight of OCFO and regard for accounting standards. The absence of this function has been the root cause of significant deficiencies identified in our audits and these management challenges.

HUD's ability to monitor and perform routine financial management activities has been hampered by both turnover and reductions in staff. Between 2009 and 2014, there was a 40 percent turnover in OCFO staff and an 11 percent reduction in full-time permanent OCFO employees. Between 2013 and 2014 alone, there was a 13 percent turnover and a 5 percent reduction in OCFO staff. The turnover and reductions have placed additional burdens on OCFO staff and limited its ability to perform its duties in a timely and efficient manner.

Further, HUD lacked a Senior Management Council and Senior Assessment Team or equivalent committees responsible for

(1) Assessing and monitoring deficiencies in internal control resulting from the FMFIA assessment process,
(2) Advising the HUD Secretary of the status of corrections to existing material weaknesses, and
(3) Informing the Secretary of any new material weaknesses that may need to be reported to the President and Congress through the Annual Financial Report.

While establishment of a Senior Management Council and Senior Assessment Team is not required by OMB Circular A-123, Management's Responsibility for Internal Control, it is recommended, and we believe it is a critical step and best practice in establishing effective internal controls.

HUD has taken steps to address the weaknesses in its financial management governance structure. Recently, HUD appointed a new Chief Financial Officer (CFO), and vacancies at the Deputy Chief Financial Officer and three of the four Assistant Chief Financial Officer positions were filled in fiscal year 2014. Additionally, HUD is in the process of hiring staff to fill positions with responsibility for writing accounting policies and procedures. HUD also awarded a contract for a study to determine possible improvements that could be implemented to improve HUD's compliance with the CFO Act, FMFIA, and the Federal Financial Management Information Act and improve internal controls over financial reporting. The study will also consider the impact of the New Core financial system on HUD's future financial management structure and whether the creation of a Senior Management Council would increase the effectiveness of HUD's financial management.

We are conducting our audit of the Government National Mortgage Association's (Ginnie Mae) fiscal year 2014 financial statements and have identified significant challenges facing Ginnie Mae regarding how Ginnie Mae managed its master subservicers' financial reporting risks related to more than $5 billion in nonpooled loans reported on its balance sheet. Since Ginnie Mae does not have the capacity to service these loans, it relied on its master subservicers to perform the servicing, accounting, and reporting of financial transactions and events related to these nonpooled loans. However, significant turnover of key Ginnie Mae financial management personnel in fiscal year 2014 resulted in inadequate monitoring of the master subservicers and nonperformance of certain key controls, such as the contract assessment reviews and special reviews.

Overall, the deficiencies in HUD's and Ginnie Mae's financial management governance structure have resulted in a departmentwide imbalance in which financial management requirements are subordinated to program office operational objectives. 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. Additionally, Ginnie Mae could provide better financial management and assurance over internal controls if key personnel positions were filled and reviews over master subservicers were consistently completed.

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. However, 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. OCFO's significant turnover in the past 5 years, combined with the lack of a basic policy framework necessary to implement a compliant financial management system, has created 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.

We continue to have concern with HUD's ability to summarize and report all transactions and events related to HUD's Office of Community Planning and 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 system for CPD programs, the Integrated Disbursement and Information System (IDIS Online) was 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, 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 has begun to implement system changes to eliminate the FIFO logic for fiscal year 2015 grant funds and forward. However, prior-year grant funds will continue to be disbursed under the FIFO method, resulting in continued noncompliance with Federal financial management system requirements as well as GAAP. This issue affects all formula programs within CPD and will continue to impact the consolidated financial statements until the prior-year funds are assessed as immaterial.

3. Financial Management Systems

Annually since 1991, the Office of Inspector General (OIG) has reported on the lack of an integrated financial management system, including the need to enhance the Federal Housing Administration's (FHA) management controls over its portfolio of integrated insurance and financial systems. 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. In March 2012, work on HIFMIP was stopped, and the project was later canceled. HUD spent more than $35 million on the failed HIFMIP project. In the fall of 2012, the New Core project was created to move HUD to a new core financial system to be maintained by a shared service provider, the U.S. Department of the Treasury, Bureau of Fiscal Service. The project consists of three phases.

Phase 1 of the project has been separated into four different releases. Each release defines a particular function that will be transferred to Treasury's shared services platform.

- Release 1 transferred the travel and relocation functions to Treasury on October 1, 2014.
- Release 2 will cover time and attendance and is scheduled to start on February 8, 2015.
- Release 3 is scheduled to start in the fourth quarter of fiscal year 2015 or the first quarter of fiscal year 2016 and will cover migration of OCFO core financial services.
- Release 4 will address HUD's grant and loan accounting systems. Details of this release have not been finalized, and there is no scheduled date for implementation.

Details regarding the remaining two phases of the project have not been finalized, and there are no scheduled start dates.

Phase 2 of the project will address managerial cost accounting, budget formulation, and a fixed assets system.

Phase 3 of the project will address the consolidation of FHA and Ginnie Mae as well as the migration of the functionality of HUD's Line of Credit Control System.

The independent verification and validation contractor tasked to assess the project in concert with project activities, listed the project risk as high for 7 of the 16 areas it assessed through July 15, 2014. In addition, several areas of concern noted within the contractor's report indicate that many of the problems that occurred during the failed HIFMIP implementation are also plaguing the New Core project. Consequently, we remain concerned about HUD's ability to successfully complete the project.

We are also 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 related to FHA's single-family program. The FHA transformation initiative was intended to improve the Department's management of its mortgage insurance programs through the development and implementation of a modern financial services IT environment. The new modern environment was expected to improve loan endorsement processes, collateral risk capabilities, and fraud prevention. However, to date, FHA has not completed all of the goals because of a lack of funding.

Overall, funding constraints diminished HUD's ability to complete the new application systems and phase out and deactivate the outdated systems. Some progress has been made by creating new systems with modernized capabilities that replaced manual processes. However, many legacy systems remain in use. This situation brings about another concern: the ability to maintain the antiquated infrastructure on which some of the HUD and FHA applications reside. As workloads continue to gain complexity, it becomes more difficult to maintain these legacy systems, which are 15 to 30 years old, and ensure that they can support the current market conditions and volume of activity. The use of aging systems has resulted in poor performance and high maintenance costs. 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 the completeness, accuracy, and security of HUD information is at risk of unauthorized access and modification. For instance, HUD did not

(1) Establish proper internal controls to ensure that loan program data were complete and accurate,
(2) Implement effective interface procedures to ensure that FHA and Ginnie Mae data were protected during transmission,
(3) Ensure that procedures were in place to prevent improper transaction error handling or transaction overrides without approval or adequate justification, and
(4) Implement effective access controls to ensure that systems and data were protected from inappropriate exposure.

As a result, HUD's financial systems continue to be at risk of compromise.

The Clinger-Cohen Act of 1996 has defined the role of Chief Information Officer (CIO) as the focal point for IT management within Federal agencies. The Federal Information Security Management Act of 2002 (FISMA) requires the HUD Secretary to delegate to the Department's CIO "the authority to ensure compliance with the requirements imposed on the agency under this subchapter."

The HUD CIO has primary responsibility over many IT and information management functions; however, he lacks the authority to enforce compliance with Federal law, National Institute of Standards and Technology guidance, or departmental IT policies. The Office of the Chief

Information Officer (OCIO) issues policy and procedures for IT and information security management. For example, OCIO issues guidance for the development and maintenance of system security documentation, including authority to operate statements, systems security plans, annual self-assessments of security controls, risk assessments, contingency plans, and configuration management plans. For the majority of fiscal year 2014, OCIO has been merely a collector of the documents and unable to force compliance with policies and standards.

We continue to identify instances of documents maintained by the program offices that are out of date and do not accurately reflect the current environment. OCIO has indicated that it did not always have the resources available to monitor compliance with standards and ensure that the program offices implemented the policies and procedures to satisfy Federal IT requirements. Instead, OCIO has written policies and procedures that delegate to the program offices the responsibility and accountability for meeting Federal IT requirements. This delegation to less experienced program office personnel results in inconsistencies and inadequate documentation and limits the CIO's accountability for HUD's IT and IT security management.

OCIO was granted authority to reorganize its management and staffing structure in 2012 to improve its IT governance and management. However, many of the new positions remain vacant or have not been permanently filled. Additionally, OCIO experienced several changes in leadership and was without permanent leadership from April 2013 through June 2014. The absence of a CIO and permanent division and branch managers may have contributed to OCIO's continued inability to fully support HUD's IT operations.

4. Information Security

Our annual evaluation of HUD's IT security program, as mandated by FISMA, revealed continued and extensive noncompliance with Federal IT guidance. HUD has deficiencies in 7 of the 11 program areas on which OIG reports to OMB, including Continuous Monitoring, Incident Response, Security Training, Plans of Actions and Milestones, IT Risk Management, Contractor System Oversight, and Security Capital Planning. Further, our evaluation of HUD's privacy program determined that HUD's executive leadership had not sufficiently prioritized and supported its privacy program. HUD had not established an effective or efficient program, had not mitigated risks associated with the extensive privacy data managed by the agency, and had not complied with many Federal requirements.

HUD does not have a comprehensive plan to address its current IT risks and initiate the critical projects that will be needed to transition and modernize its infrastructure to effectively and securely support HUD's mission. The Department faces many challenges in establishing an effective strategic direction. The challenges are magnified by the complexity of HUD's IT environment, expiration of infrastructure support contracts, excessive number of legacy applications, and abundant holdings of sensitive data and personally identifiable information, all while being faced with emerging IT threats and budget constraints. IT workforce planning will be a vital component to its future success as IT skills are depleted within HUD following years of dependence on contract personnel.

HUD's fiscal year 2014 IT fund of $343.8 million and fiscal year 2015 request for $336.8 million will impact HUD's ability to facilitate effective programs and plan for the future. During fiscal year 2014, key IT positions were filled, including both the CIO and Chief Information Security Officer. The leadership has an opportunity to vitalize and instill an IT security culture throughout HUD, assuming it has the support of HUD executives and all offices. OCIO began a major initiative late in fiscal year 2014 to create a cyber security framework to address the current IT security program deficiencies.

5. 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 $1.2 trillion. Effective management of this portfolio represents a continuing challenge for the Department.

For the past 5 years, the FHA fund has failed to meet its legislatively mandated 2 percent capital ratio. Each of these 5 years has seen a further decline in that ratio, and according to the 2013 actuarial study, the fund had a negative economic value of $1.3 billion. Based on the 2013 projections, the capital ratio will not reach the 2 percent level until 2016, marking 7 consecutive fiscal years below the 2 percent threshold. 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 worked with HUD and the U.S. Department of Justice (DOJ) to pursue civil fraud investigations to recover losses from lenders that fraudulently originated FHA loans. This effort has resulted in more than $2 billion being recovered. It is incumbent upon the Department to make every effort to prevent or mitigate fraud, waste, and abuse in FHA loan programs.

FHA has a major role in supporting the housing market and has implemented initiatives to strengthen the insurance fund. For example, in May 2014, HUD outlined its initiatives to provide credit access to underserved borrowers. This effort includes several initiatives tying housing counseling with FHA-insured mortgage origination and servicing. A pilot program will provide FHA insurance pricing incentives to first-time home buyers who participate in housing counseling and education. In addition, the initiative enhances FHA's quality assurance efforts to provide transparency to FHA-approved lenders to encourage lending to qualified borrowers across the credit spectrum. Another initiative is the development of a new methodology for evaluating underwriting defects. These new criteria will be more descriptive, identifying a number of specific defects, their related causes, and levels of severity. OIG has reviewed a draft version of the methodology and has provided feedback. Also, FHA plans to expand its evaluation of loans to include random sampling of performing loans closer to the time of endorsement. Further, FHA has begun reconciling more than 900 mortgagee letters and other policy guidance into a single, authoritative document to serve as the definitive guide on all aspects of FHA's single-family programs. The last initiative includes an additional national lender performance metric to assess lender performance based on the lender's default rate within three credit score bands to compare it to FHA's target rate, rather than to the lender's peers.

The Reverse Mortgage Stabilization Act of 2013 provided FHA with tools to improve the fiscal safety and soundness of the home equity conversion mortgage insurance program in a timelier manner. Using this authority, FHA recently issued a mortgagee letter to limit the insurability of fixed-interest-rate mortgages under the reverse mortgage program to mortgages with the single-disbursement lump-sum payment option. This decision was made to limit the risk that fixed-interest-rate reverse mortgage products pose to the future financial soundness of the program, to the Department's ability to operate the program, and to Ginnie Mae's ability to operate a financially sound securitization program.

In spite of these positive steps, we remain concerned about HUD's resolve to take the necessary actions going forward to protect the fund. HUD is often hesitant to take strong 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 start 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. Last year, OIG noted HUD's financial exposure when paying claims on loans that were not qualified for insurance. Adding to this concern, HUD increased its financial exposure by not recovering indemnification losses and extending indemnification agreements when appropriate. Based on the results of an August 2014 audit, OIG determined that HUD did not always bill lenders for FHA single-family loans that had an enforceable indemnification agreement and a loss to HUD. The audit identified 486 loans with losses of $37.1 million from January 2004 to February 2014 that should have been billed and recovered. HUD needs to ensure continued emphasis on indemnification recoveries, especially for newer FHA programs such as Accelerated Claims Disposition or Claims Without Conveyance of Title.

HUD also faces challenges in ensuring that its controls work as intended and provide FHA with the appropriate credit data to properly assess borrowers' eligibility for FHA insurance. In a recent audit of the Department's Credit Alert Verification Reporting System (CAIVRS), OIG found that the system did not contain default, foreclosure, and claim activity information for all borrowers. Further, this system did not contain all information for FHA borrowers with claims older than 3 years. As a result, HUD did not provide other Federal agencies with sufficient information on FHA borrowers with delinquent Federal debt to comply with requirements of the Debt Collection Improvement Act. This Act bars delinquent Federal debtors from obtaining additional Federal loans or loan guarantees until delinquencies are resolved. These conditions occurred because HUD did not adequately design the process for providing data to CAIVRS from its other systems. Also, FHA requirements permit borrowers to be eligible for another FHA loan after 3 years. FHA agreed to update its selection rules for complete reporting of all ineligible borrowers to the extent that the system is used as a credit risk assessment tool. However, FHA does not consider delinquency on an FHA-insured mortgage to be a delinquent Federal debt, nor does it believe that payment of a claim on an FHA-insured mortgage automatically creates a delinquent Federal debt. OIG anticipates challenges with resolving this issue during the audit resolution process.

OIG continues to take steps to help preserve the FHA insurance fund and improve FHA loan underwriting by partnering with HUD, DOJ, and multiple U.S. Attorney's offices nationwide in a number of FHA lender civil investigations. Results to date have shown that a high percentage of loans reviewed should not have been insured because of significant deficiencies in the underwriting. As a result, several of these investigations have led to large settlements. Within the last 3 fiscal years, the Government has reached civil settlements with FHA lenders totaling nearly $3.2 billion for alleged violations of the False Claims Act and the Financial Institutions Reform, Recovery, and Enforcement Act. More than $2 billion of the $3.2 billion is of direct benefit to the FHA insurance fund. Future investigations are expected to lead to additional settlements that will significantly help recover losses to the FHA insurance fund.

Over the past 4 years, Ginnie Mae has seen its outstanding mortgage-backed securities increase by more than 50 percent. As of August 2014, Ginnie Mae's mortgage-backed securities (MBS) portfolio exceeded $1.52 trillion. We remain concerned that increases in demand on the FHA program are having collateral implications for the integrity of Ginnie Mae's 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. 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 whole loans to meet its guarantee commitments to MBS investors. In the near term, these changes have strained both operating and financial resources.

Another key challenge facing Ginnie Mae is the risk posed by the growing number of Ginnie Mae issuers that are institutions other than banks. In June 2011, 7 of the top 10 servicers were banks, but in June 2014, only 4 of the top 10 servicers were banks. Ginnie Mae's potential for losses occurs when an issuer fails to fulfill its responsibilities. With the significant shift of its business going to nonbanks, Ginnie Mae could no longer rely on the Office of the Comptroller of the Currency and other bank regulators to ensure that its servicers can meet their financial obligations. To mitigate the risks, Ginnie Mae will need to be more involved with nonbanks to adequately monitor them, which would require Ginnie Mae to increase its current staffing level.

With the approval of OMB and Congress, Ginnie Mae has significantly increased its management capacity. The total number of Ginnie Mae full-time employees increased from 89 in fiscal year 2012 to 108 at the end of fiscal year 2013. However, Ginnie Mae continues to rely heavily on third-party contractors to perform almost all key operating loan servicing, pool processing, and other functions.

6. CPD Programs

HUD's ability to provide data to monitor compliance with the HOME Investment Partnership Act (HOME statute) requirements for committing and expending funds will remain a concern until appropriate system changes in IDIS Online are implemented and regulatory changes are made. The HOME Investment Partnerships Program is the largest Federal block grant to State and local governments and is 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.

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, OIG contacted GAO in 2011 and requested a formal legal opinion on this matter. In July 2013, GAO issued its legal opinion, affirming OIG's position and citing HUD for noncompliance. In its decision, GAO reiterated that the language in the statute was unambiguous and that HUD's cumulative method did not comply with the statute. Accordingly, GAO told HUD to stop using the cumulative method and 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 IDIS Online in addition to regulatory changes. However, these system and regulatory changes, which are already underway, will be applicable only to new grants awarded in fiscal year 2015 and forward. Funding obligated before the system and regulatory changes will continue to be determined on a cumulative basis, resulting in continued noncompliance with the HOME statute. HUD's plan does not comply with the GAO legal opinion and allows grantees to expend funding that would normally be recaptured if the 24-month commitment timeframe was not met. We believe compliance with GAO's opinion would enable HUD to better monitor grantee performance in a more timely, efficient, and transparent way. It also would strengthen internal controls, bring HUD into compliance with HOME statutory requirements, and accurately and reliably report financial transactions.

Congress created the Neighborhood Stabilization Program (NSP) to help cities, counties, and States deal with community problems that resulted from the Nation's mortgage foreclosure crisis. HUD provided almost $7 billion in NSP funding to States, local governments, and nonprofits through three rounds of funding. Congress established expenditure deadlines for these three rounds of NSP funding within the appropriations act. HUD continues to be challenged in its monitoring of unexpended funds, not only in this program, but also in its Community Development Block Grant (CDBG) and Disaster Recovery grant programs.

7. 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. More than 4,000 intermediaries provide affordable housing for 1.2 million households through the low-rent operating subsidy public housing program and 2.2 million households through the Housing Choice Voucher program. Multifamily project owners assist more than 1.5 million households.

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, the self-assessments are not always accurate, and the reliability of the information contained in PIH systems is questionable. PIH management states that 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 both systems are completely implemented, HUD will continue to face challenges in monitoring this program.

During 2012 and 2013, Congress reduced funding to the Housing Choice Voucher program by $975 million. These reductions are a significant challenge for PIH to provide housing to the same number of families with much less funding. To meet this challenge, PIH needs to ensure optimum use of program funding. PIH developed a spreadsheet tool for 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.

With a focus on the decreasing availability of funds, we are concerned that HUD may not be ensuring that defederalized administrative fees paid to PHAs are reasonable. We recently reported that HUD could not adequately support the reasonableness of operating fund management, book-keeping, and asset management fees and Public Housing Capital Fund management fee limits. In addition, HUD lacked adequate justification for allowing PHAs to charge an asset management fee, resulting in more than $81 million in operating funds being unnecessarily defederalized annually. HUD also did not adequately monitor PHAs' central office cost center fee charges. Among the five PHAs reviewed, four inappropriately overcharged or transferred $2.3 million in excessive operating program funds from their asset management projects to their central office cost centers. Two of the PHAs were unable to support $6.7 million in management, book-keeping, and asset management fees charged. Excess administrative fees, if defederalized, are not required to be used for the program. Ensuring that only the funds that are needed are transferred out will allow more funds to be used directly for the program.

HUD's Housing Choice Voucher program disbursed more than $17.3 billion to PHAs in fiscal year 2014. However, HUD's new cash management process for the Housing Choice Voucher program, which was implemented to ensure that PHAs received funding only for their immediate disbursement needs, departed from Treasury cash management requirements. In fiscal year 2012, PIH implemented procedures to complete quarterly reconciliations and base disbursements to PHAs on prior quarter expenses, instead of disbursing 1/12 of the total renewal budget authority monthly. This change was implemented to reduce the amount of excess funds accumulating in PHAs' net restricted asset accounts and in accordance with a congressional conference report. However, significant amounts had already accumulated and needed to be transitioned back to HUD. While an OIG audit found that HUD notified the PHAs of its intent to begin the transition, as of the end of fiscal year 2013, HUD had not begun the process. This delay allowed millions of dollars to be held at PHAs and become susceptible to fraud, waste, and abuse. The transition process began during fiscal year 2014, and significant amounts of funds have been transitioned back to HUD. However, this effort was entirely manual, labor intensive, and required extensive research and analysis to determine how much money needed to be transitioned back to HUD.

Additionally, HUD lacks an automated process to complete the reconciliations required to monitor PHAs and ensure that Federal cash is not maintained in excess of immediate need. Reconciliations are prepared manually on unprotected Excel spreadsheets for more than 2,300 PHAs. This process increases the risk of error and causes significant delays in the identification and offset of excess funding. Because of the manual reconciliation and transition process performed this year, reconciliations were not completed during the current year. This delay allowed PHAs to continue holding funding in excess of their immediate disbursement needs, contrary to the congressional intent for HUD to implement sound cash management procedures. In addition, HUD cannot quantify the amount of excess funds, nor is it monitoring the accumulation of excess funds that Moving to Work (MTW) PHAs are holding. HUD has not implemented procedures to identify and return those excess funds and is in violation of applicable regulations.

HUD's monitoring and oversight of the 39 PHAs participating in the MTW demonstration program 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 15 years since the demonstration program began, HUD has not reported on whether the program is meeting its objectives. HUD has requested and Congress is considering expanding the program to include more participants without knowing 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 require 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 could benefit from formalizing a 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.

Based on a 2008 audit report, HUD developed a plan to monitor the physical condition of its Housing Choice Voucher program units. HUD is testing a system of inspections similar to the model used for its public housing units and multifamily project-based program. Testing is taking considerably longer than expected. HUD is performing inspections on its voucher units and expects it to be completed by the spring of 2015. However, plans to begin testing a new protocol and related software for a comprehensive monitoring system will not begin until later in 2015. Meanwhile, we continue to identify PHAs with inspection programs, which do not ensure that voucher program units comply with standards.

We also noted that executive directors removed or who left under questionable circumstances are being appointed as executive directors at other agencies in different parts of the country. This matter is concerning because it allows someone with a poor track record to continue poor management practices or possible malfeasance elsewhere. This situation will be a challenge to HUD because it does not track the movement of executive directors between PHAs. In December 2013, we posted an integrity bulletin to our Web site, emphasizing the need to screen applicants to bring this issue to the attention of the PHAs.

8. Compliance With the Improper Payments Elimination and Recovery Act of 2010

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. In fiscal year 2014, we conducted an audit to determine HUD's compliance with the Improper Payments Information Act of 2002 as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA). We determined that, for the first time since being required to conduct this audit, HUD did not comply with IPERA reporting requirements because it did not sufficiently and accurately report on four required areas in its Annual Financial Report. Additionally, we found that HUD's supplemental measures and associated corrective actions did not sufficiently target the root causes of its improper payments as intended by IPERA requirements. Specifically, they did not track and monitor processing entities to ensure the prevention, detection, and recovery of improper payments because of rent component and billing errors, which are root causes identified by HUD's contractor studies.

Last year, we noted that improper subsidy payments in three major rental housing assistance programs resulted from errors made by program administrators as well as from tenants intentionally underreporting income. While HUD had initially made substantial progress in reducing erroneous payments, in 2012, improper payments increased to $1.32 billion. This amount reflects an overall error rate of 4.3 percent, which is above HUD's 2012 target error rate of 3.8 percent. HUD's error rate in 2011 was 3.9 percent. It was 3.1 percent in 2010.

HUD needs to implement processes to ensure that it accurately reports on its improper payments and the actions it took to reduce and recover them. Additionally, HUD needs to reevaluate its supplemental measures and corrective actions to ensure that they target all root causes of improper payments identified in HUD's rental housing assistance programs. This measure will ensure that HUD is making progress toward reducing its total improper payment rate.

9. Administering Programs Directed Toward Victims of Natural Disasters

Congress has frequently provided supplemental appropriations through HUD's 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, 2001, 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, it faces several management challenges in administering these grants.

As a result of the recent 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 the intended purposes.

Based on our prior audits, we identified some management challenges for the Department regarding the Disaster Recovery program. Some of HUD's greatest challenges in the disaster area include

(1) Ensuring that expenditure deadlines are met,
(2) Approving the program waiver process,
(3) Certifying that grantees are following Federal procurement regulations, and
(4) Continuing to maintain oversight efforts on disaster grants.

To ensure the expenditure of funds in a timely manner, the Sandy Appropriations Act requires that all funds be spent within 2 years of the date HUD obligates funds to a grantee. The Appropriations Act also requires that HUD obligate all funds not later than September 30, 2017. Grantees must demonstrate in their action plans how funds will be fully spent within 2 years of obligation. For any funds that the grantee believes will not be spent by the deadline, it must submit a letter to HUD justifying why it is necessary to extend the deadline for a specific portion of funds. The letter must detail the compelling legal, policy, or operational challenges for the waiver and must also identify the date by which the specified portion of funds will be spent. Funds remaining in the grantee's line of credit at the time of its expenditure deadline will be returned to the U.S. Treasury. HUD was appropriated $16 billion in CDBG funds for the Sandy disaster, and a portion of these funds will reach their expenditure deadline in fiscal year 2015.

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, it 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 waivers and ensure that they are consistent with the purpose and rules governing the CDBG program.

Grant recipients of HUD CDBG-DR funds must provide a copy of their procurement standards and indicate the sections of their procurement standards that incorporate the Federal standards. The State and its subgrantees may follow their own State and local laws, so long as the procurements conform to applicable Federal law and standards. Further, a State must establish requirements for procurement policies and procedures based on full and open competition. In addition, all subgrantees of a State are subject to the procurement policies and procedures required by the State.

Our audits of disaster programs found CDBG procurement violations and other contracting problems. For example, in a recent audit of the New Jersey tourism program, auditors found that the State did not procure services and products for its tourism marketing program in a manner that fully met the intent of Federal requirements. In this case, the State awarded a contract with a budget of up to $25 million for marketing and outreach services without first performing the required independent cost estimate and cost analysis.

Keeping up with communities in the recovery process is challenging for HUD. Congress has appropriated $47 billion to HUD since fiscal year 1993 for disaster assistance. Of the active disaster grants, HUD has more than $31 billion in obligations and $26 billion in disbursements. Although many years have passed since some of the specific disasters occurred, significant disaster funds remain unspent. 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

1. Human Capital Management

HUD substantially agrees with the OIG's comments. HUD has made and is continuing to make sweeping changes to the way it operates. While there are risks involved in implementing new processes and technology, and increased risks with restructuring and reorganizing management roles and responsibilities, HUD continues to implement and maintain ongoing and planned human capital management improvements. These efforts are the most effective actions that are available in addressing current and future human capital issues as increasing retirement eligibility begins to impact HUD's workforce.

The Department continues to follow recommendations from the National Academy of Public Administration (NAPA), the Office of Personnel Management's (OPM), and the U.S. Government Accountability Office (GAO) to develop and implement a set of actions designed to transform human capital programs at HUD.

Specifically, to establish a clear workforce planning strategy and vision, a Human Capital Strategic Plan (HCSP) was developed and approved in FY2014, in accordance with Government Performance and Results Act (GPRA) requirements and is HUD's roadmap for accomplishing the Department's mission and implementing HUD's Strategic Plan goals. Additional recommendations from the Human Capital Strategy Working Group were incorporated into priorities for human capital programs identified in HUD's 2014 – 2018 Strategic Plan.

HUD completed all activities in the original Goals, Engagement, Accountability and Results (GEAR) Implementation Plan. The plan was updated to include stakeholders, goals, specific actions, roles and responsibilities except for the review and update of the awards policy, which has been negotiated with the union and is currently going through the ratification process. In addition, HUD updated the Performance Management Desk Guide for All HUD Employees to include recent policy changes negotiated with the unions. HUD also 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 used FY 2013 TEAM time and workload data as the baseline to project FY 2015 FTE and funding requirements for the OMB budget submission.

2. Financial Management Governance at 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 agreement (signed August 7, 2013) with the Bureau of the Fiscal Service (BFS) to obtain full Federal shared services support.

ACFO for Systems/New Core

OCFO has taken steps to address the weaknesses in its financial management governance structure by appointing a New Core Executive Director and a Deputy Director as well as hiring highly experienced professionals to lead phase 1 Release 1-4 of the new Core project. OCFO also restructured the New Core staff to support each Release. That resulted in the OCFO being able to successfully implement the New Core Phase 1 Release 1 on time (10-1-2014). Additionally, the New Core Executive Director was also appointed as the Assistant CFO for Systems (ACFOS) which bridged the gap between the ACFOS and the New Core project and made it one cohesive organization that collaborates to achieve the New Core project objectives as well as addressing the existing legacy Systems and challenges.

IDIS Non-Compliance with FFMIA:

OIG has asserted that IDIS does not comply with the standards included with Federal Financial Management Improvement Act (FFMIA), and federal financial accounting standards such as US Standard General Ledger (USSGL) requirements. At the core of this issue is the financial attribution methodology known as First-In-First-Out (FIFO).

Project Status: CPD has planned and begun executing an IT project to eliminate the FIFO method of funds attribution from the IDIS Online system. This project will undertake 2 main phases:

Phase 1a: Grant year specific funding and draws: This sub-phase will modify IDIS Online to require a Grantee to specify a grant year when funding an activity, for FY15 grant year funds and later. For all funded activities in these grant years, IDIS will enforce each disbursement to the grant year source of funds that a grantee has specified when funding the activity. It is a Point in Time solution; it eliminates the FIFO method of funds attribution for grants loaded into IDIS after the change is put in place (i.e. beginning with FY15). IT activities for this phase went live in IDIS September 1, 2014 as planned.

Phase 1b: Program Income (Receipt Fund) adjustments: This sub-phase will further modify IDIS Online to address changes required in program income and other receipt funds (loan income, recaptures) to support program specific needs where the receipt and use of these funds may span activities and grant years. How IDIS Online manages these funds must be revised to comply with FIFO elimination and meet program requirements and regulations. IT activities for this phase started April 29, 2014 and modifications to IDIS Online will be deployed no later than October 1, 2015.

Phase 2: Audit finding remediation: Additional effort will be needed to address the audit finding in its entirety, which involves more significant changes to IDIS processing. IDIS needs to support the U.S. Standard General Ledger (USSGL) at the transaction level; draws need to tie to specific commitments and the accounting line of detail captured to support this. This effort will need to address any internal control requirements on the HUD authorization the use of the funds. Additionally, this sub-phase will modify the system to address a 24-month HOME commitment deadline audit finding on IDIS Online. IT activities for this phase started April 29, 2014 and modifications to IDIS Online will be deployed no later than October 1, 2015.

HUD notes, regarding the discussion on Ginnie Mae's management of its Master Subservicers (MSS), that Ginnie Mae took the opportunity of the MSS transition that occurred on August 1, 2013, to transform a number of key financial and operational reports, as well as to strengthen MSS oversight procedures. A datamart is being developed that will provide the loan level data for financial reporting, thus giving Ginnie Mae greater flexibility to address portfolio performance and financial management issues in a more proactive and timely way.

The extended process involved when transitioning to the two new MSSs highlights the number one risk to Ginnie Mae, namely the current contract and procurement landscape. Ginnie Mae requires higher levels of service in ensuring that the goods and services needed to carry out our mission are obtained and provided in a process that is as expedited as possible. Potential gaps in service in key contracts (e.g. Compliance Reviews, Pooling & Paying Agent, Master Subservicer) have been identified by Ginnie Mae management as the greatest risk facing the enterprise. To address this perceived risk, Ginnie Mae is pursuing alternative processes, including an interagency relationship with GSA's Federal Acquisition Service (complete with service level agreements) in order to enhance the customer experience, ensure no gaps in key services and retain maximum flexibility to respond to market and business challenges when necessary. Ginnie Mae began the transition in April 2014 with a pilot on four FY 2014 procurements in order to invest in the process and to experience GSA's performance before transitioning all Ginnie Mae contract award and administration over to them over time. Although too early to fully rate, Ginnie Mae is experiencing significantly improved results with the GSA process.

CPD is not in agreement with the OIG audit finding which ruled against the use of the First-In-First-Out (FIFO) accounting method for CDBG and HOME funds. A GAO ruling on the disputed issues addressed how HOME program commitments are made, and OMB subsequently mandated that CDBG and HOME programs would be required to implement system changes to eliminate the FIFO methodology for FY 2015 grant funds and forward. This re-engineering will ensure that both commitments and disbursements of grant funds will be done on a grant specific basis, instead of the FIFO method (oldest appropriated funds disbursed first) that CPD has used since 1974.

Regarding the prior year funds, it is not feasible for CDBG and HOME to address prior year funds. HUD cannot apply new requirements retroactively to funds that the grantees committed in accordance with the program regulations. The grant agreements for CPD formula programs expressly make applicable the program regulations as now in effect and as may be amended from time to time. However, when the regulations are amended, the changes apply to grant funds obligated by the grantee after the effective date of those amendments

3. Financial Management Systems

New Core Project

While HUD management concurs with the OIG report regarding the need to implement a new core financial system for the Department, HUD disagrees that many of the problems that occurred during the failed HIFMIP implementation are also plaguing the New Core Project. Although there were a number of challenges associated with implementing the New Core project, HUD successfully addressed them during FY 2014 as evidenced by the accomplishments listed below. Based on the successes the New Core project realized to date, HUD is optimistic that it will be able to successfully complete the project.

New Core Project accomplishments in FY 2014 include:

- Established a phased implementation approach to deploy functionality incrementally over at least four (4) releases in the first phase. Using this phased approach, HUD is able to reduce risk and successfully meet its migration timeline while improving its financial management processes. HUD is also aligning its processes to ARC standard solutions as much as possible to leverage operational efficiencies and then optimize after the "go live."
- Baselined the scope and schedule for Releases 1 and 2; approved the scope and developed the schedule for Release 3.
- Completed implementation activities for the first phase of the project, included conducting requirements validation session between ARC and HUD Subject Matter Experts (SMEs), defining the scope and schedule for Releases 1-3, and conducting configuration and design activities for Releases 1 and 2.
- Implemented the interim Concur Government Edition (CGE) for HUD on September 15, 2014.
- Successfully deployed Phase 1 - Release 1 Travel, Relocation, Oracle travel accounting, and interfaces with a legacy system on time (October 1, 2014):
    - Registered 1,778 HUD users in Concur and entered 557 authorizations and 24 vouchers for processing.
    - Completed Twelve (12) in-person HUD user trainings with positive participant feedback.
- In the process of conducting lessons learned after Phase 1 - Release 1

    - Currently in the process of aligning the Project Roles and Responsibilities to prepare for Releases 2 and 3.
    - Refining Team structure to balance future resources and fill gaps needs.
    - Enhanced the New Core team using additional contractor resources with expertise in system development, Financial Shared Services, Business Process Reengineering, and Change Management.
- Completed User Acceptance Testing (UAT) for Phase I, Release 2 on 10/3/2014.
- Deployed the New Core Interface Solution (NCIS) for Phase 1- Release 1 to connect HUD to ARC's platform for transformation of administrative and accounting data sent from HUDCAPS.
- Completed an Authorization to Operate (ATO) statement and the related security review for the NCIS in a condensed three-month time frame to authorize the "go live" of the New Core Phase 1- Release 1 on October 1, 2014.
- Began work on establishing HUD's Enterprise Data Warehouse (EDW) for future data reporting capabilities.
- Prepared the Initial Privacy Assessment (IPA), Privacy Impact Assessment (PIA), and System of Records Notices (SORN) for mLINQS, and NCIS.
- Established and managed Concur Government Edition (CGE) and Discoverer Training registrations on HUD@Work using the Event Management and Registration Control (eMARC) system.
- Raised awareness about New Core by posting information on HUD@work and newsletter.
- Increased HUD leadership attention and participation on New Core matters.
- Began actively executing Release 3 - Scope and Schedule Execution by preparing for impact to HUD's processes:
    - Set Interim schedule baseline for October 1, 2015
    - Formed the Risk Mitigation Task Force to analyze the schedule and develop mitigations for major risks
    - Put in process Release 3 requirements work session and documentation
    - Began developing New Core strategies to prepare HUD for people, process, and technology impacts from large scale modernization

July 15, 2014 New Core Verification and Validation (IV&V) Report

Three (3) out of the seven (7) high risk areas that was identified by the New Core independent Verification and Validation (IV&V) contractor in their July 15, 2014 New Core report were lowered in the latest report (Oct. 27, 2014) to either Moderate or low risk. Of the 13 remaining areas assessed within the July report; 8 areas showed improvements and only 5 areas remained unchanged.

Operation of OCFO's Legacy Systems

OCFO continues to operate with legacy financial systems in an efficient, business-like manner, providing accurate, adequate, consistent, reliable, and timely financial information to all stakeholders. The financial information depicts HUD's overall fiscal performance along with more detailed information on HUD programs and supporting operations. The information available also supports decision-making and performance management.

Despite budget cuts that affected all systems, OCFO accomplished the following with its legacy financial systems during FY 2014:

- Provided efficient reporting and fiscal year end closings
- Implemented effective interface procedures
- Ensured adequate funds control
- Improved data quality
- Provided efficient programmatic data for budget formulation
- Provided comprehensive and timely information to stakeholders on demand
- Systematically enabled efficiency and productivity improvements to HUD financial business operations
- Provided direct access to standardized, accurate, timely information
- Linked agency performance to costs; increased capability to accurately measure and report on program costs and maximize return on investment
- Provided stakeholder communications and role-based training to HUDCAPS, OCFO's core financial system, for end users
- Achieved cost efficient transaction processing
- Improved Business Operations

Specifically, OCFO completed processes and software modifications to help improve the operation of its legacy systems:

- Updated automated disbursements within HUDCAPS and LOCCS for Treasury's Payment Application Modernization (PAM) project. Effective October 1, 2014, all federal agencies using Treasury disbursing services were required to submit payment data in a newly developed standard input format to be compliant with Treasury's Payment Automation Manager (PAM) system.
- Modified HFM to comply with Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) requirements for the FY 2014 November Reporting Period.
- Began preparations to migrate LOCCS off the Voice Response System (VRS) to eLOCCS to improve security in regards to external users. Released software to prevent eLOCCS users from going back to use the VRS system.
- Completed the annual recertification process for all OCFO systems, with the exception of LOCCS, by using a single OCFO application for the dissemination of recertification

information. LOCCS recertifies its external users semi-annually and internal users quarterly via approving officials.

- Improved the tracking of financial data by broadcasting reports that were developed through FDM. The reports also created better presentations of organized financial information for program offices.
- Successfully completed the migration of the Prepared by Client (PBC) system from Lotus Notes to the AINS eCase shared service provider.

4. Information Security

In FY 2014 the OCIO addressed several deficiencies by a) filling two key positions within the Office of the CIO by hiring a new Chief Information Officer and a new Chief information Security Officer. b) updating and publishing HUD IT Security Handbook 2400.25 to comply with National Institute of Standards (NIST) 800-53 Rev 4 in July 2014, c) updating the OCIO continuous monitoring program through publishing the Information Security Continuous Monitoring Strategy and Program Ver. 2.0 dated April 2014, d) updating the Authority to Operate (ATO) process to ensure all HUD systems have a complete ATO and publishing the Security Assessment and Authorization (SA&A) and Continuous Monitoring Guide Version 1.1 dated April 2014, and d) awarding a contract to develop HUD enterprise-wide Cybersecurity Framework in accordance with NIST guidelines.

OCIO and IT Security supported HUD's modernization and transformation. HUD's Office of IT Security (OITS) performed a Security Assessment and Authorization for the New Core shared services environment in October 2014. The OCIO worked with the Treasury Bureau of Financial Services, New Core and the HUD CFO to expedite and finalize New Core Phase 1 security documentation. We issued an ATO for the system in September 2014. The OCIO is also working with OIG and DOJ to ensure there is a repeatable process to record and generate necessary security artifacts in the Cyber Security Assessment and Management system to support the New Core ATO and future shared services initiatives. HUD implemented important changes to the Project Planning and Management process to allow better management of IT projects and to ensure projects are managed consistently. The CIO has invested in training and developed processes to help better manage projects.

In the OITS, all HUD ATOs are current. We anticipate a cost avoidance of $2.5M per year in contractor costs to produce ATOs by performing security assessments with OITS federal staff. That process began in August of this year. OITS also reduced delayed Plans of Actions and Milestones by 95 percent from 187 in April to 11 at the end of August 2014. In the IT training space, 7,547 (96 percent) out of 7,874 HUD employees in the HVU system, have completed their annual security refresher briefing. Much of the remaining 4 percent are duplicate records we are clearing up. Each HQ OITS employee completed at least one significant cybersecurity training course this year. OITS also recruited two advanced degreed veterans via direct hire authority to augment staff and mentor journeyman staff. One new hire is currently on board and the other is expected to be on board on November 3, 2014. The work on the cybersecurity framework contract began in September 2014 with an 18 month period of performance and is ongoing.

ACFO for Systems/New Core

Even though OIG reported that its annual FISMA evaluation revealed that HUD's IT Security Program may be extensively non-compliant with Federal IT guidelines, it does not relate to the OCFO systems. The security documents maintained by OCFO are up to date and accurately reflect its security posture and current operation of its systems at the application level. OCFO is successfully monitoring compliance with standards to ensure that policies and procedures are implemented to satisfy IT requirements.
A few of OCFO's accomplishments in regards to information security include:

- OCFO Systems completed the Authorization to Operate (ATO) process in accordance with NIST requirements for seven of its systems that required the Certification & Accreditation (C&A) during FY 2014. The remaining six systems were also reviewed as a part of the Continuous Monitoring program. All weaknesses identified during the System Test & Evaluation (ST&E) were recorded in the POAM and resolved if they did not require funding.
- OCFO implemented effective interface procedures to ensure that FHA and Ginnie Mae data were protected during transmission. OCFO worked with FHA and Ginnie Mae to password protect and encrypt the financial data files before transmitting the documents to OCFO.
- OCFO implemented effective access controls to ensure that LOCCS was protected from inappropriate exposure.
  - OCFO randomly sampled the LOCCS audit logs from October 1, 2013 to October 8, 2014, found three problems, and resolved them during the review. OCFO will repeat this process on a semiannual basis.
  - OCFO ensured that LOCCS user profiles accurately reflected the proper user profile type and permission granted.
  - OCFO ensured that the LOCCS maximum session termination time was implemented for all ACH users.

5. Single-Family Programs

HUD notes that the statement concerning the FHA fund ratio, "For the past 5 years, the FHA fund has failed to meet its legislatively mandated 2 percent capital ratio. Each of these 5 years has seen further decline in that ratio" is not correct. In FY 2013, the capital ratio increased from -1.44 percent in FY 2012 to -.11 percent. We are expecting a further increase in FY 2014.

There is agreement by Finance and Budget and Single Family Housing that collection for "Accelerated Claims Disposition" or "Claims Without Conveyance of Title" is appropriate. HUD's response to OIG's recent audit, as expressed in the official Management

Decisions for 2014-LA-0005, issued August 8, 2014, is the appropriate vehicle for responding to this issue.

Regarding the "rigorous and timely review of claims," HUD's response is contained in the memorandum of the final management decision (signed in December 2013) for the audit "Corrective Action Verification, Underwriting Review of 15 Lenders (Report 2011-CF-1801), Audit Report No. 2013-LA-0804," issued September 24, 2013. That response is as follows:

"Housing believes that it effectively manages a varied Quality Control (QC) workload including a robust QC review of performing and non-performing loans, Lender Monitoring Reviews, reviews of Lender Self-Reports, and responding to borrower complaints. The claim file review project is yet another workload that has been integrated into Housing's QC framework. While this new workload has presented operational and staffing challenges, Housing is committed to ensuring the work is completed. Housing will continue to refine its operations and systems to improve the timeliness and effectiveness of its entire QC workload, including claim file reviews. Respectfully, Housing maintains discretion to manage its quality control workload, including claim file reviews, as it deems appropriate."

In reference to the Department's Credit Alert Verification Reporting System (CAIVRS), FHA is guided by the Office of General Counsel opinion that neither delinquency nor claims paid on FHA-insured mortgages are considered delinquent Federal debt. FHA has not taken steps to create debt (i.e., obtaining a deficiency judgment) in situations of delinquency or claim. FHA is aware of how it is authorized to create a debt and the procedures for collection of claims for debts arising under National Housing Act. FHA has significant discretion in determining whether money owed to HUD is a debt and whether the debt must be repaid.

HUD agrees with OIG that the lack of funding has had a detrimental impact on FHA's ability to meet our modernization goals.

6. Office of Community Planning and Development Programs

HUD disagrees with the OIG's statement that "HUD's plan does not comply with the GAO legal opinion and allows grantees to expend funding that would normally be recaptured if the 24-month commitment timeframe was not met." The GAO opinion did not require or encourage HUD to implement its opinion retroactively to more than 20 years of HOME grants, as is suggested by the OIG's statement. The opinion simply states that "HUD must take steps to identify and recapture funds that remain uncommitted after the statutory commitment deadline and reallocate such funds in accordance with the Act." HUD's actions fully comply with the GAO opinion. By applying the GAO opinion for FY 2015 and subsequent grants, HUD's plan does not unfairly penalize HOME participating jurisdictions that have fully complied with the cumulative method that is established in the HOME program regulations and allows HUD to make system and reporting improvements, complete rulemaking, and issue guidance to HOME participating jurisdictions. In addition, HUD's approach avoids litigation that would surely result if HUD were to deobligate HOME grant funds that participating jurisdictions committed in compliance with existing HOME regulations and applicable HOME grant agreements.

HUD has implemented system changes to remove FIFO processing (IDIS Release 11.9, 9/1/14), which necessitated the use of a cumulative method for determining compliance with the HOME month commitment requirement. In addition, HUD has drafted a proposed rule that will implement a grant-specific method of determining compliance with the commitment requirement. The proposed rule is nearing Departmental clearance.

7. Public and Assisted Housing Program Administration

Monitoring the Housing Choice Voucher Program

The Office of Public and Indian Housing has made significant progress monitoring housing agencies that administer the Housing Choice Voucher Programs (HCVP) nationwide. Some of these efforts are the following:

- HCVP identifies at-risk PHAs by various means such as high or low utilization, questionable data submissions, failure to submit, low reporting rates, conflicting submission data, etc. HUD continues to employ the Utilization Tool to monitor PHA leasing and spending throughout the current year and to identify agencies that may need assistance or intervention. This tool is also used to assist Public Housing Agencies (PHAs) to forecast their HCVP funding for at least two years in advance.
- Using this Utilization Tool data and the National Risk Assessment (NRA) Tool, the HCVP determines the target PHAs for various types of onsite reviews conducted by the Quality Assurance Division (QAD), which may include Voucher Management System (VMS), Rental Integrity Monitoring (RIM), occupancy, and financial management and/or program compliance reviews. The QAD Review Teams are comprised of highly experienced staff who are trained in specialized areas of PHA program monitoring. (Note that the OIG has already accepted the Office of Field Operations' SEMAP protocol for conducting remote QC reviews of PHAs' SEMAP certifications for over 100 PHAs this calendar year. This group of PHAs has been determined to be high risk as part of the NRA Tool, and among them we chose the largest HCV programs.)
- PHAs are required to submit monthly leasing and cost data through the VMS. Information is analyzed for accuracy and completeness. The Program Office established the Shortfall Prevention Team (SPT) to streamline the monitoring process, to assure maximum oversight of PHAs that were affected by sequester in CY 2013 (and shortfalls that occurred during 2009), and to dedicate staff and resources to working with PHAs to prevent potential terminations of HCV participating families. The SPT team includes highly experienced staff from Headquarters, Field, QAD, and

the Financial Management Center (FMC). The SPT continues to work with PHAs in FY 2014 and is anticipated to do the same in FY 2015.

- The FMC initially completed the reconciliation of the NRA balances through December 31, 2009, and the Financial Management Division continued to update such balances on a quarterly basis for reporting to management and stakeholders, for preparing budget estimates, and for leasing and budget utilization purposes. In preparation for the transition of NRA funds to HUD-held reserves, validation of the latest reported balances was undertaken and continues. PHAs were provided the HUD-calculated balance, based on the latest PHA reporting and known subsequent disbursements and expenses through December 31, 2013, and were afforded the opportunity to request revisions to their balances. Reviewed balances were adjusted for any NRA use in CY 2014 and the balance was scheduled for transition via reduction of monthly disbursements. Through September 2014, a total exceeding $440,000,000 has been transitioned to HUD-held reserves.
- With the implementation of cash management procedures in CY 2012, HUD has successfully reduced the accumulation of NRA balances, meeting Treasury cash management requirements, and anticipates that by the end of CY 2014 the NRA balances will be reduced significantly via transition to HUD-held reserves.
- The QAD continues to conduct on-site and remote reviews at PHAs such as VMS reviews to assure the data used for funding purposes was accurately reported, and financial management reviews to ensure the appropriate use of HCV funds, validate equity balances, and ensure sufficient cash is available to back these balances, Rent Reasonableness reviews, and VMS-FASS Comparison reviews. (Note: in FY 2015 these comparisons will be discontinued). The QAD has also conducted Ability to Repay Assessments at PHAs where it has been determined funds are owed back to the HCV program as a result of PHA misapplication of funds.
- PHAs are required to report monthly tenant information through form HUD Form 50058. Wage information is matched with data from the Department of Labor wage records through the Enterprise Income Verification (EIV) process.

Reduction in Funding to the HCV Program

The Office of Public and Indian Housing has been able to manage lower HAP appropriations by effectively and consistently requesting Congress and the Appropriations Committees for offset/reallocation authority of available reserves, which was finally granted in CY 2014. Thanks to this provision, the national proration was increased closer to 100 percent in CY 2014, and approximately $20 million were earmarked for shortfall prevention.

Despite the challenges that predominantly small PHAs continue to face with lower administrative fees appropriations, PIH has been very successful applying the carryover reallocation provision for administrative fee purposes. Thanks to this provision, which was granted in CY 2012, and repeated in CY 2013 and 2014, the administrative fee prorations have been improved nationally and significantly.

Finally, and with the outstanding assistance of the Field Office representatives and the Shortfall Prevention Team, the HCV funding utilization tool continues to evolve providing PHAs with an expanded two-year funding and leasing forecasting tool for more educated decision making related to issuance of vouchers and meeting optimal leasing levels/goals.

Reasonableness of Fees for the Central Office Cost Center and Other Management Fees

PIH disagreed with several of the recommendations put forward by the OIG. The fee for service model is one of the pillars of the conversion to Asset Management (movement toward a private sector model) undertaken within the Public Housing program in 2007.

Similar to other owners of Multifamily real estate, PHAs are required to undertake a set of activities that are outside of the day-to-day operations activities for which they are compensated with other fees, such as the property management fee and the bookkeeping fee. Asset management activities involve long term strategic and financial planning efforts, including upper tier, owner-centric review of the financial and physical performance of the projects. In addition to the asset management activities undertaken by traditional real estate owners, for PHAs this function also includes updating its Admissions and Continued Occupancy Plans, creating and publishing the PHA Plan, as well as interacting with elected officials and other city and community officials as would be required to ensure that it is administering its available affordable housing resources in a manner that is consistent with its community's Consolidated Plan, as well as other statutory and regulatory requirements to which it is subject.

A principal outcome of the conversion of Public Housing program to asset management was the movement away from bloated operational structures and a funding strategy that did not effectively incentivize efficient program administration. The fee structure was established to move public housing to a structure more akin to HUD's Multifamily program. The cost drivers, through a fee-based approach, are reset and PHAs are incentivized to lower operating expenses and operate their real estate in an efficient manner. By contrast, prior to the conversion to asset management, the accounting and reporting of PHAs was opaque, and resulted in bloated central offices.

PIH designed the Asset Management Program with incentives for PHAs that are similar in manner to those provided in Multifamily. PIH agrees that fees should be reassessed to ensure that they are in fact reasonable. By October 1, 2016, PIH shall complete a reassessment of current fees including the asset management fee, property management fee, and bookkeeping. PIH shall modify the fees to the extent that a determination is made that the fees are higher than reasonable. To this end, PIH is also conducting a review of the property management and other fees at the four agencies identified by the OIG and to the extent any amounts are determined to be unreasonable, HUD will require agencies to enter into a repayment agreement to repay the Public Housing program.

Implementation of HCV Program Cash Management

In 2013 PIH made the decision to defer implementation of cash management for sound policy programmatic reasons. The department was concerned that, due to sequestration, a move to implement cash management would put families at risk of termination. The Sequestration amount reduced the 2013 HAP renewal amount by $650 million and PHA's with NRA used those funds to continue to serve families. Had the Department attempted to implement cash management may well have resulted in families losing their assistance.

With respect to the cash management reconciliations, the Program Office communicated to the OIG early in CY 2014, about delaying the reconciliations because of the offset being scheduled for the NRA transition to HUD-held reserves. The OIG was silent about PIH's plan at that point, but they did acknowledge our intentions. Yet, even without cash management reconciliations, the NRA balances were reduced to less than $500 million in CY 2014. Cash reconciliations will be reinstated with the September 2014 VMS submissions, and additional transition of NRA funds will occur through the end of CY 2014.

Monitoring and Oversight of the MTW PHAs

HUD has in fact reported publically on the progress of MTW agencies in meeting the demonstration's objectives. In August of 2010, HUD issued a report to Congress entitled "Moving to Work: Interim Policy Applications and the Future of the Demonstration," which discussed lessons learned from the experiences of participating sites that align with the three statutory objectives of the program. HUD also published a number of promising practice reports to its website in 2008 and 2009 that discussed policy changes enacted by MTW Agencies that furthered the demonstration's three statutory objectives. Although anecdotal and not on a program-wide basis, these reports demonstrate that MTW agencies are enacting activities that further the program's statutory objectives and that the demonstration is informing the policy dialogue through the experiences of these agencies.

HUD has also made changes to its administration of the program to better enable reporting on the progress of the demonstration. Some changes have been in response to the 2012 GAO report but many pre-date that report. Since the inception of the Standard MTW agreement in 2008 and the related revision to the program's reporting requirements, MTW agencies have been required to report on specific uses of MTW flexibility (referred to as MTW activities) and to define quantifiable, outcome-oriented metrics for each MTW activity. While these metrics helped HUD to better understand outcomes of specific MTW activities for a given agency, they did not allow HUD to report on the performance of the program as a whole.

In 2011, HUD began the process of further revising its reporting requirements to include a transition from existing agency-defined metrics to a set of standardized metrics organized under the program's three statutory objectives. Since the new reporting format's approval in May 2013, MTW agencies have received guidance from HUD on the applicability of standard metrics and are working to transition to these new metrics. HUD MTW staff are working to refine the strategy and tools necessary to roll-up data and report on program performance in furthering each of the three MTW statutory objectives. While HUD will use this data to serve as its performance indicators, HUD is also working with the MTW agencies define additional performance indicators.

Finally, neither the findings nor recommendations associated with the OIG's 2013 audit of the MTW demonstration stated that "participating PHAs have significantly departed from their MTW agreements." Rather, this report stated that the MTW Office had not fully implemented adequate monitoring procedures. At this time, no formal assertion has been made that MTW agencies are not in compliance with their MTW agreements. While HUD continues to further refine its monitoring protocols for assessing compliance with the standard MTW agreement, all 39 MTW agencies are, at this time, compliant with their obligations under its terms. This compliance is supported by the current practice of a signed certification that is submitted annually by the participating housing authority. If an agency were determined to be in non-compliance, Section VIII, Termination and Default, would be invoked by HUD. Per Section VIII, the agency would be provided with notice of non-compliance and a default of the agreement, an opportunity to cure the default, and if the agency did not cure the default it would lead to termination of the agreement. Section VIII goes into detail about the reasons HUD can declare the agency to be in default, and what remedies HUD may take.

HCV Unit Inspections

The transition from the Housing Quality Standard (HQS) to the Uniform Physical Condition Standard (UPCS-V) was originally planned as part of the Next Generation Management Standard (NGMS) initiative. Due to a change in leadership and strategic direction for that project, the UPCS-V component was removed from NGMS and established as a separate project within the Real Estate Assessment Center (REAC). During CY13, utilizing internal resources, REAC conducted approximately 1,000 HQS reviews at 22 PHAs. While PIH agrees that oversight of the PHAs' inspection program is important, dedicated funding for this effort was not provided by Congress until FY14. As a condition to the funding, Congress laid out a two-part mandate: improve the oversight of the HCV inspection program under the existing standards (HQS), and begin the transition to a more consistent inspection standard.

REAC developed a plan that would address both portions of the Congressional mandate by conducting approximately 39,000 quality assurance inspections at 180 PHAs by March of 2015. At each PHA, a comparison will be made of the PHA's HQS inspection to an independent inspection conducted by the HUD contractor. HUD's inspection contractor will be applying a standardized, "federal" version of HQS. Under this hybrid approach, both the PHA's inspection and the contractor's inspection will be processed electronically, allowing

HUD to analyze this data and apply various scoring algorithms to establish a model UPCS-V. The first inspections began in August 2014, and as of October 20, 2014, 5,300 quality assurance reviews had been completed. Where systematic challenges are identified at the local level, PIH will offer targeted technical assistance to help those PHAs improve their programs.

Work has also begun on the development of a unit-based inspection standard that will have its foundation in UPCS, but will be tailored to the specific needs of the HCV program. Engineers, construction analysts, policy analysts and statisticians within PIH are evaluating the protocol and are identifying possible areas for improvement. The data being collected through March will be incorporated into the analysis and is expected to identify implementation gaps and common issues that should be addressed in the new standard. It is important to ensure that UPCS-V complies with minimum industry accepted standards for a decent, safe, and sanitary unit, but at the same time does not unnecessarily restrict housing choice. Assuming resource availability, field testing of the new protocol could take place in the late spring of 2015.

8. Compliance with the Improper Payments Elimination and Recovery Act of 2010

We disagree with the statement that HUD did not sufficiently and accurately report on four required areas in its Annual Financial Report as required by IPERA. However, we recognize that HUD needs improvement in reporting on the four required areas-- (1) billing and program component improper payment rates; (2) actions to recover improper payments; (3) accountability; and (4) corrective actions, internal controls, human capital, and information systems as required by IPERA and OMB Circular A-123, Appendix C.

In addition, we disagree that HUD's supplemental measures and associated corrective actions did not target the root causes of HUD's improper payments. HUD is a government-wide leader in addressing improper payments and has a robust program that is identified as a best practice for other agencies. A more accurate statement would be that "*HUD's Supplemental Measures and Corrective Actions Need Improvement.*"

We also disagree with the *statement "HUD needs to implement processes to ensure that it accurately reports on its improper payments and the actions it took to reduce and recover them."* HUD has determined that recovery auditing of its high risk programs is not a cost effective or efficient strategy to further reduce improper payments as we utilize a proactive and preventative approach to reducing improper payments. Our success in utilizing this approach has resulted in our reducing improper payments for these programs by 61 percent between FY 2000 and FY 2012. HUD is still in the process of implementing the recovery audit requirements for its smaller programs, and we will continue to monitor the progress of their efforts.

HUD's success in reducing improper payments by 61 percent between FY 2000 and 2012 is due in large part to the use of the EIV system. For example, HUD implemented reporting in the EIV system to aid PHAs in recovering payment errors at the local level in FY 2010. One of these reports is the Deceased Tenant Report that 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 were recovered. Use of the EIV system is considered to be a best practice in reducing improper payments.

9. Administering Programs Directed Toward Victims of Natural Disasters

The Department agrees that the addition of each supplemental Community Development Block Grant disaster recovery (CDBG-DR) appropriation increases the Department's grants management responsibilities. HUD has also increased its grants oversight efforts to address this challenge, including:

- increased technical assistance for CDBG-DR grants,
- increased monitoring on-site,
- publication of disaster recovery toolkits to expedite program launch, and
- hiring of additional staff to manage additional Hurricane SANDY grantees.

The administration of CDBG-DR funds incorporates the CDBG existing regulations and statute as well as waivers to those provisions that allow the CDBG-DR funds to be used for specific recovery activities (e.g. new housing construction, which is prohibited by statute, but is waived for disaster recovery). Based on the authority granted to the Secretary in each CDBG-DR appropriation, HUD grants specific waivers (often recurring) because the Secretary has determined that there is just cause (based on individual circumstances) and that such a waiver is not contrary to the Housing and Community Development Act of 1974. The Secretary cannot grant waivers in an effort to be consistent, but must evaluate the circumstances of each waiver request.

The Disaster Relief Appropriations Act of 2013 establishes a two-year CDBG-DR expenditure requirement and allows the Department (with approval from the Office of Management and Budget) to grant a waiver of that expenditure deadline. Due to the long-term nature of recovery activities, OMB authorized the Department to provide waivers for up to $7.4 billion in grantee programs and projects, within certain parameters. Waivers will be limited to four categories of activities, including administration, economic development and tourism, infrastructure and public improvements, and housing. The Department's March 5, 2013, Federal Register notice advised grantees to submit written requests for waivers, including the rationale for the waiver and further described this process in its November 18, 2013, notice in a section on "Timely Expenditure of Funds." As described in this notice, grantee letters "must detail the compelling legal, policy, or operational challenges for any such waiver, and must also identify the date by when the specified portion of funds will be expended." As required for all CDBG-DR waivers, the Department also indicated that such waivers will be published in the Federal Register. HUD has received approval to grant two-year expenditure waivers and will publish the guidance on submission of waiver requests in a Federal Register Notice in December 2014. To date, no waivers of the two-year expenditure deadline have been provided to any CDBG-DR grantees. To prepare for such requests and ensure compliance with extended timelines for expenditure deadline waivers, the Department has implemented system improvements to ensure it has a method of tracking individual expenditure deadlines in its Disaster Recovery Grant Reporting system.

HUD agrees that CDBG-DR grantees must improve procurement compliance. Tracking expenditures requires a review of the CDBG-DR grantee's financial management, including compliance with CDBG-DR procurement requirements. When HUD identifies procurement policies or actions that violate procurement requirements, HUD issues a finding with a corrective action that requires changes to the grantee's procurement practices, repayment of CDBG-DR funds for any non-compliant procurements, or other remedies for non-compliance that help the grantee achieve compliance going forward. The Department acknowledges, however, the need for additional technical assistance regarding procurement for grantees and staff to increase procurement compliance.

Several CDBG-DR grants have closed-out and reached completion and the Department has projected recovery completion dates for remaining grantees. HUD is committed to the oversight and the long-term recovery of unspent funds for all communities receiving CDBG-DR funds.

Summary of Financial Statement Audit and Management Assurances

For FY 2014, eight material weaknesses were identified by the Office of Inspector General in HUD's Consolidated Financial Statement Audit Report. Table one provides a summary of financial audit findings with regard to the 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 2014 Financial Statement Audit. Table two is a summary of HUD's FMFIA management assurances.

Table 1

Summary of Financial Statement Audit

Audit Opinion	**Disclaimer**				
Restatement	Yes				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Departmental Financial Management Systems Weaknesses	1	0	0	0	1
Utilization of FIFO Method	1	0	0	0	1
Presentation of Balance Sheet Accounts	1	0	1	0	0
PIH Cash Management	1	0	0	0	1
Accounting Accrual for Grants	0	1	0	0	1
Asset Balances for Non-Pooled Loans – (Ginnie Mae)	0	1	0	0	1
Internal Controls Weaknesses in Financial Reporting – (Ginnie Mae)	0	1	0	0	1
Financial Management Governance	0	1	0	0	1
Claims Notes and Legal Settlements Receivable – (FHA)	0	1	0	0	1
Total Material Weaknesses	**4**	**5**	**1**	**0**	**8**

Table 2

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	No Assurance					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Utilization of FIFO Method	1	0	0	0	0	1
Presentation of Balance Sheet Accounts	1	0	1	0	0	0
PIH Cash Management	1	0	0	0	0	1
Accounting Accrual for Grants	0	1	0	0	0	1
Asset Balances for Non-Pooled Loans– (Ginnie Mae)	0	1	0	0	0	1
Internal Controls Weaknesses in Financial Reporting – (Ginnie Mae)	0	1	0	0	0	1
Mortgage-Backed Securities-Loss Liability – (Ginnie Mae)	0	1	0	0	0	1
Financial Management Governance – (Ginnie Mae)	0	1	0	0	0	1
Claims Notes and Legal Settlements Receivable – (FHA)	0	1	0	0	0	1
Total Material Weaknesses	**3**	**6**	**1**	**0**	**0**	**8**

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
Total Material Weaknesses	**1**	**0**	**0**	**0**	**0**	**1**

Table 2 cont.

Summary of Management Assurances

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**
Departmental Financial Management Systems Weaknesses	1	0	0	0	0	1
FISMA Non-Compliance	1	0	0	0	0	1
Total Material Weaknesses	**2**	**0**	**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
GFAS	1	0	1	0	0	0
Total non-conformances	**5**	**0**	**1**	**0**	**0**	**4**

Compliance with Section 803(a) of Federal Financial Management Improvement Act (FFMIA)		
	Agency	**Auditor**
1. System Requirements	Lack of substantial compliance noted	Lack of substantial compliance noted
2. Accounting Standards	Lack of substantial compliance noted	Lack of substantial compliance noted
3. USSGL at Transaction Level	Lack of substantial compliance noted	Lack of substantial compliance noted

Status of Material Weaknesses

The table below identifies the material weakness identified by the OIG in this year's financial statement audit.

Carry Over & New Issues	Material Weakness	Status at End of FY 2014	Expected Resolution Date
MW 1	Departmental Financial Management Systems Weakness	Open	September 2020
MW 2	Strategic Management of Human Capital Operations	Open	February 2015
MW 3	Utilization of FIFO Method	Open	September 2016
MW 4	Presentation of Balance Sheet Accounts	Closed	September 2014
MW 5	PIH Cash Management	Open	December 2015
MW 6	FISMA Non-Compliance*	Open	March 2015
MW 7	Accounting Accrual for Grants	New/Upgraded to MW	TBD
MW 8	Asset Balances for Non- Pooled Loans - Ginnie Mae	New	TBD
MW 9	Internal Controls over Financial Reporting - Ginnie Mae	New	TBD
MW 10	Mortgage Backed Securities (MBS) - Loss Liability - Ginnie Mae	New/Upgraded to MW	TBD
MW 11	Financial Management Governance**	New/Upgraded to MW	TBD
MW 12	Claims Notes and Legal Settlements Receivables - FHA	New	TBD

Status of Significant Deficiencies

The table below identifies the anticipated resolution dates for Significant Deficiencies identified by the OIG in this year's financial statement audit.

Carry Over & New Issues	Significant Deficiency	Status at End of FY 2014	Expected Resolution Date
SD 3	PHA Monitoring	Open	April 2015
SD 4	Controls over HUD's Computing Environment	Open	August 2016
SD 7	Obligation Balances	Open	September 2015
SD 13	Resource Management	Open	September 2015
SD 18	Controls Over Rental Housing Assistance	Open	April 2015
SD 24	Administrative Control of Funds	Open	June 2015
SD 25	Payroll Reconciliation	Open	December 2015
SD 30	EHLP (Financial and Program Management Controls)	Open	September 2015
SD 31	FHA's Undelivered Orders	Open	May 2015
SD 32	FHA's Unrecognized Liabilities	New	June 2015

Non-Compliance with Laws and Regulations

The table below identifies the anticipated resolution dates for the Department's non-compliance with laws and regulations identified by the OIG in this year's financial statement audit.

Carry Over & New Issues	Non-Compliance with Laws and Regulations	Status at End of FY 2014	Expected Resolution Date
NC 1	Federal Financial Management Improvement Act (FFMIA)	Open	October 2016
NC 2	Anti-Deficiency Act	Open	Ongoing
NC 4	FHA's Mutual Mortgage Insurance Fund Capitalization National Affordable Housing Act of 1990	Open	Ongoing
NC 5	FISMA Non-Compliance *	Open	March 2015
NC 6	HOME Statute	Open	October 2015
NC 7	Improper Payments Elimination and Recovery Act (IPERA)	New	TBD

*Reported as a Significant Deficiency under the FY 2014 annual FISMA evaluation in accordance with FMFIA reporting requirements. Under the requirements, FISMA – SD's must be reported as a MW under FMFIA.

**HUD and GNMA deficiencies combined

Accomplishments and Planned Actions

The following table provides details on accomplishments and planned actions for the material weaknesses, significant deficiencies, and instances of non-compliance with laws and regulations.

<u>MW1</u> **Departmental Financial Management Systems**	**Achieving substantial compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) continued to challenge HUD**

FY 2014 Accomplishments	❑ Worked with New Core Executive Committee to ensure system issues are addressed. ❑ Implemented a new strategy to deploy New Core in phased approaches. ❑ Held weekly meetings with New Core Executive Committee to ensure that milestones were met. ❑ Awarded the contract for Federal Asset Management Enterprise System (FAMES). ❑ Developed and implemented GFAS Budgetary Accounting module (Ginnie Mae).
FY 2015 Planned Actions	❑ Continue Project Management discussions with New Core Executive Committee. ❑ Implement FAMES. ❑ Identify and validate milestones to ensure progress.
<u>MW2</u> Strategic Management of Human Capital Operations	**Deficiencies exist with HUD's Human Capital Management Environment**
FY 2014 Accomplishments	❑ Drafted Human Capital Strategic and Workforce plans. ❑ Developed comprehensive staffing plans by program office. ❑ Modified and formalized the process for reviewing and validating hiring plans. ❑ Established workforce planning process.
FY 2015 Planned Actions	❑ Implement hiring plan process. ❑ Finalize Human Capital Strategic and Workforce plans.
<u>MW3</u> Utilization of FIFO Method	**Use of FIFO caused IDIS to be noncompliant with FFMIA**
FY 2014 Accomplishments	❑ Executed an IT project to eliminate the FIFO method within IDIS. ❑ Began modifications to IDIS grants management system.
FY 2015 Planned Actions	❑ Incorporate the Section 108 program within the New Core system. ❑ Deploy system modifications. ❑ Modify IDIS system. ❑ Complete execution of the elimination of the FIFO method.
<u>MW4</u> Presentation of Balance Sheet Accounts	**Weaknesses identified in HUD's financial statement consolidation, preparation and reporting related to Ginnie Mae and FHA**
FY 2014 Accomplishments	❑ Restated the FY 2012 and FY 2013 Financial Statements for GNMA. ❑ Implemented GFAS Budgetary Accounting system.
<u>MW5</u> PIH Cash Management	**PIH's Housing Choice Voucher program cash management process departed from GAAP and Treasury requirements**

FY 2014 Accomplishments	❑ Transitioned Net Restricted Assets (NRA) balances of approximately $445 million. ❑ Conducted Cash Management reconciliations for non-"Moving To Work" agencies. ❑ Developed draft Front End Risk Assessment (FERA) for cash management process.
FY 2015 Planned Actions	❑ Continue transition of NRA balances. ❑ Perform ability to repay reviews and reviews of significant reporting differences. ❑ Reinstitute cash management quarterly reconciliations for all non- "Moving To Work" agencies. ❑ Complete FERA for the cash management process.
<u>MW6</u> FISMA Non-Compliance	**HUD did not comply with the Federal Information Security Management Act (FISMA)**
FY 2014 Accomplishments	❑ Established an enterprise-wide continuous monitoring program that complies with FISMA and NIST SP 800-137. ❑ Updated the HUD IT Security Handbook 2400.25 REV3 and the HUD IT Security Procedures REV3 in compliance with NIST REV3 requirements. ❑ Updated and issued mobile device policies that comply with NIST REV3 requirements and disseminated appropriately. ❑ Finalized an organization-wide strategy for conducting security assessments. ❑ Established enterprise incident response program, policies, plans and procedures addressing the requirements of NIST SP 800-61 Revision. ❑ Issued policy establishing CSAM as the system for maintaining inventory information on all IT systems. ❑ Ensured security plans and Certification and Accreditation plans are updated in accordance with NIST guidance. ❑ Strengthened security awareness and training program and activities, as well as security assessments. ❑ Awarded contract to develop HUD enterprise-wide Cyber Security Framework.
FY 2015 Planned Actions	❑ Incorporate user's rules of behavior into HUD's annual security awareness training. ❑ Implement a well-defined governance model for HUD's IT security programs. ❑ Improve risk management to align with federal guidance and agency goals. ❑ Update and improve incident response handling procedures. ❑ Further develop continuous monitoring as an ongoing authorization process. ❑ Adopt NIST cybersecurity framework.
<u>MW 7</u> Accounting Accrual for Grants	**HUD lacked GAAP-compliant policies for accruals**

FY 2014 Accomplishments	❑ Upgraded from Significant Deficiency to Material Weakness (previously reported as a Significant Deficiency). ❑ Developed an algorithm to estimate accruals. ❑ Developed accrual methodologies by program. ❑ Issued Grant Accrual policy. ❑ Implemented Grant Accrual methodology. ❑ Finalized methods and policy for accrual reporting. ❑ Developed procedures for obtaining information on charges not yet billed. ❑ Developed a methodology for recording accruals in HUDCAPS. ❑ Developed a report to capture open contract obligations in FDM. ❑ Developed policies addressing the consolidation of financial statements and oversight responsibilities. ❑ Reviewed accruals and methodologies for accuracy and materiality.
FY 2015 Planned Actions	❑ Continue to implement, validate, and make adjustments to the accrual estimates. ❑ Execute accrual reporting. ❑ Ensure component entities compliance based on appropriate documentation and periodic meetings. ❑ Increase oversight and monitoring of accrual methodologies. ❑ Determine an appropriate level of materiality relative to the statement of net cost.
MW8 **Asset Balances for Non-Pooled Loans -Ginnie Mae**	**Material Asset Balances related to Non-Pooled Loans were not audible.**
FY 2014 Accomplishments	❑ Prepared a portfolio level reconciliation of the Master Sub-servicer (MSS) data.
FY 2015 Planned Actions	❑ Reconcile the historical and current loan level data for the non-pooled loans. ❑ Assess whether a loan level accounting system is necessary.
MW 9 **Internal Controls over Financial Reporting – Ginnie Mae**	**Weaknesses identified in Internal Controls over Financial Reporting.**
FY 2014 Accomplishments	❑ Recorded and reported the probable legal claim in its financial statements. ❑ Corrected the presentation error in the Balance Sheet.
FY 2015 Planned Actions	❑ Review and revise, the accounting and financial management policies and procedures, as necessary.
MW 10 **Mortgage Backed Securities - Loss Liability - Ginnie Mae**	**The Mortgage-Backed Security Loss Liability Account Balance Was Unreliable.**
FY 2014 Accomplishments	❑ Appointed two new Master Subservicer (MSS) firms. ❑ Developed a datamart to improve the analysis of loans administered by two MSS firms.

FY 2015 Planned Actions	❑ Develop a policy around the use of the Loss Reserve model and how to interpret the results of the model. ❑ Revalidate and document the basis of assumptions for the Loss Reserve model.
<u>MW11</u> Financial Management Governance	**Financial Management governance structure and Internal Controls Over Financial Reporting were ineffective**
FY 2014 Accomplishments	❑ Procured contractor to conduct study on OCFO's operations to increase the compliance with the CFO Act agency requirements. ❑ Hired 2 of 3 vacant Assistant Chief Financial Officers positions. ❑ Appointed a new Chief Financial Officer for HUD. ❑ Developed and updated accounting policies and procedures. ❑ Began developing a HUD wide standardized policy to ensure timely accrual of receivables. ❑ Began developing financial management policies and procedures for allowance for loss estimates. ❑ Develop and implement a standardized HUD wide policy to ensure timely accrual of receivables. ❑ Develop and implement financial management policies and procedures for allowance for loss estimates.
FY 2015 Planned Actions	❑ Hire remaining vacant Assistant Chief Financial Officer's position. ❑ Consider impact of the New Core financial system on future state financial management structure. ❑ Determine whether the creation of a Senior Management Council would benefit the effectiveness of HUD's operations. ❑ Provide recommendations to improve present and future state of HUD's financial management governance. ❑ Procure services to document the accounting process. ❑ Prepare a methodology, including an oversight mechanism to ensure approved recommendations are implemented and achieve the desired results. ❑ Ensure documented policies and procedures are in place for all accounting processes. ❑ Perform an organizational assessment/ study on OCFO's operations to determine appropriate staffing levels, including required skills. ❑ Implement a recruitment strategy in order to transform the organizational structure.
<u>MW12</u> Claims Notes and Legal Settlements Receivables	**FHA did not properly recognize receivables related to promissory note and legal settlements**
FY 2014 Accomplishments	❑ Determined the entities and amounts of all pending settlement funds to signed settlement agreements (FHA). ❑ Recorded account receivables in the amount of $714 million as of 9/30/14, and reported on the balance sheet in the FY2014 year-end financial statements (FHA). ❑ Reclassified $1.5 B in loan receivables to account receivables and $783 K in allowance for subsidy associated with the loans with missing promissory note documents over 60 days (FHA).

FY 2015 Planned Actions	❑ Reduce backlog of unprocessed documents regarding loan receivables. ❑ Draft Mortgagee Letter to align policy on partial claim document delivery with FHA's regulation. ❑ Initiate billing process for any claims.
SD3 **PHA Monitoring**	**HUD management must continue to improve oversight and monitoring of subsidy calculations, intermediate performance and utilization of Housing Choice Voucher Funds**
FY 2014 Accomplishments	❑ Monitored, followed-up, and closed out corrective action plans (CAPs) from Quality Assurance Division (QAD) reviews. ❑ Hired additional personnel. ❑ Made access to SharePoint available to field office staff. ❑ Drafted notices regarding financial reporting requirements, and administrative sanction for Departmental clearance. ❑ Engaged more analysts to conduct Voucher Management System (VMS) reviews.
FY 2015 Planned Actions	❑ Train newly hired employees. ❑ Continue close out of CAPs from QAD reviews. ❑ Establish internal standard operating procedures.
SD 4 **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.**
FY 2014 Accomplishments	❑ Updated and issued Handbook 2400.25 REV3 and HUD IT Security Procedures REV2. ❑ Developed and issued mobile device policies and procedures. ❑ Ensured all system owners have updated contingency plans and test systems at least annually. ❑ Finalized an organization-wide strategy for conducting security assessments. ❑ Incorporated a risk management strategy and program. ❑ Provided status reports on mitigating outstanding control deficiencies reported for support systems and program data. ❑ Maintained an inventory of network security devices. ❑ Deployed a data loss prevention solution to protect against sensitive data exposure. ❑ Ensured potentially introduced vulnerabilities by mobile devices to IT infrastructure are adequately assessed. ❑ Demonstrated system capability to retain data as a voucher is revised.
FY 2015 Planned Actions	❑ Finalize a new process which reviews the Business Impact Analysis (BIA) of all applications and consolidate them into one BIA. ❑ Develop an organization-wide strategy for conducting security assessments. ❑ Create a process to ensure cost and resources are tracked down to the application level. ❑ Develop and maintain a repository of remote access users included in the digital identity access management system under development. ❑ Establish mandatory use of the Personal Identity Verification credentials IAW HSPD-12. ❑ Strengthen mobile device security using an end-to-end wireless data management system.

SD 7 **Obligation Balances**	**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.**
FY 2014 Accomplishments	❑ Evaluated identified funding lines to determine outstanding funds. ❑ Coordinated with field office operations to confirm that funds should be deobligated. ❑ Paid $1.2 million to Indian Housing Agencies to return Mutual Help contribution. ❑ Issued a memorandum to all program offices instructing them to institute administrative obligation reviews more than once a year. ❑ Required program offices to document their monitoring efforts in the funds control plans. ❑ De-obligated funds identified by program offices as eligible to be de-obligated. ❑ Reduced $50.6 million balance of excess funds identified to $12.8 million for CPD programs. ❑ De-obligated $270,500 out of $749,082 for unliquidated obligations to be de-obligated for the CPD program.
FY 2015 Planned Actions	❑ Notify Public Housing Authorities (PHAs) that funds will be deobligated. ❑ Work with transaction owners to determine validity of the balances. ❑ Review and recapture 510 obligations for closed, expired or inactive projects, totaling $27.5 million. ❑ Develop and implement policy and procedures to ensure reconciliations are performed for all appropriations. ❑ Reconcile the general ledger accounts with their subsidiary ledger at least quarterly. ❑ Continue de-obligating eligible funds identified by program areas. ❑ Recapture and return to Treasury any unspent ARRA funds, including at least $4.7 million and $2.6 million for the CDBG-R and HPRP programs, respectively. ❑ Review and recapture all 212 Operating subsidy funding lines with remaining balances totaling $11 million, if applicable. ❑ Issue final close-out guidance. ❑ Follow-up on remaining de-obligations balances and determine if actions submitted to OCFO have been de-obligated.
SD 13 **Resource Management**	**HUD needs to develop a comprehensive strategy to manage its resources and better estimate staffing needs and support its staffing requests.**
FY 2014 Accomplishments	❑ Completed a draft Human Capital Strategic Plan. ❑ Collaborated with CFO and other programs on available systems and software solutions to produce predictive analytics and integrated data. ❑ Captured results of a comprehensive workforce analysis of trends and historical data in the Workforce Plan. ❑ Established a formal process for reviewing and validating hiring plans.
FY 2015 Planned Actions	❑ Refine and implement a hiring process in line with workforce management, position management, and budgetary guidelines. ❑ Implement a repeatable workforce planning process. ❑ Staff vacancies for under ceiling offices.

<u>SD 18</u> 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 2014 Accomplishments	❑ Monitored, followed-up, and closed out of corrective action plans (CAPs) from Quality Assurance Division (QAD) reviews. ❑ Hired additional personnel. ❑ Drafted notices regarding financial reporting requirements, and administrative sanctions for Departmental clearance. ❑ Engaged more analysts to conduct Voucher Management System (VMS) reviews.
FY 2015 Planned Actions	❑ Continue implementation of standardized monitoring protocols. ❑ Train newly hired employees. ❑ Continue close out of CAPs from QAD reviews. ❑ Establish internal standard operating procedures
<u>SD 24</u> Administrative Control of Funds	**HUD needs to improve its administrative control of funds**
FY 2014 Accomplishments	❑ Submitted revised funds control plan language to include point of legal obligation, recording and disbursement of Housing Choice Voucher funds (HCV). ❑ Updated the S&E plans to include HIAMS and deleted forms formerly used to request contract actions. ❑ Developed and approved Funds Control Plans for the Section 184 Program. ❑ Reviewed internal controls governing verification and validation of funds.
FY 2015 Planned Actions	❑ Annually review Funds Control plans to ensure compliance. ❑ Update and seek approval of the revised Funds Control Plans. ❑ Revise HCV Funds Control Plans.
<u>SD 25</u> Payroll Reconciliation	**HUD needs to strengthen controls in the payroll process**
FY 2014 Accomplishments	❑ Reduced payroll adjustments. ❑ Continued to track manual payroll transactions. ❑ Began transition of HUD's time and leave administration to the Department of Treasury, Bureau of Fiscal Services (BFS).
FY 2015 Planned Actions	❑ Complete transition of HUD's time and leave administration to BFS.
<u>SD 30</u> EHLP	**Financial and Program Management Controls Over the Emergency Home Loan Program (EHLP) Were Weak**
FY 2014 Accomplishments	❑ Reviewed the fiscal agent contract remaining obligated balances. ❑ Provided supporting documentation for the de-obligation of contract funds. ❑ Performed an on-site review at Bank of NY to ensure internal controls are established. ❑ Completed five monitoring reviews.
FY 2015 Planned Actions	❑ Perform an additional on-site review at Bank of NY. ❑ Summarize monitoring reviews conducted in 2014.

SD 31 **Undelivered Orders for Property Related Contracts**	**Undelivered Orders for Property-Related Contracts Should Be Reviewed Annually and De-obligated Promptly**
FY 2014 Accomplishments	❑ De-obligated over $36 million of the $43 million identified in expired-property related contracts for closing agents. ❑ Implemented plans and corrective actions. ❑ Submitted SAMS property related annual review memorandums. ❑ Developed procedures for the annual review process regarding contracts inactive for 6 months or longer. ❑ Developed procedures for contract closeout. ❑ Developed procedures to document the reconciliation process. ❑ De-obligated funds as part of $57 million identified. ❑ Provided verification of requirements (VOR) documenting the implementation of enhancements to ensure that payments cannot be made in excess of obligation for closing agent contracts. ❑ Developed procedures for reconciling the interface between HIAMS and SAMS automated systems.
FY 2015 Planned Actions	❑ De-obligate the remaining balance of the $43 million identified in expired property-related contracts.
SD 32 **FHA Unrecognized Liabilities**	**FHA Liabilities were not recognized for Unearned Premium Collections Or Unpaid Supplemental Claims**
FY 2014 Accomplishments	❑ Recognized $165.7 million in other deferred revenue for premium collections on unendorsed loans. ❑ Recorded a $56.8 million accrual to reflect the suspended supplemental claim liability.
FY 2015 Planned Actions	❑ Develop and implement a methodology to defer the recognition of all premium collections prior to endorsement from the liability for Loan Guarantee. ❑ Develop and implement a methodology for estimating the appropriate amount of liability to accrue from suspended supplemental claims. ❑ Record an adjusting entry to report the appropriate amount of suspended supplemental claims liability at year end.
NC 1 **FFMIA**	**HUD did not substantially comply with the Federal Financial Management Improvement Act (FFMIA) regarding system requirements.**
FY 2014 Accomplishments	❑ Provided oversight over the implementation of the loan guarantee system. ❑ Updated planned actions for each financial management system. ❑ Analyzed FIFO in accordance with accounting principles, internal controls, and system requirements. ❑ Completed analysis of IDIS assignments and disbursing budget fiscal year funding sources in accordance with Federal financial accounting standards. ❑ Developed a draft plan to eliminate FIFO with IDIS. ❑ Implemented DRGR corrective actions to improve its internal controls.
FY 2015 Planned Actions	❑ Adopt a standard business process to provide ARC data to record the loan guarantee activity in Oracle. ❑ Deploy Release 3 of New Core project.

NC 2 **Anti-deficiency Act**	**HUD did not substantially comply with the Anti-deficiency Act**
FY 2014 Accomplishments	❑ Completed backlog of old investigations, including six cited by OIG in prior audits.
FY 2015 Planned Actions	❑ Closeout the two remaining known ADA issues that are still under investigation or review. ❑ Review final reports to determine if reportable ADA violations have occurred.
NC 4 **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 2014 Accomplishments	❑ Initiated new underwriting standards aimed at preventing higher-risk business. ❑ Introduced new servicing rules requiring early intervention. ❑ Increased the minimum down payment requirement on the highest balanced loans (above $625,000) to 5 percent. ❑ Increased both upfront and annual premium rates.
FY 2015 Planned Actions	❑ Continue to monitor economic conditions, business trends and actuarial assessments. ❑ Acquire and implement an enhanced system of risk measurement, risk monitoring and risk management reports which will include monthly valuations of the Fund.
NC 5 **FISMA**	**HUD did not comply with the Federal Information Security Management Act (FISMA)**
FY 2014 Accomplishments	Please refer to the MW labeled FISMA non-compliance above for noted accomplishments.
FY 2015 Planned Actions	Please refer to the MW labeled FISMA non-compliance above for planned actions.
NC 6 **HOME Statute**	**HUD did not comply with Section 218 (g) of the HOME Investment Partnership Act**
FY 2014 Accomplishments	❑ Implemented a change to the IDIS systems' commitment and disbursement processing to ensure all FY 2015 and future grants will be committed and disbursed on a grant-specific basis rather than a FIFO basis. ❑ Drafted a proposed rule for Departmental clearance to address the GAO decision regarding FIFO.
FY 2015 Planned Actions	❑ Issue proposed rule for comment. ❑ Issue final rule for changes to implement the GAO decision.
NC 7 **IPERA**	**HUD did not comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA)**

FY 2014 Accomplishments	❑ N/A
FY 2015 Planned Actions	❑ Re-emphasize the importance of complying with actions to recover improper payments via a formal department-wide memorandum. ❑ Request that program areas update their recovery audit plans every 3 years. ❑ Work with PIH and Multifamily Housing program areas to identify their plans on how PIH and Multifamily Housing will hold program officials and processing entities (PHA's and owner administrators) accountable for improper payments. ❑ Work with PIH and Multifamily Housing program areas to identify and report on all human capital and information system limitations that hamper reduction efforts as required by IPERA and OMB Circular A-123, Appendix C.

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, 2013, through September 30, 2014. 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 2014 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 891 approved management decisions and successfully implemented 654 recommendations. The Department also made good progress in reducing its inventory of potential significantly overdue final actions, which are those recommendations that could potentially be significantly overdue on September 30, 2014. This inventory was successfully addressed and the Department resolved 134 recommendations in this category, which was a reduction of 56 percent.

Summary of Management Decisions on Audit Recommendations

Opening Inventory Requiring Decisions	408
New Audit Recommendations Requiring Decisions	1,009
Management Decisions Made[1]	(891)
Audit Recommendations Still Requiring Decisions[2]	526
Recommendations Beyond Statutory Resolution Period[2]	17

[1] *Management decisions were made on a total of 891 recommendations (132 audits of which 76 had final management decisions). Of these, 404 recommendations were in the opening inventory.*

[2] *This reporting period ended with 526 recommendations without management decisions. Of these, 17 recommendations are over 6 months old.*

Summary of Recommendations with Management Decisions and No Final Action

Opening Inventory – Final Actions Pending	1,175
Management Decisions Made During Report Period	891
Sub-Total Final Actions Pending	2,066
Final Actions Taken[1]	(654)
Audit Recommendations Reopened During Period (Without Final Actions)	0
Total Audit Recommendations Still Requiring Final Actions[2]	1,412

[1] *Final Action was taken on a total of 654 recommendations (215 audits of which 104 had final actions taken, thus closing the audits). The number of recommendations where a management decision and final action were concurrent was 207 in 107 audits.*

[2] *Of the 216 audits remaining, 46.8 percent or 101 are under repayment plans.*

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.	264	980,967,682
B. Audit Reports on which management decisions were made during the period.	84	1,368,535,417
C. Total audit reports pending final action during period (total of A and B)	348	2,349,503,099
D. Audit Reports on which final action was taken during the period		
1. Recoveries[1]	51	534,804,887
(a) Collections and offsets	49	509,204,492
(b) Property	1	475,000
(c) Other	9	25,125,395
2. Write-offs	43	77,446,389
3. Total of 1 and 2[2]	65	612,251,276
E. Audit Reports needing final action at the end of the period (subtract D3 from C)[3]	283	1,737,251,823
F. Open Recommendations (with disallowed costs)[4]	[627]	[$1,303,076,287]

[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.]

[1] *Audit Reports are duplicated in D.1.(a), D.1.(b) and D.1.(c); thus the total is reduced by 8.*

[2] *Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 29.*

[3] *Litigation, legislation, or investigation is pending for 37 audit reports with costs totaling $136,526,184.*

[4] *Figures in brackets represent data at the recommendation level as compared to the audit level as described in E.*

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.	160	6,415,860,646
B. Audit Reports on which management decisions were made during the period.	46	915,081,125
C. Total audit reports pending final action during period (total of A and B)	206	7,330,941,771
D. Audit Reports on which final action was taken during the period		
1. Value of Audit Reports implemented (completed)	32	1,071,376,702
2. Value of Audit Reports that management concluded should not or could not be implemented	10	6,663,604
3. Total of 1 and 2[1]	36	1,078,040,306
E. Audit Reports needing final action at the end of the period (subtract D3 from C)[2]	170	6,252,901,465
F. Open Recommendations (with funds put to better use)[3]	[130]	[$2,140,835,790]

[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.]

[1] *Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 6.*

[2] *Litigation, legislation, or investigation is pending for 22 audit reports with costs totaling $62,034,606.*

[3] *Figures in brackets represent data at the recommendation level as compared to the audit level as described in E.*

IPIA (as amended by IPERA) 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.

HUD's Commitment

At the time of implementation of the Improper Payments Information Act (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, in accordance with Executive Order (EO) 13520: *Reducing Improper Payments and Eliminating Waste in Federal Programs*.

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 Risk Assessment Process & Summary to Date

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.

2) Perform a detailed risk assessment of program activities identified in the first step with annual expenditures in excess of $40 million[1]. (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.

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). After HUD's initial annual risk assessment, it [HUD] determined the CDBG programs to be at low risk of improper payments and did not warrant 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).

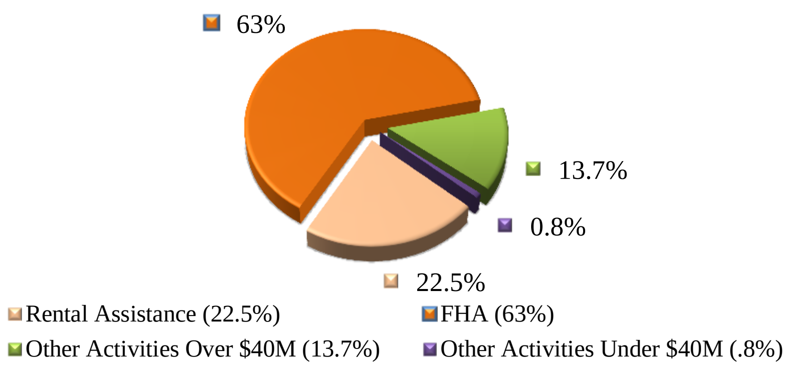
[1] The OCFO determined that programs with expenditures of less than $40 million would not be included in the risk assessment. OMB Circular A-123, Appendix C, Part 1, defines "significant erroneous payments" as annual erroneous payments in the program exceeding 1) both 1.5 percent of program outlays 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).

These programs are collectively referred to as HUD's RHAP. HUD has reduced the combined baseline gross improper rental housing assistance payment[2] estimates of $3.43 billion to $1.029 billion in Fiscal Year 2013, a reduction of 70 percent.

Statistical Sampling

The FY 2014 risk assessment update was based on payments and other relevant activities that occurred during FY 2013. Approximately 200 distinct program and administrative payment activities were identified from all of HUD's financial management systems in FY 2013, with total payments of $142.2 billion. The payment universe consisted of the following distribution:

HUD's $142.2 Billion Payment Universe



HUD's risk assessment update in FY 2014 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[3], corrective action plans, and error reduction goals described below. These programs constituted $32 billion, or 22.5 percent, of HUD's total payments in FY 2013.

There are three major components of potential errors which could result in improper payments in these complex programs:

---

[2] HUD has traditionally reported errors in rental subsidy (which do not meet the definition of payments under IPERA) as improper payments since current data systems do not provide the required information, without excessive administrative costs, to identify improper payments. However, errors in rental subsidy are a major contributing factor for improper payments in these programs.

[3] HUD's methodology for sampling is designed to obtain a 95% likelihood that estimated aggregate national rent errors for all programs are within 2 percentage points of the true population rent calculation error, assuming an error of 10% of the total rents (based on OMB criteria). In previous studies, the household sample size of 2,400 has shown to be an acceptable precision for estimates of the total average error. The study sample for the 2013 study referenced in this report included 542 distinct projects in 57 geographic areas in the United States and Puerto Rico from 2,402 households - one-third from each program type (Public Housing, PIH-administered Section 8, and Owner-administered 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
3) Billing error – errors in the billing and payment of subsidies due between HUD and third party program administrators.

From FY 2000 through FY 2013, HUD reduced the gross improper payments for the first two of these three categories of error from $3.22 billion to $0.92 billion, a reduction of 71 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. The estimate derived from the most recent billing studies for the Public Housing program and the Project Based/Owner Administered program was $106 million. The table on the following page provides a summary for all three error components for FY 2013 as compared to FY 2012 and the baseline year (FY 2000). Actual results are not presented for FY 2014 because HUD reports on prior year data (i.e., FY 2014 studies are conducted using FY 2013 data). 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.

Improper Rental Assistance Payments Dollars in Thousands

Administration/ Error Type	2013 Subsidy Over-Payments	2013 Subsidy Under-Payments	2013 Net Erroneous Payments	2013 Gross Erroneous Payments	2012 Gross Erroneous Payments	2000 Gross Erroneous Payments
Public Housing						
Administrator Error	$103,641	$74,267	$29,374	$177,908	$190,850	$602,557
Income Reporting Error	$87,552	-	$87,552	$87,552	$203,685	$294,000
Billing Error*	$35,000	$14,000	$21,000	$49,000	$49,000	Not available
Subtotal:	**$226,193**	**$88,267**	**$137,926**	**$314,460**	**$443,535**	**$896,557**
Section 8 Voucher						
Administrator Error	$183,874	$140,419	$43,455	$324,293	$430,716	$1,096,535
Income Reporting Error	$153,785	-	$153,785	$153,785	$168,802	$418,000
Billing Error	-	-	-	-	-	Not available
Subtotal:	**$337,659**	**$140,419**	**$197,240**	**$478,078**	**$599,518**	**$1,514,535**
Total PHA Administered						
Administrator Error	$287,515	$214,686	$72,829	$502,201	$621,566	$1,699,092
Income Reporting Error	$241,337	-	$241,337	$241,337	$372,487	$712,000
Billing Error	$35,000	$14,000	$21,000	$49,000	$49,000	Not available
PHA Subtotal:	**$563,852**	**$228,686**	**$335,166**	**$792,538**	**$1,043,053**	**$2,411,092**
Total Project Based/Owner Administered						
Administrator Error	$60,049	$45,579	$14,470	$105,628	$177,234	$539,160
Income Reporting Error	$73,902	-	$73,902	$73,902	$46,713	$266,000
Billing Error*	$21,000	$36,000	($15,000)	$57,000	$57,000	Not available
Project Based Subtotal:	**$154,951**	**$81,579**	**$73,372**	**$236,530**	**$280,947**	**$805,160**
Total Improper Payments						
Administrator Error	$347,564	$260,265	$87,299	$607,829	$798,800	$2,238,252
Income Reporting Error	$315,239	-	$315,239	$315,239	$419,200	$978,000
Billing Error	$56,000	$50,000	$6,000	$106,000	$106,000	Not available
GRAND Total:	**$718,803**	**$310,265**	**$408,538**	**$1,029,068**	**$1,324,000**	**$3,216,252**
TOTAL PROGRAM PAYMENTS	-	-	-	**$31,726,544**	**$30,949,038**	**$18,800,000**
IMPROPER PAYMENT RATE	-	-	-	**3.2%**	**4.3%**	**17.1%**

**Billing error estimates are based on FY 2004 data for Public Housing and FY 2009 data for Owner Administrators.*

The table below shows the percentage reduction in improper payments by error type.

Percent Reductions in Improper Payments
(Dollars in billions)

Error Type	Baseline Estimates	FY 2013 Estimates	Percent Reduction
Administrator Error	* $2.238	$0.608	73%
Income Reporting Error	* $0.978	$0.315	68%
Billing Error	* $0.214	$0.106	50%
Total	**$3.430**	**$1.029**	**70%**

**Administrator and Income Reporting Error Estimates are from FY 2000; the Billing Error Estimate is from FY 2005 and FY 2009*

Corrective Actions

The overall reduction in improper payments for HUD's three major types of RHAP over the past 13 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. In fact the Administrator Error dropped from $799 million in FY 2012 to $608 million in FY 2013 and Income Reporting dropped from $419 million in FY 2012 to $315 million in FY 2013.

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.

HUD continues to implement the Do Not Pay Initiative in accordance with guidance from OMB and Treasury and is committed to using Treasury's Do Not Pay solution to reduce improper payments.

Improper Payment Reporting

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 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 2013 and the outlook for improper payment percentages on a combined program basis from FY 2014-FY 2016 as identified in the table below:

Rental Assistance Improper Payment Reduction Outlook
FY 2014 – FY 2016
(Dollars in billions)

	FY 2012 Payments	FY 2012 IP	FY 2012 IP% Goal/ Actual	FY 2013 Payments	FY 2013 IP	FY 2013 IP% Goal/ Actual	FY 2014 IP% Goal and IP Dollar Amount	FY 2015 IP% Goal and IP Dollar Amount	FY 2016 IP% Goal and IP Dollar Amount
Rental Assistance	$30.949	$1.324	3.8/4.3	$31.726	$1.029	4.2/3.2	3.1% / $.992	3.1% / $.992	3.1% / $.992
Estimated Payments							$32	$32	$32

The annual Improper Payment calculation is based on prior year data. Accordingly, the FY 2014, FY 2015, and FY 2016 results will be reported in the FY 2015, FY 2016, and FY 2017 AFRs respectively.

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.

Hurricane Sandy Disaster Relief Funds

Improper payment estimates of Community Development Block Grant Disaster Recovery (CDBG-DR) funds to beneficiaries are required as a result of the Disaster Relief Appropriations Act, 2013 (P.L.113-2) (the Act). Estimates provided represent an approximation for the three highest risk grantees (New York State, New York City, and New Jersey) under the Act as defined in the funds control plan for the appropriation. [4] In fiscal years 2013 and 2014 these grantees expended $190.1 million and $1.64 billion respectively of CDBG-DR funds.

The broad range of eligible activities under CDBG-DR supplemental appropriations prevented the Department from employing a statistically valid sampling methodology for estimating improper payments under the Act. Therefore, in lieu of a random sample approach to assessing improper payments in the CDBG-DR program, the estimate provided for FY 13 consisted of voucher-level reviews and FY 14 was based on an assessment employing the risk-based protocol approved by the Office of Management and Budget (OMB) in August 2014.

FY 2013 Estimate of Grantee CDBG-DR Improper Payments under P.L. 113-2

The Department obligated CDBG-DR funds appropriated under P.L. 113-2 to grantees in the final months of FY 13, after grantees completed the required action plan and citizen participation plans associated with CDBG-DR grants. In the final months of FY 13, grantees submitted few draw requests, most of which were for administrative expenses rather than program- or project-level payments (e.g. payments directly related to housing and business programs or infrastructure projects). The Department conducted its first monitoring reviews of each of the highest-risk grantees during this period. Moreover, the Department had not yet received OMB approval of its alternative methodology at the time of these initial reviews. As these grantees were in the early

[4] The Funds Control Plan defines high risk grantees as those with grants of $500 million or more, and directly managed by Disaster Recovery and Special Issues Division. These grantees have been allocated $12.8 billion of the $14.1 billion in CDBG-DR funding allocated by the Department to specific grantees and therefore represent the highest risk grants funded under the Appropriations Act.

stages of program design, the Department's estimate for FY 13 consists of the review of vouchers associated with grantees' disbursement of CDBG-DR funds in their Disaster Recovery Grant Reporting (DRGR) system that was conducted during these initial on-site monitoring visits.

FY 2014 Estimate of Grantee CDBG-DR Improper Payments under P.L. 113-2

The FY 14 estimate may represent an overstatement of the improper payments reported for the CDBG-DR program due to the Department's risk-based selection of vouchers and program files. During FY 14 monitoring visits to the highest risk grantees HUD used the OMB approved methodology which represents both DRGR voucher-level reviews as well as individual program-level file reviews identified in HUD's monitoring strategy. See the table below for details related to HUD's improper payments estimate of Hurricane Sandy funds.

Hurricane Sandy Improper Payment Outlook
FY 2014 – FY 2016
(Dollars in billions)

FY 2013 Payments	FY 2013 IP	FY 2013 IP% Goal/Actual	FY 2014 Payments	FY 2014 IP	FY 2014 IP% Actual	FY 2015 IP% Goal and IP Dollar Amount	FY 2016 IP% Goal and IP Dollar Amount	FY 2017 IP% Goal and IP Dollar Amount
$0.190	$ -	N/A / 0	$1.642	$0.019	1.1%	1.0% / 0.030	1.0% / 0 038	1.0% / 0.027
Estimated Payments						$2.996	$3.795	$2.733

Recapture of Improper Payments Reporting

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 IPERIA. Currently, information for tables 3 through 6 as requested in OMB Circular A-136 is not available. 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. The Department is currently in discussions with OMB regarding the cost-effectiveness of recovery audits for these programs.

An initiative in Multifamily Housing is in the development stages for a 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. This system will work alongside the Tenant Rental Assistance Certification System (TRACS) and will also assist in identifying the value that contract administrators pay on the front end to reduce and, where possible, eliminate improper payments. Due to budgetary constraints, the system is not expected to be operational until at least FY 2015. Monthly electronic reporting from this system 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 following table displays improper payments identified and recovered through payment recapture audits.

Payment Recapture Audit Reporting

Program or Activity	Type of Payment (contract, grant, benefit, loan, or other)	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amount Identified for Recovery (CY)	Amount Recovered (CY)	% of Amount Recovered out of Amount Identified (CY)	Amount Outstanding (CY)	% of Amount Outstanding out of Amount Identified (CY)	Amount Determined Not to be Collectable	% of Amount Determined Not to be Collectable out of Amount Identified	Amounts Identified for Recovery (PY's)	Amounts Recovered (PY's)	Cumulative Amounts Identified for Recovery (CY + PYs)	Cumulative Amounts Recovered (CY + PYs)	Cumulative Amounts Outstanding (CY+PYs)	Cumulative Amounts Determined Not to be Collectable (CY+PYs)
Community Planning and Development	Grants	$38.5 B	$35.5 B	$19.6 M	$169 K	1%	$19.4 M	99%	$0	0%	$145.9 M	$49.7 M	$165.6 M	$49.9 M	$115.6 M	$0
OLHCHH	Contracts	$6,578,205	$6,578,205	$0	$0	100%	$0	0%	$0	0%	$0	$0	$0	$0	$0	$0
OLHCHH	Grants	$98,160,616	$98,160,616	$0	$0	100%	$0	0%	$0	0%	$0	$0	$0	$0	$0	$0
CPD/Office of Economic Resilience	Grants	$104,738,821	$104,738,821	$0	$0	0%	$0	0%	$0	0%	$0	$0	$0	$0	$0	$0
Research and Evaluation Contracts	Contracts	$7,107,803	$7,107,803	$0	$0	0%	$0	0%	$0	0%	$0	$0	$0	$0	$0	$0
Single Family Claims	Other	$28 B	$28 B	$42 M	$19 M	43.90%	$23 M	56.10%	$0	0%	$56 M	$11 M	$98 M	$30 M	$68 M	$0

The following table displays improper payments identified and recovered through post-payment reviews outside of payment recapture audits.

Overpayments Recaptured Outside of Payment Recapture Audits

Source of Recovery	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	$506,648	$506,648	$1,593,892	$1,593,892	$2,856,597	$2,856,597
PIH Post Payment Reviews of Grants	$552,010	$552,010	$2,965,873	$2,965,873	$3,517,833	$3,517,833
OIG Reviews	$1,281,669,511	$481,193,909	$851,732,739	$19,406,168	$3,385,907,539	$1,644,606,878
Other	0	0	0	0	0	0
Total	$1,282,728,169	$482,252,567	$856,292,504	$23,965,933	$3,392,281,969	$1,650,981,308

Accountability

The Department currently ensures that responsible personnel are held accountable for reducing and recovering improper payments. PIH will reissue a notice to include a description of measures (sanctions, incentives, and repayment procedures) to be taken when improper payments were detected and confirmed as a result of on-site monitoring reviews. It should be noted that the current reporting systems neither include sufficient data to identify improper payments that are due to administrative errors at the PHA level, nor does HUD have sufficient resources to develop such capabilities to provide such reporting in the foreseeable future.

Multifamily will develop and execute additional formal plans to hold owners and management agents accountable for improper payments. Multifamily is in the process of implementing these plans as evidenced by a policy modification made effective in 2013. The revised policy holds owners and management agents more accountable for errors, in the form a five percent decrease in the voucher payment for the month following the date the EIV violation was found and each subsequent voucher payment until the violation is cured.

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 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.

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.

HUD has multiple ongoing efforts to mitigate barriers to reducing improper payments. 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.

Agency Reduction of Improper Payments with the Do Not Pay Initiative

Implementation of the Do Not Pay Initiative to Prevent Improper Payments						
	Number (#) of payments reviewed for improper payments	Dollars ($) of payments reviewed for improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of improper payments reviewed and not stopped	Dollars ($) of improper payments reviewed and not stopped
Reviews with DMF Public	924,498	$57,781,572,380	1	$1,549	2*	$1,535*
Reviews with SAM Exclusions Public	924,791	$57,789,489,409	N/A	N/A	0	$0

***** Payments improperly disbursed in decedent's name. Total dollar amount did not warrant collection expense. Management will increase review and monitoring of established internal controls to prevent future occurrences.

- Payments reviewed for improper payments includes the total number of payments disbursed by the agency through the Payments, Claims and Enhanced Reconciliation (PACER) payment system minus any payments that were excluded from matching due to (1) a missing or unmatchable taxpayer identification number (TIN) (Death Master File only) or (2) a missing name.
- Payments stopped is currently not applicable in general since the Do Not Pay matching and adjudication process is based on post payment results.
- Improper payments reviewed and not stopped includes the total number of matches identified by the Do Not Pay Initiative that were adjudicated as improper by the agency.

HUD established a Do Not Pay Task Force and named Do Not Pay Liaisons in Program Offices that have access to the data bases on the Do Not Pay portal. These Program Office Liaisons review monthly all matches returned in the Do Not Pay Initiative on payments from their Offices to determine if such payments were properly made to an eligible recipient. From October 2013 to June 2014, payments disbursed by HUD have been submitted to the scrutiny of post-payment verifications run by the Do Not Pay Initiative against the Death Master File (DMF) and the Excluded Parties List System (EPLS). Of these payments, which were 924,791 in number and totaled $57,789,489,409, HUD identified only three improper payments with a total value of $3,084. Of these three payments, the Department recovered $1,549.

In addition to these post-payment verifications, HUD's Office of the Chief Procurement Officer, in accordance with OMB Memo M-12-11, verifies the eligibility of all contracts using the Federal Awardee Performance and Integrity Information System (FAPIIS), a system that includes, among other sources, the EPLS and the System for Award Management (SAM), which are databases on the Do Not Pay portal. Several Program Offices, that generate a large number of grants in the Department, utilize the databases on the Do Not Pay portal to verify the eligibility of awardees prior to the award of all grants. They also have back-up personnel in some field offices performing eligibility checks prior to awards using the SAM database. Several Program Offices use a Dun & Bradstreet report which includes SAM reporting and notices of delinquent Federal debt to determine applicants' eligibility prior to the award of grants.

After the implementation of OMB requirements, the Do Not Pay Initiative, as shown in the above table, has not identified a measurable level of improper payments. This result is due to the effectiveness of long standing processes in place prior to the Do Not Pay Initiative using databases such as SAM and FAPIIS to extensively verify the eligibility of HUD's payment recipients. Nonetheless, the Department is benefitting from the concentration of data sources and information available on the Do Not Pay portal. HUD intends to continue to maintain Do Not Pay Liaisons in each Program Office, to increase the Program Offices' utilization of the resources on the Do Not Pay portal, and to further incorporate the benefits of the Do Not Pay Initiative throughout the Department.

Freeze the Footprint

HUD does not anticipate establishing any new locations or expanding at any of our existing locations through FY 2016. HUD's space activities will continue to concentrate on reducing space as existing leased space Occupancy Agreements (OA's) expire and in others as funding permits. In many cases of relocations and reductions in space there are significant costs associated with construction, moving and furniture, so funding must be available to effect these actions.

In FY 2013, HUD began a review of its organization and structure to transform the agency for the 21st century. The initial step in this process was the decision to close during FY 2014 sixteen of its smallest field offices that duplicate services in states with at least one other larger office. The functions and staff of these offices were consolidated into the larger offices. The result of these closures was a reduction of 117,767 usable square feet.

HUD's objective is to carry out its mission and program priorities without being affected by our efforts to reduce the amount of space occupied by the agency. We have office space standards that include workstation sizes, private offices, service and support areas, which enable space reductions when an office relocates or if funding becomes available to renovate space.

Freeze the Footprint Baseline Comparison			
	FY 2012 Baseline	2014 (CY-1)	Change (FY 2012 Baseline – 2014 (CY))
Square Footage (SF in millions)	3,291,636	3,159,924	(131,712)

Reporting of O&M Costs – Owned and Direct Lease Buildings			
	FY 2012 Reported Cost	2014 (CY-1)	Change (FY 2012 Baseline - 2014 (CY-1))
Operation and Maintenance Costs ($ in millions)	N/A	N/A	N/A

Appendices

Appendix A: Glossary of Acronyms

ACFOS	Assistant CFO for Systems
ACH	Automated Clearing House
ADA	Anti-Deficiency Act (Pub. L. No. 97–258)
AFR	Agency Financial Report
AFS	Allowance for Subsidy
AIDS	Acquired Immune Deficiency Syndrome
AINS	AINS Inc.
APG	Agency Priority Goal
APP	Annual Performance Plan
APR	Annual Performance Report
ARC	Administrative Resources Center
ARRA	American Recovery and Reinvestment Act of 2009 (Recovery Act)
ASC	Accounting Standards Codification
ATO	Authorization to Operate
BA	Budget Authority
BFS	Bureau of the Fiscal Service
BIA	Business Impact Analysis
C&A	Certification & Accreditation
CAIVRS	Credit Alert Verification Reporting System
CAP	Corrective Action Plan
CDBG	Community Development Block Grant
CDBG-DR	Community Development Block Grant - Disaster Recovery
CDBG-R	Community Development Block Grant - Recovery
CFO	Chief Financial Officer
CGE	Concur Government Edition
CIO	Chief Information Officer
CLA	CliftonLarsonAllen LLP
CMHI	Cooperative Management Housing Insurance
CoC	Continuum of Care
CPD	Office of Community Planning and Development

CSRS	Civil Service Retirement System
CY	Calendar Year
DHHL	Department of Hawaiian Home Lands
DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
DMF	Death Master File
DRGR	Disaster Recovery Grant Reporting
EDW	Enterprise Data Warehouse
EHLP	Emergency Homeowner’s Loan Program
EIV	Enterprise Income Verification System
eLOCCS	Internet version of the Line of Credit Control System
eMARC	Event Management and Registration Control
EO	Executive Order
EPC	Energy Performance Contract
EPLS	Excluded Parties List System
ESG	Emergency Solutions Grants
FAMES	Federal Asset Management Enterprise System
FAPIIS	Federal Awardee Performance and Integrity Information System
FASAB	Federal Accounting Standards Advisory Board
FASS	Financial Assessment Subsystem
FCRA	Federal Credit Reform Act of 1990
FDM	Financial Data Mart
FECA	Federal Employee Compensation Act of 1916
FERS	Federal Employees Retirement System
FFA	Federal Financial Accounting
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
FIFO	First-in, First-out
FIRMS	Facilities Integrated Resources Management System
FISMA	Federal Information Security Management Act (Pub. L. No. 107–347)
FMFIA	Federal Managers’ Financial Integrity Act (Pub. L. No. 97-255)
FMC	Financial Management Center

FTE	Full Time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GEAR	Goals-Engagement-Accountability-Results
GFAS	Ginnie Mae Financial Accounting System
GI	General Insurance
Ginnie Mae	Government National Mortgage Association
GNMA	Government National Mortgage Association
GPRA	Government Performance and Results Act of 1993 (Pub. L. No. 103.62)
GSA	General Services Administration
GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System
H4H	HOPE for Homeowners
HAP	Housing Assistance Payment
HCAAF	Human Capital Assessment and Accountability Framework
HCSP	Human Capital Strategic Plan
HCV	Housing Choice Voucher
HCVP	Housing Choice Voucher Programs
HECM	Home Equity Conversion Mortgage
HFI	Held for Investment
HIAMS	HUD Integrated Acquisition Management System
HIFMIP	HUD Integrated Financial Management Improvement Project
HIV	Human Immunodeficiency Virus
HOME	Home Investment Partnerships Program
HOPE VI	Program for Revitalization of Severely Distressed Public Housing
HOPWA	Housing Opportunities for Persons with AIDS
HPRP	Homelessness Prevention and Rapid Re-housing Program
HPS	HUD Procurement System
HQ	Headquarters
HQS	Housing Quality Standard
HSPD-12	Homeland Security Presidential Directive 12
HUD	U.S. Department of Housing and Urban Development
HUDCAPS	HUD's Central Accounting and Program System
HVU	HUD Virtual University

IAW	In accordance with
ICDBG	Indian Community Development Block Grant
IDIS	Integrated Disbursement and Information System
IHA	Indian Housing Authority
IHBG	Indian Housing Block Grant
IPA	Initial Privacy Assessment
IPERA	Improper Payments Elimination and Recovery Act (Pub. L. No. 111-204)
IPERIA	Improper Payments Elimination and Recovery Improvement Act (Pub. L. No. 112-248)
IPIA	Improper Payments Information Act of 2002 (Pub. L. No. 107-300)
IRP	Interest Reduction Payment
ISSO	Information System Security Officers
IT	Information Technology
IV&V	Independent Verification and Validation
JFMIP	Joint Financial Management Improvement Program
LAS	Loan Accounting System
LEED	Leadership in Energy and Environmental Design
LIHTC	Low Income Housing Tax Credit
LOCCS	Line of Credit Control System
LLC	Limited Liability Company
LLG	Liability for Loan Guarantees
LLR	Loan Loss Reserve
MBS	Mortgage Backed Securities
MCA	Maximum Claim Amount
mLINQS	mLINQS Relocation Management Software
MMI	Mutual Mortgage Insurance
MMIF	Mutual Mortgage Insurance Fund
MNA	Mortgage Note Assigned
Mod Rehab	Moderate Rehabilitation
MSS	Master Subservicer
MTW	Moving to Work
MW	Material Weakness
NAHA	National Affordable Housing Act of 1990
NAPA	National Academy of Public Administration

NC	Non-Compliance
NCIS	New Core Interface Solution
NGMS	Next Generation Management Standard
NHHBG	Native Hawaiian Housing Block Grant
NIST	National Institute of Standards
NRA	Net Restricted Assets
NSP	Neighborhood Stabilization Program
NSP3	Neighborhood Stabilization Program 3
OA	Occupancy Agreements
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OIG	Office of Inspector General
OITS	Office of IT Security
OLHCHH	Office of Lead Hazard Control and Healthy Homes
OMB	Office of Management and Budget
ONAP	Office of Native American Programs
OneCPD	OneCPD Integrated Practitioner Assistance System
OPM	Office of Personnel Management
OSPM	Office of Strategic Planning and Management
PACER	Payments, Claims and Enhanced Reconciliation
PAM	Payment Application Modernization
PBC	Prepared by Client
PBRA	Project-Based Rental Assistance
PBV	Project-Based Vouchers
PD&R	Office of Policy Development and Research
PH Capital Fund	Public Housing Capital Fund
PHA	Public Housing Authority
PIA	Privacy Impact Assessment
PIC	Public and Indian Housing Information Center
PIH	Office of Public and Indian Housing
PIT	Point in Time
PMM	Purchase Money Mortgages
PNA	Physical Needs Assessment

POAM	Plan of Action & Milestones
PPA	Prompt Payment Act (Pub. L. No. 97-177)
Q1	Quarter 1
Q3	Quarter 3
Q4	Quarter 4
QAD	Quality Assurance Division
QC	Quality Control
RAD	Rental Assistance Demonstration
RAP	Rental Assistance Payment
REAC	Real Estate Assessment Center
Recovery Act	American Recovery and Reinvestment Act of 2009
REMIC	Real Estate Mortgage Investment Conduits
Rent Supp	Rental Support
REO	Real Estate Owned
REV2	Revision 2
REV3	Revision 3
RHAP	Rental Housing Assistance Programs
RIF	Rural Innovation Fund
RIM	Rental Integrity Monitoring
RSSI	Required Supplementary Stewardship Information
S&E	Salaries and Expenses
SA&A	Security Assessment and Authorization
SAM	System for Award Management
SAMS	Single Family Acquired Asset Management System
SBR	Statement of Budgetary Resources
SD	Significant Deficiency
SEMAP	Section 8 Management Assessment Program
SF	Square Footage
SFFAS	Statements of Federal Financial Accounting Standards
SHP	Supportive Housing Program
SMART	Single Family Mortgage Notes Recovery Technology System
SME	Subject Matter Expert
SNAPS	Special Needs Assistance Programs
SORN	System of Records Notices

SP	Special Publication
SPS	Small Purchase System
SPT	Shortfall Prevention Team
SRI	Special Risk Insurance
SSP	Shared Service Provider
SSVF	Supportive Services for Veteran Families
ST&E	System Test & Evaluation
TA	Technical Assistance
TAFS	Treasury Account Fund Symbols
TBRA	Tenant Based Rental Assistance
TCAP	Tax Credit Assistance Program
TDHE	Tribally Designated Housing Entity
TEAM	Total Estimation and Allocation Mechanism
TI	Transformation Initiatives
TIN	Taxpayer Identification Number
TPV	Tenant Protection Voucher
TR	Technical Release
TRACS	Tenant Rental Assistance Certification System
Treasury	U.S. Department of the Treasury
UAT	User Acceptance Testing
UPCS-V	Uniform Physical Condition Standard
USDA	U.S. Department of Agriculture
U.S.	United States of America
USSGL	US Standard General Ledger
VA	U.S. Department of Veterans Affairs
VAMC	VA Medical Center
VASH	Veterans Affairs Support of Housing
VHA	Veterans Healthcare Administration
VMS	Voucher Management System
VOR	Verification of Requirements
VRS	Voice Response System

Appendix B: Table of Websites

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
Home Affordable Modification Program
Housing Choice Voucher
Native American Programs
Rental Assistance Demonstration

HUD on Social Media

Featured Initiatives

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 Faith Based
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
Lead Hazard Control and Healthy Homes
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

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

HUD's Budget and Performance Reports
HUD's FY 2014-2018 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: Meet the Need for Quality Affordable Rental Homes

Agency Priority Goal: Preserve Affordable Rental Housing. By September 30, 2014, HUD's goal was to preserve affordable rental housing for an additional 48,645 households, toward a two-year target goal of 121,945 households. HUD is already serving approximately 5.4 million total households through its 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 reengineering 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 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.

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 and 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 June 5, 2013, and the Tenant Rental Assistance Certificate System was certified and accredited on January 20, 2014.

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. 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 and 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 June 5, 2013, and the Tenant Rental Assistance Certificate System was certified and accredited on January 20, 2014.

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.

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 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 uses onsite and remote reviews of information captured by the Voucher Management System and validates the data entered. 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: Utilize Housing as a Platform for Improving Quality of Life

Agency Priority Goal: End Veterans Homelessness. By September 30, 2014, in partnership with the VA, HUD's goal was to reduce the number of Veterans experiencing homelessness to 27,500. HUD's two-year goal is to reduce the number of Veterans temporarily living in shelters or transitional housing to 12,500, while reducing the number of Veterans living on the street to zero.

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.
- **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 (PIT) Count is 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 PIT Count is required biennially of individuals experiencing both sheltered and unsheltered homelessness. These data are different from the Annual Performance Report data, which have only sheltered data.

Permanent Housing (HUD-VASH, SSVF-Rapid Re-housing, exits from VA medical services)

- **Data source:** The Department of Veterans Affairs sends monthly HUD-VASH 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. In addition, VA provides a count of Veterans served through Supportive Services for Veteran Families (SSVF) and exits from VA residential treatment programs into permanent housing.
- **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. HUD has no method of comparison for programs exclusively coordinated by VA medical centers (VAMC).
- **Validation, verification, and improvement of measure:** HUD routinely compares the HUD-VASH 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.

Strategic Goal: Build Strong, Resilient, and Inclusive Communities

Agency Priority Goal: Increase the Energy Efficiency and Health of the Nation's Housing Stock. By September 30, 2014, HUD's goal was to complete a total of 74,297 energy efficient or healthy green retrofitted units, toward HUD's two-year target goal of 159,231.

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 reengineering 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 reengineering 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.

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—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.

Single Family Housing

PowerSaver Pilot 203(k) Program

- **Data source:** PowerSaver lender reports and Single Family Data Warehouse (SFDW) Note: lenders submit reports as part of the grant program.
- **Limitations/advantages of data:** Lender errors may cause false data. Manual validation and reconciliation between SFDW and lender reports.
- **Validation, verification, and improvement of measure:** Program staff review data quarterly, to validate and reconcile.

Title I PowerSaver Program

- **Data source:** Single Family Data Warehouse (SFDW)
- **Limitations/advantages of data:** (1) Data is available after lenders input. Lenders may input 1-6 months after closing. (2) SFDW refreshes each weekend, meaning that data becomes available every Monday.
- **Validation, verification, and improvement of measure:** Monthly queries to determine new and update prior loan counts.

Energy Efficient Mortgage program

- **Data source:** Single Family Data Warehouse (SFDW)
- **Limitations/advantages of data:** SFDW refreshes monthly. Numbers are available after refresh.

- **Validation, verification, and improvement of measure:** Data is also tracked in the Escrow Closeout Report (F17PJCE) – a monthly report at the national level that tracks endorsed cases with funds held in escrow for rehabilitation (203k), Energy Efficient Mortgage (EEM) improvements, PowerSaver improvements, or repairs.

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 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.

Lead and Healthy Homes

Lead Hazard Control

- **Data source:** Office of Lead Hazard Control and Healthy Homes’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 Lead Hazard Control and Healthy Homes data and data from

HUD's National Lead-Based Paint Survey. The Office of Lead Hazard Control and Healthy Homes 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 Lead Hazard Control and Healthy Homes'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 Lead Hazard Control and Healthy Homes 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.

If you have any questions or comments, please call

Jerome A. Vaiana
Assistant Chief Financial Officer for Financial Management
at 202-402-8106.

Written comments or suggestions for improving this report
may be submitted by mail to:

U.S. Department of Housing and Urban Development
451 7th St. SW, Room 2210
Washington, DC 20410
Attention: Jerome A. Vaiana
Assistant Chief Financial Officer for Financial Management

Or by e-mail to
AgencyFinancialReport@HUD.gov

To view the report on the internet, go to the following website:
http://portal.hud.gov/hudportal/documents/huddoc?id=afr2014.pdf

This Report is Available on the Web at:
http://portal.hud.gov/hudportal/documents/huddoc?id=afr2014.pdf

EQUAL HOUSING OPPORTUNITY

U.S. Department of Housing and Urban Development