AGENCY FINANCIAL REPORT

Fiscal Year 2015

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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) 2015 APR with its Congressional Budget Justification and will post it on the Department's web site at www.hud.gov.

The story of the Department Housing and Urban Development (HUD) is one of real people, families, and communities gaining and keeping the stable, healthy environments they need. This story is of the millions of families who receive rental assistance and the millions more who obtain federally insured mortgages to provide safe homes for themselves. This is the story of thousands of Veterans and families who are no longer homeless, occupants of thousands of dwellings made safer and more energy efficient, thousands protected from housing discrimination, and the hundreds of communities injected with new life and better opportunities. This is the story of America, enriched by HUD programs, helping to improve the quality of life for others, improving the quality of life for all.

When a Navy veteran and mother of two small children, who served in Iraq and Afghanistan, returned home from service, she was homeless. HUD helped her find a place to call home, and inspired her to start a non-profit organization to help other veterans get off the street.

As of July 2015, nearly 50 HUD grantees, including 17 Public Housing Authorities (PHAs), have made a voluntary pledge to install renewable energy technologies on-site at their properties, exceeding the original 100 megawatt goal. More than 185 megawatts worth of renewable energy systems are installed or planned – enough to power over 30,000 homes and counting.

Since 1990 in Oregon alone, HOME funds have been used to build or preserve some 7,300 units of affordable rental housing, helped 5,100 families buy a home, and rehabilitated almost 4,500 houses, bringing them up to code. The HOME Investment Partnership program is the largest Federal block grant to States and local governments designed exclusively to create affordable housing for low-income families.

The Fiscal Year 2015 Agency Financial Report is Available on the Web at:
http://portal.hud.gov/hudportal/documents/huddoc?id=afr2015.pdf

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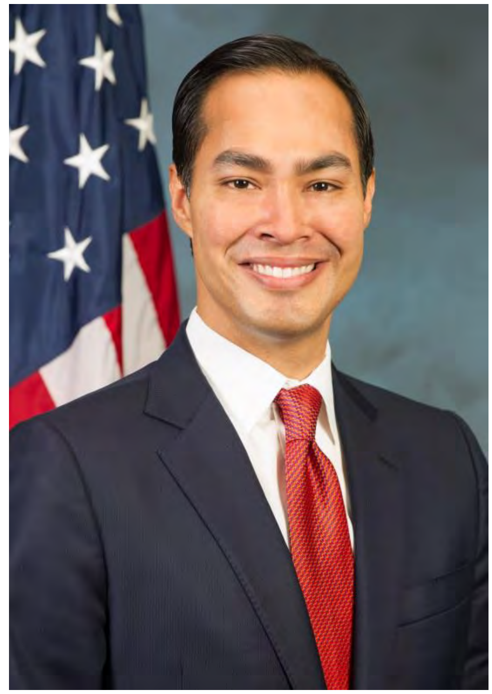
Message from the Secretary

November 23, 2015



I am pleased to present the U.S. Department of Housing and Urban Development's Agency Financial Report (AFR) for Fiscal Year (FY) 2015.

This year, HUD celebrated its 50th Anniversary. For five decades, the Department has made incredible strides in meeting President Lyndon Johnson's promise of giving every family a home of dignity, a neighborhood of pride and a city of hope.

2015 was a year of great progress. Every day we help families secure quality, affordable housing, and ensure that opportunity doesn't stop at the front door by connecting American families with the jobs, schools, transit options, green spaces and other assets they need to thrive.

We help homeless Veterans transition into permanent affordable housing where they can build stable futures. Our Federal Housing Administration strengthens the housing market by giving responsible Americans the opportunity to achieve their dreams of homeownership. HUD also partners with local leaders to shape vibrant, healthy and prosperous communities that are open to all**.**

This report shows in detail how HUD's is making an impact in big cities, small towns and rural areas across the nation. It outlines our financial results for FY 2015 and performance results as of the end of the 3rd and 4th quarters—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.

We're committed to building on these accomplishments by helping our employees learn new skills and grow into positions with more responsibility. We're also addressing internal challenges like those identified by HUD's Office of Inspector General.

FY 2015 and prior year audits identified nine material internal control weaknesses: (1) Office of Community Planning and Development (CPD) Grant Accounting Weakness; (2) Office of Public and Indian Housing Asset and Liabilities Accounting Weakness; (3) CPD Grant Accrual Estimates Validation Weakness; (4) Ginnie Mae Budgetary Resources Data Weakness; (5) Financial Management Systems Weakness; (6) Material Asset Balances Related to Non-pooled Loans Were Not Auditable; (7) Ginnie Mae Financial Reporting Internal Controls Weaknesses;

(8) Ginnie Mae Mortgage-Back Security Liability for Loss Account Balance Weakness; and
(9) HUD and Ginnie Mae Financial Management Governance Weakness.

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.

For five decades, our dedicated public servants have done remarkable work to strengthen communities and help families build better lives. We're now focused on making the next five decades a time when more Americans are able to achieve their dreams. In doing so, HUD will no doubt play a role in ensuring that the United States remains the undisputed land of opportunity in the 21st century.

Julián Castro
Secretary

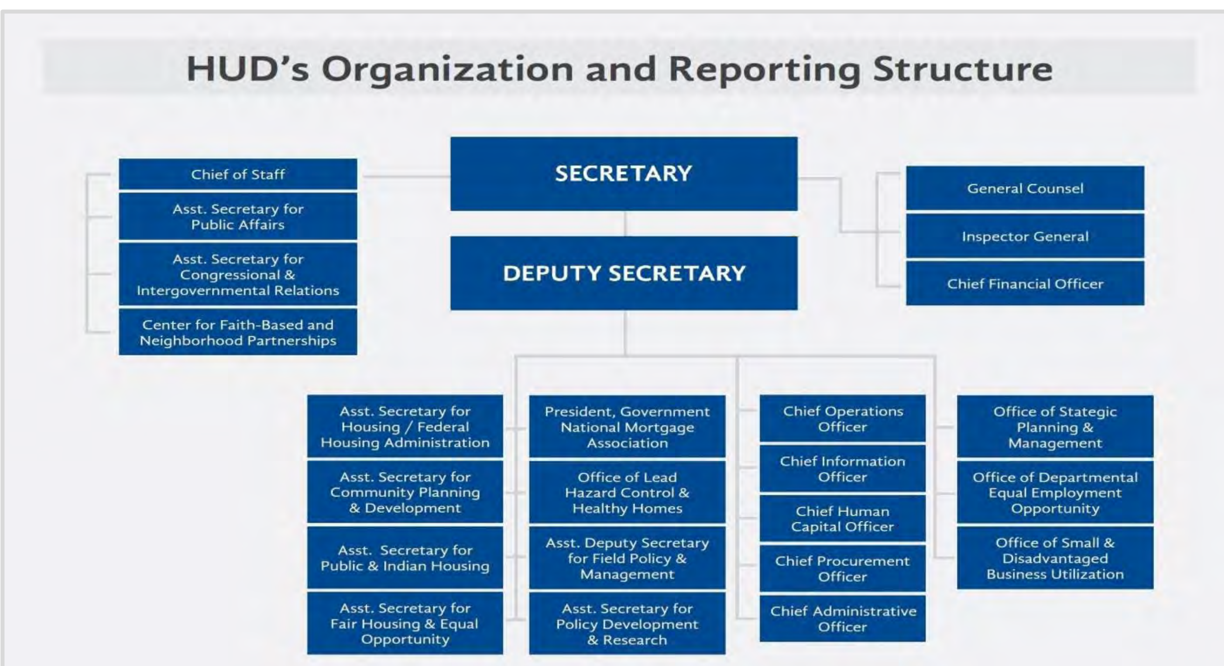
Mission, Organization, and Major Program Activities

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.

HUD's Organizational Structure



Major Program Activities

OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT (CPD)

- 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
  - Office of Special Needs Assistance Programs (SNAPS)

OFFICE OF FAIR HOUSING AND EQUAL OPPORTUNITY (FHEO)

- Partners with 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 civil rights laws.
- Collaborates with other HUD offices to make sures that HUD funding recipients administer their programs and activities relating to housing and urban development in a manner to affirmatively further fair housing.
- 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.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (Ginnie Mae)

- 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.

OFFICE OF LEAD HAZARD CONTROL AND HEALTHY HOMES (OLHCHH)

- 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 HOUSING

- Primarily insures mortgages for single family homes, multifamily properties, and healthcare facilities. It oversees the Federal Housing Administration (FHA), one of the largest mortgage insurers in the world, as well as regulates housing industry business. The Office of Housing also oversees properties providing affordable rental housing to over 1.3 million low-income households.
- The Office also manages Project-Based Rental Assistance, Sections 202 and 811, and Housing Counseling programs.

  Within the Office of Housing are three primary business areas:

  - Single Family Housing
  - Multifamily Housing
  - Healthcare Programs

OFFICE OF POLICY DEVELOPMENT AND RESEARCH (PD&R)

- 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 PUBLIC AND INDIAN HOUSING (PIH)

- Responsible for overseeing and monitoring a range of programs for low-income families. The mission of PIH is to ensure safe, decent, and affordable rental 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 1,353 within 10 major offices at Headquarters and 45 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 Programs (ONAP)

OFFICE OF STRATEGIC PLANNING AND MANAGEMENT (OSPM)

- Responsible for driving organizational, programmatic, and operational change across the department, in order to maximize agency performance.

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 targets established in the Department's most recent Annual Performance Plan. For the two-year period, FY 2014 to FY 2015, HUD focused on three agency priority goals (APGs). These agency strategic goals, corresponding strategic objectives, and agency priority goals are displayed below for reference. This portion of the AFR focuses on the agency priority goals and is meant to reflect HUD's selected performance improvement opportunities through these areas. Note that 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 FY 2015 targets.

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

Between October 1, 2014, and September 30, 2015, HUD's goal was to preserve affordable rental housing by continuing to serve 5.5 million total households and an additional 89,116 households through its affordable rental housing programs.

OVERVIEW

During the almost 80 years since the U.S. Housing Act of 1937, the federal government invested billions of dollars in the development and maintenance of affordable public and multifamily housing. Despite the sizable investment and the great demand for such housing, units continue to be lost. Some units were lost because of their deteriorated physical condition. Others, both publicly and privately owned, were 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 cannot renew on terms that attract sufficient capital to preserve long-term affordability. Moreover, the public housing stock faces an estimated $26 billion capital needs backlog that will be difficult to meet given federal fiscal constraints.

Rather than view these trends as an obstacle, HUD is taking advantage of the opportunity to update its housing stock and transition to funding strategies with more long-term viability. All the while, HUD remains committed to providing other decent, safe, sanitary, and affordable options for low income renters through the Rental Assistance Demonstration (RAD), tax credits, Choice Neighborhoods, and other creative programs.

RAD makes it possible for public housing agencies to address capital repair and replacement needs of their properties, preserving these affordable rental units. 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 so they can access private funding sources.

STRATEGIES

Maintain strong occupancy rates in the Public Housing program and maximize voucher and budget utilization in the Housing Choice Voucher program

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

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

Ensure that the households currently being served by HUD rental assistance programs have a choice to remain housed in their assisted properties.

- Create a proactive asset management approach to work with owners prior to contract expiration/mortgage maturity to develop a preservation strategy for the property.
- Preserve units, maintain high occupancy and utilization rates, and reduce the number of units converted to market rate housing.

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

CONTRIBUTING PROGRAMS

All of HUD's programs that provide affordable rental assistance are integral to achieving this goal, including programs administered by the Offices of Housing, Community Planning and Development, and Public and Indian Housing. In addition, FHA Multifamily mortgage insurance, 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).*** HUD provided affordable rental housing to 40,822 additional households, through programs for which reporting occurs at various points in the year. Multifamily Housing's major focus continues to be the preservation of the affordability of rental projects with housing affordability contracts through RAD. HUD has achieved 50 percent of its target through FY 2015 for First Component conversions. Collectively, Community Planning and Development programs are out-performing their FY 2014 activities. HOME rental in particular exceeded its year end target by 3 percent. Public and Indian Housing numbers were revised upwards to reflect corrections to the data systems reporting Public Housing and RAD conversions.

- **Number of households served through HUD rental assistance**

FY 12 Actual	FY 13 Actual	FY 14 Actual	FY 15 Actual (dates vary by program)	FY 15 Target	FY 16 Target
5,447,499	5,475,004	5,512,263	5,549,338	5,611,065	5,621,003

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. In response to slower-than-expected conversion activity, processes have been revamped and the pace of activity is picking up. There are many conversions in various stages of approval in the pipeline; the Office of Recapitalization does not anticipate reaching, and did not reach, the two-year target by the end of FY 2015. Total number of converted contracts as of Q4 of 2015 was 19,570, an increase from 8,626 in FY 2014, with a target of 36,000. The target for FY 2016 is 75,000 converted contracts. This target was revised upwards in response to Congressional action raising the cap on conversions.

- ***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 number of converted contracts has increased from 7,511 in FY 2014 to 14,439 as of August 6, 2015, exceeding the FY 2015 target of 11,950. The target for FY 2016 is 17,900 converted contracts.

- ***Housing Choice Voucher budget utilization rate.*** The 2014 calendar year (CY) Housing Assistance Payment (HAP) spending was 97.06 percent of CY budget authority. The CY 2015 data is not yet available. The CY 2015 target percentage of CY to date spending is 97.56 percent.

- ***Public Housing occupancy rate.*** Public Housing occupancy rates across the country remain strong at the target level of 96.8 percent as of Q3, despite funding decreases and inventory fluctuations.

- ***Project-Based Rental Assistance (PBRA) occupancy rate.*** Project-Based Rental Assistance occupancy data for FY 2015 is not yet available. The PBRA occupancy rate was 95.1 percent at the end of FY 2014.

FINAL PROGRESS UPDATE

Households in Occupied Rental Units Receiving Assistance by Program	FY 2014 Cumulative Baseline	FY 2015 Cumulative Actual[1]	FY 2015 Cumulative Target	FY 2016 Cumulative Target[2]
Multifamily Assisted Housing Programs[3]	1,333,184	1,305,089[4]	1,339,858	1,367,187
Other Multifamily Subsidies[5]	162,932	143,376[3]	142,346	138,346
Insured Tax Exempt or Low-Income Housing Tax Credit	165,079	194,416[6]	200,987	235,987
TOTAL Housing Programs	1,661,195	1,642,881	1,683,191	1,741,520
Tenant-Based Rental Assistance (HCV)	2,158,606	2,205,740	2,231,800	2,240,800
Rental Assistance Demonstration (RAD) units moved to TBRA	10,394	13,916[7]	26,057	59,073
Public Housing	1,082,991	1,065,241	1,049,926	1,000,085
PIH Mod Rehab	21,123	20,418	20,418	19,713
Mainstream Vouchers	13,860	14,027[6]	14,070	14,070
Native American Housing (ONAP)	12,429	12,593[6]	13,023	13,617
TOTAL Public and Indian Housing	3,299,403	3,331,935	3,355,294	3,347,358
HOME Rental	280,601	282,100	275,000	269,000
McKinney/Continuums of Care (CoC)	129,573	129,573[8]	135,660	145,177
Tax Credit Assistance Program	59,580	59,580	59,580	59,580
Community Development Block Grants – Disaster Relief	43,257	43,257	55,089	63,074
Housing Opportunities for Persons Living With AIDS (HOPWA)	25,801	25,801	24,612	TBD
Neighborhood Stabilization Program	21,544	21,544	21,544	21,544
HOME TBRA[9]	1,125[10]	984	1,095	986
TOTAL Community Planning and Development	561,481	562,839	572,580	559,361
HUD TOTAL	5,522,079	5,537,655	5,611,065	5,648,239

[1] Through fiscal year end unless otherwise noted.
[2] FY 2016 cumulative targets still under development.
[3] Multifamily Assisted Housing Programs includes Multifamily Project Based Rental Assistance (Section 8), Rental Assistance Demonstration (RAD) unites moved to PBRA, Project Rental Assistance Contract (Sections 202 & 811), Rental Housing Assistance Programs (RAP), Rent Supplement, and Mortgage Insurance for Residential Care Facilities (which includes only units added since the beginning of FY 2012, when the Section 232 program was added to this goal).
[4] Through 8/7/15.
[5] Other MFH subsidies includes Old Section 202, Section 221 (d)(3) Below Market Interest Rate, and Section 236 Interest Reduction Payment.
[6] Through 8/14/15.
[7] Through Q3.
[8] 2015 PIT count data are not available for the AFR, but is expected to be included in HUD's next AFR to be published in early 2016. Community Development Block Grant – Disaster Relief and Housing Opportunities for Persons Living with AIDS (HOPWA) report only annually and have not yet reported for FY 2015.
[9] Until FY 2013, it was assumed that assisted households received assistance for the maximum two years allowed. Since many households receive more short-term help, all of the numbers in this table assume households are only assisted within the quarter of their initial assistance.
[10] Year-end data reflect number of households receiving HOME TBRA in Q4 of the respective year. Previous year's total does not carry over.

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

By the end of 2015, in partnership with the U.S. Department of Veterans Affairs (VA), HUD aimed 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.

OVERVIEW

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[11]. On a single night in January 2014, there were 49,933 Veterans reported as experiencing homelessness. 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.

A formerly homeless U.S. Navy Veteran with keys to his new home, which he received with help of the HUD-VA Supportive Housing (VASH) Program. Courtesy of Unity of Greater New Orleans

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. 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]

[11] 2015 Point-in-Time count data are not available for the AFR; but are expected to be included in HUD's next APR to be published in early 2016.
[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.

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-VA Supportive Housing (HUD-VASH) vouchers, jointly administered by HUD and VA, offer the most appropriate resources, as these vouchers couple intensive supportive 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 (CoC) 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.

Other strategies include:

- Continue to advance Housing First models.
- Collaborate across HUD, VA and United States Interagency Council on Homelessness (USICH) to align programs and efforts.
- Continue to build place-based initiatives that align local, regional, state, and federal efforts to end Veterans homelessness.
- Determine method of tracking exits from non-permanent HUD funded programs into permanent housing.
- Explore and implement systems changes for converting transitional housing programs to Permanent Supportive Housing or Rapid Re-housing (contingent on legislative authority).
- Improve the methodology and reporting of the Point-in-Time (PIT) count data, primarily focused on PIT counts to acquire timely reliable, and detailed data regarding the number of Veterans experiencing homelessness.
- Assist Veterans with other-than-honorable discharge status, ineligible for HUD-VASH, to connect to mainstream and CoC resources for housing and services.
- Outreach activities and training utilizing faith-based and non-profit service organizations.

CONTRIBUTING PROGRAMS

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

- HUD-VASH Program
- CoC Permanent Supportive Housing
- CoC Transitional Housing
- Emergency Solutions Grant Program

Contributing programs or partners outside the agency include: VA; USICH; Department of Health and Human Services (HHS); Department of Labor (DOL); Department of Defense (DOD) and a host of other federal agency partners.

MEASURING OUR PROGRESS

Veterans placed in permanent housing

Through the third quarter of FY 2015, HUD and VA placed 44,266 Veterans into permanent housing through the HUD-Veterans Affairs Supportive Housing (HUD-VASH) Program, rapid 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 2015.

FY 12 Actual	FY 13 Actual	FY 14 Actual	FY 15 Actual (Q3)	FY 15 Target	FY 16 Target
NA	48,061	53,475	44,266	49,000[13]	49,000

Homeless Veterans served with transitional housing through Continuum of Care Program resources

FY 12 Actual	FY 13 Actual	FY 14 Actual	FY 14 Target	FY 15 Actual	FY 15 Target	FY 16 Target
10,734	10,789	No Data[14]	9,661	No Data[15]	9,178	8,902

[13] HUD and VA together increased the FY 2015 target, in light of successful FY 2014 performance data in this metric. 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.

[14] Due to updates to CPD's reporting system, HUD is unable to provide an update for the AFR but anticipates having data for the APR to be published in early 2016.

[15] *ibid.*

Homeless Veterans served with permanent supportive housing through Continuum of Care Program resources

FY 12 Actual	FY 13 Actual	FY 14 Actual	FY 14 Target	FY 15 Actual	FY 15 Target	FY 16 Target
11,962	12,919	No Data[16]	13,306	No Data[17]	13,705	14,117

FINAL PROGRESS UPDATE

A final summary of the permanent housing placements in FY 2015 will be presented in HUD's Annual Performance Report, available in February 2016. In FY 2015, HUD is taking aggressive actions to target resources to Veterans experiencing homelessness and support communities as we all work to end Veteran homelessness by the close of Calendar Year (CY) 2015. This includes maximum utilization and timely deployments of all HUD-VASH awards, which combines Housing Choice Voucher (HCV) rental assistance to Veterans with case management and clinical services provided by VA. HUD-VASH is one form of permanent housing that HUD and VA are directing to Veterans, along with Supportive Services for Veteran Families (SSVF) program and VA residential treatment programs as a conduit to permanent housing. Through the third quarter of FY 2015, these programs have helped 44,266 Veterans secure permanent housing, on track for our annual goal of 49,000 placements.

In the agency's work toward the goal of ending homelessness among Veterans, HUD achieved the following notable milestones in FY 2015:

- ***Tribal HUD-VASH:*** In December 2014, Congress passed the FY 2015 Omnibus Appropriations bill, which for the first time set aside a portion of HUD-VASH funds for a pilot designed to provide housing and supportive services to Veterans who are homeless or at risk of homelessness living on tribal reservations. HUD and VA have determined that $4 million will be invested in this new effort, and the agencies are working now to elicit insight for the design of the expansion from both national and regional Native American leaders, associations, and communities. The Tribal HUD-VASH Notice was published in October 2015. Awards will be made to Tribes in late CY 2015.
- ***FY 2014 CoC Program Competition:*** On January 26, 2015 HUD awarded $1.8 billion in grants to help nearly 8,400 local homeless housing and service programs across the U.S., Puerto Rico, Guam and the U.S. Virgin Islands. The 2014 competition continues HUD's efforts to target resources, including permanent housing for Veterans, especially those not served by HUD-VASH. These grants went into operation throughout CY 2015 and serve as a crucial resource for the funding of evidence-based interventions to end homelessness.

[16] *ibid.*
[17] *ibid.*

- ***FY 2015 HUD-VASH Awards:*** On April 20, 2015, HUD and VA awarded nearly $65 million to help more than 9,300 homeless Veterans find a permanent place to call home. This allocation brought the total number of HUD-VASH vouchers up to 79,122. By the end of the third quarter of FY 2015, 65,163 of those vouchers were in use by Veterans residing in or in the process of obtaining permanent supportive housing.
- ***2015 Local Victories:*** On January 7, 2015, Mayor Mitch Landrieu announced that the City of New Orleans had eliminated homelessness among Veterans. The city worked to connect 227 Veterans with permanent housing, and created a local homeless crisis response system that identifies Veterans experiencing or at risk of homelessness and quickly connects them to the permanent housing solution they need and have earned. On June 1, 2015, Secretary Castro, Veterans Affairs Secretary McDonald and Labor Secretary Perez joined Mayor Annise Parker to announce that the City of Houston effectively ended homelessness among their Veterans. These leaders joined homeless assistance providers, clinical workers, and supporters from across the community at a rally celebrating the creation of Houston's system that ensures that every Veteran who needs assistance will be quickly linked to the supportive services and permanent housing.
- ***Mayors Challenge:*** Announced in 2014 by First Lady Michelle Obama and amplified by leaders across HUD, VA, USICH, and by the National League of Cities, the Mayors Challenge is a call-to-action for mayors to make a commitment to ending Veteran homelessness in their cities by the close of CY 2015. At time of publication, 850 mayors, governors, and county executives have joined the challenge, including mayors from every one of the 25 USICH priority communities

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

HUD aimed to complete 87,912 energy or healthy green retrofits in FY 2015 toward the two year FY 2014-15 APG target of 162,259 completed energy or healthy green retrofits. Through the third quarter of 2015, HUD had completed 45,127 energy or healthy green retrofits in 2015, and a combined total of 122,727 units toward the FY 2014-15 APG target.

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.[18] This is also a fiscal, as well as a housing affordability, issue. HUD spends an estimated $6.4 billion annually on

[18]Department of Energy, Building Energy Data Book, (2011), Table 2.4.1

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 is a key HUD priority, generating savings for residents and owners, as well as for taxpayers.

Housing is also an important determinant of health. 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. To help reduce these effects and reduce rising utility costs, significant progress has been made over the past five years with completed energy retrofits, healthy housing interventions, or new energy projects in more than 460,000 housing units.

The HUD Secretary's Award in Excellence in Affordable Housing Design was awarded in 2015 to Step Up on 5th, Santa Monica, California. The new 46 apartment building provides a home, support services, and rehabilitation for the homeless and mentally disabled population, incorporating passive design strategies that make the building 50 percent more efficient than a conventionally designed structure, using compact fluorescent lighting and double pane windows with low-E coating, water-saving low flow toilets, and a high-efficiency hydronic system for heat. The project has followed the Leadership in Energy and Environmental Design (LEED) certification process, making it equivalent to LEED Gold.

From 2014–2018, HUD aims to continue to focus on energy and health investments in the residential sector, both 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. We will reduce barriers to financing energy efficiency as well as on-site 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.

The production of lead-safe housing units will continue to depend strongly on the level of funding for the lead hazard control grant programs and rehabilitation programs that require lead hazard reduction measures in housing units being assisted. With funding for Lead Hazard Control and Healthy Homes grant activities projected to be approximately level through FY 2015, and the Community Development Block Grant (CDBG) and HOME Investment Partnerships Program (HOME) experiencing significant reductions in recent years, the number of pre-1978 housing units made lead-safe in 2015 and 2016 is expected to decrease.

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 strategy includes continuing to update energy codes and standards as required by the Energy Independence and Security Act of 2007; implementing a green Physical Needs

Assessment (PNA) in public housing consistent with the Energy Policy Act of 2005 and an analogous Capital Needs Assessment (CNA) e-tool in multifamily housing, exploring the adoption of comprehensive utility benchmarking protocols across HUD's portfolio; and addressing energy efficiency through FHA single family and multifamily mortgage insurance programs. This strategy will help HUD stakeholders reduce energy consumption and improve building performance. This will also be accomplished through voluntary efforts such as the multifamily Better Buildings Challenge, partnerships with the U.S. Department of Energy (DOE), the Environmental Protection Agency (EPA), the U. S. Department of Agriculture (USDA), and other federal agencies, and leveraging HUD's Technical Assistance (TA) resources.

- ***Implement national partnerships to at least triple the amount of on-site renewable energy across the federally assisted housing stock by 2020.*** This joint effort of HUD, USDA, and the U.S. Department of 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 300 megawatts of on-site renewable energy in federally assisted housing, equivalent to the energy used by over 90,000 homes. Commitments of 150 megawatts have already been received toward the target
- ***Overcome barriers to leveraging private sector and other innovative sources of capital for energy efficiency and renewable energy investments.*** HUD, in cooperation with other 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. An example of the innovation of public-private projects that the Department is planning to implement in FY 2016 and beyond is the proposed Pay for Success program. If authorized by Congress, Pay for Success will allow HUD to enter into contracts with outside entities who would raise private capital to make appropriate and economically justifiable upgrades to water and energy systems in aging HUD-assisted apartment buildings.

CONTRIBUTING PROGRAMS

This performance goal involves every HUD program that produces, manages, or finances HUD's portfolio of affordable housing. The program lead for this goal is the Office of Economic Resilience in Community Planning and Development (CPD), which coordinates a broad-based Departmental effort and provides support to program offices to reduce HUD's outlays for energy.

MEASURING OUR PROGRESS

To assess our progress toward increasing the energy efficiency and health of the nation's housing stock, HUD tracks the number of newly constructed or retrofitted housing units that are healthy, energy-efficient, and/or meet green building standards. In light of funding challenges - including the expiration of the Recovery Act funds which had funded a significant portion of the units toward this goal in previous years - the progress made in achieving this objective is noteworthy. Through the 3rd quarter of FY 2015, HUD has completed 122,727 green or healthy units, or 75.64 percent of the Department's two-year FY 2014-15 target of 162,259. Of the completed green or healthy units, 87,534 units, or 71.32 percent, were energy-related, and the remaining 35,193 units were lead hazard control or healthy housing retrofits funded through HUD's Office of Lead Hazard Control and Healthy Homes. These totals include "unit equivalent" counts for some public housing units, as noted below.

FY 2015 Energy-Related Units Completions by Program Office, through Q3:

- **CPD:** The Office of Community Planning and Development completed a total of 4,744 energy retrofits in FY 2015 and a combined FY 2014-15 total of 12,667 retrofits through the third quarter of FY 2015. Completed CPD units consist of new HOME and Community Development Block Grant (CDBG)-funded units meeting the Energy Star Certified Homes standard. This total does not include energy efficient CDBG units being built for Hurricane Sandy Disaster Relief, which are reported annually and will not be available until December 2015.
- **Multifamily Housing:** The Office of Multifamily Housing completed 11,387 green units through the third quarter of fiscal year 2015. The following Multifamily Housing programs are included in this total: FHA Multifamily Endorsements with green features, the Mark-to-Market Program Green Initiative, Section 202, Section 811, and the Green Preservation Plus Program. In FY 2015, Multifamily Housing also began tracking energy efficient units being completed through the Rental Assistance Demonstration (RAD) program. Multifamily Housing does not anticipate meeting its target this year, due in part to previously established "green" RAD target that did not anticipate the delayed-rollout of the RAD program. FY 2016-2017 "green" RAD targets are being re-evaluated in light of the current production schedule.
- **Single Family Housing:** Energy-related programs of the Office of Single Family Housing generated 5,313 endorsed mortgage loans through the third quarter of fiscal year 2015. These included 238 Energy Efficient Mortgage loans, 306 PowerSaver Title I loans, 109 PowerSaver 203(k) loans, and-tracked for the first time in fiscal year 2015- 4,660 standard 203(k) loans which included energy-efficiency property enhancements.
- **PIH:** The Office of Public and Indian Housing (PIH) has completed 8,692 retrofits or new green units in FY 2015 through the third quarter. This figure includes energy upgrades of existing public housing funded through the Public Housing Capital Fund, as well as new, energy-efficient Public Housing units developed with Public Housing Capital Funds or through mixed financing streams, HOPE VI, and Choice

Neighborhoods.[19] Units produced under Energy Performance Contracts are reported annually and historically make up a large proportion of the completed PIH units (over 72 percent of completed units in FY 2014). This data is typically available in December; therefore, the majority of the FY 2015 PIH data will not be visible in this AFR.

Lead Hazard Control and Healthy Homes Units by Program Office:

- **Healthy Homes:** The Office of Lead Hazard Control and Healthy Homes (OLHCHH) and CPD completed 13,623 units in FY 2015 through the third quarter of FY 2015, and a combined FY 2014-15 total of 35,193 units. These include lead hazard interim control or abatement activities carried out by OLHCHH as well as similar activities carried out by CPD pursuant to the Lead Safe Housing Rule with HOME and CDBG funds. OLHCHH activities have been adversely affected by a number of factors, including severe winter weather conditions over the last two winters, the limited supply of certified lead contractors, and rising costs per unit. Furthermore, Lead Safe Housing Rule (LSHR) activities are tied to CDBG and HOME program rehabilitation activities. As CDBG and HOME production ebbs and flows, so too does LSHR production. Consequently, reduced CDBG funding and proposed funding cuts to the HOME program in FY 2016 will have serious implications for the Department's health and safety work. OLHCHH grantees work to mitigate environmental hazards for improved health outcomes in housing, prioritizing units where children are present. This includes prevention activities in units where children will be present. In addition to reporting on a variety of lead hazard control and healthy housing grant programs, OLHCHH also reports data on its enforcement actions, as well as on the Green and Healthy Homes Initiative, which combines environmental assessments and single stream interventions in the areas of lead hazard reduction, Healthy Homes, weatherization, and energy efficiency.

[19] Note: Energy saving improvements to existing Public Housing units achieved using Capital Funds are reported as "unit equivalents" according to a methodology approved by OMB. Under this methodology, a collection of cost-effective interventions are together recorded as equivalent to an energy-efficient unit.

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 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual (Q1- Q3)	Combined FY 14-15 Actual (Q3)	FY 2015 Target	FY 2016 Target
PIH	40,567	37,242	29,428	8,692	38,120	23,009	22,258
CPD	15,915	14,546	7,923	4,833	12,756	7,619	7,651
Housing	15,311	13,500	18,679	17,979	36,658	34,068	23,918
Healthy Homes	13,115	10,663	21,570	13,623	35,193	23,216	16,500
HUD Total	84,908	75,951	77,600	45,127	122,727	87,912	75,927*

*Draft FY 2016 target total includes approximately 5,600 stretch units.

FINAL PROGRESS UPDATE

In light of funding challenges, the progress made in achieving this objective is noteworthy. In 2015, the Secretary challenged program offices to meet our previously established FY 2014-2015 targets, despite the expiration of the Recovery Act funds which funded a significant portion of our units toward this goal over the past four years. In addition, the Secretary charged program offices with maintaining aspirational targets for FY 2016-2017, matching our historic trend 160,000-unit two-year targets on green and healthy home production.

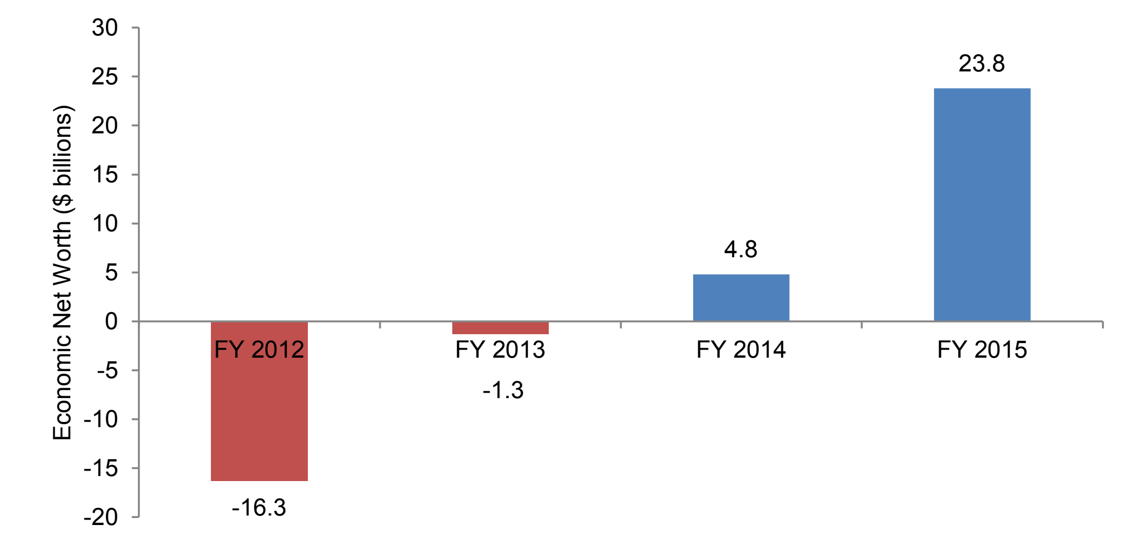
Through the third quarter of FY 2015, HUD is on track to meet its FY 2014-FY 2015 target of completing 162,259 green or healthy retrofits or new constructions, despite the fact that the Department may fall short of its incremental FY 2015 target. HUD remains committed to mainstreaming energy efficient, green, and healthy building practices across the residential sector. In FY 2015, HUD: (1) outlined a comprehensive approach to strengthen energy and green building requirements; (2) used incentives for borrowers or grantees to agree to green standards; (3) developed large-scale solutions and tools; and (4) assembled 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 toward achieving the goals outlined in the plan.

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" (ENW) 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 2008 strained the Fund – resulting in a negative economic net worth in Fiscal Year 2012. Throughout the economic crisis and recovery FHA undertook a number of actions to protect and strengthen the value of the Fund. As a result, this fiscal year the MMI Fund's economic net worth improved by $19 billion, increasing from $4.8 billion in FY 2014 to $23.8 billion in FY 2015. This year's ENW exceeds what was projected in last year's study by approximately $8.7 billion. Overall, the Fund has improved by $40 billion dollars since FY 2012. As a result, the Capital Ratio reached the 2 percent statutory minimum, one year ahead of the independent actuary's FY 2014 projection.

Overall Results of the Independent Actuarial Study, FY 2015



Capital Ratio (%)	-1.44	-0.11	.41	2.07

SOURCE: FY 2012–FY 2015 Actuarial Reviews of the MMI Fund; analysis by U.S. Department of HUD/FHA.

Mutual Mortgage Insurance (MMI) Capital Ratio

The portfolio valuation underlying the statutory capital ratio calculation is performed by an independent actuary 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, effectively manage and mitigate risk, and improve recoveries to the Fund. The positive effects of strategically deploying alternative disposition strategies, responsibly expanding access to credit through the *Blueprint for Access* strategy, and reducing the volatility of certain programs have been a critical part of the MMI Fund's recovery. These initiatives have laid the groundwork for FHA to be even better equipped to ensure affordable access to credit for future generations of borrowers.

HUD will continue to look for ways to reduce overall risk to the MMI Fund capital position to ensure that the Fund's economic net worth remains substantially positive and portfolio performance remains strong.

Forward Looking Information

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

Constrained federal funding levels continued to affect most HUD programs during FY 2015 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. Rigorous evaluation has demonstrated that administrative fees for the Housing Choice Voucher program and operating and capital funds for the Public housing program remain significantly below levels needed to sustain high-performing PHA programs, and the backlog of capital needs jeopardizes the public investment in the public 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, which gives PHAs access to private capital, and the Moving-to-Work demonstration.

By the end of FY 2015, the unemployment rate had declined to 5.1 percent, a level that many economists consider to represent full employment. The labor force participation rate and employment-to-population ratio, however, remain significantly lower than their pre-recession rates, as a portion of the baby boom generation is accepting early retirement. The gradually improving employment situation 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 signs of inflation will motivate the Federal Reserve to scale back the monetary policies that have kept interest rates low. Such action will cause interest rates for long-term debt and mortgage loans to increase from the low levels that prevailed during the recent post-recessionary period. Higher rates, in turn, would tend to depress levels of both homebuying and mortgage refinancing.

Home prices are recovering unevenly across the nation, and as of June 2015, RealtyTrac was reporting that 7.4 million homeowners remained "seriously underwater" on their mortgage loans. As a result, mortgage foreclosure rates among legacy loans remain elevated. For new loans, the Consumer Finance Protection Bureau's implementation of its rule defining Qualified Mortgages and HUD's implementation of its rule defining Qualified Mortgages for HUD-insured or guaranteed loans in 2014 has helped reduce delinquency rates. Tighter underwriting criteria, however, restrict the availability of mortgage credit for lower-income households. Such financing shortages create continuing need for FHA-insured mortgage products, which contribute to a balanced and well-functioning housing finance market.

The number of U.S. households increased 1.0 percent during 2014, almost double the 0.5 percent rate of household formation in 2013, and in line 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 2014, while the number of rental households has been increasing rapidly.

Growth in renter households and stagnant or shrinking median incomes have for a number of years created significant new demands on the stock of affordable rental units. Between 2004 and 2014, rental vacancy rates declined from 10.0 percent to 7.0 percent. The tightening of the rental market was a major reason the average renter household increased real expenditure on housing by 14 percent and increased the share of income spent on housing by 2.5 percentage points to 37.8 percent during the same 2004 to 2014 period.

Very low-income renters are disproportionately burdened by a supply gap in affordable housing. The most recent estimates from HUD's *Worst Case Housing Needs: 2015 Report to Congress* show that only 65.2 affordable rental units were available per 100 very low income renters in 2013. Such unmet demand for affordable housing puts pressure on waiting lists for public and assisted housing, fair market rents, and HUD's subsidy costs.

Shortages of affordable housing also contribute to doubling up and homelessness, especially for families. Homeless Veterans for many years were overrepresented in the homeless population, especially among chronically homeless individuals. Causes of homelessness among Veterans are similar to causes of homelessness among non-Veterans. The Administration has made significant progress in meeting aggressive goals of eliminating Veteran homelessness and chronic homelessness, and a goal to eliminate family homelessness by 2020 remains. Congressional appropriations for the HUD-VASH program have played a major role in knocking down Veteran and chronic homelessness. Further progress, however, will be constrained without increased funding for permanent supportive housing to serve the chronic homeless population and for Housing Choice Vouchers to reduce family homelessness.

Under the *National Response Framework* developed since Hurricane Katrina, HUD has a major role in helping implement disaster recovery. HUD created a Disaster Recovery Information Guide (DRIG) is in place for disaster recovery survivors. 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, HUD will continue to be ready to respond to new disasters and emerging national needs by strengthening its 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)

	2015	**2014**
Total Assets	$141.9	$144.7
Total Liabilities	$48.8	$64.8
Net Position	$93.2	$79.9
FHA Insurance-In-Force	$1,283	$1,292
Ginnie Mae Mortgage-Backed Securities Guarantees	$1,609	$1,526
Other HUD Program Commitments	$38.1	$40.7

HUD's FY 2015 Financial Statements reflect restatements of the Department's Fiscal Year 2014 Financial Statements in the following areas:

- Cash and Other Monetary Assets: Ginnie Mae incorrectly included deposits in transit as part of Other Non-Credit Reform Loans. As a result, Ginnie Mae reclassified the amount in Other Non-Credit Reform Loans to Cash and Other Monetary Assets
- General Property, Plant and Equipment: Ginnie Mae incorrectly expensed software and hardware expenses instead of capitalizing these costs. The impact of this correction was an increase of Property, Plant and Equipment.
- Multiclass Fee Accounting: Ginnie Mae incorrectly recognized multiclass fees as revenue before the earnings process was complete. The impact of this correction resulted in an increase in Other Governmental Liabilities.
- MBS Loss Liability: In addressing OIG's material weakness audit report, Ginnie Mae concluded that the amount of MBS Loss Liability was reported incorrectly and not consistent with GAAP. The impact of this correction resulted in a reclassification of MBS Loss Liability to the allowance against Non Credit Reform Loans.
- Advances to PIH's Public Housing Authorities (PHAs) participating in the Moving to Work Programs. The advance was necessary because of an error under the Department of Treasury's cash management policies.

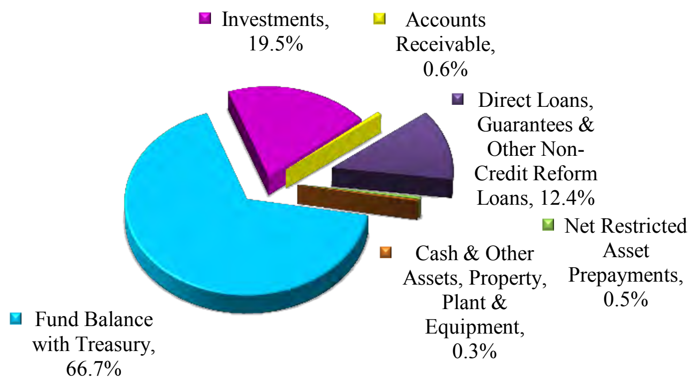
The Notes to the Financial Statements in Section II, Note 31, provides further details.

Analysis of Financial Position

Assets - Major Accounts

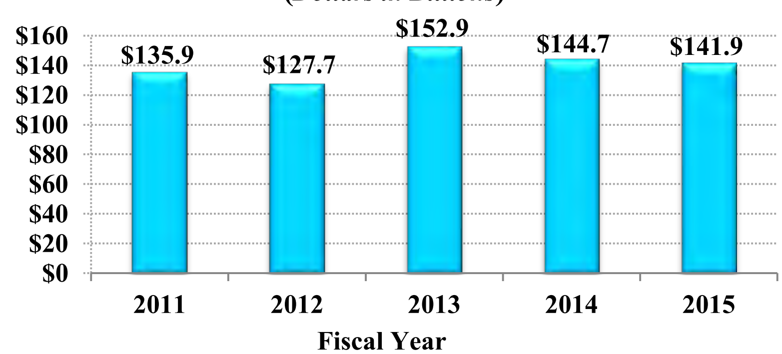
Total Assets for FY 2015, as reported in the Consolidated Balance Sheet, are displayed in the graph on the next page. Total Assets of $141.9 billion are comprised of Fund Balance with Treasury of $94.7 billion (66.7 percent), Investments of $27.7 billion, Accounts Receivable of $0.8 billion, Direct Loans & Loan Guarantees of $14.4 billion, Other Non-Credit Reform Loans of $3.2 billion, Net Restricted Asset Prepayments of $0.7 billion, and Cash & Other Monetary Assets, Other Assets and Property, Plant & Equipment of $0.4 billion at September 30, 2015.

Composition of HUD Assets - FY15



Total Assets decreased $2.8 billion (1.9 percent) from $144.7 billion at September 30, 2014. The net decrease was due primarily to an decrease of $27.0 billion (22.2 percent) in Fund Balance with Treasury, a decrease of $1.1 billion (58.7 percent) in Accounts Receivable, being offset by an increase of $21.1 billion (323.9 percent) in Intragovernmental Investments, an increase of $3.6 billion (32.7 percent) in Direct Loans & Loan Guarantees, an increase of $0.4 billion (14.9 percent) in Other Non-Credit Reform Loans, an increase of $0.2 billion (58.9 percent) in Net Restricted Asset Prepayments. The chart below shows Total Assets for FY 2015 and the four preceding years. The changes and trends affecting Total Assets are discussed below.

Total Assets Trend
(*Dollars in Billions*)



Fund Balance with Treasury of $94.7 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. Fund Balance with Treasury decreased $27.0 billion due primarily to decreases of $11.2 billion for FHA, $11.3 billion for Ginnie Mae, $3.5 billion for CDBG, $0.3 billion for HOME, $0.2 for PIH, $0.5 billion for Housing for the Elderly and Disabled, and $0.2 billion for All Others. The FHA decrease is primarily due to an increase in MMI and Cooperative Management Housing Insurance Fund (CMHI) investments in U.S Treasury securities that resulted in a cash decrease and offset by borrowing and settlement funds. Its disbursements (claim payments) also exceeded premium collections and proceeds from the sale of assets. Ginnie Mae's fund balance decreased primarily because of a transfer of $12.8 billion to the Capital Reserve Fund. Ginnie Mae received approval to start investing the full balance of the Capital Reserve Fund at the end of 2013. As a result, in FY 2015 Ginnie Mae began investing the full balance in US Treasuries. Community Development Block Grant (CDBG) program funding decreased by $3.5 billion due primarily to an increase in outlays in FY 2015 for certain programs in CDBG.

Investments of $27.7 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 $8.4 billion and Ginnie Mae's investments increased by $12.8 billion. Ginnie Mae received approval to start investing the balance in the capital reserve into US Treasury securities.

Accounts Receivable of $0.8 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 decrease of $1.1 billion was primarily due to a decrease in settlements receivable and a decrease in partial claims receivables.

Direct Loan and Loan Guarantees of $14.4 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 of $3.9 billion was primarily attributed to an increase in defaulted guarantee loans from post 1991 guarantees in single family forward allowance for subsidy, single family forward partial claims notes, and Home Equity Conversion Mortgage (HECM) loans receivables. The allowance for subsidy relating to single family foreclosed property increased by $2.7 billion from $1.4 billion in FY 2014 to $4.1 billion in FY 2015 and related associated interest receivables on HECM loans increased by $0.7 billion, with an offset decrease by single family partial claims notes.

Other Non-Credit Reform Loans of $3.2 billion consists of Ginnie Mae Advances Against Defaulted Mortgage-Backed Security Pools, Mortgage Loans Held for Investment, Short Sale Claims Receivable, and Foreclosed Property.

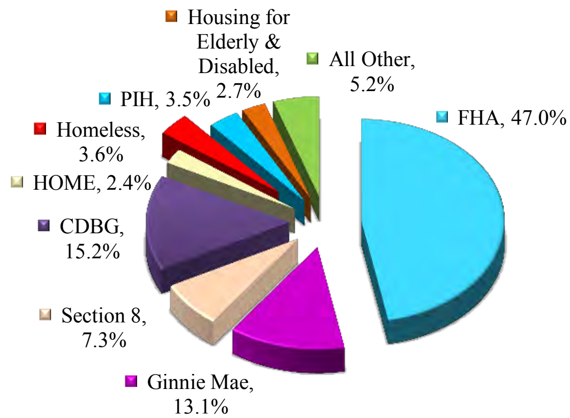
Net Restricted Asset Prepayments of $0.7 billion are the Department's estimates of Net Restricted Assets (NRA) balances maintained by Public Housing Authorities under the Housing Choice Vouchers Program. NRA balances represent cash reserves used by PHAs to cover program expenses reported by these entities as a result of recent funding shortfalls faced by the Department and additional advances to PHAs participating in the Moving to Work Program.

Other Assets and Property, Plant & Equipment of $0.4 billion comprises primarily of internal use software, furniture and fixtures, and other assets. Ginnie Mae's PP&E account was also adjusted for correction of amortization and capitalization errors as noted in the restatement paragraph.

Assets - Major Programs

The chart below presents Total Assets for FY 2015 by major responsibility segment or program.

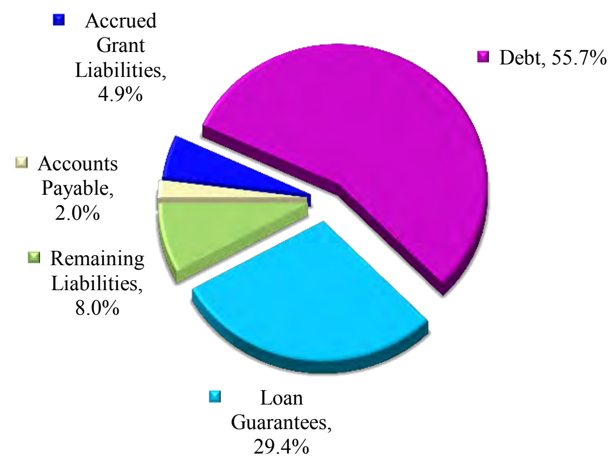
Assets by Responsibility Segment



Liabilities – Major Accounts

Total Liabilities for FY 2015, as reported in the Consolidated Balance Sheets, are displayed in the chart below.

Composition of HUD Liabilities



Total Liabilities of $48.8 billion consist primarily of Loan Guarantees of $14.3 billion (29.4 percent), Debt in the amount of $27.2 billion (55.7 percent), Accounts Payable of $1.0 billion (2.0 percent), Accrued Grant Liabilities of $2.4 billion (4.9 percent), and Remaining Liabilities amounting to $3.9 billion (8.0 percent) at September 30, 2015.

Total Liabilities decreased by $16.0 billion, due primarily to a decrease of $17.5 billion of Loan Guarantees, a decrease of $0.5 billion in Intragovernmental Debt, and offset by an increase of

$0.8 billion of Intragovernmental Other Liabilities, an increase of $0.9 billion of Accrued Grant Liabilities, an increase of $0.1 billion of Accounts Payable, and an increase of $0.2 billion of Other Liabilities. Total Liabilities decreased primarily due to a decrease in FHA's loan guarantee liability. Ginnie Mae's changed its accounting methodology for Loss Reserves. The loss is now reflected in the contra asset allowance account. CDBG, HOME, & Homeless liabilities increased by $0.9 billion primarily due to grant accruals. The department implemented the grant accrual policy in FY 2014.

The chart below presents Total Liabilities for FY 2015 and the four preceding years. A discussion of the changes and trends impacting Total Liabilities is presented in the subsequent paragraphs.

Liabilities Trend
(Dollars in Billions)

Loan Guarantees consist of the Liability for Loan Guarantees (LLG) related to Credit Reform loans made after October 1, 1991. The liability for Loan Guarantees is 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 $17.5 billion (55.0 percent) decrease in Loan Guaranty Liability is primarily due to $11.4 billion decrease in single family forward, $5.8 billion decrease in HECM and $0.1 billion in multifamily liability for loan guarantees (LLG). The decrease in single family forward for loan guarantee liability is mainly due to the inclusion of the 2015 book-of-business, which forecasted to add over $7.0 billion in negative liability to the MMI fund. The second major factor is the leveling-off of interest rates from the downward trend seen in the past few years. This causes slower prepayment rates, since there is little incentive from homeowners to refinance. The decrease in HECM liability for loan guarantees is due to better house price appreciation. This increases the recovery rates and thus, decreases the liability to the Fund while decrease in multifamily liability for loan guarantees can be attributed to decrease in several multifamily programs.

Debt includes primarily Intragovernmental Debt of $27.2 billion. The Intragovernmental Debt is primarily the result of an increase of FHA's principal debt with the Treasury. The largest borrowing of $21.5 billion was in MMI/CMHI funds. GI/SRI funds had borrowings of $5.4 billion. FHA transfers the negative subsidy amounts to the capital reserve fund for MMI/CMHI or to the general fund for General Insurance (GI) / Special Risk Insurance (SRI).

Accounts Payable consist primarily of pending grants payments.

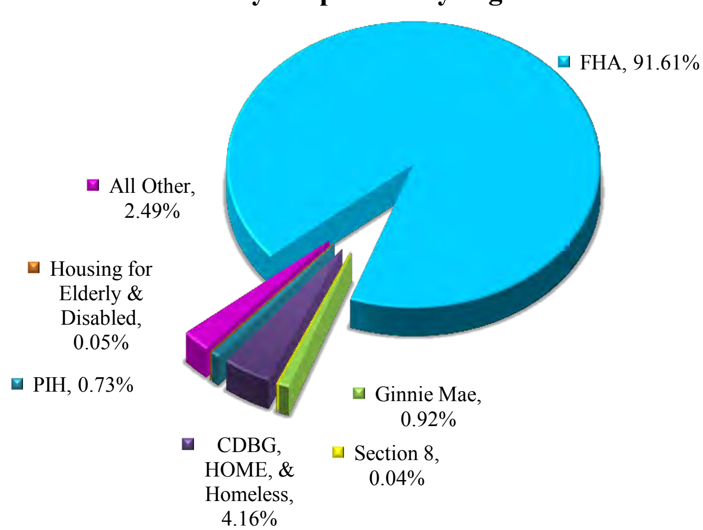
Accrued Grant Liabilities increased by $0.9 billion. In response to OIG's recommendation, a policy for estimating accruals for grant programs was administered by HUD. The estimates provided by the program offices resulted in increasing the Department's liabilities from $1.5 billion to $2.4 billion for FY 2014 and FY 2015 respectively. The increase was primarily in the CDBG programs.

Remaining Liabilities of $3.9 billion consist of Intragovernmental Liabilities, Federal Employee and Veteran Benefits, and Other Liabilities. The FHA increase of $0.8 billion is primarily due to an increase of GI downward re-estimate from FY 2014 to FY 2015.

Liabilities – Major Programs

The chart below presents Total Liabilities for FY 2015 by responsibility segment.

Liabilities by Responsibility Segment

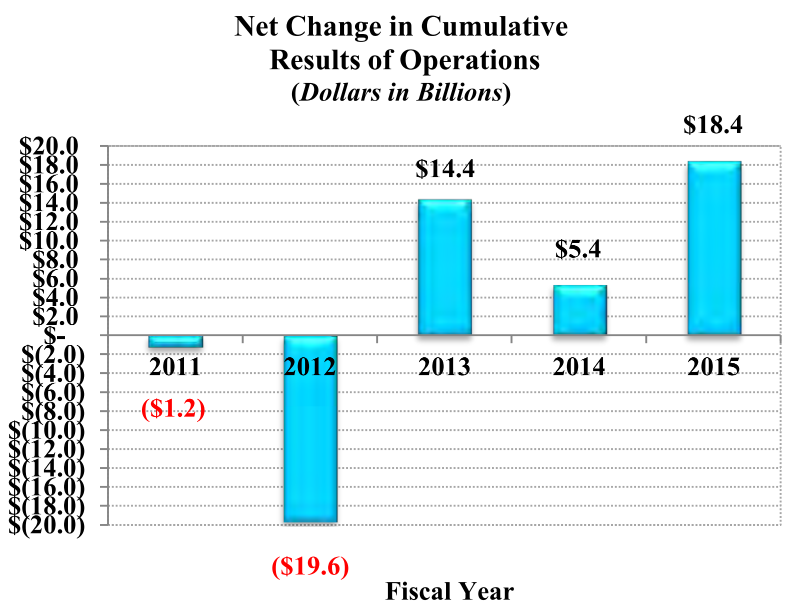


Changes in Net Position

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 $13.3 billion (16.6 percent) from the prior fiscal year. The net increase in Net Position is primarily attributable to a $5.1 billion decrease in Unexpended Appropriations and $18.4 billion increase in Cumulative Results of Operations.

The combined effect of HUD's Net Cost of Operations and Financing Sources resulted in an increase in Net Results of Operations of $13.0 billion during FY 2015. Net Cost of Operations decreased by $11.1 billion and Total Financing Sources increased by $1.9 billion.

This chart below presents HUD's Net Change in Cumulative Results of Operations for FY 2015 and the four preceding years.

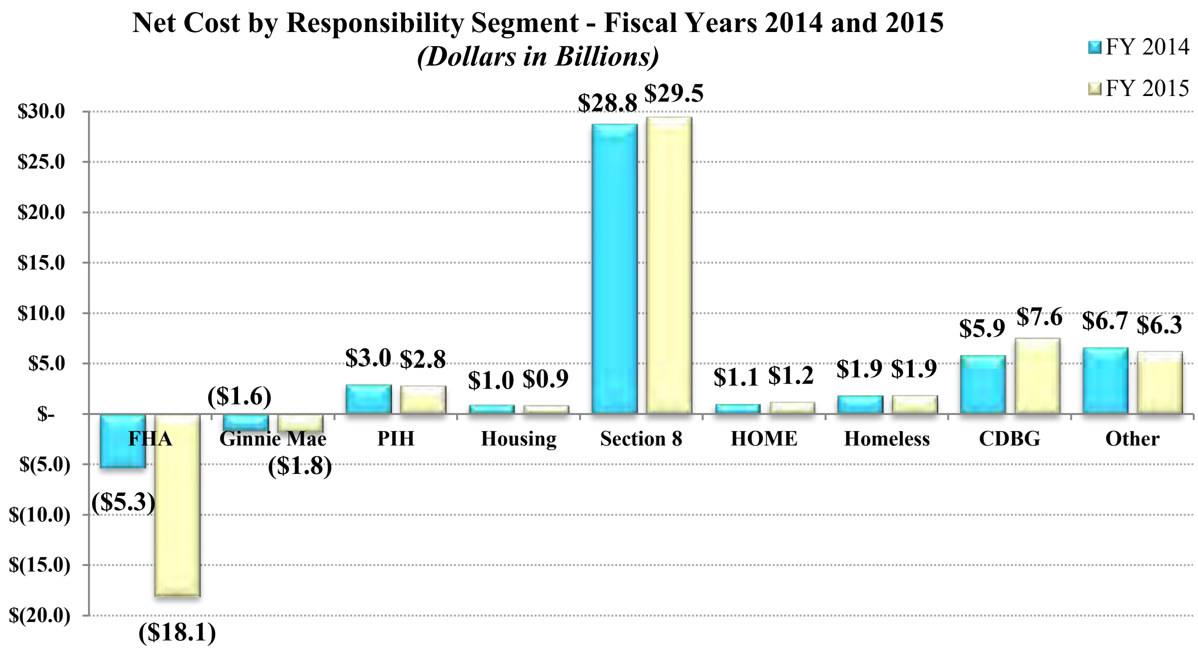


Unexpended Appropriations: The decrease of $5.1 billion (9.1 percent) from $56.2 billion in FY 2014 to $51.1 billion is due primarily additional expenditure of $4.5 billion for CDBG, $0.2 billion in PIH, $0.3 billion for HOME, $0.4 billion for Housing for the Elderly and Disabled, and $0.2 billion for All Other programs, with an offset of additional funding of $0.4 billion in Section 8 and $0.1 billion for Homeless Assistance Grants.

Financing Sources: As shown in HUD's Statement of Changes in Net Position, HUD's financing sources for FY 2015 totaled $48.7 billion. This amount is comprised primarily of $53.0 billion in Appropriations Used, offset by approximately $4.3 billion in other financing sources.

Net Cost of Operations: As reported in the Consolidated Statement of Net Cost, Net Cost of Operations amounts to $30.3 billion for FY 2015, a decrease of $11.1 billion (26.8 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 and FY 2015 by responsibility segment.



As shown in the chart, Cost of Operations was primarily a result of spending of $29.5 billion, (97.2 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 $0.7 billion (2.5 percent) more than the prior fiscal year. FHA Net Cost decreased by $12.8 billion (241.3 percent), due primarily to a decrease in gross costs and a decrease in HECM LLG. Gross costs decreased primarily because of FHA's re-estimate, decline in negative subsidy and a decline in interest expenses in the GI/SRI fund, MMI fund, and HECM program.

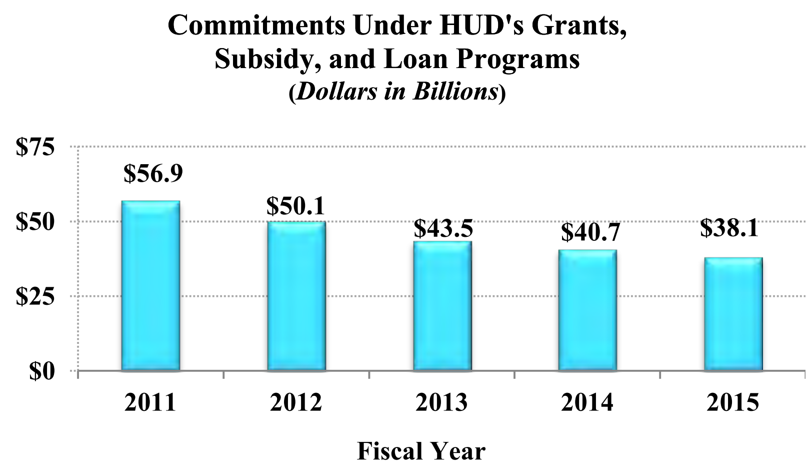
Analysis of Off-Balance-Sheet Risk

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 $38.1 billion in FY 2015 represent HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Administrative Commitments (reservations) of $8.7 billion relate to specific projects, for which funds will be provided upon execution of the related contract.

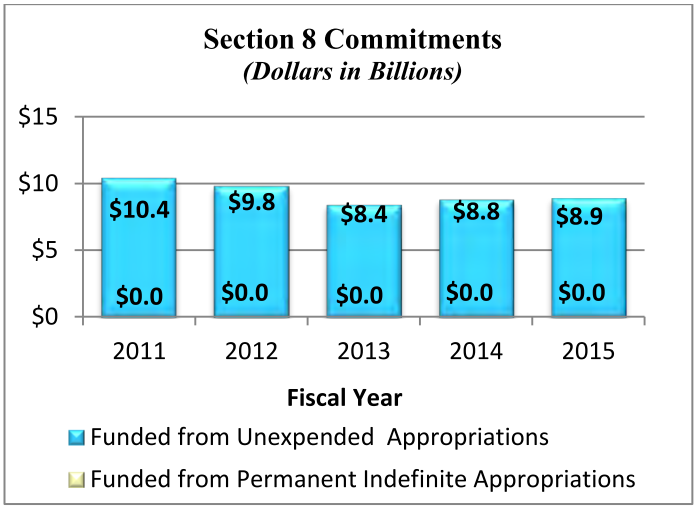
The chart below presents HUD's Contractual Commitments for FY 2015 and the four preceding years.



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 in the rental assistance program. The remaining HUD programs receive direct appropriations. Since FY 1988, HUD has been appropriated funds in advance for the entire contract term in the initial year, resulting in substantial increases and sustained balances in HUD's unexpended appropriations.

Total Commitments (contractual and administrative) decreased by $3.1 billion (6.2 percent) during FY 2015. The change is primarily attributable to a decrease of $1.9 billion in CDBG program commitments and a decrease in All Other Commitments of $1.3 billion, offset of an increase of $0.1 billion in Section 8 commitments and $0.1 billion in FHA's commitments.

The chart below presents HUD's Section 8 Contractual Commitments for FY 2015 and the four preceding years.



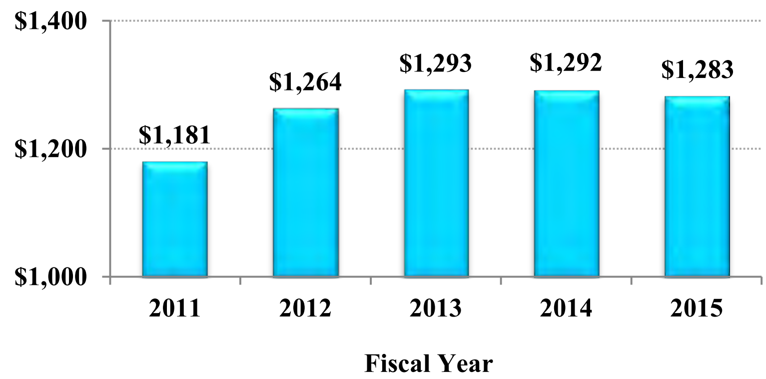
To contain the costs of future Section 8 contract renewals, HUD began converting all expiring contracts to one-year terms during FY 1996. By changing to one-year contract terms, HUD effectively reduced the annual budget authority needed from Congress to fund the subsidies while still maintaining the 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 on the next page presents FHA's Insurance-In-Force (including the Outstanding Balance of HECM loans) of $1,283 billion for FY 2015 and the four preceding years. This is a decrease of $9 billion (0.7 percent) from the FY 2014 FHA Insurance-In-Force of $1,292 billion. 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.

The chart below presents FHA's Insurance In force for FY 2015 and the four preceding years.

FHA Insurance In Force
(Dollars in Billions)

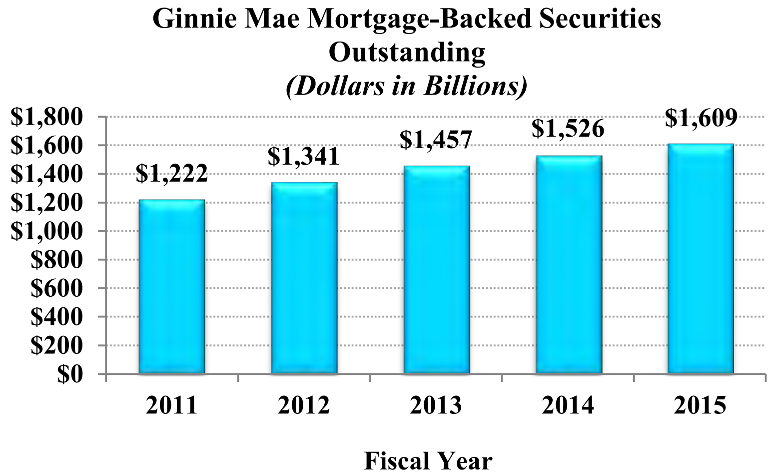


Ginnie Mae Guarantees

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, 2015 and 2014, were approximately $1,609 billion and $1,526 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, 2015 and 2014 were $129 billion and $98 billion, respectively.

The chart below presents Ginnie Mae MBS for FY 2015 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 2015 and 2014, Ginnie Mae issued a total of $93 billion and $114 billion, respectively, in its multi-class securities program. The estimated outstanding balance of multiclass securities in the total MBS securities balance at September 30, 2015 and 2014 were $473 billion and $487 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 2015 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.

HUD can provide a reasonable statement of assurance of its internal controls over the effectiveness and efficiency of operations (Section 2) as of September 30, 2015. No material weaknesses were found in the design or HUD's operation of the internal controls during the evaluation.

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 (Section 2) were operating effectively as of September 30, 2015.

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. The Department is unable to provide assurance that its financial management systems (Section 4), comply with FFMIA as of September 30, 2015 due to the one material weakness and five systems nonconformance. Additional details related to the material weaknesses and systems nonconformance are further discussed in the document.

Nani A. Coloretti for
Julián Castro
Secretary

November 23, 2015

Additional Information

The Department has made and is continuing to make sweeping changes to the way it operates, which will improve the timeliness, quality, and reliability of our financial reporting. While we made notable progress, HUD will continue to implement and maintain ongoing and planned corrective actions that when fully completed will significantly improve financial management, strengthen internal controls, and resolve the material weaknesses.

During FY 2015 HUD successfully remediated four material weaknesses, had six repeat material weaknesses, and three new material weaknesses. The corrective actions are tracked through the HUD Audit Resolution Corrective Action Track System and additional details are available in Section 3. The Department is committed to resolving these long-standing weaknesses.

Message from the Deputy Chief Financial Officer

November 23, 2015

In Fiscal Year (FY) 2015, I am pleased to report that the Office of the Chief Financial Officer (OCFO) achieved major accomplishments in meeting all FY 2015 milestones in the New Core project (New Core), one of HUD's top initiatives to implement a shared services solution for the Department's core financial and administrative systems.

Success in the implementation of New Core will be measured by an ability to continue meeting project milestones in an aggressive timeline. In Phase One of New Core, OCFO made substantial and timely progress:

- Release 1 (Travel and Relocation) - Go Live completed on October 1, 2014.
- Release 2 (Time and Attendance) - Go Live completed on February 8, 2015.
- Release 3 (Financial Management and Procurement) - Go Live completed as scheduled on October 1, 2015.

With eight material weaknesses cited in the FY 2014 Financial Statement Audit and two additional material weaknesses self-identified by HUD in its FY 2014 assessment of the effectiveness of internal control, the Department in FY 2015 initiated substantial efforts that will extend over several years to improve HUD's internal controls. While three new material weaknesses were noted in the FY 2015 Financial Statement Audit, I am pleased to report as of September 30, 2015 that four deficiencies (FY 2014 and earlier) were assessed to no longer rise to the level of material weaknesses. In FY 2016, OCFO and the Program Offices will continue to apply remedial action on all deficiencies until the deficiencies are completely resolved.

While the Department made significant strides in financial management during the year, a disclaimer of opinion was received on its FY 2015 financial statements from HUD's Office of Inspector General. In a multi-year process to replace outdated legacy systems, improve internal controls, refine policies, and optimize processes, OCFO is progressively transforming HUD's financial management landscape. This substantial effort will enable HUD to achieve a clean audit opinion, while improving financial management and program delivery.

In closing, I would like to highlight that these considerable accomplishments were made possible by effective collaboration between many talented employees in OCFO and the Program Offices.

In a sad note, I also want to recognize the major contribution to these efforts made by Brad Huther, HUD's Chief Financial Officer, who died in June of this past year.

Sincerely,

Joseph I. Hungate III
Deputy 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, 2015, and 2014, 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, 2015, and 2014. 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, 2015, and 2014.

The **Combined Statement of Budgetary Resources**, which presents the budgetary resources available to HUD during FY 2015 and 2014, the status of these resources at September 30, 2015, and 2014, and the outlay of budgetary resources for the years ended September 30, 2015, and 2014.

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 Periods Ending September 30, 2015, and 2014
(Dollars in Millions)

	2015	(Restated) 2014
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 4)	$ 94,691	$ 121,703
Investments (Note 5)	27,677	6,529
Other Assets (Note 10)	9	34
Total Intragovernmental Assets	122,377	128,266
Cash and Other Monetary Assets (Note 4)	45	37
Investments (Note 5)	31	41
Accounts Receivable, Net (Note 6)	780	1,887
Direct Loan and Loan Guarantees, Net (Note 7)	14,425	10,868
Other Non Credit Reform Loans (Note 8)	3,227	2,809
General Property Plant and Equipment, Net (Note 9)	329	308
PIH Prepayments	672	423
Other Assets (Note 10)	45	48
TOTAL ASSETS	**$ 141,931**	**$ 144,687**
Stewardship PP&E (Note 11)	-	-
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 11)	15	16
Debt (Note 12)	27,150	27,661
Other Intragovernmental Liabilities (Notes 15)	2,610	1,801
Total Intragovernmental Liabilities	29,775	29,478
Accounts Payable (Note 11)	966	864
Accrued Grant Liabilities	2,388	1,501
Loan Guarantee Liability (Note 7)	14,307	31,779
Debt Held by the Public (Note 12)	8	8
Federal Employee and Veteran Benefits (Note 13)	69	74
Loss Reserves (Note 14)	-	-
Other Governmental Liabilities (Notes 15)	1,239	1,078
TOTAL LIABILITIES	**$ 48,752**	**$ 64,782**
Commitments and Contingencies (Note 17)	55	15
NET POSITION		
Unexpended Appropriations - Funds From Dedicated Collections (Note 18)	(320)	(224)
Unexpended Appropriations - Other Funds	51,435	56,443
Cumulative Results of Operations - Funds From Dedicated Collections (Note 18)	21,417	19,623
Cumulative Results of Operations - Other Funds	20,647	4,063
TOTAL NET POSITION - Funds From Dedicated Collections	21,097	19,399
TOTAL NET POSITION - All Other Funds	72,082	60,506
TOTAL NET POSITION	93,179	79,905
TOTAL LIABILITIES AND NET POSITION	**$ 141,931**	**$ 144,687**

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 Periods Ending September 30, 2015, and 2014
(Dollars in Millions)

	2015	(Restated) 2014
COSTS		
Federal Housing Administration		
Gross Cost (Note 22)	$ (16,201)	$ (3,108)
Less: Earned Revenue	(1,849)	(2,181)
Net Program Costs	(18,050)	(5,289)
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	(18,050)	(5,289)
Government National Mortgage Association		
Gross Cost (Note 22)	(234)	(38)
Less: Earned Revenue	(1,555)	(1,558)
Net Program Costs	(1,789)	(1,596)
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	(1,789)	(1,596)
Section 8 Rental Assistance		
Gross Cost (Note 22)	29,482	28,772
Less: Earned Revenue	-	-
Net Program Costs	29,482	28,772
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	29,482	28,772
Public and Indian Housing Loans and Grants		
Gross Cost (Note 22)	2,835	2,995
Less: Earned Revenue	-	-
Net Program Costs	2,835	2,995
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	2,835	2,995
Homeless Assistance Grants		
Gross Cost (Note 22)	1,894	1,881
Less: Earned Revenue	(4)	-
Net Program Costs	1,890	1,881
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	1,890	1,881
Housing for the Elderly and Disabled		
Gross Cost (Note 22)	1,037	1,196
Less: Earned Revenue	(136)	(177)
Net Program Costs	901	1,019
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	901	1,019
Community Development Block Grants		
Gross Cost (Note 22)	7,567	5,905
Less: Earned Revenue	-	(1)
Net Program Costs	7,567	5,904
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	7,567	5,904
HOME		
Gross Cost (Note 22)	1,241	1,064
Less: Earned Revenue	-	-
Net Program Costs	1,241	1,064
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	1,241	1,064
Other		
Gross Cost (Note 22)	6,071	6,503
Less: Earned Revenue	(29)	(39)
Net Program Costs	6,042	6,464
Gain/Loss from Assumption Changes (Note 15)	-	-
Net Program Costs including Assumption Changes	6,042	6,464
Costs Not Assigned to Programs	218	218
Earned Revenue Not Attributed to Programs	-	-
Consolidated		
Gross Cost (Note 22)	33,910	45,388
Less: Earned Revenue	(3,573)	(3,956)
NET COST OF OPERATIONS	**$ 30,337**	**$ 41,432**

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 Periods Ending September 30, 2015, and 2014
(Dollars in Millions)

	2015			(Restated) 2014		
	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	$ 19,622	$ 4,063	$ 23,685	$ 18,151	$ 426	$ 18,577
Adjustments:						
Corrections of Errors	(3)	-	(3)	(145)	(99)	(244)
Beginning Balances, As Adjusted	19,619	4,063	23,682	18,006	327	18,333
BUDGETARY FINANCING SOURCES:						
Appropriations Used	82	52,911	52,993	28	49,341	49,368
Non-exchange Revenue	3	-	3	1	-	1
Transfers In/Out Without Reimbursement	-	-	-	1	(1)	-
OTHER FINANCING SOURCES (NON-EXCHANGE):						
Transfers In/Out Without Reimbursement	-	-	-	(5)	5	-
Imputed Financing	-	65	65	1	77	78
Other	-	(4,342)	(4,342)	-	(2,663)	(2,663)
Total Financing Sources	85	48,634	48,719	26	46,759	46,785
Net Cost of Operations	1,713	(32,050)	(30,337)	1,591	(43,023)	(41,432)
Net Change	1,798	16,584	18,382	1,617	3,736	5,353
CUMULATIVE RESULTS OF OPERATIONS	**$ 21,417**	**$ 20,647**	**$ 42,064**	**$ 19,623**	**$ 4,063**	**$ 23,686**
UNEXPENDED APPROPRIATIONS:						
Beginning of Period	$ (222)	$ 56,442	$ 56,220	$ (214)	$ 59,995	$ 59,781
Adjustments:						
Corrections of Errors	-	574	574	19	22	41
Beginning Balances, As Adjusted	(222)	57,016	56,794	(195)	60,017	59,822
BUDGETARY FINANCING SOURCES:						
Appropriations Received	-	47,639	47,639	-	46,103	46,103
Appropriations Transfers In/Out	8	(8)	-	-	-	-
Other Adjustments	(24)	(301)	(325)	(1)	(336)	(338)
Appropriations Used	(82)	(52,911)	(52,993)	(28)	(49,341)	(49,368)
Total Budgetary Financing Sources	(98)	(5,581)	(5,679)	(29)	(3,574)	(3,603)
UNEXPENDED APPROPRIATIONS	**(320)**	**51,435**	**51,115**	**(224)**	**56,443**	**56,219**
NET POSITION	**$ 21,097**	**$ 72,082**	**$ 93,179**	**$ 19,399**	**$ 60,506**	**$ 79,905**

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 Periods Ending September, 2015, and 2014

(Dollars in Millions)

	2015		2014	
	Budgetary	NonBudgetary Credit Program Financing Accounts	Budgetary	NonBudgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated Balance Brought Foward, October	$ 34,729	$ 49,760	$ 28,153	$ 60,416
Unobligated balance brought forward, October 1, adjusted	34,729	49,760	28,153	60,416
Recoveries of prior year unpaid obligations	711	396	643	781
Other changes in unobligated balance	(709)	-	(612)	(8)
Unobligated balance from prior year budget authority, net	34,731	50,156	28,184	61,189
Appropriations (discretionary and mandatory)	47,458	-	45,790	-
Borrowing Authority (discretionary and mandatory)	-	12,146	-	8,769
Spending Authority from offsetting collections	26,158	28,452	14,306	27,683
Total Budgetary Resources	**$ 108,347**	**$ 90,754**	**$ 88,280**	**$ 97,641**
Status of Budgetary Resources:				
Obligations Incurred (Note 31)				
Direct	63,700	49,732	53,280	45,863
Reimbursable	194	5,560	270	2,018
Subtotal	63,894	55,292	53,550	47,881
Unobligated Balances			-	-
Apportioned	12,992	3,612	16,092	13,583
Unapportioned	31,461	31,850	18,638	36,177
Unobligated balance, end of year	44,453	35,462	34,730	49,760
Total Status of Budgetary Resources	**$ 108,347**	**$ 90,754**	**$ 88,280**	**$ 97,641**
Change in Obligated Balance				
Unpaid Obligations:				
Unpaid obligations, brought forward, Oct 1	41,087	2,511	44,234	2,691
Adjustments to unpaid obligations, start of year (+ or -) (Note 28)	-	-	11	-
Obligations Incurred	63,894	55,292	53,550	47,881
Outlays, (gross) (-)	(65,009)	(54,626)	(55,950)	(47,395)
Actual Transfers, unpaid obligations (net) (+ or -)	-	-	(115)	115
Recoveries of prior year unpaid obligations (-)	(711)	(396)	(643)	(781)
Unpaid obligations, end of year (gross)	39,261	2,781	41,087	2,511
Uncollected Payments:				
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	(11)	(53)	(16)	(66)
Change in uncollected customer payments, Fed sources (+ or -)	(6)	-	4	13
Uncollected payments, Fed sources, end of year (-)	(17)	(53)	(12)	(53)
Obligated balance, start of year (+ or -)	**$ 41,075**	**$ 2,458**	**$ 44,227**	**$ 2,626**
Obligated balance, end of year (net)	**$ 39,244**	**$ 2,728**	**$ 41,075**	**$ 2,458**
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	73,614	40,598	60,095	36,453
Actual offsetting collections (discretionary and mandatory) (-)	(26,643)	(41,109)	(14,707)	(34,876)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(6)	-	4	13
Budget Authority, net (discretionary and mandatory)	**$ 46,965**	**$ (511)**	**$ 45,392**	**$ 1,590**
Outlays, gross (discretionary and mandatory)	65,009	54,626	55,950	47,395
Actual offsetting collections (discretionary and mandatory) (-)	(26,640)	(41,109)	(14,707)	(34,876)
Outlays, net (discretionary and mandatory)	38,369	13,517	41,243	12,519
Distributed offsetting receipts	(2,844)	-	(2,719)	-
Agency Outlays, net (discretionary and mandatory)	**$ 35,525**	**$ 13,517**	**$ 38,524**	**$ 12,519**

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

September 30, 2015 and 2014

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) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services. The United States Congress appropriated $17.5 billion in FY 2008 and $150 million in emergency supplemental appropriations in FY 2005 for the “Community Development Fund” for emergency expenses to respond to various disasters such as Hurricane Katrina and IKE. Funds of $3 billion were disbursed as of September 30, 2015. Any remaining un-obligated balances remain available until expended.

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

Other Programs not included above consist of other smaller programs which provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, rehabilitation of housing units, removal of lead hazards, and for maintenance costs of PHAs and TDHEs housing projects. The programs provided 13 percent of HUD’s consolidated revenues and financing sources as of September 30, 2015.

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 2015 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 2015 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 2015 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 unaudited 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 14, 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 believes issuer defaults are probable and FHA, USDA, and PIH insurance or guarantees are insufficient to recoup Ginnie Mae expenditures.

K. Full Cost Reporting

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

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

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

M. Retirement Plans

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

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

CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities applicable to its employees' retirement plans.

N. Fiduciary Funds

Ginnie Mae has immaterial fiduciary activities which involve the collection or receipt and subsequent disposition of cash in which non-Federal entities have an ownership interest. Fiduciary assets are not assets of Ginnie Mae or the Federal Government. The fiduciary assets held by Ginnie Mae include unclaimed MBS Certificate Holders payments and escrow funds held in trust. The amount of escrows reported by Ginnie Mae for FY 2015 and FY 2014 were 89 million and 88 million, respectively.

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, 2015 and 2014 were as follows (dollars in millions):

Description	2015			2014		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury (Note 4)	$ 94,651	$ 40	$ 94,691	$ 121,668	$ 35	$ 121,703
Investments (Note 5)	27,677	-	27,677	6,529	-	6,529
Accounts Receivable, Net (Note 6)	-	-	-	-	-	-
Other Assets (Note 11)	9	-	9	34	-	34
Total Intragovernmental Assets	$ 122,337	$ 40	$ 122,377	$ 128,231	$ 35	$ 128,266
Cash and Other Monetary Assets (Note 4)	-	45	45	-	37	37
Investments (Note 5)	31	-	31	41	-	41
Accounts Receivable, Net (Note 6)	686	94	780	1,845	42	1,887
Loan Receivables and Related Foreclosed Property, Net (Note 7)	14,292	133	14,425	10,829	39	10,868
Other Non-Credit Reform Loans Receivable, Net (Note 8)	3,227	-	3,227	2,809	-	2,809
General Property, Plant and Equipment, Net (Note 9)	329	-	329	308	-	308
PIH Prepayments (Note 10)	672	-	672	423	-	423
Other Assets (Note 11)	8	37	45	7	41	48
Total Assets	**$ 141,582**	**$ 349**	**$ 141,931**	**$ 144,493**	**$ 194**	**$ 144,687**

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, 2015 and 2014 were as follows (dollars in millions):

Description	2015	2014
Revolving Funds	$ 40,170	$ 62,861
Appropriated Funds	53,241	57,780
Trust Funds	14	13
Other	1,266	1,049
Total - Fund Balance	**$ 94,691**	**$ 121,703**

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, 2015 and 2014 were as follows (dollars in millions):

Status of Resources - 2015

Description	Unobligated Available	Unobligated Unavailable	Obligated Not Yet Disbursed	Unfilled Customer Orders	Status of Total Resources	Fund Balance	Other Authority	Total Resources
FHA	$ 3,565	$ 47,154	$ 3,050	$ (15)	$ 53,754	$ 39,057	$ 14,697	$ 53,754
Ginnie Mae	6	14,066	584	-	14,656	1,733	12,923	14,656
Section 8 Rental Assistance	698	92	8,902	-	9,692	9,692	-	9,692
PIH Loans and Grants	113	43	4,711	-	4,867	4,867	-	4,867
Homeless Assistance Grants	2,086	539	2,536	-	5,161	5,161	-	5,161
Section 202/811	253	188	1,964	-	2,405	2,405	-	2,405
CDBG	9,021	8	12,495	-	21,524	21,524	-	21,524
Home	237	27	3,184	-	3,448	3,448	-	3,448
Section 235/236	31	32	951	-	1,014	1,014	-	1,014
All Other	594	1,175	3,665	(56)	5,378	5,366	12	5,378
Total	**$ 16,604**	**$ 63,324**	**$ 42,042**	**$ (71)**	**$ 121,899**	**$ 94,267**	**$ 27,632**	**$ 121,899**

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	$ 3,565	$ 32,457	$ 3,050	$ (15)	39,057	$ -	$ 39,057
Ginnie Mae	6	1,143	584	-	1,733	409	2,142
Section 8 Rental Assistance	698	92	8,902	-	9,692	-	9,692
PIH Loans and Grants	113	43	4,711	-	4,867	-	4,867
Homeless Assistance Grants	2,086	539	2,536	-	5,161	-	5,161
Section 202/811	253	188	1,964	-	2,405	-	2,405
CDBG	9,021	8	12,495	-	21,524	-	21,524
Home	237	27	3,184	-	3,448	-	3,448
Section 235/236	31	32	951	-	1,014	-	1,014
All Other	594	1,163	3,665	(56)	5,366	15	5,381
Total	**$ 16,604**	**$ 35,692**	**$ 42,042**	**$ (71)**	**$ 94,267**	**$ 424**	**$ 94,691**

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	$ -	$ 14,697	$ -	$ -	$ -	$ 14,697	$ -
Ginnie Mae	-	12,923	-	-	-	12,923	-
Section 8 Rental Assistance	-	-	-	-	-	-	-
PIH Loans and Grants	-	-	-	-	-	-	-
Section 202/811	-	-	-	-	-	-	-
Section 235/236	-	-	-	-	-	-	-
All Other	-	12	-	-	-	-	12
Total	**$ -**	**$ 27,632**	**$ -**	**$ -**	**$ -**	**$ 27,620**	**$ 12**

Status of Receipt Account Balances

Description	Fund Balance
FHA	$ -
Ginnie Mae	$ 409
Section 8 Rental Assistance	-
All Other	15
Total	**$ 424**

Breakdown of All Other

Description	Fund Balance
All Other HUD suspense/deposit funds	$ 15
	-
Total	**$ 15**

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	1,108	3,948	(54)	5,559	5,547	12	5,559
Total	**$ 29,675**	**$ 54,826**	**$ 43,599**	**$ (64)**	**$ 128,036**	**$ 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**

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: Cash and Other Monetary Assets

Cash and other monetary assets consist of cash that is received by the Ginnie Mae's Master Subservicers, but has not yet been transmitted to Ginnie Mae. As of September 30, 2015 and 2014, deposits in transit were $45 million and $37 million, respectively.

Note 6: Investments

The U.S. Government securities are non-marketable intra-governmental securities. Interest rates established by the U.S. Treasury as of September 30, 2015 were 0.01 percent. During FY 2014, interest rate was 0.01 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2015 and 2014 were as follows (dollars in millions):

	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
FY 2015	$ 27,654	$ 10	$ 13	$ 27,677	$ 27,687
FY 2014	$ 6,521	$ 1	$ 7	$ 6,529	$ 6,530

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, 2015 and 2014 (dollars in millions):

	Beginning Balance	Net Acquisition	Share of Earnings or Losses	Return of Investment	Redeemed	Ending Balance
2015						
601 Program	$ 41	$ 19	$ -	$ -	$ (29)	$ 31
Risk Sharing Debentures	-	-	-	-	-	-
Total	**$ 41**	**$ 19**	**$ -**	**$ -**	**$ (29)**	**$ 31**
2014						
601 Program	$ 56	$ -	$ -	$ -	$ (15)	$ 41
Risk Sharing Debentures	-	-	-	-	-	-
Total	**$ 56**	**$ -**	**$ -**	**$ -**	**$ (15)**	**$ 41**

Note 7: 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, 2015 and 2014, HUD was due $14 million and $15 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, 2015 and 2014 (dollars in millions):

	2015			2014		
Description	Gross Accounts Receivable	Allowance for Loss	Total, Net	Gross Accounts Receivable	Allowance for Loss	Total, Net
Intragovernmental	$ -	$ -	$ -	$ -	$ -	$ -
Public						
Sustained Audit Costs	$ 158	$ -	$ 158	$ 64	$ -	$ 64
Bond Refundings	13	-	13	15	-	15
Section 8 Settlements	17	-	17	4	1	5
Section 236 Excess Rental Income	5	(1)	4	5	(1)	4
Other Receivables:	-			-		
FHA	453	(322)	131	2,328	(868)	1,460
Ginnie Mae	649	(241)	408	678	(360)	318
Other Receivables	51	(2)	49	24	(3)	21
Total Accounts Receivable	**$ 1,346**	**$ (566)**	**$ 780**	**$ 3,118**	**$ (1,231)**	**$ 1,887**

Note 8: 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 2015 and FY 2014:

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):

	2015				
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	$ -	$ -	$ -	$ -	-
b) GI/SRI Direct Loan Program	14	12	(6)	-	20
Housing for the Elderly and Disabled	1,412	15	(11)	-	1,416
All Other			-		
a) CPD Revolving Fund	5	-	(5)	2	2
b) Flexible Subsidy Fund	428	72	(39)	-	461
Total	**$ 1,859**	**$ 99**	**$ (61)**	**$ 2**	**$ 1,899**

Direct Loan Programs	2014 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**

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

Direct Loan Programs	2015 Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
a) MMI/CHMI Direct Loan Program	$ -	$ -	$ (3)	$ -	(3)
b) GI/SRI Direct Loan Program	103	-	34	-	137
All Other					
a) Green Retrofit Program	$ 63	$ 1	$ (66)	$ -	$ (2)
b) Emergency Homeowners' Loan Program	50	-	(50)	-	-
c) EHLP Receipt Account	133	-	-	-	133
Total	**$ 349**	**$ 1**	**$ (85)**	**$ -**	**$ 265**

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

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

Direct Loan Programs	Current Year	Prior Year
FHA Risk Sharing Program	$ 103	$ -
All Other		
a) Green Retrofit Program	$ -	$ -
b) Emergency Homeowners' Loan Program	-	5
Total	**$ 103**	**$ 5**

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	2015 Interest Differential	Defaults	Fees and Other Collections	Other	Total
FHA Risk Sharing Program	$ (5)	$ -	$ (3)	$ (1)	$ (9)
All Other					
a) Green Retrofit Program	$ -	$ -	$ -	$ -	$ -
b) Emergency Homeowners' Loan Program	-	-	-	-	-
Total	**$ (5)**	**$ -**	**$ (3)**	**$ (1)**	**$ (9)**

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

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

Direct Loan Programs	2015 Total Modification	Interest Rate Re-estimates	Technical Re-stimates	Total Re-estimates
FHA Risk Sharing Program	$ -	$ -	$ -	$ -
All Other				
a) Green Retrofit Program	$ -	$ -	$ -	$ -
b) Emergency Homeowners' Loan Program	-	-	-	-
Total	**$ -**	**$ -**	**$ -**	**$ -**

Direct Loan Programs	2014 Total Modification	Interest Rate Re-estimates	Technical Re-stimates	Total Re-estimates
FHA Risk Sharing Program	$ -	$ -	$ -	$ -
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
FHA Risk Sharing Program	$ (8)	$ -
All Other		
a) Green Retrofit Program	$ -	$ -
b) Emergency Homeowners' Loan Program	-	5
Total	**$ (8)**	**$ 5**

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

Budget Subsidy Rates for Direct Loans

2015					
Direct Loan Programs	**Interest Differential**	**Defaults**	**Fees and Other Collections**	**Other**	**Total**
FHA Risk Sharing Program	(6.1%)	0.5%	(3.9%)	(1.3%)	(10.8%)
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%

2014					
Direct Loan Programs	**Interest Differential**	**Defaults**	**Fees and Other Collections**	**Other**	**Total**
FHA Risk Sharing Program	0.0%	0.0%	0.0%	0.0%	0.0%
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 2015	FY 2014
Beginning balance of the subsidy cost allowance	$ 152	$ 151
Add: subsidy expense for direct loans disbursed during the reporting years by component:	-	-
a) Interest rate differential costs	(5)	-
b) Default costs (net of recoveries)	-	-
c) Fees and other collections	(3)	-
d) Other subsidy costs	(1)	5
Total of the above subsidy expense components	(9)	5
Adjustments:		
a) Loan modifications	-	-
b) Fees received	-	-
c) Foreclosed properties acquired	-	-
d) Loans written off	(31)	(5)
e) Subsidy allowance amortization	1	1
f) Other	(4)	-
Ending balance of the subsidy cost allowance before re-estimates	109	152
Add or subtract subsidy re-estimates by component:		
a) Interest rate re-estimate	-	(5)
b) Technical/default re-estimate	(24)	-
Total of the above re-estimate components	(24)	(5)
Ending balance of the subsidy cost allowance	**$ 85**	**$ 147**

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

2015	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					
MMI/CMHI					
a) Single Family	$ 22	$ -	$ (7)	$ 7	$ 22
b) Multi Family	-	-	-	-	-
c) HECM	-	-	-	-	-
GI/SRI					
a) Single Family	$ -	$ -	$ (4)	$ 9	$ 5
b) Multi Family	1,946	234	(808)	1	1,373
c) HECM	4	2	(5)	(2)	(1)
Total	**$ 1,972**	**$ 236**	**$ (824)**	**$ 15**	**$ 1,399**

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					
MMI/CMHI					
a) Single Family	$ 21	$ -	$ (9)	$ 11	$ 23
b) Multi Family	-	-	-	-	-
c) HECM	-	-	-	-	-
GI/SRI					
a) Single Family	$ -	$ -	$ (4)	$ 9	$ 5
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**

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

2015

	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					
MMI/CMHI					
a) Single Family	$ 8,805	$ -	$ (7,050)	$ 3,131	$ 4,886
b) Multi Family	-	-	-	-	-
c) HECM	2,182	992	(1,008)	11	2,177
GI/SRI					
a) Single Family	$ 292	$ 1	$ (233)	$ 94	$ 154
b) Multi Family	655	-	(272)	1	384
c) HECM	3,107	1,517	(1,495)	101	3,230
All Other	-	-	-	-	-
a) Indian Housing Loan Guarantee	-	-	-	31	31
b) Native Hawaiian Housing Loan Guarantee	-	-	-	(1)	(1)
Total	**$ 15,041**	**$ 2,510**	**$ (10,058)**	**$ 3,368**	**$ 10,861**

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					
MMI/CMHI					
a) Single Family	$ 5,247	$ -	$ (4,193)	$ 2,437	$ 3,491
b) Multi Family	-	-	-	-	-
c) HECM	996	371	(598)	5	774
GI/SRI					
a) Single Family	$ 176	$ 1	$ (139)	$ 73	$ 111
b) Multi Family	818	-	(319)	1	500
c) HECM	2,510	1,192	(1,648)	80	2,134
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**

	2015	**2014**
Total Credit Program Receivables and Related Foreclosed Property, Net	$14,425	$10,868

J. Guaranteed Loans Outstanding (dollars in millions):

J1. Guaranteed Loans Outstanding (dollars in millions):

Loan Guarantee Programs	2015 Outstanding Principal, Guaranteed Loans, Face Value	2015 Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 1,168,560	$ 1,065,896
b) GI/SRI Funds	123,399	112,063
c) H4H Progam	98	92
All Other	7,321	7,317
Total	**$ 1,299,378**	**$ 1,185,368**

Loan Guarantee Programs	2014 Outstanding Principal, Guaranteed Loans, Face Value	2014 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**

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

Loan Guarantee Programs	2015 Current Year Endorsements	Cumulative Current Outstanding Balance	Cumulative Maximun Potential Liability
FHA Programs	$ 15,890	$ 105,471	$ 149,645

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

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

Loan Guarantee Programs	2015 Outstanding Principal, Guaranteed Loans, Face Value	2015 Amount of Outstanding Principal Guaranteed
FHA Programs		
a) MMI/CMHI Funds	$ 213,125	$ 211,322
b) GI/SRI Funds	11,366	11,311
c) H4H Program	-	-
All Other	1,008	1,008
Total	**$ 225,499**	**$ 223,641**

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**

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

Loan Guarantee Programs	2015 Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	2015 Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	2015 Total Liabilities For Loan Guarantees
FHA Programs	$ 7	$ 13,998	$ 14,005
All Other	-	289	289
Total	**$ 7**	**$ 14,287**	**$ 14,294**

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**

L. Subsidy Expense for Post-1991 Guarantees:

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

Loan Guarantee Programs	2015 Endorsement Amount	Default Component	Fees Component	Other Component	Subsidy Amount
FHA					
a) MMI/CMHI Funds, Excluding HECM	$ 213,125	$ 5,684	$ (18,706)	$ -	$ (13,022)
b) MMI/CMHI Funds, HECM	15,890	991	(1,055)	-	(64)
c) GI/SRI Funds	11,366	191	(703)	-	(512)
d) H4H Program	-	-	-	-	-
All Other	-	8	-	-	8
Total	**$ 240,381**	**$ 6,874**	**$ (20,464)**	**$ -**	**$ (13,590)**

Loan Guarantee Programs	2014 Endorsement Amount	Default Component	Fees Component	Other Component	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. Modification and Re-estimates (dollars in millions):

Loan Guarantee Programs	2015 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
FHA				
a) MMI/CMHI Funds	$ -	$ -	$ (2,248)	$ (2,248)
b) GI/SRI Funds	-	-	(1,088)	(1,088)
All Other	-	-	(12)	(12)
Total	**$ -**	**$ -**	**$ (3,348)**	**$ (3,348)**

Loan Guarantee Programs	2014 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**

L3. Total Loan Guarantee Subsidy Expense (dollars in millions):

Loan Guarantee Programs	Current Year	Prior Year
FHA		
a) MMI/CMHI Funds	$ (15,333)	$ (6,470)
b) GI/SRI Funds	(1,600)	(64)
c) H4H Program	-	-
All Other	$ (5)	$ 101
Total	**$ (16,938)**	**$ (6,433)**

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

Budget Subsidy Rates for Loan Guarantees for FY 2015 Cohorts

Loan Guarantee Program	Default	Fees and Other Collections	Total
FHA Programs			
MMI/CMHI			
Single Family - Forward	2.7%	(10.5%)	(7.8%)
Single Family - HECM	6.2%	(6.6%)	(0.4%)
Single Family - Refinancing	10.1%	(10.1%)	0.0%
Multi Family - Section 213	0.0%	0.0%	0.0%
GI/SRI			
Multifamily			
Section 221(d)(4)	2.5%	(6.2%)	(3.7%)
Section 207/223(f)	0.3%	(5.0%)	(4.7%)
Section 223(a)(7)	0.3%	(5.0%)	(4.7%)
Section 232	3.8%	(8.0%)	(4.2%)
Section 242	2.6%	(7.1%)	(4.5%)
H4H			
Single Family - Section 257	0.0%	0.0%	0.0%
All Other Programs			
CDBG, Section 108(b)	2.4%	0.0%	2.4%
Loan Guarantee Recovery	50.0%	0.0%	50.0%
Indian Housing (weighted average)	1.3%	0.0%	1.3%
Native Hawaiian Housing	0.6%	0.0%	0.6%
Title VI Indian Housing	11.2%	0.0%	11.2%

Budget Subsidy Rates for Loan Guarantees for FY 2014 Cohorts

Loan Guarantee Program	Default	Fees and Other Collections	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%
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%	0.0%	2.6%
Loan Guarantee Recovery	50.0%	0.0%	50.0%
Indian Housing (weighted average)	0.5%	0.0%	0.5%
Native Hawaiian Housing	0.1%	0.0%	0.1%
Title VI Indian Housing	12.1%	0.0%	12.1%

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

Beginning Balance, Changes, and Ending Balance	2015	2014
Beginning balance of the loan guarantee liability	$ 33,024	$ 41,638
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	-	-
(b) Default costs (net of recoveries)	6,875	5,101
(c) Fees and other collections	(20,465)	(15,552)
(d) Othe subsidy costs	-	-
Total of the above subsidy expense components	$ (13,590)	$ (10,451)
Adjustments:		
(a) Loan guarantee modifications	-	-
(b) Fees Received	13,288	12,233
(c) Interest supplemental paid	-	-
(d) Foreclosed property and loans acquired	13,564	11,871
(e) Claim payments to lenders	(26,642)	(27,960)
(f) Interest accumulation on the liability balance	580	1,165
(g) Other	1,089	524
Ending balance of the subsidy cost allowance before re-estimates	$ 21,313	$ 29,020
Add or Subtract subsidy re-estimates by component:		
(a) Interest rate re-estimate	-	-
(b) Technical/default re-estimate	(3,876)	5,387
(c) Adjustment of prior years credit subsidy re-estimates	(1,032)	(658)
Total of the above re-estimate components	(4,908)	4,729
Ending balance of the subsidy cost allowance	**$ 16,405**	**$ 33,749**
Less: unrealized Ginnie Mae claims from defaulted loans	$ (2,098)	$ (1,970)
Ending balance of the subsidy cost allowance	**$ 14,307**	**$ 31,779**

O. Administrative Expenses (dollars in millions):

Loan Guarantee Program	2015	2014
FHA	$ 557	$ 576
All Other	-	-
Total	**$ 557**	**$ 576**

Note 9: Other Non-Credit Reform Loans

The following shows HUD's Other Non-Credit Reform Loans Receivable as of September 30, 2015 and 2014 (dollars in millions):

	2015		
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	$ 4,362	$ (1,334)	$ 3,028
Advances Against Defaulted Mortgage-Backed Security Pools, net	119	-	119
Properties Held for Sale, net	30	-	30
Foreclosed Property	769	(719)	50
Short Sale Claims Receivable	45	(45)	-
Total	**$ 5,325**	**$ (2,098)**	**$ 3,227**

	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	$ 4,113	$ (1,747)	$ 2,366
Advances Against Defaulted Mortgage-Backed Security Pools, net	81	-	81
Properties Held for Sale, net	13	-	13
Foreclosed Property	555	(204)	351
Short Sale Claims Receivable	17	(19)	(2)
Total	**$ 4,779**	**$ (1,970)**	**$ 2,809**

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)

Ginnie Mae has the option to purchase mortgage loans out of the MBS pool when:

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.

For the years ended September 30, 2015 and 2014, the majority of purchased mortgage loans were bought out of the pool due to borrower delinquency of more than three months.

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 HFI. The mortgage loans HFI are reported net of allowance for loan losses.

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 if 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.

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. As a part of this assessment, Ginnie Mae incorporates the probable recovery amount from mortgage insurance (e.g., FHA, USDA, VA, or PIH) based on established insurance rates. Additionally, Ginnie Mae reviews the delinquency of mortgage loans, industry benchmarks, as well as the established rates of insurance recoveries from insurers. Ginnie Mae records an allowance for the estimated uncollectible amount. 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.

The fair value option was not elected by Ginnie Mae for any recognized loans on its balance sheet in 2015 and 2014. The fair value option allows certain financial assets, such as acquired loans, to be reported at fair value (with unrealized gains and losses reported in the Statement of Revenues and Expenses). Ginnie Mae reserves the right to elect the fair value option for newly acquired loans in future periods. As the fair value option was not elected and Ginnie Mae has the ability and the intent to hold these acquired loans for the foreseeable future or until maturity, the mortgage loans were classified as loans HFI and reported at amortized cost (net of allowance for loan losses).

Management is currently pursuing marketing activities to potentially sell loans currently recognized on Ginnie Mae's balance sheet. Once a plan of sale is developed and loans are clearly identified for sale, Ginnie Mae will reclassify the applicable loans from HFI to HFS (held for sale). For loans which Ginnie Mae initially classifies as held for investment and subsequently transfers to HFS, those loans should be recognized at the lower of cost or fair value until sold. As of the year ended September 30, 2015 and 2014, Ginnie Mae has no loans classified as HFS.

Please note that management is currently assessing current and historic loan accounting for potential restatement.

Mortgage loans HFI, net as of September 30, 2015 and 2014, was $4,362 million and $4,113 million, 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. Management is currently addressing current and historic accounting practices for potential restatement. The advances against defaulted MBS pools balance is $119 million in FY 2015 and $81 million in FY 2014.

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, they are to be recorded at the fair value of the asset less the estimated cost to sell with subsequent declines in the fair value below the initial acquired property cost basis recorded through the use of a valuation allowance. The Properties Held for Sale balance is one of the line items for which Ginnie Mae Management is currently performing an assessment related to the recognition and measurement as compared to US GAAP requirements. Currently, Ginnie Mae does not have access to broker price opinions or other fair value data for acquired properties. A further assessment of data availability is currently being performed. Properties Held for Sale, net, as of September 30, 2015 and 2014 was $30 and $13 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. Management is currently addressing current and historic accounting practices for potential restatement. Foreclosed Property, net as of September 30, 2015, was $769 million, and, net as of September 30, 2014, was $555 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. Management is currently addressing current and historic accounting practices for potential restatement. Short Sale Claims Receivable, net as of September 30, 2015 and 2014 was $45 and $17 million, respectively.

Note 10: 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, 2015 and September 30, 2014 (dollars in millions):

Description	2015 Cost	2015 Accumulated Depreciation and Amortization	2015 Book Value	2014 Cost	2014 Accumulated Depreciation and Amortization	2014 Book Value
Equipment	$ 7	$ -	$ 7	$ 7	$ -	$ 7
Leasehold Improvements	-	-	-	-	-	-
Internal Use Software	186	(152)	34	176	(137)	39
Internal Use Software in Development	288	-	288	262	-	262
Total	**$ 481**	**$ (152)**	**$ 329**	**$ 445**	**$ (137)**	**$ 308**

Note 11: 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. PIH has estimated NRA balances of $205 million and $467 million for FY 2015 related to the Housing Choice Voucher and Moving to Work Programs. The amount of advances reported by the Department in its comparative financial statements does not include advances to grantees participating in the Indian Block Grant Program which allows investment authority for up to five years. Although the Department does not agree with the OIG's recommendation that expenditures be reclassified as advances, the OIG reported that 43 grantees invested approximately $273 million and $218 million as of September 30, 2015 and September 30, 2014, respectively.

Note 12: Other Assets

The following shows HUD's Other Assets as of September 30, 2015 and 2014 (dollars in millions):

Description	2015 FHA	2015 Ginnie Mae	2015 Section 8	2015 All Other	2015 Total
Intragovernmental Assets:					
Other Assets	$ 1	$ -	$ 4	$ 4	$ 9
Total Intragovernmental Assets	**1**	**-**	**4**	**4**	**9**
Mortgagor Reserves for Replacement - Cash	$ 37	$ -	$ -	$ -	$ 37
Other Assets	8	-	-	-	8
Total	**$ 46**	**$ -**	**$ 4**	**$ 4**	**$ 54**

Description	FHA	Ginnie Mae	Section 8	All Other	Total
	2014				
Intragovernmental Assets:					
Other Assets	$ 1	$ -	$ 2	$ 31	$ 34
Total Intragovernmental Assets	1	-	2	31	34
Mortgagor Reserves for Replacement - Cash	$ 41	$ -	$ -	$ -	$ 41
Other Assets	6	-	-	1	7
Total	**$ 48**	**$ -**	**$ 2**	**$ 32**	**$ 82**

Note 13: Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2015 and 2014 (dollars in millions):

Description	2015 Covered	2015 Not-Covered	2015 Total	2014 Covered	2014 Not-Covered	2014 Total
Intragovernmental						
Accounts Payable	$ 15	$ -	$ 15	$ 16	$ -	$ 16
Debt	27,150	-	27,150	27,661	-	27,661
Other Intragovernmental Liabilities	2,594	16	2,610	1,785	16	1,801
Total Intragovernmental Liabilities	$ 29,759	$ 16	$ 29,775	$ 29,462	$ 16	$ 29,478
Accounts Payable	966	-	966	864	-	864
Accrued Grant Liabilities	2,388	-	2,388	1,501	-	1,501
Liabilities for Loan Guarantees	14,307	-	14,307	31,779	-	31,779
Debt	8	-	8	8	-	8
Federal Employee and Veterans' Benefits	-	69	69	-	74	74
Loss Liability	-	-	-	-	-	-
Other Liabilities	1,105	134	1,239	998	80	1,078
Total Liabilities	**$ 48,533**	**$ 219**	**$ 48,752**	**$ 64,612**	**$ 170**	**$ 64,782**

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 14: 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, 2015 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Federal Financing Bank	$ -	$ 122	$ 122
Debt to the U.S. Treasury	27,661	(633)	27,028
Held by the Public	9	(1)	8
Total	$ 27,670	$ (512)	$ 27,158
Classification of Debt:			
Intragovernmental Debt			$ 27,150
Debt held by the Public			8
Total			**$ 27,158**

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 Federal Financing Bank	$ -	$ -	$ -
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**

Interest paid on borrowings as of September 30, 2015 and 2014 was $1,191 million and $963 million, respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings from the U.S. Treasury

In FY 2015 and FY 2014, FHA borrowed $27,023 million and $27,528 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 1.02 percent to 7.59 percent during FY 2015.

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 15: 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 2015, HUD recorded imputed costs of $65 million which consisted of $27 million for pension and $38 million for 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. 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 $69 million as of September 30, 2015, and $74 million as of September 30, 2014. Future payments on this liability are to be funded by future financing sources.

In addition to the imputed costs of $65 million noted above, HUD recorded benefit expenses totaling $179 million for FY 2015 and $170 million for FY 2014.

Note 16: MBS Loss Liability

Liability for loss on MBS program guaranty (MBS loss liability) represents the loss contingency that arises from the guaranty obligation that Ginnie Mae has to the MBS holders as a result of a probable issuer default. The issuers have the obligation to make timely principal and interest payments to investors, however, in the event whereby the issuer defaults, Ginnie Mae steps in and continues to make the contractual payments to investors. The contingent aspect of the guarantee is measured under ASC Subtopic 450-20, *Contingencies – Loss Contingencies*.

Ginnie Mae's Office of Enterprise Risk (ERO) utilizes CorporateWatch to assist in the analysis of potential defaults. CorporateWatch assigns each issuer an internal risk grade using an internally developed proprietary risk-rating methodology. The objective of the methodology is to identify those Ginnie Mae issuers that display an elevated likelihood of default relative to their peers. To this end, the methodology assigns each active Issuer a risk grade ranging from 1-8, with 1 representing a low probability of default and 8 representing an elevated probability of default. A higher probability of default would arise from an observed weakness in an entity's financial health. Those Issuers with an elevated probability of default are assigned an internal risk grade of 7 or 8 and are automatically included in Risk Category I of the Watch List. ERO prepares written financial reviews on all Issuers appearing in Risk Category I of Watch List to assess the level of on-going monitoring needed to ensure that these Issuers remain viable Ginnie Mae counterparties or to take other mitigation actions.

Note 17: Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2015 (dollars in millions):

Description	Non-Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ -	$ 2,351	$ 2,351
Unfunded FECA Liability	16	-	16
Employer Contributions and Payroll Taxes	-	5	5
Miscellaneous Receipts Payable to Treasury	-	228	228
Advances to Federal Agencies	-	10	10
Total Intragovernmental Liabilities	$ 16	$ 2,594	$ 2,610
Other Liabilities			
FHA Other Liabilities	$ -	$ 412	$ 412
FHA Escrow Funds Related to Mortgage Notes	-	314	314
Ginnie Mae Deferred Income	273	34	307
Deferred Credits	-	18	18
Deposit Funds	-	13	13
Accrued Unfunded Annual Leave	79	-	79
Accrued Funded Payroll Benefits	-	32	32
Contingent Liability	55	-	55
Other	7	2	9
Total Other Liabilities	**$ 430**	**$ 3,419**	**$ 3,849**

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	-	4	4
Miscellaneous Receipts Payable to Treasury	-	82	82
Advances to Federal Agencies	-	10	10
Total Intragovernmental Liabilities	$ 1,705	$ 96	$ 1,801
Other Liabilities			
FHA Other Liabilities	$ 323	$ -	$ 323
FHA Escrow Funds Related to Mortgage Notes	307	-	307
Ginnie Mae Deferred Income	267	22	289
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	**$ 2,682**	**$ 197**	**$ 2,879**

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 18: 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, 2015 and 2014 was $1,292 billion and $1,291 billion, respectively. The amount of outstanding principal guaranteed (insurance-in-force) as of September 30, 2015 and 2014 was $1,178 billion and $1,186 billion, respectively, as disclosed in Note 8J. The maximum claim amount (MCA) outstanding for FHA's reverse mortgage insurance program (HECM) as of September 30, 2015 and 2014 was $150 billion and $150 billion, respectively. As of September 30, 2015 and 2014, the insurance-in-force (the outstanding balance of active loans) was $105 billion and $106 billion, respectively, as disclosed in Note 8J. 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, 2015 and 2014 was approximately $1,609 billion and $1,526 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, 2015 and 2014 were $129 billion and $98 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 2015 and FY 2014, Ginnie Mae issued a total of $93 billion and $114 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, 2015 and 2014 were $473 billion and $487 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, 2015 and 2014 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 19: 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 $5.2 million or more. In the opinion of management and general counsel, the ultimate resolution of these legal actions will not have an effect on the Department's consolidated financial statements as of September 30, 2015. As a result, no contingent liability has been recorded.

HUD is party to a number of claims and tort actions related to lawsuits brought against it concerning the implementation or operation of its various programs. The potential loss related to an ongoing case related be HUD's assisted housing programs is probable at this time and as a result, the Department has recorded a contingent liability of $55 million 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 20: 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 2015, Ginnie Mae was authorized to use $23 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, 2015 (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	$ 2,142	$ 8	$ 380	$ 14	$ 42	$ -	$ -	$ 2,586
Cash and Other Monetary Assets	45	-	-	-	-	-	-	45
Investments	12,923	-	-	-	-	-	-	12,923
Accounts Receivable	131	4	-	-	18	-	-	153
Loans Receivable	-	-	461	-	(2)	-	-	459
Other Non-Credit Reform Loans Receivable	5,325	-	-	-	-	-	-	5,325
General Property, Plant and Equipment	58	-	-	-	-	-	-	58
Other	-	-	-	-	-	-	-	-
Total Assets	**$ 20,624**	**$ 12**	**$ 841**	**$ 14**	**$ 58**	**$ -**	**$ -**	**$ 21,549**
Debt - Intragovernmental	$ -	$ -	$ -	$ -	$ 3	$ -	$ -	$ 3
Accounts Payable - Intragovernmental		-	-	-	-	-	-	-
Accounts Payable - Public	135	-	-	-	-	-	-	135
Loan Guarantees	-	-	-	-	-	-	-	-
Loss Liability	-	-	-	-	-	-	-	-
Other Liabilities - Intragovernmental	-	-	-	-	-	-	-	-
Other Liabilities - Public	314	-	-	-	-	-	-	314
Total Liabilities	$ 449	$ -	$ -	$ -	$ 3	$ -	$ -	$ 452
Unexpended Appropriations	$ 1	$ -	$ (376)	$ -	$ 55	$ -	$ -	$ (320)
Cumulative Results of Operations	20,174	12	1,217	14	-	-	-	21,417
Total Net Position	$ 20,175	$ 12	$ 841	$ 14	$ 55	$ -	$ -	$ 21,097
Total Liabilities and Net Position	**$ 20,624**	**$ 12**	**$ 841**	**$ 14**	**$ 58**	**$ -**	**$ -**	**$ 21,549**
Statement of Net Cost For the Period Ended								
Gross Costs	$ (234)	$ (3)	$ 3	$ 9	$ 79	$ -	$ -	$ (146)
Less Earned Revenues	(1,551)	(2)	(3)	(11)	-	-	-	(1,567)
Net Costs	**$ (1,785)**	**$ (5)**	**$ -**	**$ (2)**	**$ 79**	**$ -**	**$ -**	**$ (1,713)**
Statement of Changes in Net Position for the Period Ended								
Net Position Beginning of Period	$ 18,390	$ 10	$ 838	$ 12	$ 157	$ -	$ -	$ 19,407
Correction of Errors	-	(3)	-	-	-	-	-	(3)
Appropriations Received	-	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement	-	-	-	-	-	-	-	-
Imputed Costs	1	-	-	-	-	-	-	1
Donations and Forfeitures of Cash & Cash Equivalen	-	-	-	-	-	-	-	-
Penalties, Fines, and Administrative Fees Revenue	-	-	3	-	-	-	-	3
Other Adjustments	(1)	-	-	-	(23)	-	-	(24)
Net Cost of Operations	1,785	5	-	2	(79)	-	-	1,713
Change in Net Position	$ 1,785	$ 5	$ 3	$ 2	$ (102)	$ -	$ -	$ 1,693
Net Position End of Period	**$ 20,175**	**$ 12**	**$ 841**	**$ 14**	**$ 55**	**$ -**	**$ -**	**$ 21,097**

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	$ 13,471	$ 6	$ 337	$ 12	$ 134	$ -	$ -	$ 13,960
Cash and Other Monetary Assets	37	-	-	-	-	-	-	37
Investments	151	-	-	-	-	-	-	151
Accounts Receivable	320	4	-	-	21	-	(2)	343
Loans Receivable	-	-	501	-	6	-	-	507
Other Non-Credit Reform Loans Receivable	4,779	-	-	-	-	-	-	4,779
General Property, Plant and Equipment	42	-	-	-	-	-	-	42
Other	-	-	-	-	-	-	-	-
Total Assets	**$ 18,800**	**$ 10**	**$ 838**	**$ 12**	**$ 161**	**$ -**	**$ (2)**	**$ 19,819**
Debt - Intragovernmental	$ -	$ -	$ -	$ -	$ 9	$ -	$ -	$ 9
Accounts Payable - Intragovernmental		-	-	-	-	-	(2)	(2)
Accounts Payable - Public	108	-	-	-	-	-	-	108
Loan Guarantees	-	-	-	-	-	-	-	-
Loss Liability	-	-	-	-	-	-	-	-
Other Liabilities - Intragovernmental	-	-	-	-	-	-	-	-
Other Liabilities - Public	305	-	-	-	-	-	-	305
Total Liabilities	$ 413	$ -	$ -	$ -	$ 9	$ -	$ (2)	$ 420
Unexpended Appropriations	$ 1	$ -	$ (377)	$ -	$ 152	$ -	$ -	$ (224)
Cumulative Results of Operations	18,386	10	1,215	12	-	-	-	19,623
Total Net Position	$ 18,387	$ 10	$ 838	$ 12	$ 152	$ -	$ -	$ 19,399
Total Liabilities and Net Position	**$ 18,800**	**$ 10**	**$ 838**	**$ 12**	**$ 161**	**$ -**	**$ (2)**	**$ 19,819**
Statement of Net Cost For the Period Ended								
Gross Costs	$ (38)	$ -	$ (14)	$ 9	$ 23	$ 3	$ -	$ (17)
Less Earned Revenues	(1,559)	(2)	(6)	(5)	(1)	(1)	-	(1,574)
Net Costs	**$ (1,597)**	**$ (2)**	**$ (20)**	**$ 4**	**$ 22**	**$ 2**	**$ -**	**$ (1,591)**
Statement of Changes in Net Position for the Period Ended								
Net Position Beginning of Period	$ 16,935	$ 8	$ 817	$ 15	$ 160	$ 2	$ -	$ 17,937
Correction of Errors	(145)	-	-	-	19	-	-	(126)
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	1,597	2	20	(4)	(22)	(2)	-	1,591
Change in Net Position	$ 1,452	$ 2	$ 21	$ (3)	$ (8)	$ (2)	$ -	$ 1,588
Net Position End of Period	**$ 18,387**	**$ 10**	**$ 838**	**$ 12**	**$ 152**	**$ -**	**$ -**	**$ 19,399**

Note 21: 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):

2015	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	$ 1,207	$ 4	$ 70	$ 37	$ 13	$ 47	$ 20	$ 8	$ 316	$ -	$ 1,722
Public Costs	(17,408)	(238)	29,412	2,798	1,881	990	7,547	1,233	5,755	-	31,970
Subtotal Costs	$ (16,201)	$ (234)	$ 29,482	$ 2,835	$ 1,894	$ 1,037	$ 7,567	$ 1,241	$ 6,071	$ -	$ 33,692
Unassigned Costs									$218		$218
Total Costs											$ 33,910
Intragovernmental Earned Revenue	$ (1,791)	$ (128)	$ -	$ -	$ (4)	$ -	$ -	$ -	$ (12)	$ -	$ (1,935)
Public Earned Revenue	(58)	(1,427)	-	-	-	(136)	-	-	(17)	-	(1,638)
Total Earned Revenue	(1,849)	(1,555)	-	-	(4)	(136)	-	-	(29)	-	(3,573)
Net Cost of Operations	**$ (18,050)**	**$ (1,789)**	**$ 29,482**	**$ 2,835**	**$ 1,890**	**$ 901**	**$ 7,567**	**$ 1,241**	**$ 6,260**	**$ -**	**$ 30,337**

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)	(41)	28,707	2,961	1,870	1,149	5,890	1,055	6,195	-	43,698
Subtotal Costs	$ (3,108)	$ (38)	$ 28,772	$ 2,995	$ 1,881	$ 1,196	$ 5,905	$ 1,064	$ 6,503	$ -	$ 45,170
Unassigned Costs									$218		$218
Total Costs											$ 45,388
Intragovernmental Earned Revenue	$ (2,119)	$ (153)	$ -	$ -	$ -	$ -	$ (1)	$ -	$ (25)	$ -	$ (2,298)
Public Earned Revenue	(62)	(1,405)	-	-	-	(177)	-	-	(14)	-	(1,658)
Total Earned Revenue	(2,181)	(1,558)	-	-	-	(177)	(1)	-	(39)	-	(3,956)
Net Cost of Operations	**$ (5,289)**	**$ (1,596)**	**$ 28,772**	**$ 2,995**	**$ 1,881**	**$ 1,019**	**$ 5,904**	**$ 1,064**	**$ 6,682**	**$ -**	**$ 41,432**

Note 22: 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 2015 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
Intragovernmental:			
Commerce and Housing Credit	$ 1,212	$ (1,920)	$ (708)
Community and Regional Development	86	-	86
Income Security	424	(15)	409
Other Multiple Functions	-	-	-
Financial Statement Eliminations	$ (1)	$ (1)	$ (2)
Total Intragovernmental	1,721	(1,936)	(215)
With the Public:			
Commerce and Housing Credit	$ (17,733)	$ (1,629)	$ (19,362)
Community and Regional Development	7,659	-	7,659
Income Security	41,676	(7)	41,669
Administration of Justice	61	-	61
Other Multiple Functions	307	-	307
Total with the Public	$ 31,970	$ (1,636)	$ 30,334
Not Assigned to Programs:			
Income Security	218	-	218
Total with the Public	$ 218	$ -	$ 218
TOTAL:			
Commerce and Housing Credit	$ (16,521)	$ (3,549)	$ (20,070)
Community and Regional Development	7,745	-	7,745
Income Security	42,318	(22)	42,296
Administration of Justice	61	-	61
Other Multiple Functions	307	-	307
Financial Statement Eliminations	(1)	(1)	(2)
TOTAL:	**$ 33,909**	**$ (3,572)**	**$ 30,337**

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	$ (4,021)	$ (1,635)	$ (5,656)
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	$ 43,696	$ (1,658)	$ 42,038
Not Assigned to Programs:			
Income Security	218	-	218
Total with the Public	$ 218	$ -	$ 218
TOTAL:			
Commerce and Housing Credit	$ (3,038)	$ (3,907)	$ (6,945)
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:	**$ 45,388**	**$ (3,956)**	**$ 41,432**

Note 23: 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 2015 (dollars in millions):

Programs	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Total
FHA	$ (11,732)	$ (2,708)	$ (722)	$ (2,888)	$ -	$ (18,050)
Ginnie Mae	(1,342)	(447)	-	-	-	(1,789)
Section 8 Rental Assistance	-	24,109	192	5,181	-	29,482
Low Rent Public Housing Loans and Grants	396	2,080	71	288	-	2,835
Homeless Assistance Grants	-	1,323	567	-	-	1,890
Housing for the Elderly and Disabled	-	561	79	261	-	901
Community Development Block Grants	1,513	379	1,135	4,540	-	7,567
HOME	335	670	-	236	-	1,241
All Other Programs	206	3,793	769	1,242	32	6,042
Total	(10,624)	29,760	2,091	8,860	32	30,119
Costs Not Assigned To Programs						$ 218
Total						30,337

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	(1,197)	(399)	-	-	-	(1,596)
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	296	-	1,019
Community Development Block Grants	1,181	295	885	3,543	-	5,904
HOME	287	575	-	202	-	1,064
All Other Programs	308	3,901	797	1,428	30	6,464
Total	(2,441)	31,256	2,386	9,983	30	41,214
Costs Not Assigned To Programs						$ 218
Total						41,432

Note 24: 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 cross-cutting of HUD's major program areas that incur costs that cross multiple program areas for FY 2015 (dollars in millions):

HUD's Cross-Cutting Programs	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
Section 8					
Intragovernmental Gross Costs	$ 37	$ 32	$ -	$ -	$ 69
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ 37	$ 32	$ -	$ -	$ 69
Gross Costs with the Public	$ 19,053	$ 10,281	$ 80	$ (2)	$ 29,412
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 19,053	$ 10,281	$ 80	$ (2)	29,412
Net Program Costs	**$ 19,090**	**$ 10,313**	**$ 80**	**$ (2)**	**$ 29,481**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$ -	$ -	$ -	$ 13	$ 13
Intragovernmental Earned Revenues	-	-	(4)	-	(4)
Intragovernmental Net Costs	$ -	$ -	$ (4)	$ 13	$ 9
Gross Costs with the Public	$ -	$ -	$ 1,850	$ 31	$ 1,881
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ -	$ -	$ 1,850	$ 31	$ 1,881
Net Program Costs	**$ -**	**$ -**	**$ 1,846**	**$ 44**	**$ 1,890**
CDBG					
Intragovernmental Gross Costs	$ -	$ -	$ 20	$ -	$ 20
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	$ -	$ -	$ 20	$ -	$ 20
Gross Costs with the Public	$ 55	$ -	$ 7,455	$ 36	$ 7,546
Earned Revenues	-	-	-	-	-
Net Costs with the Public	$ 55	$ -	$ 7,455	$ 36	$ 7,546
Net Program Costs	**$ 55**	**$ -**	**$ 7,475**	**$ 36**	**$ 7,566**
All Other					
Intragovernmental Gross Costs	$ 86	$ 153	$ 50	$ 27	$ 316
Intragovernmental Earned Revenues	7	(1)	4	(23)	(13)
Intragovernmental Net Costs	$ 93	$ 152	$ 54	$ 4	$ 303
Gross Costs with the Public	$ 4,886	$ 353	$ 550	$ (34)	$ 5,755
Earned Revenues	-	(15)	-	(1)	(16)
Net Costs with the Public	$ 4,886	$ 338	$ 550	$ (35)	$ 5,739
Net Program Costs	**$ 4,979**	**$ 490**	**$ 604**	**$ (31)**	**$ 6,042**
Costs Not Assigned to Programs	$ 63	$ 102	$ 53	$ -	$ 218
Net Program Costs (including indirect costs)	**$ 5,042**	**$ 592**	**$ 657**	**$ (31)**	**$ 6,260**

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**

Note 25: 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 2015				
	Single Family Forward Program	HECM Program	Multifamily/Healthcare Program	Administrative Costs	Total
Costs					
Intragovernmental Gross Costs	$ 955	$ 59	$ 177	$ 16	$ 1,207
Intragovernmental Earned Revenues	(1,133)	(584)	(74)	-	(1,791)
Intragovernmental Net Costs	$ (178)	$ (525)	$ 103	$ 16	$ (584)
Gross Costs with the Public	$ (13,283)	$ (3,993)	$ (699)	$ 567	$ (17,408)
Earned Revenues	(11)	(1)	(46)	-	(58)
Net Costs with the Public	$ (13,294)	$ (3,994)	$ (745)	$ 567	$ (17,466)
Net Program Costs	**$ (13,472)**	**$ (4,519)**	**$ (642)**	**$ 583**	**$ (18,050)**

	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)**

Note 26: 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, 2015 (dollars in millions):

	Undelivered Orders				
Programs	**Unexpended Appropriations**	**Permanent Indefinite**	**Investment Authority**	**Offsetting Collections**	**Undelivered Orders - Obligations, Unpaid**
FHA	$ 140	$ 79	$ -	$ 1,825	$ 2,044
Ginnie Mae	3	-	-	402	405
Section 8 Rental Assistance	8,896	-	-	-	8,896
Low Rent Public Housing Loans and Grants	4,359	-	-	-	4,359
Homeless Assistance Grants	2,389	-	-	-	2,389
Housing for the Elderly and Disabled	1,939	-	-	-	1,939
Community Development Block Grants	10,950	-	-	-	10,950
HOME Partnership Investment Program	2,855	-	-	-	2,855
Section 235/236	951	-	-	-	951
All Other	3,336	-	-	-	3,336
Total	**$ 35,818**	**$ 79**	**$ -**	**$ 2,227**	**$ 38,124**

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2014 (dollars in millions):

	Undelivered Orders				
Programs	**Unexpended Appropriations**	**Permanent Indefinite**	**Investment Authority**	**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**

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, 2015 (dollars in millions):

	Reservations			
Programs	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance	$ 155	$ -	$ -	$ 155
Low Rent Public Housing Loans and Grants	9	-	-	9
Homeless Assistance Grants	107	-	-	107
Housing for the Elderly and Disabled	106	-	-	106
Community Development Block Grants	7,868	-	-	7,868
HOME Partnership Investment Program	227	-	-	227
Section 235/236	-	-	-	-
All Other	182	-	-	182
Total	**$ 8,654**	**$ -**	**$ -**	**$ 8,654**

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**

Note 27: 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, 2015 (dollars in millions):

		Total
Unobligated Balance, beginning of period	$	11,619
Recoveries		-
Budget Authority		-
Spending Authority from Offsetting Collections		-
Non-Expenditure Transfers, net		-
Other Balances Withdrawn		-
Total Budgetary Resources	**$**	**11,619**
Status of Budgetary Resources		
Obligations Incurred	$	3,527
Unobligated Balance, available		8,091
Unobligated Balance, not available		-
Total Status of Budgetary Resources	**$**	**11,618**
Change in Obligated Balance		
Obligated Balance, net beginning of period	$	6,012
Obligations Incurred		3,527
Gross Outlays		(3,432)
Recoveries		-
Obligated Balance, net end of period	**$**	**6,107**
Net Outlays	**$**	**3,432**

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	$ 14,621	$ 13,348	$ 1,273
Mississippi	5,539	5,060	479
Texas	3,752	2,689	1,063
Florida	393	370	23
Other States	2,287	2,478	(191)
Total	**$ 26,592**	**$ 23,945**	**$ 2,647**

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**

Note 28: 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
2015			
Direct	$ 984	$ 112,448	$ 113,432
Reimbursable	-	5,754	5,754
Total	**$ 984**	**$ 118,202**	**$ 119,186**

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

Note 29: Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

The President's Budget containing actual FY 2015 data is not available for comparison to the Statement of Budgetary Resources. Actual FY 2015 data will be available in the Appendix to the Budget of the United States Government, FY 2017.

For FY 2014, an analysis to compare HUD's Statement of Budgetary Resources to the President's Budget of the United States was performed to identify any differences.

The following shows the difference between Budgetary Resources reported in the Statement of Budgetary Resources and the President's Budget for FY 2014 (dollars in millions):

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 185,922	$ 101,431	$ (2,719)	$ 53,763
Difference #1 - Resources related to HUD's expired accounts not reported in the President's Budget	(705)	(97)	-	-
Difference #2 - Offsetting receipts included in the President's Budget	-	-	1	-
Difference #3 - Offsetting receipts not included in the President's Budget	-	-	12	(2)
Difference #4 - Ginnie Mae amounts from temporary reduction of prior year balances	1	(1)	-	(1)
Difference #5 - Ginnie Mae amounts precluded from obligation	-	-	-	-
Difference #6 - Rounding issues	7	4	1	1
United States Budget	**$ 185,225**	**$ 101,337**	**$ (2,705)**	**$ 53,761**

Note 30: 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, 2015 and 2014 (dollars in millions):

	2015	2014
Budgetary Resources Obligated		
Obligations Incurred	$ 119,186	$ 101,431
Spending Authority from Offsetting Collections and Recoveries	(68,862)	(43,393)
Obligations Net of Offsetting Collections	$ 50,324	$ 58,038
Offsetting Receipts	(2,844)	(2,719)
Net Obligations	$ 47,480	$ 55,319
Other Resources		
Transfers In/Out Without Reimbursement	$ -	$ 1
Imputed Financing from Costs Absorbed by Others	65	79
FHA Transfers Out to U.S. Dept. of Treasury for negative subsidies	(3,679)	-
CFO Other Resources	4	-
Net Other Resources Used to Finance Activities	$ (3,610)	$ 80
Total Resources Used to Finance Activities	$ 43,870	$ 55,399
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	$ 2,895	$ 2,801
Credit Program Resources that Increase LLG or Allowance for Subsidy	243	365
Credit Program Resources not Included in Net Cost (Surplus) of Operations	-	45,001
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	58,057	(45,435)
Resources that Fund Expenses from Prior Periods	(14,991)	(6,025)
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(49,141)	(56)
Other	12,792	(1,628)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	$ 9,855	$ (4,977)
Total Resources Used to Finance the Net Cost of Operations	$ 53,725	$ 50,422
Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period		
Upward/Downward Re-estimates of Credit Subsidy Expense	$ (4,916)	$ 4,613
Increase in Exchange Revenue Receivable from the Public	(139)	(171)
Change in Loan Loss Reserve	(1)	27
Revaluation of Assets or Liabilities	5	-
Depreciation and Amortization	(11)	(1)
Changes in Bad Debt Expenses Related to Credit Reform Receivables	(42)	(97)
Reduction of Credit Subsidy Expense from Guarantee Endorsements and Modifications	(13,607)	(10,457)
Increase in Annual Leave Liability	-	-
Other	(4,677)	(2,904)
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	$ (23,388)	$ (8,990)
Net Cost of Operations	**$ 30,337**	**$ 41,432**

Note 31: Restatement of the Department's Fiscal Year 2014 Financial Statements

In FY 2015, the Department corrected material errors in the Consolidated Balance Sheet, the Statement of Net Cost and the Statement of Changes in Net Position to recognize the re-estimate of prepayments from balances accumulated by PHAs under the Moving to Work Program (MTW). Based on self-reported program data and disbursements recorded in HUDCAPS, the Department estimated that PHAs held approximately $466 million and $573 million as of FY 2015 and FY 2014 respectively in excess funds in its reserve accounts. As a result, the amount of program expenses reported under the Section 8 Rental Assistance program increased by $107 million in FY 2015. The advances under the Moving to Work Program was not available in FY 2014 and as a result, the Department's FY 2014 restated financial statements do not reflect this adjustment to the Balance Sheet, Statement of Net Cost or the Statement of Changes in Net Position.

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's efforts to modify 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) is a proactive approach beginning in FY 2015. 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.

Furthermore, the restated financial statements do not reflect Emergency Homeowners' Loan Program gross loans receivables balances of approximately $114 and $120 million for fiscal years 2015 and 2014 respectively. The amounts were not recorded in the Department's accounting records due to data integrity issues which the Department is currently analyzing.

Ginnie Mae Accounting Error Corrections

In FY 2015, Ginnie Mae restated its FY 2014 financial statements to correct errors in the Balance Sheet, the Statement of Net Cost and the Statement of Changes in Net Position. The impact of these errors resulted in the Department's equity reported on the consolidated financial statement to be overstated by $150 million. Ginnie Mae has classified the restatement adjustments in four categories:

Cash and Other Monetary Assets

Ginnie Mae identified accounting errors with the classification of deposits in transit in the amount of $37 million. Ginnie Mae incorrectly classified these deposits in transit on its Balance Sheet as part of "Other Non-Credit Reform Loans" for the year ended September 30, 2014. These deposits in transit should have been recorded as "Cash and Other Monetary Assets" in the Balance Sheet. As a result of this error, Ginnie Mae has reclassified a total of $37 million from "Other Non-Credit Reform Loans" to "Cash and Other Monetary Assets" for the year ended September 30, 2014.

General Property, Plant and Equipment

Ginnie Mae identified accounting errors associated with its accounting treatment of expenses associated with internally developed software and hardware purchases. Ginnie Mae incorrectly recognized some internally developed software and hardware expenses in the period incurred instead of capitalizing the costs. Additionally, certain expenditures that did not meet the capitalization criteria per Ginnie Mae's accounting policy were capitalized in error and some software projects, which were completed, and in use were not being amortized. The impact of correcting these errors resulted in an increase in "General Property and Equipment, Net' of $10 million for the year ended September 30, 2014.

Multiclass Fee Accounting

Ginnie Mae identified accounting errors associated with the recognition of multiclass fees. Ginnie Mae incorrectly recognized multiclass fees as revenue before the earnings process was complete. The impact of these errors resulted in an increase of $160 million in "Other Governmental Liabilities" for the year ended September 30, 2014.

MBS Loan Liability

Ginnie Mae identified accounting errors associated with the MBS Loss Liability as the amount incorrectly included a liability related to estimated incurred foreclosure related losses for mortgage loans held for investment and short sales claims receivable. The impact of correcting these errors resulted in a reclassification of $735 million form the "MBS Loss Liability" to the allowance against "Non-Credit Reform Loans."

Balance Sheet (dollars in millions)	September 30, 2014 Consolidated Financial Statements (without restatement)		September 30, 2014 Consolidated Financial Statements (with restatement)		Change	
ASSETS						
Intragovernmental						
Fund Balance with Treasury (Note 4)	$	121,703	$	121,703	$	-
Investments (Note 6)		6,529		6,529		-
Accounts Receivable, Net (Note 7)		-		-		-
Other Assets (Note 12)		33		34		(1)
Total Intragovernmental	$	128,265	$	128,266	$	(1)
Cash and Other Monetary Assets (Note 5)	$	-	$	37	$	(37)
Investments (Note 6)		41		41		-
Accounts Receivable, Net (Note 7)		1,901		1,887		14
Direct Loan and Loan Guarantees, Net (Note 8)		10,868		10,868		-
Other Non-Credit Reform Loans (Note 9)		3,569		2,809		760
General Property, Plant and Equipment, Net (Note 10)		297		308		(11)
PIH Prepayments (Note 11)		423		423		-
Other Assets (Note 12)		48		48		-
TOTAL ASSETS	$	145,412	$	144,687	$	725
LIABILITIES						
Intragovernmental Liabilities						
Accounts Payable (Note 13)	$	16	$	16	$	-
Debt (Note 14)		27,661		27,661		-
Other Intragovernmental Liabilities (Note 17)		1,802		1,801		1
Total Intragovernmental	$	29,479	$	29,478	$	1
Accounts Payable (Note 13)	$	863	$	864	$	(1)
Accrued Grant Liabilities (Note 13)		1,501		1,501		-
Loan Guarantee Liability (Note 8)		31,779		31,779		-
Debt Held by the Public (Note 14)		8		8		-
Federal Employee and Veteran Benefits (Note 15)		74		74		-
Loss Reserves (Note 16)		735		-		735
Other Governmental Liabilities (Note 17)		918		1,078		(160)
TOTAL LIABILITIES	$	65,357	$	64,782	$	575
Net Position						
Unexpended Appropriations - Earmarked Funds (Note 20)	$	(224)	$	(224)	$	-
Unexpended Appropriations - Other Funds		56,442		56,443		(1)
Cumulative Results of Operations - Earmarked Funds (Note 20)		19,773		19,623		150
Cumulative Results of Operations - Other Funds		4,064		4,063		1
Total Net Position	$	80,055	$	79,905	$	150
Total Liabilities and Net Position	$	145,412	$	144,687	$	725

Statement of Changes in Net Position (dollars in millions)	September 30, 2014 Consolidated Financial Statements (without restatement)	September 30, 2014 Consolidated Financial Statements (with restatement)	Change
Cumulative Results of Operations:			
Beginning Balances	$ 18,577	$ 18,577	$ -
Adjustments			-
Changes in Accounting Principles	-	-	-
Corrections of Errors	(99)	(244)	145
Beginning Balances, As Adjusted	$ 18,478	$ 18,333	$ 145
Budgetary Financing Sources:			
Other Adjustments	$ -	$ -	$ -
Appropriations Used	49,368	49,368	-
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	$ -	$ -	$ -
Imputed Financing	79	77	2
Other	(2,663)	(2,663)	-
Total Financing Sources	46,785	46,783	2
Net Cost of Operations	(41,427)	(41,433)	6
Net Change	$ 5,358	$ 5,350	$ 8
Cumulative Results of Operations	**$ 23,836**	**$ 23,683**	**$ 153**
Unexpended Appropriations:			
Beginning Balances	$ 59,780	$ 59,781	$ (1)
Adjustments			
Changes in Accounting Principles	-	-	-
Corrections of Errors	43	41	2
Beginning Balances, As Adjusted	$ 59,823	$ 59,822	$ 1
Budgetary Financing Sources:			
Appropriations Received	$ 46,103	$ 46,103	$ -
Appropriations Transferred In/Out	-	-	-
Other Adjustments	(339)	(338)	(1)
Appropriations Used	(49,369)	(49,368)	(1)
Total Budgetary Financing Sources	$ (3,605)	$ (3,603)	$ (2)
Unexpended Appropriations	$ 56,218	$ 56,219	$ (1)
Net Position	$ 80,054	$ 79,902	$ 152

Statement of Net Cost (dollars in millions)	September 30, 2014 Consolidated Financial Statements (without restatement)	September 30, 2014 Consolidated Financial Statements (with restatement)	Change
Program Costs			
Gross Costs	$ 45,368	$ 45,388	$ (20)
Less: Earned Revenue	(3,942)	(3,956)	14
Net Program Costs	$ 41,426	$ 41,432	$ (6)
Net Cost of Operations	$ 41,426	$ 41,432	$ (6)

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 2011 through 2015.

Investments in Non-Federal Physical Property
Fiscal Year 2011 – 2015
(Dollars in millions)

Program	2011	2012	2013	2014	2015
CPD					
CDBG	$1,132	$1,115	$1,129	$986	$922
Disaster Grants [1]	$323	$315	$318	$311	$311
HOME	$21	$23	$21	$24	$18
SHP/CoC - Homeless [2]	$17	$11	$1	$1	$0
NSP [3]	$33	$15	$6	$0	$0
RIF [4]	N/A	$0	$3	$1	$0
PIH					
ICDBG [5]	$61	$117	$54	$60	$0
NHHBG	$13	$13	$12	$10	$9
IHBG [6]	$259	$271	$266	$199	$261
HOPE VI	$240	$122	$127	$82	$57
Choice Neighborhoods [7]	N/A	$0	$3	$22	$43
PH Capital Fund	$3,610	$2,223	$1,798	$1,706	$1,916
TOTAL	**$5,709**	**$4,225**	**$3,738**	**$3,402**	**$3,537**

Notes:

1. *Disasters are unpredictable, which causes material fluctuations resulting in the prior years' numbers being updated.*
2. *Low dollar value was due to shrinking resources for new programs.*
3. *Program is nearing closeout, and the prior years' 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. More than 15 grantees have completed their projects before FY 2015 as the grant period draws to a close. Amount reported for FY 2015, estimated, due to reports for the second half of the FY not being due until 10/30/15, is not material to be included in the AFR.*
5. *Grants funded in 2015 are expected to be awarded by February, 2016.*
6. *Historical amounts were updated to reflect corrections made since the last report.*
7. *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 2011 through 2015.

Investments in Human Capital
Fiscal Year 2011 – 2015
(Dollars in millions)

Program	2011	2012	2013	2014	2015
CPD					
CDBG	$26	$29	$24	$26	$25
Disaster Grants [1]	$195	$165	$253	$475	$336
ESG	$3	$4	$3	$3	$3
NSP TA [2]	$1	$1	$1	$0	$0
SHP/CoC - Homeless	$32	$33	$31	$26	$25
HOPWA	$1	$1	$1	$1	$0
Community Compass [3]	N/A	$5	$21	$29	$38
PIH					
NHHBG	$1	$0	$0	$0	$0
IHBG	$1	$1	$1	$1	$2
HOPE VI	$42	$15	$12	$14	$5
Choice Neighborhoods [4]	N/A	$0	$2	$3	$5
OLHCHH					
Lead Technical Assistance	$1	$0	$0	$1	$0
TOTAL	**$303**	**$254**	**$349**	**$579**	**$439**

Notes:
1. *Prior years' amounts were updated because Disaster Grants activities were previously comingled with other activities.*
2. *Program is nearing closeout, hence the reduced expenditures in FY 2014 and FY 2015.*
3. *FY 2012 was the first year of reporting Community Compass, formerly OneCPD's investment in human capital in the RSSI.*
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 following table 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 2011 – 2015

Program	2011	2012	2013	2014	2015
CPD					
CDBG	303,416	65,741	68,236	54,350	51,808
SHP/CoC - Homeless [1]	17.8%	27.4%	16.5%	11.9%	N/A
HOPWA	1,662	1,426	1,595	1,415	1,064
NSP TA [2]	1,325	1,414	3,540	385	17
RIF [3]	N/A	0	1,048	279	123
Community Compass [4]	N/A	N/A	9,791	13,722	9,836
PIH					
ICDBG [5]	122	0	0	0	0
NHHBG [5]	116	0	0	0	0
IHBG [5 6]	1,550	770	1,077	1,167	1,756
HOPE VI (*see table on page 7*)					
Choice Neighborhoods (*see table on page 8*)					
OLHCHH					
Lead Technical Assistance	3,000	600	590	1,069	512
TOTAL	**311,191**	**69,951**	**85,877**	**72,387**	**65,116**

Notes:

1. *SHP/CoC- Homeless results are expressed in terms of percentage of persons exiting the programs having employment income. Goals are changing, and the data is not available to compare FY 2015 to the prior year based on the old goal.*
2. *As of FY 2012, NSP TA 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 was further updated in FY 2014 and FY 2015 because of more reliable data. The program is nearing closeout, hence the reduced numbers of people trained in FY 2014 and FY 2015.*
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. Expenditures under investments for human capital, in FY 2012 through FY 2015, were also not material to be included in the AFRs. More than 15 grantees have completed their projects before FY 2015 as the grant period draws to a close, and the results captured in this report from the first half of FY 2015 are deemed complete, based on the grantees having met their performance goals for the year.*
4. *FY 2013 was the first year of reporting Community Compass, formerly OneCPD's results of investments in human capital in the RSSI.*
5. *Due to new administrative requirements in FY 2012, there was a decline in the procurement of training. This resulted in fewer grantees receiving program training.*
6. *New training funds were offered through a Notice of Funding Availability (NOFA) competition for contractors to provide training in FY 2015-2017.*

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 following table presents HOPE VI's key cumulative performance information for fiscal years 2011, 2012, 2013, 2014 and 2015, since the program's inception.

Key Results of HOPE VI Program Activities
Fiscal Years 2011 – 2015

HOPE VI Service	2011 Enrolled	2011 Completed	% Completed	2012 Enrolled	2012 Completed	% Completed
Employment Preparation, Placement, & Retention [1]	80,435	N/A	N/A	82,630	N/A	N/A
Job Skills Training Programs	32,597	17,267	53%	33,566	17,753	53%
High School Equivalent Education	17,305	5,053	29%	17,684	5,164	29%
Entrepreneurship Training	3,608	1,570	44%	3,672	1,613	44%
Homeownership Counseling	15,864	6,858	43%	16,163	6,964	43%
HOPE VI Service	**2013 Enrolled**	**2013 Completed**	**% Completed**	**2014 Enrolled**	**2014 Completed**	**% Completed**
Employment Preparation, Placement, & Retention [1]	84,792	N/A	N/A	85,997	N/A	N/A
Job Skills Training Programs	34,664	18,322	53%	35,001	18,536	53%
High School Equivalent Education	18,206	5,263	29%	18,389	5,315	29%
Entrepreneurship Training	3,730	1,635	44%	3,746	1,649	44%
Homeownership Counseling	16,504	7,046	43%	16,650	7,160	43%
HOPE VI Service	**2015 Enrolled**	**2015 Completed**	**% Completed**			
Employment Preparation, Placement, & Retention [1]	87,005	N/A	N/A			
Job Skills Training Programs	35,364	18,685	53%			
High School Equivalent Education	18,533	5,334	29%			
Entrepreneurship Training	3,755	1,654	44%			
Homeownership Counseling	16,837	7,350	44%			

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

The table on the next page presents Choice Neighborhoods cumulative performance information for fiscal years 2014 and 2015.

Key Results of Choice Neighborhoods Program Activities
Fiscal Years 2014 – 2015

Choice Neighborhoods Service	2014 [1]	2015
Current Total Original Assisted Residents	5,813	7,017
Current Total Original Assisted Residents in Case Management	2,900	3,063
High School Graduation Rate [2]	N/A	N/A
Number of Residents (in Case Management) Who Completed Job Training or Other Workforce Development Programs	411	867

Notes:

1. *2014 was the first year of reporting results for Choice Neighborhoods Human Capital Investments.*
2. *Program level High School Graduation Rate date is currently not available for 2014 and 2015 due to metric only requiring 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 2011 – 2015
(Dollars in millions)

Program	2011	2012	2013	2014	2015
CPD					
Disaster Grants	$6	$0	$0	$0	$0
OLHCHH					
Lead Hazard Control	$1	$1	$2	$3	$4
TOTAL	**$7**	**$1**	**$2**	**$3**	**$4**

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, increased supply and labor costs have contributed to increases in the per-housing unit cost. 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 2011 – 2015
(Dollars)

Program	2011	2012	2013	2014	2015
OLHCHH					
Lead Hazard Control					
Per-Housing Unit Cost	$6,247	$5,763	$6,321	$7,755	$8,909
TOTAL	**$6,247**	**$5,763**	**$6,321**	**$7,755**	**$8,909**

Required Supplementary Information

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 2015
(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)	$ 39,057	$ 2,142	$ 9,692	$ 4,866	$ 5,161	$ 2,405	$ 21,524	$ 3,448	$ 6,396	$ -	$ 94,691
Investments (Note 5)	14,754	12,923	-	-	-	-	-	-	-	-	27,677
Other Assets (Note 10)	1	-	4	-	-	-	-	1	3	-	9
Total Intragovernmental Assets	$ 53,812	$ 15,065	$ 9,696	$ 4,866	$ 5,161	$ 2,405	$ 21,524	$ 3,449	$ 6,399	$ -	$ 122,377
Cash and Other Monetary Assets (Note 4)	-	45	-	-	-	-	-	-	-	-	45
Investments (Note 5)	31	-	-	-	-	-	-	-	-	-	31
Accounts Receivable, Net (Note 6)	407	131	33	55	8	14	12	1	119	-	780
Direct Loan and Loan Guarantees, Net (Note 7)	12,383	-	-	-	-	1,417	-	-	625	-	14,425
Other Non Credit Reform Loans (Note 8)	-	5,325	-	-	-	-	-	-	-	(2,098)	3,227
General Property Plant and Equipment, Net (Note 9)	-	58	-	-	-	-	-	-	271	-	329
PIH Prepayments	-	-	672	-	-	-	-	-	-	-	672
Other Assets (Note 10)	45	-	-	-	-	-	-	-	-	-	45
TOTAL ASSETS	**$ 66,678**	**$ 20,624**	**$ 10,401**	**$ 4,921**	**$ 5,169**	**$ 3,836**	**$ 21,536**	**$ 3,450**	**$ 7,414**	**$ (2,098)**	**$ 141,931**
LIABILITIES											
Intragovernmental Liabilities											
Accounts Payable (Note 11)	-	-	-	-	-	-	-	-	15	-	15
Debt (Note 12)	27,023	-	-	-	-	-	-	-	127	-	27,150
Other Intragovernmental Liabilities (Notes 15)	2,351	-	13	2	5	-	-	-	239	-	2,610
Total Intragovernmental Liabilities	$ 29,374	$ -	$ 13	$ 2	$ 5	$ -	$ -	$ -	$ 381	$ -	$ 29,775
Accounts Payable (Note 11)	545	135	7	17	15	1	30	6	210	-	966
Accrued Grant Liabilities	-	-	-	330	132	24	1,514	324	64	-	2,388
Loan Guarantee Liability (Note 7)	16,116	-	-	-	-	-	-	-	289	(2,098)	14,307
Debt Held by the Public (Note 12)	-	-	-	8	-	-	-	-	-	-	8
Federal Employee and Veteran Benefits (Note 13)	-	-	-	-	-	-	-	-	69	-	69
Other Governmental Liabilities (Notes 15)	726	314	1	-	-	-	-	-	198	-	1,239
TOTAL LIABILITIES	**$ 46,761**	**$ 449**	**$ 21**	**$ 357**	**$ 152**	**$ 25**	**$ 1,544**	**$ 330**	**$ 1,211**	**$ (2,098)**	**$ 48,752**
Commitments and Contingencies (Note 17)	-	-	-	-	-	-	-	-	55	-	55
NET POSITION											
Unexpended Appropriations - Funds From Dedicated Coll. (Note 18)	-	1	2	18	17	-	-	5	(363)	-	(320)
Unexpended Appropriations - Other Funds	871	-	10,378	4,549	4,996	2,273	19,991	3,115	5,262	-	51,435
Cumulative Results of Operations - Funds From Dedicated Coll. (Note 18)	-	20,174	-	-	-	-	-	-	1,243	-	21,417
Cumulative Results of Operations - Other Funds	19,046	-	-	(3)	4	1,538	1	-	61	-	20,647
TOTAL NET POSITION - Funds From Dedicated Collections	**-**	**20,175**	**2**	**18**	**17**	**-**	**-**	**5**	**880**	**-**	**21,097**
TOTAL NET POSITION - All Other Funds	**19,917**	**-**	**10,378**	**4,546**	**5,000**	**3,811**	**19,992**	**3,115**	**5,323**	**-**	**72,082**
TOTAL NET POSITION	**19,917**	**20,175**	**10,380**	**4,564**	**5,017**	**3,811**	**19,992**	**3,120**	**6,203**	**-**	**93,179**
TOTAL LIABILITIES AND NET POSITION	**$ 66,678**	**$ 20,624**	**$ 10,401**	**$ 4,921**	**$ 5,169**	**$ 3,836**	**$ 21,536**	**$ 3,450**	**$ 7,414**	**$ (2,098)**	**$ 141,931**

The accompanying notes are an integral part of these statements.

Department of Housing and Urban Development
Consolidating Balance Sheet
As of September 2014 (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)	$ 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 (Note 6)	-	2	-	-	-	-	-	-	-	(2)	-
Other Assets (Note 10)	1	-	2	-	-	-	-	1	30	-	34
Total Intragovernmental Assets	$ 56,612	$ 13,622	$ 9,603	$ 5,020	$ 5,066	$ 2,873	$ 25,038	$ 3,769	$ 6,665	$ (2)	$ 128,266
Cash and Other Monetary Assets (Note 4)	-	37	-	-	-	-	-	-	-	-	37
Investments (Note 5)	41	-	-	-	-	-	-	-	-	-	41
Accounts Receivable, Net (Note 6)	1,459	319	23	13	7	14	13	4	35	-	1,887
Direct Loan and Loan Guarantees, Net (Note 7)	8,507	-	-	-	-	1,787	-	-	574	-	10,868
Other Non Credit Reform Loans (Note 8)	-	4,779	-	-	-	-	-	-	-	(1,970)	2,809
General Property Plant and Equipment, Net (Note 9)	-	43	-	-	-	-	-	-	265	-	308
PIH Prepayments	-	-	423	-	-	-	-	-	-	-	423
Other Assets (Note 10)	47	-	-	-	-	-	-	-	1	-	48
TOTAL ASSETS	**$ 66,666**	**$ 18,800**	**$ 10,049**	**$ 5,033**	**$ 5,073**	**$ 4,674**	**$ 25,051**	**$ 3,773**	**$ 7,540**	**$ (1,972)**	**$ 144,687**
LIABILITIES											
Intragovernmental Liabilities											
Accounts Payable (Note 11)	3	-	-	-	-	-	-	-	15	(2)	16
Debt (Note 12)	27,528	-	-	-	-	-	-	-	133	-	27,661
Other Intragovernmental Liabilities (Notes 15)	1,689	-	14	2	5	-	-	-	91	-	1,801
Total Intragovernmental Liabilities	$ 29,220	$ -	$ 14	$ 2	$ 5	$ -	$ -	$ -	$ 239	$ (2)	$ 29,478
Accounts Payable (Note 11)	459	108	33	8	13	1	31	4	207	-	864
Accrued Grant Liabilities	-	-	-	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 12)	-	-	-	8	-	-	-	-	-	-	8
Federal Employee and Veteran Benefits (Note 13)	-	-	-	-	-	-	-	-	74	-	74
Loss Reserves (Note 14)	-	-	-	-	-	-	-	-	-	-	-
Other Governmental Liabilities (Notes 15)	629	305	-	-	-	1	-	-	143	-	1,078
TOTAL LIABILITIES	**$ 63,781**	**$ 413**	**$ 47**	**$ 253**	**$ 204**	**$ 40**	**$ 594**	**$ 334**	**$ 1,088**	**$ (1,972)**	**$ 64,782**
Commitments and Contingencies (Note 17)	-	15	-	-	-	-	-	-	-	-	15
NET POSITION											
Unexpended Appropriations - Earmarked Funds (Note 18)	-	1	-	17	17	-	90	7	(356)	-	(224)
Unexpended Appropriations - Other Funds	872	-	10,002	4,767	4,852	2,683	24,366	3,432	5,469	-	56,443
Cumulative Results of Operations - Earmarked Funds (Note 18)	-	18,386	-	-	-	-	-	-	1,237	-	19,623
Cumulative Results of Operations - Other Funds	2,013	-	-	(4)	-	1,951	1	-	102	-	4,063
TOTAL NET POSITION - Funds From Dedicated Collections	**-**	**18,387**	**-**	**17**	**17**	**-**	**90**	**7**	**881**	**-**	**19,399**
TOTAL NET POSITION - All Other Funds	**2,885**	**-**	**10,002**	**4,763**	**4,852**	**4,634**	**24,367**	**3,432**	**5,571**	**-**	**60,506**
TOTAL NET POSITION	**2,885**	**18,387**	**10,002**	**4,780**	**4,869**	**4,634**	**24,457**	**3,439**	**6,452**	**-**	**79,905**
TOTAL LIABILITIES AND NET POSITION	**$ 66,666**	**$ 18,800**	**$ 10,049**	**$ 5,033**	**$ 5,073**	**$ 4,674**	**$ 25,051**	**$ 3,773**	**$ 7,540**	**$ (1,972)**	**$ 144,687**

The accompanying notes are an integral part of these statements.

Department of Housing and Urban Development
Consolidating Statement of Net Cost
For the Periods Ending September 2015 and 2014
(Dollars in Millions)

2015	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)	$ (16,201)	$ (234)	$ 29,482	$ 2,835	$ 1,894	$ 1,037	$ 7,567	$ 1,241	$ 6,071	$ -	$ 33,692
Less: Earned Revenues	(1,849)	(1,555)	-	-	(4)	(136)	-	-	(29)	-	(3,573)
Net Program Costs	(18,050)	(1,789)	29,482	2,835	1,890	901	7,567	1,241	6,042	-	30,119
Net Program Costs including Assumption Changes	(18,050)	(1,789)	29,482	2,835	1,890	901	7,567	1,241	6,042	-	30,119
Costs Not Assigned to Programs	-	-	-	-	-	-	-	-	218	-	218
Net Cost of Operations	**$ (18,050)**	**$ (1,789)**	**$ 29,482**	**$ 2,835**	**$ 1,890**	**$ 901**	**$ 7,567**	**$ 1,241**	**$ 6,260**	**$ -**	**$ 30,337**

Figures may not add to totals because of rounding.

2014 (Restated)	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)	$ (38)	$ 28,772	$ 2,995	$ 1,881	$ 1,196	$ 5,905	$ 1,064	$ 6,503	$ -	$ 45,170
Less: Earned Revenues	(2,181)	(1,558)	-	-	-	(177)	(1)	-	(39)	-	(3,956)
Net Costs	(5,289)	(1,596)	28,772	2,995	1,881	1,019	5,904	1,064	6,464	-	41,214
Net Program Costs including Assumption Changes	(5,289)	(1,596)	28,772	2,995	1,881	1,019	5,904	1,064	6,464	-	41,214
Costs Not Assigned to Programs	-	-	-	-	-	-	-	-	218	-	218
Net Cost of Operations	**$ (5,289)**	**$ (1,596)**	**$ 28,772**	**$ 2,995**	**$ 1,881**	**$ 1,019**	**$ 5,904**	**$ 1,064**	**$ 6,682**	**$ -**	**$ 41,432**

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 2015
(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	$ -	$ 18,385	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,237	$ -	$ 19,622
All Other Funds	2,013	-	-	(4)	-	1,951	1	-	102	-	4,063
Beginning Balances	2,013	18,385	-	(4)	-	1,951	1	-	1,339	-	23,685
Adjustments											
Corrections of Errors											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	(3)	-	(3)
All Other Funds	-	-	-	-	-	-	-	-	-	-	-
Beginning Balances, As Adjusted											
Funds From Dedicated Collections	-	18,385	-	-	-	-	-	-	1,234	-	19,619
All Other Funds	2,013	-	-	(4)	-	1,951	1	-	102	-	4,063
Total Beginning Balances, As Adjusted	2,013	18,385	-	(4)	-	1,951	1	-	1,336	-	23,682
Budgetary Financing Sources											
Appropriations Used											
Funds From Dedicated Collections	-	-	6	(1)	-	-	75	2	-	-	82
All Other Funds	2,206	-	29,278	2,720	1,850	946	7,423	1,210	7,278	-	52,911
Non-exchange Revenue											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	3	-	3
All Other Funds	-	-	-	-	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	-	-	-	(544)	-	-	544	-	-
Other Budgetary Financing Sources											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	198	116	44	86	69	29	(542)	-	-
Other Financing Sources: Transfers In/Out Without Reimbursement											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	442	-	-	-	-	-	-	-	(442)	-	-
Imputed Financing From Costs Absorbed From Others											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	15	-	-	-	-	-	-	-	50	-	65
Other											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	(3,679)	-	-	-	-	-	-	-	(663)	-	(4,342)
Total Financing Sources											
Funds From Dedicated Collections	-	1	5	(1)	-	-	75	2	3	-	85
All Other Funds	(1,017)	-	29,477	2,836	1,894	488	7,492	1,239	6,225	-	48,634
Total Financing Sources	(1,017)	1	29,482	2,835	1,894	488	7,567	1,241	6,228	-	48,719
Net Cost of Operations											
Funds From Dedicated Collections	-	1,788	(5)	1	-	-	(75)	(2)	6	-	1,713
All Other Funds	18,050	-	(29,477)	(2,835)	(1,890)	(901)	(7,492)	(1,239)	(6,266)	-	(32,050)
Net Change											
Funds From Dedicated Collections	-	1,789	-	-	-	-	-	-	9	-	1,798
All Other Funds	17,033	-	-	1	4	(413)	-	-	(41)	-	16,584
Total All Funds											
Funds From Dedicated Collections	-	20,174	-	-	-	-	-	-	1,243	-	21,417
All Other Funds	19,046	-	-	(3)	5	1,538	-	-	61	-	20,647
Total All Funds	**$ 19,046**	**$ 20,174**	**$ -**	**$ (3)**	**$ 5**	**$ 1,538**	**$ -**	**$ -**	**$ 1,304**	**$ -**	**$ 42,064**

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Period Ending September 2015 (continued)
(Dollars in Millions)

	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	$ 1	$ 17	$ 16	$ -	$ 90	$ 7	$ (355)	$ -	$ (222)
All Other Funds	872	-	10,001	4,767	4,853	2,683	24,366	3,432	5,468	-	56,442
Beginning Balances	872	2	10,002	4,784	4,869	2,683	24,456	3,439	5,113	-	56,220
Adjustments											
Corrections of Errors											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	-	-	574	-	-	-	-	-	-	-	574
Beginning Balances, As Adjusted											
Funds From Dedicated Collections	-	2	-	17	17	-	90	7	(355)	-	(222)
All Other Funds	872	-	10,575	4,767	4,853	2,683	24,366	3,432	5,468	-	57,016
Total Beginning Balances, As Adjusted	872	2	10,575	4,784	4,870	2,683	24,456	3,439	5,113	-	56,794
Budgetary Financing Sources											
Appropriations Received											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	2,235	-	29,034	2,523	2,135	555	3,066	900	7,191	-	47,639
Appropriations Transfers In/Out											
Funds From Dedicated Collections	-	-	8	-	-	-	-	-	-	-	8
All Other Funds	-	-	48	(16)	-	-	-	-	(40)	-	(8)
Other Adjustments (Rescissions, etc)											
Funds From Dedicated Collections	-	(1)	-	-	-	-	(16)	-	(7)	-	(24)
All Other Funds	(30)	-	-	(4)	(142)	(20)	(18)	(7)	(80)	-	(301)
Appropriations Used											
Funds From Dedicated Collections	-	-	(6)	1	-	-	(75)	(2)	-	-	(82)
All Other Funds	(2,206)	-	(29,278)	(2,720)	(1,850)	(946)	(7,423)	(1,210)	(7,278)	-	(52,911)
Other Financing Sources:											
Total Financing Sources											
Funds From Dedicated Collections	-	(1)	2	1	-	-	(90)	(2)	(7)	-	(98)
All Other Funds	(1)	-	(196)	(217)	143	(411)	(4,375)	(317)	(207)	-	(5,581)
Total Financing Sources	(1)	(1)	(194)	(217)	143	(411)	(4,466)	(319)	(214)	-	(5,679)
Net Change											
Funds From Dedicated Collections	-	1	2	18	17	-	-	5	(363)	-	(320)
All Other Funds	871	-	10,379	4,550	4,996	2,272	19,991	3,115	5,262	-	51,435
Total Unexpended Appropriations	**871**	**1**	**10,381**	**4,568**	**5,013**	**2,272**	**19,991**	**3,120**	**4,898**	**-**	**51,115**
Total All Funds											
Funds From Dedicated Collections	-	20,175	2	18	17	-	-	5	880	-	21,097
All Other Funds	19,917	-	10,379	4,547	5,000	3,811	19,991	3,115	5,323	-	72,082
Net Position	**$ 19,917**	**$ 20,175**	**$ 10,381**	**$ 4,564**	**$ 5,017**	**$ 3,811**	**$ 19,991**	**$ 3,120**	**$ 6,202**	**$ -**	**$ 93,179**

Figures may not add to totals because of rounding.

Required Supplementary Information

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Period Ending September 2014 (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	$ -	$ 16,933	$ -	$ -	$ -	$ -	$ -	$ -	$ 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											
Corrections of Errors											
Funds From Dedicated Collections	-	(145)	-	-	-	-	-	-	-	-	(145)
All Other Funds	-	-	-	-	-	-	-	-	(99)	-	(99)
Beginning Balances, As Adjusted											
Funds From Dedicated Collections	-	16,788	-	-	-	-	-	-	1,218	-	18,006
All Other Funds	(1,884)	-	-	(15)	-	2,167	-	-	59	-	327
Total Beginning Balances, As Adjusted	(1,884)	16,788	-	(15)	-	2,167	-	-	1,277	-	18,333
Budgetary Financing Sources											
Appropriations Used											
Funds From Dedicated Collections	-	-	-	(1)	(4)	-	31	-	1	-	28
All Other Funds	327	-	28,615	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	-	-	-	-	-	-	-	-	-	-	-
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	96	36	84	44	26	(443)	-	-
Other Financing Sources: 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	14	-	-	-	-	-	-	-	63	-	77
Other											
Funds From Dedicated Collections	-	-	-	-	-	-	-	-	-	-	-
All Other Funds	(2,230)	-	-	-	-	-	-	-	(433)	-	(2,663)
Total Financing Sources											
Funds From Dedicated Collections	-	-	-	-	(4)	-	31	-	(2)	-	26
All Other Funds	(1,392)	-	28,772	3,007	1,885	802	5,874	1,064	6,746	-	46,759
Total Financing Sources	(1,392)	-	28,772	3,007	1,881	802	5,905	1,064	6,744	-	46,785
Net Cost of Operations											
Funds From Dedicated Collections	-	1,596	-	1	4	-	(31)	-	21	-	1,591
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	-	1,597	-	-	-	-	-	-	19	-	1,617
All Other Funds	3,897	-	-	11	-	(216)	1	-	43	-	3,736
Total All Funds											
Funds From Dedicated Collections	-	18,386	-	-	-	-	-	-	1,237	-	19,623
All Other Funds	2,013	-	-	(4)	-	1,951	1	-	102	-	4,063
Total All Funds	**$ 2,013**	**$ 18,386**	**$ -**	**$ (4)**	**$ -**	**$ 1,951**	**$ 1**	**$ -**	**$ 1,339**	**$ -**	**$ 23,686**

Department of Housing and Urban Development
Consolidating Statement of Changes in Net Position
For the Period Ending September 2014 (Restated) (continued)
(Dollars in Millions)

	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)	$ -	$ (214)
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	-	59,781
Adjustments											
Corrections of Errors											
Funds From Dedicated Collections	-	-	-	9	6	-	2	2	2	-	19
All Other Funds	-	-	-	10	1	-	9	2	-	-	22
Beginning Balances, As Adjusted											
Funds From Dedicated Collections	-	2	-	17	13	-	122	7	(354)	-	(195)
All Other Funds	869	-	9,522	5,160	4,720	3,312	27,099	3,477	5,858	-	60,017
Total Beginning Balances, As Adjusted	869	2	9,522	5,177	4,733	3,312	27,221	3,484	5,504	-	59,822
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)	-	(1)
All Other Funds	(37)	-	(38)	(5)	(124)	(26)	(2)	(7)	(97)	-	(336)
Appropriations Used											
Funds From Dedicated Collections	-	-	-	1	4	-	(31)	-	(1)	-	(28)
All Other Funds	(327)	-	(28,615)	(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)	-	(29)
All Other Funds	3	-	479	(393)	132	(629)	(2,733)	(45)	(389)	-	(3,574)
Total Financing Sources	3	(1)	479	(392)	136	(629)	(2,764)	(45)	(391)	-	(3,603)
Net Change											
Funds From Dedicated Collections	-	1	-	17	17	-	90	7	(356)	-	(224)
All Other Funds	872	-	10,002	4,767	4,853	2,683	24,366	3,432	5,469	-	56,443
Total Unexpended Appropriations	**872**	**1**	**10,002**	**4,784**	**4,870**	**2,683**	**24,456**	**3,439**	**5,113**	**-**	**56,219**
Total All Funds											
Funds From Dedicated Collections	-	18,386	-	17	17	-	90	7	881	-	19,398
All Other Funds	2,885	-	10,002	4,763	4,853	4,634	24,367	3,432	5,571	-	60,507
Net Position	**$ 2,885**	**$ 18,386**	**$ 10,002**	**$ 4,780**	**$ 4,870**	**$ 4,634**	**$ 24,457**	**$ 3,439**	**$ 6,452**	**$ -**	**$ 79,905**

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 2015
(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 Non-Budgetary Credit Program Accounts	Total Non-Budgetary Credit Program Financing Accounts	Financial Statement Eliminations	Total
Budgetary Resources:																
Unobligated Balance Brought Foward, October	$ 8,152	$ 9,029	$ 736	$ 150	$ 2,460	$ 570	$ 12,177	$ 200	$ 1,255	$ 34,729	$ 45,569	$ 3,751	$ 440	$ 49,760	$ -	$ 84,489
Adjustments to Unobligated Balance, Brought Forward, October 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unobligated balance brought forward, October 1, adjusted	8,152	9,029	736	150	2,460	570	12,177	200	1,255	34,729	45,569	3,751	440	49,760	-	84,489
Recoveries of prior year unpaid obligations	50	1	107	26	274	44	24	19	166	711	382	-	14	396	-	1,107
Other changes in unobligated balance	(241)	(1)	-	(4)	(142)	(188)	(34)	(7)	(92)	(709)	-	-	-	-	-	(709)
Unobligated balance from prior year budget authority, net	7,961	9,029	843	172	2,592	426	12,167	212	1,329	34,731	45,951	3,751	454	50,156	-	84,887
Appropriations (discretionary and mandatory)	2,225	-	29,090	2,507	2,135	555	3,066	900	6,980	47,458	-	-	-	-	-	47,458
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	12,146	-	-	12,146	-	12,146
Spending Authority from offsetting collections	21,716	4,246	-	-	7	127	-	-	62	26,158	25,563	2,817	72	28,452	-	54,610
Total Budgetary Resources	**$ 31,902**	**$ 13,275**	**$ 29,933**	**$ 2,679**	**$ 4,735**	**$ 1,108**	**$ 15,233**	**$ 1,112**	**$ 8,371**	**$ 108,347**	**$ 83,660**	**$ 6,568**	**$ 526**	**$ 90,754**	**$ -**	**$ 199,101**
Status of Budgetary Resources:																
Obligations Incurred																
Direct	15,170	22	29,143	2,522	2,109	666	6,204	848	7,016	63,700	49,673	-	59	49,732	-	113,432
Reimbursable	-	191	-	-	-	-	-	-	3	194	-	5,560	-	5,560	-	5,754
Subtotal	15,170	213	29,143	2,522	2,109	666	6,204	848	7,019	63,894	49,673	5,560	59	55,292	-	119,186
Unobligated Balances																
Apportioned	56	5	698	113	2,086	254	9,021	237	523	12,992	3,509	-	102	3,612	-	16,604
Exempt from Apportionment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unapportioned	16,676	13,057	92	44	540	188	8	27	829	31,461	30,478	1,007	365	31,850	-	63,311
Subtotal	16,732	13,062	790	157	2,626	442	9,029	264	1,352	44,453	33,987	1,007	467	35,462	-	79,915
Total Status of Budgetary Resources	**$ 31,902**	**$ 13,275**	**$ 29,933**	**$ 2,679**	**$ 4,735**	**$ 1,108**	**$ 15,233**	**$ 1,112**	**$ 8,371**	**$ 108,347**	**$ 83,660**	**$ 6,568**	**$ 526**	**$ 90,754**	**$ -**	**$ 199,101**
Change in Obligated Balance																
Unpaid Obligations:																
Unpaid obligations, brought forward, Oct 1	587	280	8,865	4,871	2,605	2,303	12,861	3,568	5,147	41,087	2,229	265	17	2,511	-	43,598
Adjustments to unpaid obligations, start of year (+ or -) (Note 28)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Obligations Incurred	15,170	213	29,143	2,522	2,109	666	6,204	848	7,019	63,894	49,673	5,560	59	55,292	-	119,186
Outlays, (gross) (-)	(15,142)	(202)	(28,999)	(2,657)	(1,904)	(962)	(6,547)	(1,213)	(7,383)	(65,009)	(49,035)	(5,532)	(59)	(54,626)	-	(119,635)
Actual Transfers, unpaid obligations (net) (+ or -)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries of prior year unpaid obligations (-)	(50)	(1)	(107)	(26)	(274)	(44)	(24)	(19)	(166)	(711)	(382)	-	(14)	(396)	-	(1,107)
Unpaid obligations, end of year (gross)	565	290	8,902	4,710	2,536	1,963	12,494	3,184	4,617	39,261	2,485	293	3	2,781	-	42,042
Uncollected Payments:																
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	(8)	-	-	-	-	-	-	-	(3)	(11)	-	(2)	(51)	(53)	-	(64)
Change in uncollected customer payments, Fed sources (+ or -)	(6)	-	-	-	-	-	-	-	-	(6)	-	1	(1)	-	-	(6)
Uncollected payments, Fed sources, end of year (-)	(14)	-	-	-	-	-	-	-	(3)	(17)	-	(1)	(52)	(53)	-	(70)
Obligated balance, start of year (+ or -)	**$ 577**	**$ 281**	**$ 8,865**	**$ 4,871**	**$ 2,605**	**$ 2,303**	**$ 12,861**	**$ 3,568**	**$ 5,144**	**$ 41,075**	**$ 2,230**	**$ 264**	**$ (36)**	**$ 2,458**	**$ -**	**$ 43,533**
Obligated balance, end of year (net)	**$ 550**	**$ 291**	**$ 8,902**	**$ 4,710**	**$ 2,536**	**$ 1,964**	**$ 12,495**	**$ 3,184**	**$ 4,612**	**$ 39,244**	**$ 2,485**	**$ 293**	**$ (50)**	**$ 2,728**	**$ -**	**$ 41,972**
Budget Authority and Outlays, Net:																
Budget authority, gross (discretionary and mandatory)	23,941	4,247	29,090	2,508	2,141	682	3,066	900	7,039	73,614	37,708	2,817	73	40,598	-	114,212
Actual offsetting collections (discretionary and mandatory) (-)	(21,710)	(4,361)	-	-	(6)	(506)	-	-	(60)	(26,643)	(38,213)	(2,819)	(77)	(41,109)	-	(67,752)
Change in Uncollected Customer Payments From Fed Sources (Dis and Man) (+ or -)	(6)	-	-	-	-	-	-	-	-	(6)	-	1	(1)	-	-	(6)
Budget Authority, net (discretionary and mandatory)	2,225	(114)	29,090	2,507	2,135	176	3,066	900	6,980	46,965	(505)	-	(5)	(511)	-	46,454
Outlays, gross (discretionary and mandatory)	15,142	202	28,999	2,657	1,904	962	6,547	1,213	7,383	65,009	49,035	5,532	59	54,626	-	119,635
Actual offsetting collections (discretionary and mandatory) (-)	(21,710)	(4,358)	-	-	(6)	(506)	-	-	(60)	(26,640)	(38,213)	(2,819)	(77)	(41,109)	-	(67,749)
Outlays, net (discretionary and mandatory)	(6,568)	(4,156)	28,999	2,657	1,898	456	6,547	1,213	7,323	38,369	10,822	2,713	(18)	13,517	-	51,886
Distributed offsetting receipts	(2,797)	-	-	-	-	-	-	-	(47)	(2,844)	-	-	-	-	-	(2,844)
Agency Outlays, net (discretionary and mandatory)	**$ (9,365)**	**$ (4,156)**	**$ 28,999**	**$ 2,657**	**$ 1,898**	**$ 456**	**$ 6,547**	**$ 1,213**	**$ 7,276**	**$ 35,525**	**$ 10,822**	**$ 2,713**	**$ (18)**	**$ 13,517**	**$ -**	**$ 49,042**

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 Administration Non-Budgetary	Other Non-Budgetary Credit Program Accounts	Total Non-Budgetary Credit Program Financing Accounts	Financial Statement Eliminations	Total
Budgetary Resources:																
Unobligated Balance Brought Foward, October	$ 837	$ 8,501	$ 600	$ 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	-	88,568
Recoveries of prior year unpaid obligations	71	60	91	11	157	20	5	25	203	643	765	-	16	781	-	1,423
Other changes in unobligated balance	(271)	(1)	(1)	(5)	(123)	(103)	(2)	(7)	(98)	(612)	(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	28,184	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	7,090	45,790	-	-	-	-	-	45,790
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	8,768	-	1	8,769	-	8,769
Spending Authority from offsetting collections	13,317	758	-	3	10	167	1	-	50	14,306	24,002	3,531	151	27,683	-	41,989
Total Budgetary Resources	**$ 14,321**	**$ 9,318**	**$ 29,786**	**$ 2,675**	**$ 4,421**	**$ 1,143**	**$ 16,993**	**$ 1,224**	**$ 8,401**	**$ 88,280**	**$ 91,389**	**$ 5,769**	**$ 483**	**$ 97,641**	**$ -**	**$ 185,921**
Status of Budgetary Resources:																
Obligations Incurred																
Direct	6,169	21	29,049	2,525	1,959	573	4,816	1,024	7,144	53,280	45,820	-	43	45,863	-	99,143
Reimbursable	-	268	-	-	-	-	-	-	2	270	-	2,018	-	2,018	-	2,288
Subtotal	6,169	289	29,049	2,525	1,959	573	4,816	1,024	7,146	53,550	45,820	2,018	43	47,881	-	101,431
Unobligated Balances																
Apportioned	85	4	687	117	2,039	324	12,158	177	502	16,092	13,493	-	90	13,583	-	29,675
Unapportioned	8,067	9,025	49	33	423	246	19	23	753	18,638	32,076	3,751	350	36,177	-	54,815
Subtotal	8,152	9,029	736	150	2,462	570	12,177	200	1,255	34,730	45,569	3,751	440	49,760	-	84,490
Total Status of Budgetary Resources	**$ 14,321**	**$ 9,318**	**$ 29,786**	**$ 2,675**	**$ 4,421**	**$ 1,143**	**$ 16,993**	**$ 1,224**	**$ 8,401**	**$ 88,280**	**$ 91,389**	**$ 5,769**	**$ 483**	**$ 97,641**	**$ -**	**$ 185,921**
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)	-	-	-	11	-	-	-	-	-	11	-	-	-	-	-	11
Obligations Incurred	6,169	289	29,049	2,525	1,959	573	4,816	1,024	7,146	53,550	45,820	2,018	43	47,881	-	101,431
Outlays, (gross) (-)	(6,145)	(204)	(28,457)	(2,911)	(1,888)	(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 -)	-	(115)	-	-	-	-	-	-	-	(115)	-	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	281	8,865	4,871	2,605	2,303	12,861	3,568	5,147	41,087	2,228	266	17	2,511	-	43,598
Uncollected Payments:																
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	(3)	(10)	-	-	-	-	-	-	(3)	(16)	-	(8)	(58)	(66)	-	(82)
Change in uncollected customer payments, Fed sources (+ or -)	(6)	10	-	-	-	-	-	-	-	4	-	7	6	13	-	17
Actual Transfers, uncollected payments, Fed sources (net) (+ or -)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Uncollected payments, Fed sources, end of year (-)	(9)	-	-	-	-	-	-	-	(3)	(12)	-	(1)	(52)	(53)	-	(65)
Obligated balance, start of year (+ or -)	**$ 631**	**$ 361**	**$ 8,363**	**$ 5,267**	**$ 2,691**	**$ 2,862**	**$ 14,418**	**$ 3,819**	**$ 5,815**	**$ 44,227**	**$ 2,540**	**$ 106**	**$ (20)**	**$ 2,626**	**$ -**	**$ 46,853**
Obligated balance, end of year (net)	**$ 578**	**$ 281**	**$ 8,865**	**$ 4,871**	**$ 2,605**	**$ 2,303**	**$ 12,861**	**$ 3,568**	**$ 5,144**	**$ 41,075**	**$ 2,228**	**$ 264**	**$ (35)**	**$ 2,458**	**$ -**	**$ 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)	(11)	(484)	(1)	-	(50)	(14,707)	(31,182)	(3,538)	(157)	(34,876)	-	(49,583)
Change in Uncollected Customer Payments From Fed Sources (Dis and Man) (+ or -)	(6)	10	-	-	-	-	-	-	-	4	-	7	6	13	-	17
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Budget Authority, net (discretionary and mandatory)	367	(80)	29,096	2,522	2,104	193	3,100	1,000	7,090	45,392	1,590	-	-	1,590	-	46,982
Outlays, gross (discretionary and mandatory)	6,145	204	28,457	2,911	1,888	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)	(11)	(484)	(1)	-	(50)	(14,707)	(31,182)	(3,538)	(157)	(34,876)	-	(49,583)
Outlays, net (discretionary and mandatory)	(7,166)	(643)	28,457	2,908	1,877	628	6,368	1,250	7,565	41,243	14,184	(1,557)	(109)	12,519	-	53,762
Distributed offsetting receipts	(2,668)	-	(9)	-	-	-	-	-	(42)	(2,719)	-	-	-	-	-	(2,719)
Agency Outlays, net (discretionary and mandatory)	**$ (9,834)**	**$ (643)**	**$ 28,448**	**$ 2,908**	**$ 1,877**	**$ 628**	**$ 6,368**	**$ 1,250**	**$ 7,522**	**$ 38,524**	**$ 14,184**	**$ (1,556)**	**$ (109)**	**$ 12,519**	**$ -**	**$ 51,043**

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 (CFO Act) requires the U.S. Department of Housing and Urban Development (HUD) to prepare the accompanying consolidated balance sheets as of September 30, 2015 and 2014 (restated); 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 15-02.

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 https://www.hudoig.gov and are entitled (1) Additional Details to Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit (audit report 2016-FO-0003, issued November 18, 2015), (2) Audit of Federal Housing Administration Financial Statements for Fiscal Years 2015 and 2014 (audit report 2016-FO-0002, issued November 16, 2015), and (3) Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2015 and 2014 (Restated) (audit report 2016-FO-0001, issued November 13, 2015).

Auditor's Responsibility

We are required by the CFO Act, as amended by the Government Management Reform Act of 1994 and implemented by OMB Bulletin 15-02, Audit Requirements for Federal Financial Statements, to audit HUD's principal financial statements or select an independent auditor to do so.

Our responsibility is to express an opinion on the fair presentation of these principal financial statements in all material respects, in conformity with accounting principles generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion 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

Our audit identified four areas in which we were unable to obtain adequate audit evidence to provide a basis of opinion on the fiscal years 2015 and 2014 (restated) financial statements. When evaluating these areas and their impacts on the financial statements as a whole, we determined, in the aggregate, all four areas impacted multiple material financial statement line items and were material and pervasive to the fiscal years 2015 and 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 and unauditable budgetary accounting*. HUD continued to use budgetary accounting for the Office of Community Planning and Development (CPD) programs that was not performed in accordance with Federal generally accepted accounting principles (GAAP), which resulted in misstatements in HUD's combined statement of budgetary resources. In addition, the Government National Mortgage Association's (Ginnie Mae) budgetary accounting was not auditable during the fiscal year. Therefore, we could not assess whether the balances reported were reasonable.
>
> HUD used a cumulative and first-in first-out (FIFO) method[2] to disburse and commit CPD program funds that was not in accordance with GAAP for Federal grants. These methods

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[2] The FASAB Handbook defines FIFO as a cost flow assumption; The first goods purchased or produced are assumed to be the first goods sold (FASAB Handbook Version 13, appendix E, page 30, dated June 2014). In addition, the Financial Audit Manual (FAM) states that the use of "first-in, first-out" or other arbitrary means to liquidate obligations based on outlays is not generally acceptable (GAO-PCIE (U.S. Government Accountability Office-President's Council on Integrity and Efficiency) FAM, Internal Control Phase, Budget Control Objectives, page 395 F-3). In the context of HUD's use of this method, the first funds appropriated and allocated to the grantee

were used to determine the amount of uncommitted HOME Investment Partnerships Program grant funds that would be subject to reallocation and recapture under section 218(g) of the HOME Investment Partnership Act and to process disbursements for CPD formula programs, respectively. The effects of these methodologies were pervasive because the dollar risk exposure and volume of CPD grant activities from several thousand grantees (approximately $4.5 billion in annual appropriations to support CPD-related programs, including the HOME Investment Partnerships Program, Community Development Block Grant, Housing for Persons with AIDS, and Emergency Shelter Grant) and the system limitations of HUD's grant management and mixed accounting system to properly account for these grant transactions in accordance with the statutory requirements and GAAP were considered. Due to these issues, we determined that financial transactions related to CPD's formula based programs that entered HUD's accounting system had been processed incorrectly. Although FIFO has been removed for disbursements and commitments made from fiscal year 2015 and forward grants, this method will not be removed retroactively from prior year grants. Thus, based on the pervasiveness of their effects, in our opinion, the obligated and unobligated balance brought forward and obligated and unobligated balances reported in HUD's combined statement of budgetary resources for fiscal year 2015 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 could not 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.

Ginnie Mae's budgetary module within its Ginnie Mae Financial Accounting System did not accurately account for some of Ginnie Mae's budgetary resources. As a result, Ginnie Mae recorded several material top level adjustments to bring the balances into agreement with Ginnie Mae's control totals, most of which could not be supported. In addition, Ginnie Mae was unable to provide adequate documentation for transactional activity occurring in these accounts. As a result, we were unable to obtain sufficient, appropriate audit evidence regarding the accuracy of these adjustments because of when they were performed and the lack of adequate supporting documentation available for us to complete our review. Therefore we cannot form an opinion on the reliability of the status of Ginnie Mae's budgetary resources reported on HUD's combined statement of budgetary resources as of September 30, 2015, which totaled $19.8 billion.

<u>*Disclaimer of opinion on Ginnie Mae financial statements*</u>. For the second consecutive year, in fiscal year 2015, (1) we were unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of the $5.4 billion (net of allowance) in nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio and (2) Ginnie Mae continued to

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are the first funds committed and disbursed, regardless of the source year in which grant funds were committed for the activity.

improperly account for FHA reimbursable costs as an expense instead of capitalizing the costs as an asset. Additionally, Ginnie Mae performed restatements to correct prior-year misstatements; however, we were unable to gather sufficient, appropriate evidence to validate the accuracy and propriety of these accounting adjustments.

A number of Ginnie Mae balance sheet line items made up the $5.4 billion in nonpooled loan assets[3] which were consolidated into other-non-credit reform loans reported on HUD's consolidated balance sheet. The previous contractors maintained Ginnie Mae's accounting records and the supporting data. However, those records did not completely transfer to Ginnie Mae when it changed servicing contractors in September 2014. As a result, Ginnie Mae was unable to provide appropriate supporting documentation and data to enable us to audit the completeness and accuracy of these asset balances. Because of this limitation in our audit scope, we were unable to determine whether adjustments might be necessary with respect to these nonpooled loan assets.

Ginnie Mae continued to improperly account for Federal Housing Administration (FHA) reimbursable costs as an expense instead of capitalizing the costs as an asset in fiscal year 2015. This practice caused Ginnie Mae's asset and net income line items to be misstated, resulting in misstatements in HUD's assets, expenses, and net position. Due to multiple years of incorrect accounting, we believe the cumulative effect of the errors that we identified were material. However, we were unable to determine with sufficient accuracy a proposed adjustment to correct the errors due to insufficient available data.

In addition, as discussed in note 31, Ginnie Mae performed a restatement to correct prior period misstatements, many of which were consolidated into HUD's financial statements. These adjustments affected multiple asset, liabilities, and net position line items on HUD's consolidated balance sheet by $150 million, expenses and revenues on HUD's consolidated statement of net cost by $5.7 million, and net cost of operations on the consolidated statement of changes in net position by $150 million. Ginnie Mae also performed a second restatement of its reserve for loss balance, which impacted HUD's loss reserves and other non-credit-reform-loans reported on its consolidated balance sheet by $739 million. On October 23 and November 3, 2015, Ginnie Mae notified us about these adjustments. Due to the late notification of the adjustments, this condition limited our ability to adequately review them and gather sufficient, appropriate evidence to validate the accuracy and propriety of these accounting adjustments.

Improper accounting for HUD's assets. HUD did not properly account for several types of assets reported on its balance sheet related to (1) payments advanced to public housing agencies (PHA) for the Housing Choice Voucher program, (2) payments advanced to

[3] These are (1) mortgage loans held for investment, net ($4,353 million), (2) advances against defaulted mortgage backed security pools, net ($119 million), (3) claims receivable, net ($814 million), accrued interest receivable, net ($48 million) and acquired properties, net ($30 million).

Indian Housing Block Grant (IHBG) grantees for investment purposes, and (3) loans receivable related to the Emergency Homeowners' Loan Program (EHLP).

HUD adjusted its Office of Public and Indian Housing (PIH) prepayments reported on its consolidated balance sheet as of September 30, 2015, by $466.5 million for advanced funds held by Moving To Work (MTW) PHAs. HUD was not able to recognize a comparable amount as of September 30, 2014, for inclusion in its comparative statements because of the unavailability of information. Due to the (1) timing of the adjustment and (2) lack of appropriate supporting data, we were unable to perform sufficient audit procedures necessary to obtain reasonable assurance regarding the material adjustment performed. Further, not recognizing the balance of advanced funds held at MTW PHAs in both years presented did not comply with GAAP and prevented consistency between years presented.

HUD authorized recipients of Federal funds to retain funding advanced to it before incurring eligible expenses; however, HUD did not recognize these as advances on its financial statements in accordance with Statements on Federal Financial Accounting Standards 1. As of June 30, 2015, as much as $273 million was being held in investment accounts with PHAs and IHBG grantees, which represented an advance in accordance with the standards. Instead, HUD elected to present these as expenses on its statement of net cost once they were disbursed. Therefore, we believe the PIH prepayment reported on HUD's consolidated balance sheet and expenses reported on HUD's consolidated statement of net cost were likely misstated as of September 30, 2015, by approximately $273 million.

Lastly, HUD was unable to provide the loans receivable portfolio for EHLP for audit during the fiscal year due to a data review being performed as a result of serious deficiencies in the accuracy of the loan balances identified in our prior year audit report[4]. Therefore, we were unable to obtain sufficient appropriate evidence to express an opinion on the fairness of the balances reported in the direct loan and loan guarantees line item reported on HUD's consolidated balance sheet as of September 30, 2015 related to EHLP. The total loan principal issued under this program was $246 million; however HUD was unable to determine whether the current balance recognized of $133.6 million was an accurate net realizable value of the portfolio.

<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 developing reasonable estimates of accrued grant liabilities to report on their financial statements. While we obtained sufficient, appropriate audit evidence that fiscal year 2014's estimate was reasonable, we were unable to do so for the fiscal year 2015 estimate. This lack of

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

evidence was due to (1) CPD's not adequately validating its accrued grant liability estimates and (2) 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 CPD. There were no other compensating audit procedures that could be performed to obtain reasonable assurance regarding the $2 billion estimate. Therefore, we could not form an opinion on HUD's grant accrual estimate for fiscal year 2015. CPD's fiscal year 2015 estimated accrued grant liabilities were $2 billion, accounting for 84 percent of $2.4 billion total accrued grant liabilities reported on HUD's consolidated balance sheet.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion 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, 2015 and 2014 (restated), 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.

Emphasis of Matter

Restatement

At the time of issuance of this auditor's report and as discussed in note 31 to the financial statements, the 2014 financial statements have been restated for the correction of errors related to Ginnie Mae's accounting for cash and other monetary assets, general property, plant, and equipment and multiclass fee accounting. There were other material misstatements in the fiscal year 2015 financial statements related to the use of the FIFO method to liquidate obligations under CPD's formula grant programs. No adjustments had been made related to the use of FIFO because the specific amount of misstatements and their related effects were unknown. Additional details on these items can be found in note 31 to the financial statements. However, as stated in our basis for disclaimer, HUD did not include in its restatement the effects of correction of errors related to (1) PIH's excess funds held at MTW PHAs as of September 30, 2014 which was estimated to be $573 million, preventing consistency between periods presented, and (2) the correction of errors related to loans issued under the EHLP which have a loan principal of $246 million of which only $133.6 million is recognized on the financial statements. Additionally, as discussed in our basis for disclaimer, advanced funds held by grantees for IHBG grantees, which totaled as much as $218 million as of September 30, 2014 were not included in the financial statements due to HUD's disagreement regarding the presentation of these advances.

FHA's Loan Guarantee Liability

The loan guarantee liability (LGL) is an actuarially determined estimate of the net present value of future claims, net of future premiums and future recoveries, from loans insured as of the end of the fiscal year. This estimate is developed using econometric models that integrate historical loan-level program and economic data with regional house price appreciation forecasts to develop assumptions about future portfolio performance. This year's estimate is the mean value from a series of projections using many economic scenarios and FHA's single family liability for loan guarantee estimates reported as of September 30, 2015, and could change depending on which economic outcome prevails. This forecast method helps project how the estimate will be affected by different economic scenarios but does not address the risk that the models may not accurately reflect current borrower behavior or may contain technical errors. The LGL is discussed further in note 1 to the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

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

In its fiscal year 2015 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 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

In September 2015, OIG and Ginnie Mae published restatement memorandums to notify report users about the material misstatements identified during our fiscal year 2014 audit of Ginnie Mae's financial statements. In October 2015, Ginnie Mae performed a restatement to correct the fiscal year 2014 financial statements, and HUD performed a restatement of the consolidated financial statements as well. However, Ginnie Mae made this restatement to correct the additional accounting errors identified in fiscal year 2015. Those issues included in the September 2015 restatement memorandums had not been addressed. Accordingly, an additional restatement of Ginnie Mae's and HUD's consolidated financial statements may occur at a later time.

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 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.[5] 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 nine material weaknesses and eight significant deficiencies.

Material Weaknesses

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

CPD's formula grant program accounting continued to depart from GAAP because of its use of the FIFO method for committing and disbursing obligations. Since 2013, we have reported that the information system used, Integrated Disbursement Information System (IDIS) Online, a

[5] Audit Report 2016-FO-0003, Additional Details To Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statements, issued November 18, 2015; Audit Report 2016-FO-0002, Federal Housing Administration Financial Statements Audit, issued November 16, 2015; Audit Report 2016-FO-0001, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2015 and 2014 (Restated), issued November 13, 2015

grants management system, was not designed to comply with Federal financial management system requirements. Further, HUD's plan to eliminate FIFO from IDIS Online was applied to fiscal year 2015 and future grants and not to fiscal years 2014 and earlier. As a result, budget year grant obligation balances continued to be misstated, and disbursements made using an incorrect U.S. Standard General Ledger (USSGL) attribute resulted in additional misstatements. Although FIFO has been removed from fiscal year 2015 and forward grants, modifications to IDIS were necessary for the system to comply with the Federal Financial Management Improvement Act (FFMIA) and USSGL transaction records. The inability of IDIS Online to provide an audit trail of all financial events affected by the FIFO method made it impossible to quantify the financial effects of FIFO on HUD's consolidated financial statements. Further, because of 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 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.

HUD Did Not Account for Assets and Liabilities in Its Public and Indian Housing Programs in Accordance With GAAP and FFMIA

HUD did not properly account for advances (PIH prepayment),[6] receivables, and payables in its PIH programs in accordance with U.S. GAAP and FFMIA. First, HUD accounted for prepayments to MTW PHAs for fiscal year 2015 through manual fiscal-yearend adjustments that were based on self-reported data, not transactional data. It also did not recognize a comparative amount for fiscal year 2014. Second, HUD's accounting for its cash management process was untimely and incomplete because it did not include the recognition of receivables and payables when incurred. Third, HUD did not recognize a prepayment for funds advanced to its IHBG grantees used for investment. These problems occurred because of its continued weak internal controls over the cash management process, including the lack of an automated process. Additionally, the Office of the Chief Financial Officer (OCFO) did not have a mechanism to routinely communicate with program offices to evaluate GAAP compliance of program transactions. As a result, several significant financial statement line items were misstated or could not be audited as of September 30, 2015. Specifically, (1) $466.5 million recorded for MTW PHAs' housing assistance prepayment could not be audited; (2) HUD's PIH prepayments and accounts receivable on its balance sheet were understated by $232 million[7] and $41 million, respectively; (3) HUD's expenses on its statement of net costs were overstated by $273 million; and (4) HUD's accounts payable were understated by an unknown amount.

CPD's Grant Accrual Estimates Were Not Validated

CPD did not validate its estimated accrued grant liabilities. This deficiency was due to a lack of procedures and relevant grantee reporting. As a result, CPD could not ensure that its

[6] HUD accounts for advances in the PIH program as PIH prepayments.

[7] $232 million= $273 million in prepayments not recorded for IHBG minus a $41 million receivable not recorded in the Housing Choice Voucher program. This should have reduced the prepayment.

assumptions, and therefore its estimates were accurate. Additionally, we were unable to obtain sufficient, appropriate audit evidence on CPD's fiscal year 2015 estimated accrued grant liabilities. Therefore, we could not form an opinion on CPD's grant accrual estimate for fiscal year 2015.

Ginnie Mae's System's Data To Account for Its Budgetary Resources Were Not Auditable

In response to our fiscal year 2013 recommendation[8] regarding a material internal control weakness in financial reporting, Ginnie Mae implemented a system to account for its budgetary resources; however, the implementation was problematic, and the system's data was not reliable. Therefore, Ginnie Mae reverted to manual processes for reporting its budgetary resources to the consolidated financial statements. During fiscal year 2015, we were not able to audit the budgetary resource activity because Ginnie Mae (1) manually adjusted most of its budgetary accounts, (2) lacked proper controls or an adequate audit trail to support its material adjustments, and (3) did not provide its budgetary resources trial balances and detailed supporting documentation within the timeframe needed to conduct adequate audit procedures. This condition occurred because Ginnie Mae management did not devote sufficient resources to system implementation. As a result, we could not provide reasonable assurance regarding the status of $19.8 billion in budgetary resources that HUD reported for Ginnie Mae as of September 30, 2015.

HUD's Financial Management System Weaknesses Continued in 2015

Financial system limitations and deficiencies remained a material weakness in fiscal year 2015, although there were efforts to modernize HUD's financial management system by moving key financial management functions to a Federal shared service provider. These system limitations and deficiencies existed because of HUD's inability to modernize its legacy financial systems and the lack of an integrated financial management system, which we have reported on annually since 1991. Program offices compensated for system limitations by using less reliable manual processes to meet financial management needs. Existing system issues and limitations inhibited HUD's ability to produce reliable, useful, and timely financial information.

Material Asset Balances Related to Nonpooled Loans Were Not Auditable

In fiscal year 2015, Ginnie Mae again failed to bring its material asset balances related to nonpooled loans, including the related accounts, into an auditable state. For this reason, we deemed last year's audit matters to be unresolved, and we were unable to audit the $5.4 billion (net of allowance) in nonpooled loan assets reported in Ginnie Mae's and HUD's consolidated financial statements as of September 30, 2015. This condition occurred because Ginnie Mae's executive management[3] did not ensure that Ginnie Mae's or its mastersubservicers' financial management systems were capable of meeting Ginnie Mae's loanlevel transaction accounting

[8] 2014-FO-0003, recommendation 3B, Develop and implement plans to ensure that Ginnie Mae's core financial system is updated to include functionality in the system to perform budgetary accounting at a transaction level using the USSGL to comply with FFMIA.

requirements to comply with GAAP. These deficiencies resulted in Ginnie Mae producing unauditable financial statements with materially misstated asset balances.

Given the current state of Ginnie Mae's accounting systems and records, we were again unable to perform all of the audit procedures that we determined to be necessary for obtaining sufficient, appropriate evidence. As a result, our audit scope was insufficient to express an opinion on Ginnie Mae's $5.4 billion in nonpooled loan assets as of September 30, 2015.

<u>Ginnie Mae's Internal Controls Over Financial Reporting Continued To Have Weaknesses</u>

In fiscal year 2014, we reported that Ginnie Mae's internal control over financial reporting was not effective. This condition continued in fiscal year 2015. These material weaknesses in internal controls were issues related to the (1) improper accounting for FHA reimbursable costs and accrued interest earned on nonpooled loans, (2) nonreporting of escrow deposits held in trust by Ginnie Mae for the borrowers in its financial statements, (3) improper classification and presentation of financial information in Ginnie Mae's statement of cash flows, (4) improper revenue recognition of guarantee fees, (5) improper accounting for the month-end's custodial account balances, (6) omission of the required footnote disclosure and (7) the use of an unreasonable assumption in estimating the valuation of its mortgage servicing rights portfolio. The first three issues were repeat findings from the fiscal year 2014, and the remaining four issues were new in fiscal year 2015. This occurred because of executive management's failure to ensure (1) adequate monitoring and oversight of its accounting and reporting functions were in place and operating effectively, (2) serious staffing problems within Ginnie Mae's OCFO were addressed, and (3) accounting policies, procedures, and systems were in place to track accounting transactions and events at a loan level. As a result of these deficiencies, Ginnie Mae failed to prevent or detect material misstatements in its financial statements.

<u>Ginnie Mae's Mortgage-Backed Security Liabilities for Loss Account Balance Remained Unreliable</u>

In fiscal year 2015, Ginnie Mae's executive management confirmed our concerns about the reliability of the yearend balance in its mortgage-backed securities loss liability account in a written representation letter provided to OIG this year. Specific issues posed in the fiscal year 2014 audit report were related to (1) improper accounting treatment of selected accounting transactions on nonpooled loans in the mortgage-backed securities loss liability account and (2) a lack of evidence to support the reasonableness of key management assumptions used in the loss reserve model. Factors that contributed to the issue included the adoption of an inappropriate loan accounting policy and a lack of indepth analysis to validate the reasonableness of the management assumptions. Considering the impact of these issues and their significance, for the second year, we deemed the mortgage-backed securities loss liability account to be unreliable.

HUD's and Ginnie Mae's Financial Management Governance Was Ineffective[9]
Overall, we determined that HUD's financial management governance remained 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.

Ginnie Mae's executive management failed to make significant improvements in addressing the financial management governance problems cited in our fiscal year 2014 audit report and regressed in some areas. Specifically, these problems included a failure to (1) backfill key positions in the Ginnie Mae OCFO, (2) ensure that emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner, and (3) establish adequate and appropriate accounting policies and procedures and accounting systems. In addition, for the first time in fiscal year 2015, we found Ginnie Mae's entitywide governance of the models used to generate accounting estimates for financial reporting was ineffective. This condition occurred because (1) Ginnie Mae's President and Executive Vice President failed to set the appropriate tone at the top by delaying needed changes in its accounting operations and (2) Ginnie Mae was overwhelmed by the difficult and complex financial management challenges encountered during the year, coupled with the lack of adequate senior accounting and financial staff to manage these problems. These failures in governance by Ginnie Mae's executive management contributed to its failure to prevent or detect material misstatements and impaired Ginnie Mae's ability to produce auditable financial statements.

While HUD and its components took steps in fiscal year 2015 to address some of the weaknesses in its financial management governance structure and internal controls over financial reporting, deficiencies continued to exist. Specifically, OCFO needed to provide stronger direction to program office accounting and improve financial management and governance issues at Ginnie Mae. Additionally, HUD needs to be more consistent in its control and monitoring activities, including front-end risk assessments, management control reviews, and reconciliation activities. These conditions stemmed from HUD's inadequate implementation of the CFO Act and the lack of a senior management council. These shortcomings limited the ability of OCFO to stress the importance of financial management and facilitate 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 and was in the process of replacing its outdated legacy financial systems. 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. Entity-level controls could improve HUD's governance and enable the prevention, detection, and mitigation of significant program and component-level internal control

[9] This was classified as a material weakness, based on the findings on financial management governance reported in Audit Report 2016-FO-0003, Additional Details to Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, and Audit Report 2016-FO-0001, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2015 and 2014 (Restated).

weaknesses. As a result of control weaknesses, multiple deficiencies existed in HUD's internal controls over financial reporting, resulting in misstatements on the financial statements and noncompliance with laws and regulations.

Significant Deficiencies

Weaknesses in HUD's Administrative Control of Funds System Continued

We have reported on HUD's administrative control of funds in our audit reports and management letters since fiscal year 2005. HUD continued to not have a fully implemented and complete administrative control of funds system that provided oversight of both obligations and disbursements. Our review noted instances in which (1) the Office of Multifamily Housing Programs did not follow HUD's administrative control of funds; (2) program codes were not included in funds control plans; (3) funds control plans were out of date or did not reflect the controls and procedures in place; and (4) OCFO staff processed accounting changes without proper review, approval, and sufficient supporting documentation. 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) a lack of policies and procedures requiring documentation of system accounting changes. As a result, HUD could not ensure that its obligations and disbursements were within authorized budget limits and complied with the Antideficiency Act (ADA).

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, some program offices did not complete their obligation reviews in a timely manner, and we discovered $200.4 million in invalid obligations not previously identified by HUD. We discovered another $331.1 million in obligations that had been inactive for at least 2 years, indicating potentially additional invalid obligations. We also discovered $30.7 million in obligations that HUD determined needed to be closed out and deobligated during the fiscal year that remained on the books as of September 30, 2015. These deficiencies were attributed to ineffective monitoring efforts and the inability to promptly process contract closeouts. We also noted that, as of September 30, 2015, HUD had not implemented prior-year recommendations to deobligate $106.3 million in funds. As a result, HUD's unpaid obligation balances on the statement of budgetary resources were potentially overstated by $668.5 million.

The Emergency Homeowner's Loan Program Data Was Not Auditable

Loan balances related to EHLP were incomplete, unreliable, and not available for audit during the fiscal year 2015 audit. This condition occurred because the loan data in HUD's systems were not reliable and HUD did not complete a review of the data in time for inclusion in the fiscal year 2015 financial statements. As a result, we were unable to perform all of the audit procedures we deemed necessary to obtain sufficient, appropriate audit evidence regarding the accuracy of loan receivable balances related to the EHLP. However, loans with a total principal of at least $116 million had not been recorded in the subsidiary ledger as of the end of fiscal year 2015, increasing the risk of misstatement.

HUD's Computing Environment Controls Had Weaknesses
HUD's computing environment, data centers, networks, and servers provide critical support to all facets of its programs, mortgage insurance, financial management, and administrative operations. In fiscal year 2015, we audited general controls over the IBM mainframe general support system, which houses applications that support the preparation of HUD's financial statements. HUD did not ensure that general controls over its computing environment fully complied with Federal requirements. Specifically, (1) some accounts on the IBM mainframe were not properly managed and (2) vulnerabilities were not reported in system security documentation. These weaknesses occurred because policies were not always followed. In addition, although HUD had taken action to address information system control weaknesses reported in prior years, several of those weaknesses remained open. Without adequate general controls, there was no assurance that financial management applications and the data within them were adequately protected.

Ginnie Mae Did Not Provide Adequate Oversight of its Master Subservicer To Ensure Compliance With Federal Regulations and Guidance
Ginnie Mae did not provide adequate oversight of one of its single family mastersubservicers to ensure adequate business process controls were in place to provide a compliant level of internal controls over financial reporting. Specifically, (1) proper segregation of duties does not exist over cash processes; (2) ongoing monitoring was not in place to review change activities made by individuals in the loan administration department, who had access to and change capability for master data for approximately 21,000 loans; and (3) management used an ineffective monitoring tool that did not capture all financial data adjustments. These conditions occurred because (1) the contractor believed that the risk of wrongful acts was mitigated through its use of security cameras, access restrictions, and background checks; (2) management did not have a policy and process to perform periodic monitoring or review reports to ensure that unauthorized changes were not made; (3) the approval process for adjustments was not automated within the contractor's primary financial system that houses all loan transactions; and (4) the report that was used to monitor financial data changes did not allow for a meaningful review because it did not capture all financial data adjustments. As a result, Ginnie Mae's data was susceptible to unauthorized access and tampering which increased its risk of undetected misstatements in the financial statements.

Controls To Prevent Misclassification of FHA Receivables Had Not Been Fully Implemented
In fiscal year 2015, our review of partial claims found that the risk of not completely and accurately identifying recorded loans receivable with missing notes at the end of each reporting period continued to be an issue. The risk continued because the action plans developed by FHA in 2015 to remedy the control deficiencies identified in our 2014 audit report have not been fully implemented. As a result, we continue to have concerns regarding the reliability of financial information related to loans receivable produced using FHA's current partial claims business processes.

<u>FHA's Internal Control Over Financial Reporting Had Weaknesses</u>
In fiscal year 2015, we identified weaknesses in FHA's internal control over financial reporting. These weaknesses related to (1) a failure to obligate funds for future borrower disbursements upon home equity conversion mortgages (HECM) notes, (2) a failure to implement some key controls over its cash flow modeling processes, and (3) inadequate procedures for identifying and reviewing abnormal USSGL account balances. Factors contributing to these issues were (1) FHA's belief that future borrower disbursements should be treated as claim payments made to lenders and (2) the lack of emphasis on the need for or importance of maintaining complete and up-to-date model documentations. These weaknesses significantly increased FHA's risk of having errors in its financial statements and not preventing and detecting them in a timely manner.

<u>Weaknesses Were Identified in Selected FHA Information Technology Systems</u>
Our review of the general and application controls over FHA's Single Family Insurance System (SFIS) and the Claims subsystem found that (1) there were weaknesses in the SFIS information system, which included five of the nine vulnerabilities identified during the fiscal year 2015 vulnerability scan previously identified but not corrected; (2) the risk assessment prepared for SFIS did not accurately document whether SFIS was operating with an acceptable level of risk; (3) effective application contingency planning had not been implemented for SFIS; (4) SFIS may be at risk due to improperly implemented security controls with connected applications; and (5) SFIS management was not familiar with the data values. Additionally, we found a weakness in the Claims information system, in which some of the personally identifiable information (PII) was not encrypted. These conditions occurred because some application controls were not sufficient. As a result, the information used to provide input to the FHA financial statements could be adversely affected.

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 six 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. 15-02, 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.

<u>HUD's Financial Management Systems Did Not Comply With the Federal Financial Management Improvement Act</u>
We have reported on HUD's lack of an integrated financial management system annually since 1991. In fiscal year 2015, we noted a number of instances of FFMIA noncompliance with HUD's financial management system. HUD's continued noncompliance was due to a reliance on financial system limitations and information security weaknesses. While HUD continued to work toward financial management system modernization in 2015, significant challenges remained.

HUD Continued To 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 HUD's recapture policies continued to result in HUD's noncompliance with HOME Statute requirements. Further, HUD's corrective action plan to modify IDIS to assess grantee compliance on a grant-by-grant basis for fiscal year 2015 and later grants was halted due to budget shortfalls. As a result, HUD incorrectly permitted some jurisdictions to retain, commit, and disburse HOME Investment Partnerships Program grant funds beyond the statutory deadline. 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. Additionally, we concluded that these conditions created the potential for an ADA violation, which was reported to OCFO in an audit memorandum.[10] Lastly, allowing grantees to disburse from commitments made outside the 24-month statutory period may have caused HUD to incur improper payments.

HUD Did Not Comply With Treasury's Financial Manual's Rules on Cash Management or 2 CFR Part 200

HUD did not comply with Treasury's cash management regulations[11] and 2 CFR (Code of Federal Regulations) Part 200[12] because HUD's PHAs maintained Federal cash in excess of their immediate disbursement need. Specifically, MTW PHAs reported maintaining $573 million and $466.5 million as of September 30, 2014, and September 30, 2015, respectively. In addition, non-MTW PHAs held between $81 million and $106 million for up to 6 months before it was transitioned back to HUD. This condition occurred because HUD could not quantify the amount of MTW accumulations that existed or how much it should transition. Additionally, HUD did not have a system to perform (1) cash reconciliations to identify accumulations and (2) offsets to transition accumulations back to HUD in a timely manner. Since PHAs maintained these funds in excess of their immediate disbursement needs for extended periods, HUD did not in comply with Treasury's cash management regulations or the related CFR regulations, and it could not ensure that these funds were properly safeguarded against fraud, waste, and abuse.

HUD Reported 14 ADA Violations in October 2015; and OIG Referred One Potential Violation to HUD

In fiscal year 2015, HUD OCFO made demonstrable progress and remedied long-standing issues related to ADA reporting requirements in October 2015.[13] As of September 30, 2015, all

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[10] Audit Memorandum 2015-FO-0801, Potential Antideficiency Act Violation HOME Investment Partnerships Program, issued June 16, 2015.

[11] Treasury Financial Manual Vol. 1, Part 4A- Section 2045.10- Cash Advances Establishing Procedure for Cash Advances-section 3.

[12] 2 CFR 200 305.

[13] 31 U.SC. (United States Code) 1341, 1342, 1350, 1517, and 1519; Once it has been determined that there has been a violation of 31 U.S.C 1341(a), 1342, or 1517(a), the agency head "shall report immediately to the President and Congress all relevant facts and a statement of actions taken" in accordance with 31 U.S.C. 1351, and 1517(b).

confirmed ADA violations were with OMB for review and approval. We noted that in October 2015, HUD reported 14 ADA violations that occurred between 2004 and 2014 to the President, U.S. Government Accountability Office (GAO), and Congress. Additionally, during the course of our 2015 audit, we noted a potential ADA violation regarding the HOME Investment Partnerships Program.

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

For fiscal year 2014, HUD[14] found that HUD did not comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) because it (1) did not include all accompanying materials required by OMB in its published fiscal year 2014 agency financial report and (2) did not conduct a compliant program specific risk assessment for each program. Specifically, HUD did not adequately report on its supplemental measures as required by OMB and its risk assessment did not include a review of all relevant OIG audit reports. This is the second year in a row that HUD did not comply with IPERA. Additionally, significant improper payments in HUD's rental housing assistance programs continued during fiscal year 2014.

Ginnie Mae Did Not in Comply With the Debt Collection Improvement Act of 1996

Ginnie Mae did not take all steps necessary to maximize collection of mortgage-backed securities (MBS) program debts as required by the Debt Collection Improvement Act (DCIA) of 1996. Specifically, it failed to analyze the possibility of collecting on certain uninsured mortgage debts owed to Ginnie Mae using all debt collection tools allowed by law before writing them off. This condition occurred because Ginnie Mae's executive management decided to not pursue the MBS program debts because it believed that DCIA did not apply to Ginnie Mae; therefore it did not need to comply with DCIA requirements. As a result, Ginnie Mae may have missed opportunities to collect millions of dollars in debts related to losses on its MBS program.

Results of the Audit of FHA's Financial Statements

We performed a separate audit of FHA's fiscal years 2015 and 2014 financial statements. Our report on FHA's financial statements, dated November 16, 2015,[15] includes an unqualified opinion on FHA's financial statements, along with discussion of three significant deficiencies in internal controls.

Results of the Audit of Ginnie Mae's Financial Statements

We performed a separate audit of Ginnie Mae's fiscal years 2015 and 2014 (restated) financial statements. Our report on Ginnie Mae's financial statements, dated November 13, 2015,[16] includes a disclaimer of opinion on these financial statements, along with discussion of four

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[14] Audit Report 2015-FO-0005, Compliance With the Improper Payments Elimination and Recovery Act, issued May 15, 2015.

[15] Audit Report 2016-FO-0002, Audit of Federal Housing Administration Financial Statements for Fiscal Years 2015 and 2014, issued November 16, 2015, was incorporated into this report.

[16] Audit Report 2016-FO-0001, Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2015 and 2014 (Restated), issued November 13, 2015, was incorporated into this report.

material weaknesses, one significant deficiency in internal control, and one instance of noncompliance with laws and regulations.

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 15-02. 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 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.

With respect to information presented in HUD's "required supplementary stewardship information" and "required supplementary information" and management's discussion and analysis presented in HUD's fiscal year 2015 agency financial report, we performed limited testing procedures as required by AU-C 730, Required Supplementary Information. Our procedures were not designed to provide assurance, and, accordingly, we do not provide an opinion on such information.

Because of the matters described in the Basis for Disclaimer of Opinion 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 5, 2015, we provided a draft of the internal control and compliance sections of our report to OCFO, appropriate assistant secretaries, and other departmental officials and requested that OCFO coordinate a departmentwide response. OCFO responded in a memorandum dated November 10, 2015, which is included in its entirety in our separate report, along with our complete evaluation of the response. In summary, while OCFO recognized there were some weaknesses within its operations, it indicated it did not have adequate time to sufficiently validate the information within the draft report. It also indicated that beginning in December 2015 it would work closely with the OIG to develop optimal resolutions to result in a more effective HUD.

All facts presented were communicated to the OCFO and applicable program offices throughout the course of the audit through multiple vehicles such as assessments, notifications of findings and recommendations, finding outlines, and periodic status meetings. Additionally, all the findings presented, with the exception of two, were reported in prior years and represent long standing weaknesses within HUD's financial management. We look forward to working with HUD to find satisfactory resolution to the findings presented through the audit resolution process.

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.

Frank Rokosz
Deputy Assistant Inspector General for Audit

November 18, 2015

Schedule of Spending

U.S. Department of Housing and Urban Development
Schedule of Spending
For the Years Ended September 30, 2015, and 2014
(Dollars in Millions)

	FHA Programs	GNMA Programs	CFO Programs	HUD Total
FY 2015				
What Money is Available to Spend?				
Total Resources	115,562	19,844	63,695	199,101
Less: Amount Available but not Agreed to be Spent	(3,565)	(6)	(13,034)	(16,605)
Less: Amount Not Available to be Spent	(47,154)	(14,065)	(2,091)	(63,310)
			-	
Total Amounts Agreed to be Spent	64,843	5,773	48,570	119,186
How was the money Spent?				
Category A Programs				
10 Personnel Compensation and Benefits	-	-	984	984
20 Contractural Services and Supplies	-	-	-	-
30 Acquisition of Assets	-	-	-	-
40 Grants and Fixed Assets	-	-	-	-
99 Other	-	-	-	-
Category B Programs				
10 Personnel Compensation and Benefits	-	22	573	595
20 Contractural Services and Supplies	319	-	906	1,225
30 Acquisition of Assets	385	-	3	388
40 Grants and Fixed Assets	63,474	-	46,103	109,577
99 Other	-	5,713	-	5,713
Total Spendinig	64,177	5,735	48,570	118,482
Amount Remaining to be Spent	666	38	-	704
Total Amounts Agreed to be Spent	**64,843**	**5,773**	**48,570**	**119,186**
Where Did the Money Go To?				
For Profit Organizations	24,366	1,516	27,508	53,390
Non Profit Organizations	-	-	-	-
Government Organizations	40,477	4,197	429	45,103
PHA Administered Programs	-	-	19,392	19,392
Other	-	60	1,241	1,301
Total Amounts Agreed to be Spent	**64,843**	**5,773**	**48,570**	**119,186**
How was the money issued?				
Non Federal Assistance Direct Payments	-	-	-	-
Contracts	794	402	48,570	49,766
Loans and Guarantees	39,290	-	-	39,290
Non Credit Reform Loans	-	4,197	-	4,197
Financial Assistance Direct Payments	-	-	-	-
Oher Financial Assistance	-	7	-	7
Insurance	22,996	-	-	22,996
Interest on Borrowings	1,187	-	-	1,187
Other Payment Types	576	1,167	-	576
				1,743
Total Amounts Agreed to be Spent	**64,843**	**5,773**	**48,570**	**119,186**

Schedule of Spending

U.S. Department of Housing and Urban Development
Schedule of Spending
For the Years Ended September 30, 2015, and 2014 (continued)
(Dollars in Millions)

FY 2014 (Restated)	FHA Programx	GNMA Programs	CFO Programs	HUD Total FY
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	-	-	305	305
20 Contractural Services and Supplies	-	-	-	-
30 Acquisition of Assets	-	-	-	-
40 Grants and Fixed Assets	-	-	-	-
99 Other	-	-	-	-
Category B Programs				
10 Personnel Compensation and Benefits	-	20	835	855
20 Contractural Services and Supplies	215	-	771	986
30 Acquisition of Assets	596	-	100	696
40 Grants and Fixed Assets	50,700	-	45,127	95,827
99 Other	-	2,167	-	2,167
Total Spendinig	51,511	2,187	47,138	100,836
Amount Remaining to be Spent	478	120	-	598
Total Amounts Agreed to be Spent	**51,989**	**2,307**	**47,138**	**101,434**
Where Did the Money Go To?				
For Profit Organizations	29,280	1,582	27,324	58,186
Non Profit Organizations	22,709	-	11	22,720
Government Organizations	-	705	353	1,058
PHA Administered Programs	-	-	19,303	19,303
Other	-	20	147	167
Total Amounts Agreed to be Spent	**51,989**	**2,307**	**47,138**	**101,434**
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 on borrowings	695	-	-	695
Other Payment Types	-	1,183	-	1,183
Total Amounts Agreed to be Spent	**51,989**	**2,307**	**47,138**	**101,434**

Comparisons

The Schedule of Spending is produced by taking appropriate line items from the Statement of Budgetary Resources and subsidiary reports from HUD's accounting systems which define obligations by budget object codes, categorizing the payments by vendor categories summarized in the report. The data related to GNMA and FHA are also based on data from their respective accounting systems and subsidiary data accumulated from their respective organizations. HUD modified the sections of the report to the main recipients who receive federal assistance from the Department. The data was analyzed based on HUD's businesses processes and its primary recipients.

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 AFR.

HUD is reviewing User Fees in FY 2016 and will work with program area budget officers. FY 2016 is 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

OCT 2 7 2015

Memorandum

TO: Julian Castro
Secretary, S

FROM: David A. Montoya
Inspector General, G

SUBJECT: Management and Performance Challenges for Fiscal Year 2016 and Beyond

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General is submitting its annual statement to summarize 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 2016 and beyond. Through our audits, evaluations, and investigations, we work with departmental managers to recommend best practices and actions that help address these challenges. More details of these efforts 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 our assessment of nine key management and performance 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 2016 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 continues to lack a valid basis for assessing its human resource needs and allocating staff within program offices. While the Office of Inspector General (OIG) has done limited work in this area, several studies have been completed on HUD's use of human capital by the Office of Personnel Management (OPM), and the U.S. Government Accountability Office (GAO).

Human Capital Studies
A June 2012 OPM review 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 (1) strategic alignment, (2) leadership and knowledge management, (3) results-oriented performance culture, (4) talent management, and (5) 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 2016, 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 September 2013, GAO issued a report evaluating the goals-engagement-accountability-results (GEAR) framework, which was developed to help improve performance management in the Federal Government. 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 agency-wide. GAO found that HUD's GEAR plan lacked objectives to identify HUD's purpose for implementing the GEAR framework and did 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.

In May 2015, GAO issued a report based on testimony of GAO work issued from January 2014 through February 2015 and ongoing work related to employee engagement. The testimony focused on key human capital areas in which some actions had been taken but attention was still needed by OPM and Federal agencies on issues such as (1) the General Schedule classification system, (2) mission-critical skills gaps, (3) performance management, and (4) employee engagement. The report provides the retirement rate of Federal civilian employees. In HUD, more than 43 percent of career permanent employees onboard as of September 30, 2014, were eligible to retire by 2019. Given this statistic, HUD will need to ensure that it has steps in place to fill the critical skills gap to ensure the continuity of business and that it fulfills its agency missions.

HUD's Use of Intergovernmental Personnel
Since 2009, HUD has entered into 21 temporary assignments of non-Federal personnel to positions within the Department under the Intergovernmental Personnel Act (IPA). HUD faces challenges in executing and managing the assignment agreements because its processes and responsibilities are divided among program areas of the Department and there is no central point of authority over these agreements. We have already reported on an inherent conflict of interest situation and overpayments[1] and a potential Antideficiency Act (ADA) violation involving two IPA assignees[2]. In February 2014, Inspector General Montoya testified at the hearing on "Exploring Alleged Ethical and Legal Violations at the U.S. Department of Housing and Urban Development" before the House Oversight and Investigations Subcommittee regarding one of our multifaceted assignments on IPAs. The Inspector General's testimony provided examples of serious violations of ethical, lobbying, and hiring violations at HUD in which senior HUD officials had been involved in an effort to mask these embarrassing and questionable activities. Further, investigations revealed the hiring of convicted criminals into key housing positions.

We continue to work in this area due to our findings and continued concerns. In 2014, HUD revised its policy regarding assignment agreements under the IPA, but the policy remains in draft form.

HUD is making sweeping changes to the way it operates. While 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's significant management challenge continued in fiscal year 2015 as it struggled to 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

[1] Memorandum Number 2015-FW-0801, Intergovernmental Personnel Act Appointment Created an Inherent Conflict of Interest in the Office of Public and Indian Housing, May 30, 2014
[2] Memorandum Number 2014-FW-0801, Potential Antideficiency Act Violations Intergovernmental Personnel Act Agreements, May 30, 2014

Act of 1982 (FMFIA) and the Chief Financial Officers Act of 1990. In our Fiscal Year 2014 and 2013 Financial Statement Audit report[3], we issued a disclaimer of opinion based on improper budgetary accounting related to Office of Community Planning and Development (CPD) grants and because of a disclaimer of opinion issued on the Government National Mortgage Association's (Ginnie Mae) stand-alone financial statements. In addition, in our report on internal control, we reported on eight material weaknesses, eight significant deficiencies, and five instances of noncompliance with laws and regulations. One of the material weaknesses directly addressed the weaknesses in HUD's financial management governance, and several of the other material weaknesses and significant deficiencies have causes that we have attributed, in part, to weaknesses in HUD's financial management governance structure.

Currently, OCFO lacks a position or division to

(1) Monitor the issuance of accounting policies and standards from entities such as the Federal Accounting Standards Advisory Board and 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 and other financial management regulations.

In the fall of 2014, HUD contracted with the National Academy of Public Administration (NAPA) for an organizational assessment of financial management at HUD to identify risks associated with the transition of its accounting functions to a shared service provider and in part to address concerns previously identified by OIG. NAPA issued its report March 19, 2015.[4]

As we have previously recommended, NAPA found that to strengthen its financial governance structure, HUD's OCFO should establish an internal Chief Financial Officer council and evaluate opportunities to enhance its monitoring of financial activity and controls. HUD lacks 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.

We believe that these are critical steps towards establishing effective internal controls.

In addition to its concerns and recommendations regarding HUD's impending transition to a shared service provider for financial management functions, NAPA found that HUD should

[3] Audit Report 2015-FO-0004, U.S. Department of Housing and Urban Development Fiscal Years 2014 and 2013 Consolidated Financial Statements Audit, March 6, 2015
[4] Department of Housing and Urban Development, Office of Chief Financial Officer, Organizational Assessment, March 19, 2015.

strengthen its finance workforce. As we have previously reported, 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 2014 and 2015 there was a 15 percent turnover and a 9 percent reduction in full-time employees. 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.

HUD's current financial management structure 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, we have found that program-related issues, concerns, and decisions often take a higher priority than financial management and the requirements for proper financial accounting. Previous 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. For example, the material weakness associated with CPD's budgetary accounting for grants, which contributed to our 2014 disclaimer of opinion, occurred within the environment of substantial delegation and deferral to program office priorities.

While HUD has taken initial steps to address these issues, substantial work remains. HUD's initial efforts have included an effort to develop a memorandum of understanding between OCFO and program offices to improve collaboration with program offices on important accounting issues.

HUD has also made progress regarding the establishment and updating of financial management handbooks and policies and procedures. However, some HUD financial management handbooks remain outdated or incomplete, and further development of policies and procedures is necessary. To improve continuity of accounting policies and procedures in a changing environment, financial management policy should be centrally located and easily accessible by staff. OCFO's significant turnover in the past 5 years, combined with the lack of a policy framework, has contributed to issues related to compliance with accounting standards and other regulations. HUD must continue to establish and implement accounting policies and procedures in a permanent and easily accessible manner.

In addition to the issues associated with OCFO's financial management governance, we have identified significant financial governance issues within Ginnie Mae.

In fiscal year 2015, Ginnie Mae failed to maintain a governance framework that allowed appropriate policies, people, systems, and controls to ensure the reliability and integrity of Ginnie Mae's financial and accounting information. As a result, Ginnie Mae will face significant risks and challenges in fiscal year 2016. Ginnie Mae's management of risks associated with (1) handling complex and changing financial management operations without the appropriate accounting policies and procedures in place and (2) monitoring the work performed by the master subservicers, as third-party service providers, on Ginnie Mae's multi-billion-dollar servicing portfolio will challenge Ginnie Mae's inadequate financial management staff. This issue is a result of Ginnie Mae executive leadership's failure to backfill a number of critical financial management positions, including the deputy chief financial officer, controller, and economic modeling director. All of these positions have significant financial reporting roles within Ginnie Mae. However, as noted in fiscal year 2014, these positions had been vacant for an extended period, and Ginnie Mae relied heavily on contractors to compensate for the staffing deficiencies in the Office of Finance. For example, we noted that the deputy chief financial officer, controller, and economic modeling director positions had been vacant for 23, 18, and 7 months respectively. Additionally, Ginnie Mae lost its Chief Financial Officer in April 2015 after only a year on the job. Although Ginnie Mae has an acting Chief Financial Officer and the internal controls manager position was filled in April 2015, these individuals have not been fully functioning in their respective roles because of other work priorities.

Overall, Ginnie Mae needs to address its financial management governance deficiencies by filling the gaps in its financial management staff; reviewing its system of internal control for identifying, analyzing, and managing risks; and developing appropriate accounting policies and procedures to properly manage a $1.6 trillion mortgage-backed securities (MBS) portfolio.

HUD needs to implement processes and procedures to ensure an effective system of internal control, not only for financial management governance, but across the Department within all programs. Effective for fiscal year 2016, HUD will be responsible for implementing GAO's Standards for Internal Control in the Federal Government[5] (The Green Book). These standards provide the criteria for designing, implementing, and operating an effective internal control system and define specific principles that are integral to an entity's internal control system. Based on the ongoing issues noted above, we are concerned about HUD's ability to successfully implement these new standards in the coming fiscal year and forward.

3. Financial Management Systems

Annually since 1991, 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. In the fall of 2012, the New Core Project was created to move HUD to a new core financial system that would be maintained by a shared service provider, the U.S. Department of the Treasury's Bureau of Fiscal Services (BFS). The project has 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 BFS on October 1, 2014.
  - Release 2 transferred the time and attendance functions to BFS on February 8, 2015.

[5] Audit Report GAO-14-704G, Standards for Internal Control in the Federal Government, September 2014

- Release 3 was implemented on October 1, 2015, and covers 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.

➢ 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.

Details regarding phases 2 and 3 of the project have not been finalized, and there are no scheduled start dates.

Resources to fund the New Core Project come from various organizations and funding sources. New Core has a three-part budget development that includes the following:

- Modernization and enhancement funds from the Working Capital Fund - information technology (IT) portfolio,
- Full-time employees from many sources, and
- Operations and maintenance – salaries and expenses.

Funding delays and cuts have impacted modernization and enhancement activities. As a result, money appropriated in fiscal year 2014 was not fully available. As of February 2015, HUD had received only about $4.5 million of the $10 million budgeted. In addition, congressional cuts to fiscal years 2015-16 funding resulted in the elimination of all modernization and enhancement funding, including the $15.9 million budgeted for the New Core Project. A significant amount of the operations and maintenance funding requested was also eliminated, resulting in the $16.6 million requested for the New Core Project being transferred to the salaries and expenses budget. As a result, New Core is pursuing $18 million, the $10 million budgeted and an additional $8 million reallocated from other projects, to cover current agreement and pending activity costs through March 2016.

During this fiscal year, we completed two audits[6] on HUD's implementation of the New Core Project. In the first audit, published in June 2015, we found that weaknesses in the planned implementation of release 3 of phase 1 in the New Core Project were not adequately addressed. We determined that HUD did not follow its own agency policies and procedures, the policies established for the New Core Project, or best practices. HUD will become the first cabinet-level agency to use a Federal shared service provider. The transfer of its financial management to a shared service provider has been widely publicized. HUD's previous attempt to use a commercial shared service provider to start a new financial management system failed after more than $35 million was spent. Our review of the previous project determined that OCFO did not properly plan and manage its implementation of the project. If HUD is not successful in this implementation, it could reflect negatively on OMB's mandate to use Federal shared service providers. The weaknesses identified in this report relate to requirements and schedule and risk

[6] Audit Report 2015-DP-0006, Weaknesses in the New Core Project Were Not Adequately Addressed, June 12, 2015, and Audit Report 2015-DP-0007, New Core Release 1 of Phase 1 Implementation Was Not Completely Successful, September 3, 2015

management. These areas are significant to the project plan, and the effectiveness with which HUD manages them is critical to the project's success.

Our second review, published in September 2015, found that HUD's implementation of release 1 of phase 1 was not completely successful. Due to missed requirements and ineffective controls, interface processing of travel and relocation transactions resulted in inaccurate financial data in HUD's general ledger and BFS' Oracle Financials. As a result, processing continued for more than 6 months with unresolved errors, leaving HUD's general ledger and Oracle Financials with inaccurate financial data and discrepancies in the balances between HUD's general ledger and Treasury's Government Wide Accounting System. We concluded that the implementation of release 1 confirmed the concerns we cited when we reviewed release 3. Although HUD had taken action in its plans for release 3 to mitigate some of the problems that occurred with release 1, we are concerned that HUD could be moving too fast with its implementation plans and may repeat these weaknesses.

We are also concerned about the current state of FHA's IT systems and the lack of systems capabilities and automation to respond to changes in business processes and the IT operating environment. In August 2009, FHA completed the Information Technology Strategy and Improvement Plan to address these challenges, 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 modern environment was expected to improve loan endorsement processes, collateral risk capabilities, and fraud prevention. However, to date, few initiatives have been completed because of a lack of funding. The transformation team is in operations and maintenance mode for the few initiatives that have been implemented, and has limited capability to advance with the project due to the continued 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. Another concern is 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 in 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, the CIO continues to lack 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 policies 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. However, 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 the responsibility and accountability for meeting Federal IT requirements to the program offices. This delegation to less experienced program office personnel could result in inconsistencies and inadequate documentation and limit 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. While HUD has a CIO, the absence of permanent division and branch managers may have contributed to OCIO's continued inability to fully support HUD's IT operations.

4. Weaknesses in Information Systems Security Controls

While HUD relies heavily on its IT infrastructure to conduct mission essential operations that directly affect millions of citizens, it faces many long- and short-term challenges as it strives to modernize and adequately secure its IT infrastructure and legacy applications. HUD information systems have extensive amounts of sensitive data, with thousands of entities in the private sector and program officials directly accessing and using HUD applications daily. However, HUD has not adequately planned for its future IT and IT security needs. The primary HUD infrastructure services contract is in a period of transition and the agency has been forced to issue short-term sole-source contracts with the previous vendors to ensure continuation of service. Further, a significant number of critical HUD applications are legacy systems that are increasingly difficult to maintain and present security risks that HUD will be challenged to mitigate without modernization. Legacy systems are difficult or unable to migrate to cloud technology, further complicating the agency's long-term efforts to modernize and secure its systems and data while creating efficiencies and cost savings.

HUD has taken some initial steps to address these long-term challenges. For example, the Department has filled and stabilized several key positions, including the Chief Information Officer, Chief Information Security Officer, Chief Technology Officer, and Enterprise Architect. Strategic long-term planning documents have also been developed, including an Enterprise Architect Roadmap, aimed in part at guiding modernization efforts, and a Cybersecurity Framework to address IT security program deficiencies and prioritize initiatives to correct deficiencies. However, notable change and implementation from these initiatives are not anticipated to be realized until after the first quarter of fiscal year 2016. Further, successful implementation of these plans will be directly dependent on the agency's ability to obtain adequate resources, including technical expertise. This issue is complicated because, in the process of outsourcing infrastructure and application maintenance and support, HUD has divested itself of much of its technical expertise. This lack of expertise provides significant challenges to HUD's ability to conduct technical security reviews of its infrastructure (for example, penetration testing or network assessments) or adequately oversee the technical security provided by vendors.

Meanwhile, our annual evaluation of HUD's IT security program, as mandated by FISMA, has revealed continued and extensive noncompliance with Federal IT guidance. As depicted in OIG's fiscal year 2014 FISMA report, HUD has extensive deficiencies in 9 of the 11 program areas on which OIG reports to OMB. HUD is, however, showing progress in remediating these deficiencies. Examples include significant upgrades in its security awareness training program, account access management, and issuance of proper guidance for managing plans of action and milestones (POA&M). However, the agency has failed to adequately address many long-standing security weaknesses identified in prior OIG evaluations:

- According to the OCIO POA&M tracking tool, HUD has 36 open recommendations from the fiscal year 2013 FISMA evaluation which have been open for corrective action for more than 550 days. These recommendations highlight significant vulnerabilities in patching information systems; use of personal identity verification authentication to the HUD network; and the creation, management, and retiring of user network and application access accounts. However, HUD has made considerable progress during the past year by remediating 26 of the 62 other fiscal year 2013 FISMA recommendations, with several in progress.

- HUD has not remediated any of the 23 fiscal year 2014 FISMA recommendations, all of which have been open for more than 240 days. These recommendations address many deficiencies, including failure to implement an effective continuous monitoring program, inadequate contractor oversight procedures, and weaknesses in agency and IT risk management processes.

- The HUD Privacy Program has 30 open recommendations from the fiscal years 2013 and 2014 evaluation periods, reflecting significant deficiencies in this program. Many of these recommendations deal with programmatic and planning issues which, if addressed, will significantly improve HUD's privacy oversight and reduce risks associated with the extensive amount of personally identifiable information managed by HUD. HUD has recently prioritized the privacy program and realigned it under the Chief Administrative Officer. This renewed support has enabled the program to address and close 14 significant recommendations.

To show improvement in the above areas, all agency components, including OCIO, the Office of Administration, the Office of the Chief Procurement Officer, and HUD program offices, will need to implement cross-agency processes and capabilities to provide effective development and oversight of IT security controls. HUD's fiscal year 2015 IT funding level of $265 million is well under its request of $336.8 million, which has already impacted agency modernization and IT security efforts. With the constrained budgets, HUD will continue to be dependent on funding to maintain current systems while also initiating projects to upgrade legacy applications and improve technology.

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 benefit from 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.

Preserving the FHA Fund

For the past 6 years, the FHA fund has failed to meet its legislatively mandated 2 percent capital ratio,[7] although it has gradually improved in each of these 6 years. According to the 2014 actuarial study, the fund had an economic value of $35.9 billion. Based on the 2014 projections, the capital ratio will not reach the 2 percent level until 2016, marking 8 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.

It is incumbent upon the Department to make every effort to prevent or mitigate fraud, waste, and abuse in FHA loan programs. OIG continues to take steps to help preserve the FHA

[7] OIG's calculation of the capital ratio was based the information we obtained from FHA's draft actuarial report received in mid-September 2015 and using the unamortized insurance-in-force as the denominator.

insurance fund and improve FHA loan underwriting by partnering with HUD, the U.S. Department of Justice, and multiple U.S. Attorney's offices nationwide in a number of FHA lender civil investigations. In some instances, these investigations involve not only the loan underwriting of FHA loans but also the underwriting of conventional loans and government-insured loans related to federal programs other than FHA. For those investigations that involved OIG's assistance on the FHA-related part of the cases, the Government has reached civil settlements yielding nearly $13.2 billion in damages and penalties in the last 4 fiscal years.

For the FHA-insured loans, results in the last 4 fiscal years have shown that a high percentage of loans reviewed should not have been insured because of significant deficiencies in the underwriting. As a result, the Government has reached civil settlements regarding FHA loan underwriting totaling $3.5 billion for alleged violations of the False Claims Act; the Financial Institutions Reform, Recovery, and Enforcement Act; and Program Fraud Civil Remedies Act. Nearly $2.4 billion of the $3.5 billion is of direct benefit to the FHA insurance fund. Ongoing investigations are expected to lead to additional settlements that will significantly help recover losses to the FHA insurance fund.

Lender Initiatives
FHA has a major role in supporting the housing market and has implemented initiatives to strengthen the insurance fund. One initiative is the development of a new methodology to evaluate 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. FHA posted the methodology on June 18, 2015, but has not provided an implementation date. Further, FHA has begun reconciling more than 900 mortgagee letters and other policy guidance into a single, authoritative document, – Single Family Housing Policy, HUD Handbook 4000.1, to serve as the definitive guide on all aspects of FHA's single-family programs. Major sections of this handbook became effective September 14, 2015. 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.

Claims
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 enforcement 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,[8] 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 (CWCOT). We referred three recommendations to the Assistant Secretary for Housing – FHA Commissioner on January 8, 2015. The three recommendations asked HUD's Deputy Secretary for the Office of Finance and Budget to initiate the billing process, including determining lender status for loans that (1) were part of the CWCOT program and (2) went into default before the indemnification agreement expired. Further, we recommended initiating the billing process for five refinance loans in which HUD incurred losses. Due to continued disagreements on the appropriate action, we elevated the recommendations to the Deputy Secretary on March 31, 2015. We continue to wait for the Deputy Secretary's request for further discussions or her decision on the matter.

Home Equity Conversion Mortgage Challenges

The Reverse Mortgage Stabilization Act of 2013 gave FHA the tools to improve the fiscal safety and soundness of the Home Equity Conversion Mortgage insurance program (HECM) in a timelier manner. Despite the ability to quickly make needed changes as appropriate to the program, FHA faces challenges in ensuring that homeowners comply with the principal occupancy requirements. For example, borrowers are not required to repay the loan as long as they continue to occupy the insured property as its principal residence. To date, OIG has completed four audits[9] on the HECM and compliance with principal occupancy requirements. Our initial audit identified borrowers with more than one HECM loan despite the principal occupancy requirement. Borrowers were able to obtain more than one HECM loan because of a lack of controls in place to identify this noncompliance. The Department has been receptive to our findings and has implemented controls to check for this problem. Based on this audit work, OIG expanded work to determine other instances of noncompliance with the principal occupancy requirement by matching address information in FHA's Single Family Data Warehouse with data in HUD's Public Housing Information Center (PIC) system to identify borrowers who rented their HECM property to participants in HUD's Housing Choice Voucher program. OIG has since performed two additional audits in which it matched borrower information in FHA's Single Family Data Warehouse with data in HUD's PIC system and Tenant Rental Assistance Certification system. Based on these audits, OIG identified instances of HECM borrowers who may not have been living in the properties associated with their loans because they were concurrently receiving HUD rental assistance through its Housing Choice Voucher and multifamily programs at a different address. This problem exists because HUD did not have policies or procedures to prevent or mitigate instances of borrowers violating principal residency

[8] Audit Report 2014-LA-0005, HUD Did Not Always Recover FHA Single-Family Indemnification Losses and Ensure That Indemnification Agreements Were Extended, August 8, 2014

[9] Audit Report 2012-PH-0004, HUD Controls Did Not Always Ensure That HECM Borrowers Complied With Program Residency Requirements, February 9, 2012; Audit Report 2013-PH-0002, HUD Policies Did Not Always Ensure the Borrowers Complied with Program Residency Requirements, December 20, 2012; Audit Report 2014-PH-0001, HUD Policies Did Not Always Ensure That HECM Borrowers Complied with Program Residency Requirements, September 30, 2014; and Audit Report 2014-PH-0004, HUD Policies Did Not Always Ensure That HECM Borrowers Complied With Residency Requirement, August 21, 2015

requirements by renting out their properties to Housing Choice Voucher participants or by concurrently participating in HUD's rental assistance programs. The Department's response to OIG's audit findings and recommendations has been supportive of the changes needed to ensure compliance with the principal residency requirement.

Loss Mitigation

FHA requires that its servicers use loss mitigation tools to assist homeowners facing default and as a way to minimize losses to the FHA insurance fund. However, despite the intended purpose, FHA has difficulty ensuring that its program guidance is clearly written for effective implementation. OIG has conducted two audits[10] of FHA's Home Affordable Modification Program (FHA-HAMP). One audit identified that HUD did not have an effective postclaim review function and did not have clear program guidance for the FHA-HAMP partial claim option. HUD's policies allowed servicers to determine partial claim amounts in different ways, which resulted in some claims that were higher than necessary. This condition occurred because HUD and its contractor did not produce quality postclaim review reports in a timely manner and HUD failed to adequately monitor FHA-HAMP. As an example, we discovered in our audit that the HUD employee responsible for reviewing the contract stated that he was not sure which requirements the contractor reviewed concerning HAMP because he did not have time to review their work thoroughly. In addition, the claim deficiencies identified in the audit report persisted despite reviews that were conducted by HUD's Quality Assurance Division (QAD). Therefore, we believe that corrective action is needed to ensure that future ineligible HAMP claims are prevented. HUD stated that QAD does a more thorough review of FHA-HAMP loans that are selected in their sample. However, the sample selection process for QAD reviews may result in only a very small sample of completed HAMP claims, and additional controls should be designed to ensure that patterns of HAMP claim deficiencies can be identified and addressed. HUD needs to assign the necessary administrative resources and oversight to reduce potential losses of $88.5 million per year for ineligible FHA-HAMP claims that may go undetected. We also recommended that HUD train its staff and contractors on all loss mitigation programs, review a sample of postclaim reviews submitted by the contractor to ensure that the contractor adequately identifies ineligible claims, and update FHA-HAMP policies to ensure that all servicers apply policies consistently.

Credit Alert Verification Reporting System

HUD also faces challenges in ensuring that its controls work as intended and providing FHA with the appropriate credit data to properly assess borrowers' eligibility for FHA insurance. In a July 2014 audit report[11] on 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

[10] Audit Report 2015-LA-0003, HUD Did Not Have Effective Controls or Clear Guidance in Place for the FHA-HAMP Partial Claim Loss Mitigation Option, September 18, 2015, and Audit Report 2015-LA-0001, HUD's Claim Payment System Did Not Always Identify Ineligible FHA-HAMP Partial Claims, April 20, 2015

[11] Audit Report 2014-KC-0002, The Data in CAIVRS Did Not Agree With the Data in FHA's Default and Claims System, July 2, 2014

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. 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. After review by the Acting Assistant Secretary for Housing, disagreement remained on the actions necessary to correct the deficiencies identified in the audit report. On March 23, 2015, OIG referred this matter to the Deputy Secretary for a decision as the departmental audit resolution official. We continue to wait for the receipt of the final management decision.

Departmental Clearance Process

Departmental clearance is a necessary and important process to ensure requisite agreement by applicable HUD leadership on the subject matter and content of a directive or policy change. This action requires a review by HUD offices that have expertise, policy or legal; with the subject matter of the change and that there is no conflict with other HUD or administration policies. The originating HUD office places a directive to implement a specific policy change of departmental clearance by completing these four steps: (1) execute an intra-office agreement, (2) execute a form HUD-22, (3) launch clearance process, and then (4) manage the clearance. All directives must be cleared, at a minimum, by the following six offices within headquarters: Office of the Chief Human Capital Officer, Office of General Counsel, **OIG**, OCFO, OCIO, and Office of Policy Development and Research.

At a time when FHA is working to restore confidence in the housing market, OIG has concerns that when the Department is making program, policy or procedural changes, it is ***not*** (1) identifying the significant changes in its notice, (2) following the formal clearance process and instead opting for a more informal method, or (3) avoiding the process altogether and making changes unilaterally. For example, in May 2015, HUD issued a notice in the Federal Register seeking OMB approval for information collection. However, OIG believes that the notice did not adequately describe the changes to be made. The Notice proposed to make changes to the loan-level certifications that lenders must make to obtain insurance from FHA. As a result, the certification process became ineffective and allowed loan originators, firms, or principals that have been convicted of certain violations to do business with FHA. However, this detail was not provided in the notice. Another example is FHA's Single Family Housing Loan Quality Assessment Methodology (Defect Taxonomy). The goal of this methodology is to give lenders better clarity on the quality assurance reviews of their FHA loans. Although HUD stated that the draft Taxonomy documents had been published on FHA's Drafting Table Web site, FHA did not follow the proper protocol for issuing a new directive. These changes fit the description of a directive change and should have been announced through the proper steps and clearance process outlined in Handbook 000.2 REV-3, HUD Directives System.

Premium Pricing

With the update to the consolidated Handbook 4000.1, FHA made changes regarding premium pricing during the course of several OIG audits that continues to raise concerns for OIG. HUD's requirement on premium pricing in Handbook 4155.1, paragraph 5(A)(2)(i), specifically disallowed the use of funds derived from a premium-priced mortgage to pay any portion of the borrower's downpayment. However, FHA removed this prohibition from HUD Handbook 4000.1. OIG recognizes that the consolidation of this handbook is a huge and vigorous process. It has received sections to review throughout the departmental clearance process. Some of the sections are hundreds of pages long and often require a short turnaround time. The Department has provided change logs to accompany the review process by highlighting the significant policy changes. However, the removal of the specific language prohibiting the use of premium pricing to pay for any portion of the borrower's downpayment was not part of the change log. In addition, language was inserted to define premium pricing as a credit from a lender for a chosen interest rate.

OIG believes that the removal of the specific language and the limited definition of premium pricing lessen the controls that were in place when the prohibition was more directly and plainly stated. The Department's position is that the removal of the specific language is not a policy change and that the prohibition is indirectly covered by the new language, stating that funds derived from a premium-priced mortgage must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaid expenses. OIG does not agree with that position. In addition, OIG believes that the limited definition of premium pricing excludes potential circumstances that could also be defined as premium pricing (for example borrowers receiving a premium interest rate in exchange for downpayment assistance).

Further, OIG has issued three audit reports[12] on lenders' allowance of ineligible downpayment assistance, highlighting housing finance agencies' use of a premium pricing structure that does not comply with FHA requirements. Specifically, lenders originated FHA loans that included housing finance agency downpayment assistance gift funds or secondary loans that did not always comply with FHA requirements. The lenders inappropriately allowed premium pricing to be used as a source for the borrowers' downpayments that did not comply with FHA requirements. As a requirement for program participation, borrowers were given mortgage interest rates (premium rate) that were above the prevailing market rate of interest for mortgages without downpayment assistance. The downpayment assistance gifts were not true gifts as defined by HUD because gifts provided to the borrowers were directly or indirectly repaid. As a result of the premium rates, borrowers were put at a disadvantage due to higher monthly mortgage payments, including the burden of funding the downpayment assistance programs. Going forward, the revised language in Handbook 4000.1 on premium pricing could be interpreted differently among lenders. Lastly, FHA issued a notice on July 20, 2015, reaffirming its support of housing finance agencies' downpayment assistance programs, which seems in conflict with FHA's position that it made no changes to requirements concerning the use of premium pricing for a borrower's downpayment assistance.

[12] Audit Report 2015-LA-1010, loanDepot's FHA-Insured Loans With Golden State Finance Authority Downpayment Assistance Gifts Did Not Always Meet HUD Requirements, September 30, 2015; Audit Report 2015-LA-1009, loanDepot's FHA-Insured Loans With Downpayment Assistance Funds Did Not Always Meet HUD Requirements, September 30, 2015; and Audit Report 2015-LA-1005, NOVA Financial & Investment Corporation's FHA-Insured Loans With Downpayment Assistance Gifts Did Not Always Meet HUD Requirements, July 9, 2015

Ginnie Mae

Over the past 5 years, Ginnie Mae has seen its outstanding mortgage-backed securities increase by more than 50 percent. As of August 2015, Ginnie Mae's mortgage-backed securities (MBS) portfolio exceeded $1.6 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 its 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 by September 2015, 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 can 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 and expertise.

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 130 at the end of fiscal year 2015. However, Ginnie Mae continues to rely heavily on third-party contractors to perform almost all key operating loan servicing, pool processing, and other functions. It is imperative to the country's larger financial health that Ginnie Mae be able to increase staffing with the needed skills, knowledge, and abilities to manage a $1.6 trillion program.

6. CPD Programs

IDIS Funding

In fiscal year 2014, HUD began work to eliminate first-in, first-out[13] (FIFO) accounting methodology from the Integrated Distribution and Information System (IDIS) prospectively. However, during the spring of fiscal year 2015, IT work on the plan halted because funding to complete the project was no longer available. In August 2015, HUD senior management approved additional funds to continue the project. However, there continues to be a funding

[13] The FIFO method is a way in which CPD disburses its obligations to grantees. Disbursements are not matched to the original obligation authorizing the disbursement, allowing obligations to be liquidated from the oldest available budget fiscal year appropriation source. This method allows disbursements to be recorded under obligations tied to soon-to-be-canceled appropriations.

shortfall. While the approved funding will pick up where the project left off, completion of the elimination plan will be delayed until December 2016.

Despite the changes made to IDIS thus far, additional modifications are necessary for the system to fully comply with the Federal Financial Management Improvement Act (FFMIA) and to support the U.S. Standard General Ledger at the transaction level. Additionally, we take exception to not removing the FIFO methodology retroactively, which will continue the departures from generally accepted accounting principles and result in material misstatements on the financial statements. Use of the FIFO methodology contributed to the qualified audit opinion and the Disclaimer audit opinion issued on HUD's financial statements in fiscal years 2013 and 2014, respectively. Therefore, lack of retroactive implementation will have implications on future years' financial statement audit opinions until the impact is assessed to be immaterial.

Grant Accounting

In fiscal year 2015, HUD's inability to provide data to monitor compliance with the HOME Investment Partnership Act (HOME statute) requirements for committing and spending funds will continue to remain a concern until appropriate system changes in IDIS Online are implemented and regulatory changes are fully implemented. The HOME Investment Partnerships Program is the largest Federal block grant to State and local governments designed to create affordable housing for low-income households. Because HOME is a formula-based grant, funds are awarded to the participating jurisdictions noncompetitively on an annual basis.

In 2009, OIG challenged HUD's cumulative method[14] 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. A second letter was sent in 2011 to provide additional details requested by GAO. In July 2013, GAO issued its legal opinion, affirming OIG's position and citing HUD for noncompliance. In its decision, GAO repeated that the language in the statute was clear 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 effects of the GAO legal opinion require extensive reprogramming and modification to IDIS Online in addition to regulatory changes. However, these system and regulatory changes, which are already underway, will apply only to new grants awarded going forward and will not be changed retrospectively. Therefore, HUD's plan does not comply with the GAO legal opinion and allows grantees to spend HOME program funding that would normally be recaptured if the 24-month commitment timeframe was not met.

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

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.

On June 16, 2015, we issued a memorandum to HUD regarding potential ADA violations due to the noncompliance issues noted above. In the memorandum, we requested that the Chief Financial Officer (1) open an investigation and determine the impact of FIFO and the cumulative method for commitments for the HOME program on HUD's risk of an ADA violation; (2) as part of the violation, obtain a legal opinion from GAO and OMB to determine whether maintaining the cumulative method for determining compliance with the HOME statute results in noncompliance with the Statute and potential ADA violations; and (3) if HUD incurred an ADA violation, comply with the reporting requirements at 31 U.S.C. (United States Code) 1351 and 1517(b) and OMB Circular No. A-11, Preparation, Submission, and Execution of the Budget, section 145, (June 21, 2005). We determined that HUD has opened an ADA investigation in response to our memorandum.

We will continue to report that HUD is not in compliance with laws and regulations until the cumulative method is no longer used to determine whether commitment deadlines required by the HOME Investment Partnership Act are met by the grantees.

Subgrantee Monitoring
In fiscal years 2014 and 2015, at least seven of our audits have found that in some instances, little or no monitoring occurred, particularly at the subgrantee level. HUD focuses its monitoring activities at the grantee level through its field offices. Grantees, in turn, are responsible for monitoring their subgrantees. HUD should continue to stress the importance of subgrantee monitoring to its grantees. OIG has concerns regarding the capacity of subgrantees receiving funding from HUD programs, including grantees receiving CDBG Disaster Recovery (CDBG-DR) funds. Therefore, audits of grantees and their subgrantee activities will continue to be given emphasis this fiscal year as this continues to be a challenge for HUD and its grantees.

Section 108 Loan Guarantee Program
The Section 108 Loan Guarantee program allows grantees of the CDBG program to borrow federally guaranteed funds for community development purposes. Section 108 borrowers obtain up to five times the amount of their annual CDBG grants by pledging to repay Section 108 loans with future CDBG grants in the event of a default. Section 108 thus enables grantees to undertake substantially larger community development projects than CDBG grants alone would support. In May 2015, HUD conducted a public offering of Section 108 guaranteed participation certificates in the amount of approximately $391 million. The offering consisted of 136 notes from 85 Section 108 borrowers.

HUD considers the program to be a success because there are no reported Section 108 loan defaults. However, this view provides a false sense of success about the Section 108 loan program. There are no reported defaults because borrowers generally use CDBG funds to make loan repayments when funded projects default, when no other source of project income is available, or when there is a delay in the payment. As a result, the Federal Government bears 100 percent of any losses, regardless of the success of the funded activity.

Audits conducted by OIG for the period 2012 through 2015 identified serious deficiencies in the administration of the Section 108 loan program that affected the effectiveness of the program. We found five Section 108 loans in which loan agreement provisions and HUD requirements were not followed which resulted in more than $35.97 million in questioned funds. Borrowers did not ensure that Section 108-funded activities met a national objective of the CDBG program and fully provided the intended benefits. As a result, projects were incomplete or abandoned, and funds were used for ineligible and unsupported efforts. For example, one borrower transferred more than $6 million in Section 108 loan proceeds to its general fund account as loans for its operations. In addition, loan proceeds were not disbursed within the established timeframe, borrowers did not provide HUD the required loan collateral, borrowers did not establish a financial management system in accordance with HUD requirements, and investments were not fully collateralized. Although HUD was aware of some of these deficiencies, none of the loans were declared in default. In one case, HUD allowed the noncompliance issues to continue for more than 11 years without raising a finding and providing corrective actions or imposing sanctions.

OIG is concerned that the these issues, in which more than $35.97 million was questioned because the loan provisions and HUD requirements were not followed, could have a negative impact on the CDBG program and an adverse effect on the Section 108 Loan Guarantee program objectives. Specifically, the use of HUD funds for efforts not related to the approved activities and projects that did not provide the intended benefits result in a waste of funds.

Neighborhood Stabilization Program Recapture

HUD, through its Office of CPD, provided money to local governments, nonprofits, and all 50 States through three rounds of Neighborhood Stabilization Program (NSP) funding, totaling approximately $6.82 billion.

Congress established expenditure deadlines for the three rounds of NSP funding within the appropriations acts for each round. HUD also addressed the expenditure deadlines for NSP1 and NSP3 in Federal Register issuances in which it established provisions for the recapture of any funds not spent by the deadlines.

HUD required grantees to spend an amount equal to their initial allocation of NSP1 funding within 4 years after receiving the funds. It executed NSP1 grant agreements on various dates during the spring of 2009. Therefore, based on HUD's interpretation and application of the statute, all NSP1 grantees should have satisfied this requirement by the date of their grant in the spring of 2013.

Congress required NSP2 and NSP3 grantees to spend 50 percent of their funds within 2 years and 100 percent within 3 years. HUD secured a waiver from OMB to extend the deadline for 100 percent expenditure of NSP2 funds to September 30, 2015. The 100 percent expenditure date for NSP3 grantees was March 8, 2014.

An OIG internal audit[15] found that HUD failed to take appropriate action regarding more than $22 million in unexpended NSP1 and NSP3 initial funding allocations. The audit found that (1) grantees missed deadlines, (2) HUD did not provide documentation to show remedial actions it took regarding deficient grantees, and (3) expenditures reported in the Disaster Recovery Grant Reporting system were not always correct.

HUD had generally implemented sufficient controls and improvements, including providing guidance and technical assistance, as a result of its own assessments. However, we determined that HUD could improve its administration of NSP and similar programs by effectively using OIG reports on individual grantees to identify trends program wide. HUD management did not effectively use trends identified from OIG reports on individual grantees that highlighted common problems or regulatory gaps on which it could base national policy guidance or other directives. As a result, HUD may not have always recognized recurring issues or provided grantees the most effective guidance for improving overall program performance.

Significant recommendations were that HUD provide support showing that (1) 41 grantees did not miss their expenditure deadlines, which would result in nearly $18.7 million being put to better use, and (2) it took remedial action regarding five NSP3 grantees that missed the expenditure deadline. OIG is working with HUD through the management decision process to resolve these recommendations.

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 Programs 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.

Housing Choice Voucher Monitoring

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 targets PHAs for various types of onsite reviews using its Utilization Tool and National Risk Assessment Tool. It also states that it will further address limitations with the Next Generation Management System, which continues to be delayed due to

[15] Audit Report 2015-AT-0001, HUD's Office of Community Planning and Development Did Not Always Pursue Remedial Actions but Generally Implemented Sufficient Controls for Administering Its Neighborhood Stabilization Program, March 31, 2015

a shortage in IT funding. HUD will continue to face challenges in monitoring this program until it has fully implemented a reliable, real-time, and all-inclusive monitoring tool.

Central Office Cost Centers

We are concerned that HUD may not be ensuring that defederalized administrative fees paid to PHAs for their public housing program are reasonable. We still have not reached management decisions on all recommendations in a recent report.[16] We found 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 continues its desire to maintain the fee for service model, which is similar to the model used by the Office of Multifamily Housing Programs. Our concern continues to be that the fee amounts implemented are not supported and may not be reasonable. Excess administrative fees, if defederalized, are not required to be used for the public housing program. Ensuring that only the funds that are needed are transferred to the COCC will allow more funds to be used directly for the public housing program.

Cash Management Requirements

In fiscal year 2012, PIH implemented procedures to reduce the amount of excess funds accumulating in PHAs' net restricted asset accounts in accordance with Treasury's cash management requirements as directed by a congressional conference report. By that point, a significant amount of reserves had accumulated with the PHAs. As of 2015, most of the funds had been transitioned back to HUD. However, PIH has not transitioned any of the excess funding from its Moving to Work (MTW) program PHAs. Through PIH's confirmation process, MTW PHAs reported holding $556 million and $514 million, as of September 30, 2014, and March 31, 2015, respectively. PIH must now validate these balances before it transitions the funds back. This process may take some time because the composition of these balances is complex and HUD was not tracking the funds for these agencies. Until HUD validates and collects the funds, MTW PHAs will continue to hold hundreds of millions of dollars in excess of their immediate disbursement needs, making the funds susceptible to fraud, waste, and abuse. Further, this is a continued departure from Treasury's cash management requirements.

Adding to this challenge, HUD continues to lack an automated process to complete the reconciliations required to monitor all of its 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 2,200 PHAs receiving approximately $17 billion annually. This process is time consuming and labor intensive, and does not allow for accurate financial reporting at the transaction level, as required by FFMIA. This process also increases the risk of error and causes significant delays in the identification and offset of excess funding. We recommended that HUD automate this process during our 2013 financial statement audit, and the matter has been elevated to the Deputy Secretary for a decision.

[16] Audit Report 2014-LA-0004, HUD Could Not Support the Reasonableness of the Operating and Capital Fund Programs' Fees and did not Adequately Monitor Central Office Cost Centers, June 30, 2014

Monitoring of Moving to Work Agencies

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 develop and test innovative, locally designed strategies that use Federal dollars more efficiently, help residents become self-sufficient, and increase housing choices for low-income families. However, 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 program wide performance indicators that will not inhibit the participants' abilities to creatively impact the program. It is developing renewal contracts to replace contracts expiring in 2018. HUD management developed new metrics to help measure program performance and states that the new contracts will allow it to better evaluate each PHA's performance. We continue to believe that HUD could benefit from a formalized process for terminating participants from the demonstration program for failure to comply with their agreement. We are also looking further into controls over legal expenses by participating PHAs.

Overincome Families in Public Housing

HUD also has a challenge in addressing overincome families living in public housing units. HUD's December 2004 final rule gave public housing authorities discretion to establish and implement policies that would require families with incomes above the eligibility income limits to find housing in the unassisted market. HUD regulations require families to meet eligibility income limits only when they are admitted to the public housing program. Neither public law nor regulations limit the length of time that families may reside in public housing. Our recent audit[17] showed that as many as 25,226 families, whose income exceeded HUD's 2014 eligibility income limits, lived in public housing. The PHAs that we contacted during the audit chose not to impose limits based on the notice. In response to our audit, HUD initially disagreed and issued a press release stating as much. After much public and congressional outcry, HUD issued a letter to PHA executive directors, strongly encouraging them to use the discretion available to them to remove extremely overincome families from public housing. However, HUD does not have the authority to require PHAs to implement limits. We are also concerned that a nationwide policy may not allow flexibility to protect tenants. To ensure that tenant rights are protected and communities remain strong, tenants are encouraged to strive for self-sufficiency. PIH will need to find a way to encourage PHA participation and ensure the effectiveness of its policies.

Environmental Review Requirements

In recent reports,[18] we demonstrated that PIH did not adequately implement environmental requirements or provide adequate oversight to ensure compliance with these requirements. The

[17] Audit Report 2015-PH-0002, Overincome Families Resided in Public Housing Units, July 21, 2015

[18] Audit Report 2015-FW-0001, HUD Did Not Adequately Implement or Provide Oversight To Ensure Compliance With Environmental Requirements, June 16, 2015; Audit Report 2014-FW-0005, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Detroit Office, September 24, 2014; Audit Report 2014-FW-0004, Improvements Are Needed Over Environmental Reviews of Public Housing and

Offices of Housing and Public Housing did not adequately monitor or provide training to their staff, grantees, or responsible entities on how to comply with environmental requirements. Also, HUD did not have an adequate reporting process for the program areas to ensure that the appropriate headquarters programs were informed of field offices' environmental concerns. Further, our review of five Office of Public Housing field offices found that none of them followed environmental compliance requirements. HUD relied heavily on its Office of Environment and Energy to ensure compliance with environmental requirements. HUD stated that cross-office collaboration should be encouraged as a sensible and efficient way to achieve oversight and compliance objectives. While HUD shares OIG's concerns regarding responsible entities' compliance with environmental requirements, HUD believes that the program offices do not always have the authority to impose corrective actions or sanctions. We provided several examples in which environmental issues, if not detected, can severely impact the residents and communities as well as consume significant resources.

As a result, HUD began providing more training to staff and grantees and implemented processes to improve its training program and curriculum to better support all program areas. Also, HUD was piloting a recently developed electronic data system, HUD's Environmental Review Online System (HEROS), which is part of HUD's transformation of IT systems. HEROS will convert HUD's paper-based environmental review process to a comprehensive online system that shows the user the entire environmental process, including compliance with related laws and authorities. It will allow HUD to collect data on environmental reviews performed by all program areas for compliance. HUD's Office of Environment and Energy had also implemented an internal process within HEROS to track findings, which will allow the program areas to focus training on recurring issues.

While HUD has made improvements, it faces several challenges, including lack of resources, unclear guidance, and a perceived lack of authority to impose corrective actions or sanctions on responsible entities. Until HUD fully addresses these needed improvements, it faces an increased risk in the health and safety of the public and possible damage to the environment. For the five Office of Public Housing field offices we visited, PHAs spent almost $405 million for activities that either did not have required environmental reviews or had reviews that were not adequately supported.

__Indian Home Loan Guarantee Program__

With annual increases in funding and the number of loans guaranteed, the Section 184 Indian Home Loan Guarantee program continues to be an area of concern. The Section 184 program is a great resource for the Native American community. However, the lack of controls, oversight, and enforcement increases the risk to the program. OIG recently completed an audit[19] detailing

Recovery Act Funds in the Greensboro Office, July 14, 2014; Audit Report 2014-FW-0003, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Columbia Office, June 19, 2014; Audit Report 2014-FW-0002, Improvements Are needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Kansas City Office, May 12, 2014; and Audit Report 2014-FW-0001, The Boston Office of Public Housing Did Not Provide Adequate Oversight of Environmental Reviews of Three Housing Agencies, Including Reviews Involving Recovery Act Funds, February 7, 2014

[19] Audit Report 2015-LA-0002, HUD Did Not Provide Adequate Oversight of the Section 184 Indian Home Loan Guarantee Program, July 6, 2015

how the Office of Loan Guarantee did not provide adequate oversight of the Section 184 program, resulting in an increased overall risk to the program, including guaranteeing 3,845 loans totaling more than $705 million that were not underwritten in accordance with program guidelines. Given the lack of enforcement and the Office of Native American Programs' acknowledgement that there is significant room for improvement, there is continued risk for fraud, waste, and abuse within the Office of Loan Guarantee and at the lender level.

Small and Very Small Housing Agencies
HUD faces challenges in monitoring PHAs when more than 2,000 of its 3,000 PHAs are small or very small. Since these PHAs receive approximately 12 percent (or an estimated $732 million) of HUD's $6.1 billion low-rent authorized funding, it creates oversight burdens and costs for both HUD and PHAs that are disproportionate to the number of families these PHAs serve. In a recent report,[20] we identified that a significant cause of the deficiencies identified in small and very small PHAs was that executive directors and boards of commissioners either chose to ignore requirements or lacked sufficient knowledge to properly administer their programs. In 2015, HUD launched an online training course, Lead the Way, which is designed to help PHAs' boards and staff fulfill their responsibilities in providing effective governance and oversight. However, we remain concerned that the administrators, board members, and local officials do not have the resources or information available to them to properly administer their programs. Further, we are concerned that without additional oversight or outreach, there is increased risk of fraud, waste, and abuse going undetected at these entities.

In an effort to promote awareness, HUD OIG has issued several industry advisories that highlight areas of risky and illegal activities that jeopardize the integrity of otherwise legitimate housing programs. The advisories are posted on our Web site at www.hudoig.gov/fraud-prevention. Several advisories were directly related to PHAs and were emailed to executive directors. In addition, the Inspector General coauthored a joint letter with Lourdes M. Castro Ramirez, Principal Deputy Assistant Secretary, PIH, to public housing agencies communicating our collaborative effort to encourage efficient operations and effective accountability for the best use of limited resources. The letter also introduced Lead the Way, a training module for board members and executive staff.

Physical Condition of the Housing Choice Voucher Units
In response to a 2008 audit report,[21] 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 projects. However, this testing with an initial target completion date of September 30, 2014, is taking considerably longer than expected. HUD has performed initial inspections of a sample of its voucher units. However, it needs resources to continue developing the new protocol and related software for its comprehensive monitoring system. Meanwhile, we continue to identify PHAs with inspection programs which do not ensure that voucher program units comply with standards.

[20] Audit Report 2015-FW-0802, Very Small and Small Public Housing Agencies Reviewed Had Common Violations of Requirements, September 16, 2015
[21] Audit Report 2008-AT-0003, HUD Lacked Adequate Controls Over the Physical Condition of Section 8 Voucher Program Housing Stock, May 14, 2008

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

For the second year in a row, we determined that HUD did not comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). Specifically, our fiscal year 2015 audit[22] found that HUD did not adequately report on its supplemental measures and its risk assessment did not include a review of all relevant audit reports. Additionally, we found that HUD's estimate of improper payments due to billing errors was based on out-of-date information, a finding that was repeated from the prior-year audit.

After exceeding the targeted improper payment rate of 3.8 percent in fiscal year 2012, HUD's goal for the targeted improper payment rate was increased to 4.2 percent for fiscal year 2013. While HUD met its fiscal year 2013 goal with an improper payment rate of 3.2 percent, with estimated improper payments of $1.03 billion, it continues to face significant challenges to comply with the requirements of IPERA and further reduce its improper payments.

For example, without sufficient funding, it will be difficult for HUD to perform the studies needed to update its estimates of improper payments due to billing errors. Additionally, there were several recommendations from our fiscal year 2014 audit report[23] without agreed-upon management decisions that had to be referred to the Deputy Secretary. During fiscal year 2015, HUD increased its efforts to address these recommendations, as well as current-year recommendations, and develop corrective action plans. HUD needs to continue its efforts to address our recommendations and improve its processes for reporting on its improper payments to become compliant with IPERA in the future.

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-DR grants to address a wide range of challenges. Congress has appropriated more than $47 billion in supplemental funding to HUD since 1993 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-DR funding is available until spent, with the exception of the Hurricane Sandy funding, which must be obligated by the end of fiscal year 2017.

Although HUD has made progress in recent years with assisting communities recovering from disasters, it faces several management challenges in administering these grants. Based on our prior and current audits, we identified the following challenges for the Department regarding the disaster recovery program:

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[22] Audit Report 2015-FO-0005, Compliance With the Improper Payments Elimination and Recovery Act of 2010, issued May 15, 2015

[23] Audit Report 2014-FO-0004, Compliance With the Improper Payments Elimination and Recovery Act of 2010, issued April 15, 2014

(1) Ensuring that expenditures are eligible and supported,
(2) Approving the program waiver process,
(3) Certifying that grantees are following Federal procurement regulations,
(4) Conducting consistent and sufficient monitoring efforts on disaster grants,
(5) Promoting disaster resiliency within communities trying to recover, and
(6) Keeping up with communities in the recovery process.

Ensuring That Expenditures Are Eligible and Supported
HUD faces a significant management challenge to ensure that funds disbursed for disaster recovery programs are used for eligible and supported items. HUD OIG has completed 16 Hurricane Sandy related audits to date, and as a result, we have identified $3.5 million in ineligible costs, $458 million in unsupported costs, and $360 million in funds put to better use. We have highlighted three audit reports that demonstrate these challenges for HUD in administering disaster recovery programs:

- In our review of New York City's Health and Hospitals Corporation,[24] we determined that City officials disbursed $183 million to the City's subrecipient for unsupported salary and fringe benefits and unreasonable and unnecessary expenses and did not adequately monitor its subrecipient and sufficiently document national objectives. As a result, City officials could not assure HUD that (1) $183 million in CDBG-DR funds was disbursed for eligible, reasonable, and necessary program expenses and (2) going forward the City will have adequate accounting and financial controls in place to ensure the remaining allocation of $40 million will be properly spent for the purposes intended.

- In our review of New York State's buyout program,[25] we determined that officials did not always administer the program in accordance with program procedures. As a result, officials disbursed $6.6 million for properties that did not conform to published requirements. This amount included $672,000 and $598,300 for ineligible incentives and purchase prices in excess of authorized limits, respectively. In addition, documentation was inadequate to support that $1.7 million was disbursed for eligible purchases and that $8.7 million spent for contracts complied with Federal or State requirements.

- In our review of the New York Rising Housing Recovery Program,[26] we found that officials did not establish adequate controls to ensure that CDBG-DR funds were awarded and disbursed for eligible costs. As a result, more than $2.2 million in CDBG-DR funds was disbursed for ineligible costs and $119,124 for unsupported costs. Additionally, the use of a statewide cost figure, by which more than $87.5 million was

[24] Audit Report 2015-NY-1001, The City of New York, NY, Did Not Always Disburse Community Development Block Grant Disaster Recovery Assistance Funds to Its Subrecipient in Accordance With Federal Regulations, November 24, 2014
[25] Audit Report 2015-NY-1010, New York State Did Not Always Administer Its Rising Home Enhanced Buyout Program in Accordance with Federal and State Regulations, September 17, 2015
[26] Audit Report 2015-NY-1011, Program Control Weaknesses Lessened Assurance That New York Rising Housing Recovery Program Funds Were Always Disbursed for Eligible Costs, September 17, 2015

awarded, was unsupported. Also, State officials need to ensure that receipts are available to support work completed, or request that more than $241.2 million be repaid.

We attributed these conditions to the grantees' weaknesses in maintaining file documentation, unfamiliarity with HUD rules and regulations, and failure to follow State and Federal procurement regulations.

Approving the Program Waiver Process
HUD has a major management challenge in properly administering waivers of disaster program requirements and retroactively amending State action plans.

Based on a review of the State of Louisiana's Road Home Elevation Incentive Program[27] regarding homeowner compliance in elevating their homes, it appears that CPD has established a pattern and practice to either waive the program requirements or approve retroactively the State's amended action plan, when deficiencies are identified with this program. Our follow-up review[28] found that as of August 31, 2012, the State did not have conclusive evidence that approximately $698.5 million in CDBG-DR funds provided to 24,000 homeowners had been used to elevate homes. As an example of HUD's practice to minimize or eliminate original program requirements, CPD approved the State's Amendment 60 on July 26, 2013, which retroactively allowed homeowners who received a grant under Road Home to prove that they used those funds to either elevate or rehabilitate their home, although the grant was specifically intended for elevation only. The amendment is contrary to the elevation incentive agreement which stated that the funds were intended to assist homeowners to only elevate their homes. If the funds were not used for this sole purpose, they were to be repaid to the State.

In August 2015, CPD again unilaterally waived the Road Home program requirements. Specifically, CPD changed its 2013 documentation requirement for rehabilitation expenses, as described above, to permit an affidavit by the homeowner and a "valuation inspection" by the State to determine the value of home repairs that were previously performed. This new approach does not consider whether recipients previously received grants or insurance funds for rehabilitation and could result in a duplication of benefits. While Congress provided considerable flexibility in the use of CDBG-DR funds, it specifically required HUD to establish procedures that prevent duplication of benefits.

HUD has failed to properly enforce the intent of the Road Home, instead opting to change the rules so that violations can be excused. If HUD wishes to implement proper risk management in its programs, this defeats the purpose as this most recent action announces to all recipients of HUD funds that noncompliance is excused because HUD will allow it in the end with no consequences.

[27] Inspections Report IED-09-002, Inspection of the State of Louisiana's Road Home Elevation Incentive Program Homeowner Compliance, March 2010
[28] Audit Report 2013-IE-0803, Follow-up of the Inspections and Evaluations Division on Its Inspection of the State of Louisiana's Road Home Elevation Incentive Program Homeowner Compliance (IED-09-002 March 2010), March 29, 2013

CPD's actions and retreat from its position and the original intent of the approved State action plans diminishes HUD's ability to properly administer grant agreements and the affected homeowners' trust and confidence that HUD maintains the highest standards of integrity, efficiency, and fairness in its grant award process.

Certifying That Grantees Are Following Federal Procurement Regulations

We continue to have concerns about HUD's ability to ensure that disaster grantees are following Federal procurement regulations. 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[29] of disaster programs found CDBG procurement violations and other contracting problems. For example, in a recent audit of New Jersey's recovery management system, auditors found that the State did not procure services and products for its system in accordance with Federal procurement and cost principle requirements. In this case, the State did not demonstrate that the overall contract price of $38.5 million and option years totaling another $21.7 million were fair and reasonable and that the $1.5 million it disbursed was adequately supported.

Conducting Consistent and Sufficient Oversight Efforts on Disaster Grants

Another area of concern is HUD's ability to properly monitor all disaster grant recipients. Based on our Fiscal Year 2014 financial statement audit, we communicated to HUD that it did not always monitor disaster grants in accordance with its policies and procedures. Specifically, monitoring reports were not issued in a timely manner, and follow-up on monitoring findings was not performed consistently or in a timely manner. 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 their intended purposes.

Promoting Disaster Resiliency Within Communities Trying To Recover

Another major challenge for HUD will be to reduce the risk of substantial recovery costs from future disasters by promoting resilient investments. When rebuilding disaster-stricken communities, innovative techniques can be implemented so future disasters will have less impact

[29] Audit Report 2014-PH-1008, The State of New Jersey Did Not Fully Comply With Federal Procurement and Cost Principle Requirements in Implementing Its Tourism Marketing Program, August 29, 2014; Audit Report 2015-KC-1002, The City of Minot, ND, Did Not Fully Comply With Federal and Local Procurement Requirements, March 13, 2015; and Audit Report 2015-PH-1003, The State of New Jersey Did Not Comply With Federal Procurement and Cost Principle Requirements in Implementing Its Disaster Management System, June 4, 2015

through better building and community planning. We have already started reviewing some of these programs that protect the environment and reduce future disaster damage. We reported that the State of Maryland[30] could not show that replacement homes were designed and constructed to increase energy efficiency and minimize their environmental footprint as required. Specifically, the State's subgrantee could not provide documentation to show that it constructed replacement homes that complied with the Green Building Standard as defined by HUD. This condition occurred because the subgrantee lacked procedures to ensure that replacement homes complied with the Green Building Standard. The State also lacked monitoring procedures to ensure that its subgrantee complied with the standard. As a result, HUD had no assurance that $1.9 million in program funds reimbursed to the subgrantee and $293,000 in program funds not yet reimbursed to the subgrantee were spent to design and build 13 replacement homes in a manner that increased energy efficiency and minimized their environmental footprint.

HUD is challenged in promoting community resilience, developing State and local capacity, and ensuring a coordinated Federal response that reduces risk and produces a more resiliently built environment. 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.

Keeping Up With Communities in the Recovery Process
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 $34 billion in obligations, $30 billion in disbursements, and $14 billion yet to be disbursed. Although in some cases many years have passed since the specific disaster occurred, significant disaster funds remain unspent. Thus, HUD must ensure the timely expenditure of funds, consistency in waiver approvals, compliance with procurement requirements, timely oversight efforts, and reduction in the risk of damage from future disaster events.

Conclusion
HUD will continue to face the challenges we have described until it puts controls and adequate resources in place to provide the necessary oversight and enforcement of HUD's programs and operations. HUD OIG remains committed to working collaboratively with HUD. We will continue to strive to provide best practices and reasonable recommendations that support HUD's mission and responsibilities. We also wish to note that within the first several weeks of the Secretary's arrival, he issued a joint letter with the Inspector General to all personnel in which he not only encouraged but required staff to work with HUD OIG to advance HUD's mission. HUD OIG also wants to acknowledge the active and detailed involvement by the Deputy Secretary to understand HUD's long standing challenges and work with HUD OIG to find solutions and close outstanding audit recommendations.

[30] Audit Report 2015-PH-1005, The State of Maryland Could Not Show That Replacement Homes Complied With the Green Building Standard, September 25, 2015

Management Response to the OIG Report on Management and Performance Challenges

Introduction

HUD is committed to fulfilling its mission to create strong, sustainable, inclusive communities and quality affordable homes for American families and individuals. The work of HUD's Office of Inspector General (OIG) is vital to ensuring that HUD programs and employees work effectively and efficiently towards these goals. Since his tenure began, Secretary Castro has taken a number of steps to strengthen the partnership between HUD and HUD OIG. For example, within weeks of being sworn in, Secretary Castro issued a letter with Inspector General David Montoya to all HUD employees emphasizing the need to enhance the integrity, efficiency and effectiveness of all HUD programs and operations. The August 29, 2014, letter advised HUD personnel to work with the OIG's staff "to eliminate waste and mismanagement," "report instances of fraud, waste and abuse," and "take an active role in supporting the OIG's activities."

Since then, Secretary Castro and Deputy Secretary Coloretti have met with the Inspector General regularly to discuss the OIG's ongoing work and how to improve HUD programs as well as the collaborative relationship between the OIG and HUD. In addition, consistent with Secretary Castro's directive, HUD Assistant Secretaries and Principal Deputy Assistant Secretaries have regularly engaged IG Montoya and his staff to identify and address potential challenges. For example, as noted in the OIG's memorandum dated July 27, 2015, Principal Deputy Assistant Secretary for the Office of Public and Indian Housing Lourdes Castro Ramírez and IG Montoya sent a joint letter to PHA Executive Directors entitled "Public Trust and Integrity is Our Collective Responsibility" in order to promote "efficient operations and effective accountability" of PHA management and employees. These collaborations have enabled HUD to work proactively to solve potential problems.

During the past year, HUD has focused on overcoming a number of challenges and laid the foundation to remediate those that remain. A number of the obstacles facing HUD will require coordination among a number of HUD entities to clarify facts and effectively resolve. We look forward to continuing to build on our relationship with the OIG as we work to address these and any future challenges facing HUD and the communities we serve.

1. Human Capital Management

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.

The OIG identified several Human Capital Management challenges based on findings from studies referenced in the report, including studies from the Office of Personnel Management (OPM) and the Government Accountability Office (GAO).

Assessing its human resource needs and allocating staff within program offices.

HUD is making progress on assessing its staffing requirements and human resource needs. In FY 2015, HUD completed the transition of human capital transaction processing to the Department of Treasury's (Treasury) Administrative Resource Center (ARC). This transition will streamline the hiring process and allow OCHCO to focus on the strategic elements of staff and organizational development. HUD is also in the process of overhauling its hiring plan process to better enable program offices to identify, allocate and manage human resource needs. Finally, OCHCO further collaborated with Treasury to expand capabilities of its Human Resources End-to-End Solutions (i.e., inCompass), to support future workforce planning. This tool will complement other tools to facilitate more long-range planning and decision-making. It will also support development of action plans to address risks (e.g., retirement eligible population).

June 2012 OPM review related HUD's human capital policies and practices.

OCHCO received several interim clearances from OPM, as the Office completed corrective actions to resolve deficiencies identified. OPM issued a final clearance and closeout letter to OCHCO, dated October 26, 2015, based on receipt of HUD's Succession Plan on September 23, 2015. HUD has closed out all required actions from the 2012 evaluation.

In September 2013, GAO issued a report evaluating the goals-engagement-accountability-results (GEAR) framework, noting steps taken by HUD.

On August 3, 2015, GAO notified OCHCO that it had closed HUD's GEAR Audit Recommendations, as implemented, for GAO-13-755. HUD successfully completed this pilot program designed to improve performance management in the federal government.

In May 2015, GAO issued a report based on testimony related to HUD's ongoing work on employee engagement and identified human capital action areas.

HUD is strongly committed to employee engagement. While there is still room to improve, HUD's Employee Viewpoint Survey results substantially increased in 2015. HUD improved on 69 out of 71 questions – with an average increase of nearly 5 percentage points (2 percentage points indicates significant movement according to OPM). Notably, HUD's Employee Engagement score rose to nearly 62 percent, an increase of 5 percentage points from 57 percent in 2014. The Secretary and Deputy Secretary have challenged leadership at every level of the Department to take ownership over their programs and find ways to communicate and connect with employees on their teams. HUD is also reaching out to employees through Town Halls, Switchboard Forums, and on HUDConnect. Program offices have developed individual Engagement Plans and a departmental plan is under development.

HUD's Use of Intergovernmental Personnel Agreements.

As noted by the OIG, HUD revised its policy regarding assignment agreements under the IPA and is in the process of issuing the final policy. HUD accepted and incorporated edits and recommendations from the OIG into the updated policy. In order to fulfill its collective bargaining obligations, the Department is currently negotiating with AFGE regarding the impact and implementation of the aspects of the policy that relate to collective bargaining units. OCHO and OGC have implemented portions of the Policy regarding IPA agreements that do not impact HUD bargaining unit employees, such as OGC review of IPA agreements for conflicts of interest.

2. Financial Management Governance of HUD

HUD is making progress establishing a sound, resilient financial governance structure that is flexible enough to adapt to the changing landscape, complex program structure, and culture of HUD. Overall our challenges are the result of many factors including under-investment in our people and our systems, reliance on outdated processes, and significant changes in our financial environment and external landscape. While the weaknesses in our financial management governance structure hampered effective oversight of financial management activities, through proper implementation of systems and appropriate recognition of changes in the business environments and risks, we made significant strides in strengthening our governance structure during the past year.

In 2015, HUD established Quarterly Management Reviews (QMRs) for each program and operational area, meant to use data to drive management decision-making and to better identify and manage risks. Chaired by the Deputy Secretary and involving all principals, the QMRs largely focus on human capital, financial management, and procurement, providing a forum to identify, discuss and follow-up on management issues that may be hampering mission delivery. The attention provided to management results through these reviews is new for HUD and we anticipate this process will continue to drive efficiencies and better outcomes. The QMRs serve the same purpose as CFO Councils do in other Agencies. Consequently they satisfy the National Academy of Public Administrators' (NAPA) and others' recommendations to establish a CFO Council.

This year, with the support of the Deputy Secretary, OCFO established formal partnerships between financial management staff in OCFO and the program office financial management staff to strengthen and align financial management processes and systems and to create better accountability. In addition, as part of the shared service implementation, we reviewed and updated our business processes and operating procedures to align operations and strengthen internal controls.

OCFO undertook measures in 2015 to strengthen its human capital. For example, OCFO established the HUD Financial Management Academy and drafted a HUD-wide SES financial management performance standard for inclusion in 2016 plans. The Academy will help HUD transition to its new shared services financial management approach.

3. Financial Management Systems

The New Core project is a multi-phase effort to modernize HUD's financial management, procurement, and administrative systems by moving to a shared services model with the Department of Treasury's Bureau of Fiscal Service (BFS), Administrative Resource Center (ARC). Over the past fiscal year, this project successfully delivered Release 1 for travel and relocation, Release 2 for time and attendance, the New Core Interface Solution (NCIS), and Release 3 for financial management and procurement systems. Release 3 is significant because it aligns HUD's core financial management transactions, reporting, and underlying structure to best practices. Transactions are now conducted on a stable, modern platform hosted by Treasury. Any transformation of this size and complexity has its inherent risks and challenges. New Core has implemented a rigorous project management structure to manage these risks and challenges. The Department is pleased that it is the first Cabinet-level agency to migrate its financial management systems and services to a Federal Shared Service Provider (FSSP).

Over this past fiscal year, OCFO took corrective steps and provided the OIG with supporting documentation to address and close all of the OIG New Core findings and recommendations with the exception of a recommendation to provide a Release 3 post implementation report. This deliverable can be completed once we have more months of information post-October 1st, the Release 3 launch date.

For future planned releases and phases of the project, HUD is working to identify high priority items and specific scope details, based on a need to align this work to HUD's enterprise vision for delivering HUD programs. HUD will continue to provide stakeholders such as the OIG with more specific action plans and timelines for securing funding for future work and for implementing this work.

In summary, while New Core experienced many of the risks and challenges faced by major implementation efforts, including funding constraints, HUD has successfully modernized and implemented its financial management systems.

4. Information Systems Security Controls

Many of the areas of concern contained in the Office of Inspector General Report on Management and Performance Challenges were identified by HUD'S Chief Information Security Officer (CISO) through internal assessments and feedback from the program areas. In the past year, the CISO has proactively identified deficiencies and implemented solutions. The CISO is continuously assessing the overall IT Security Program to ensure that HUD's Enterprise is secure and not just compliant with the Federal Information Security Management Act (FISMA), the Office of Management and Budget (OMB), and the National Institute of Standards and Technology (NIST) requirements. As an ongoing effort to improve HUD's IT Security Program, the CISO published the following guidance to address some of the areas of concern:

1. Information Security Continuous Monitoring (ISCM) Strategy and Program Version 2.0, April 2014;
2. Cyber Security Requirements for Migration of HUD Technical Services, Resources, and Data to Cloud Service Providers, March 23, 2015;
3. IT Security Policy Handbook, 2400.25, Rev 4, August 2014;
4. IT Security Procedures Handbook Version 3, November 1, 2013; and
5. Security Assessment Authorization and Continuous Monitoring Guide, Version 1.1, April 2014.

Additionally, the CISO has initiated the following programs and projects to address HUD's overall IT Security Posture:

1. Cybersecurity Framework Project;
2. Security Incident Response Contract (Awarded);
3. Plan of Action and Milestones (POA&M) Process;
4. Participation in DHS' National Cybersecurity Assessment and Technical Services (NCATS) Cyber Hygiene Assessment;
5. Engagement in the government-wide Cybersecurity Sprint, including implementing 100 percent compliance for strong authentication for privileged users and over 90 percent compliance for all users;
6. CSAM Training and Migration to Rev 4 controls;
7. Assignment of two OITS Analyst to each HUD Program to provide a primary and alternate point of contact for security related inquires;
8. Security Assessments performed by internal OITS staff ; and
9. Participation in the DHS CDM Task Order 2E.

The CISO believes that these initiatives address past, current and future areas of concern identified by the OIG and will bring HUD's IT Security Program in compliance with OMB, FISMA, and NIST Security requirements. The CISO believes that these steps will ensure that HUD's enterprise is not only compliant with federally mandated requirements, but is conducting its mission securely.

5. Single-Family Programs

Office of Housing (Housing) Response

Preserving the FHA Fund: As measured by the independent actuary, FHA has made great strides in reaching the statutorily required capital reserve ratio. In 2015, the independent actuary reported that the Fund had exceeded the required ratio and previous year projections by reaching 2.07 percent and an Economic Net Worth of $23.8 billion. The Department would also like to briefly clarify how the Capital Reserve Ratio, referenced by the OIG, is calculated.

The 1990 Cranston-Gonzalez National Affordable Housing Act (NAHA) mandated that the Federal Housing Administration's (FHA's) Mutual Mortgage Insurance (MMI) Fund maintain a capital ratio of 2 percent from October 1, 2000 forward. In defining the statutory capital ratio, NAHA stipulates the use of unamortized insurance-in force as the denominator. However, "unamortized insurance-in-force" is defined in the legislation as "the remaining obligation on outstanding mortgages" – which is generally understood to describe amortized insurance-in-force. If unamortized insurance-in-force is used, the denominator would include loan balances that already have been paid down. This method is unusual as it would result in FHA holding capital against liabilities that do not actually exist. NAHA also established the requirement for the MMI Fund to undergo an annual independent actuarial review, subsequently revised by the Housing and Economic Recovery Act of 2008 (HERA).

Per the requirements of 12 USC § 1711(f)(4)(D), the capital ratio reported in the Annual Report to Congress on the Financial Health of the Mutual Mortgage Insurance Fund is based on the remaining obligation on outstanding mortgages which are obligations of the MMI Fund.

The NAHA requires that the MMI Fund be operated on an actuarially sound basis. It provides specific capital standards and timeframes over which those standards should initially be met. It also defines the critical actuarial measure as the ratio of the MMI Fund's capital, or economic value, to its unamortized insurance-in-force, defined by the legislation as the remaining obligation on outstanding mortgages. This ratio thus established the capital standard for the MMI Fund, which per HERA subsequently included Home Equity Conversion Mortgages (HECMs) originated since 2009.

Lender Initiatives: The OIG correctly noted that FHA posted the new defect taxonomy methodology on June 18, 2015, but has not yet provided an implementation date. The implementation date is dependent on technology development for a new Loan Review System (LRS) that will allow FHA to make these changes effective. The Office of Housing is currently working with the Office of the Chief Information Officer to deliver the LRS.

Claims: The Office of Housing is committed to a range of initiatives that protect the MMI Fund, which include providing strong support for enforcement actions against lenders and committing significant staffing resources for legal discovery. Housing administers a robust Quality Control (QC) process, which includes: reviews of performing and non-performing loans; Lender Monitoring Reviews; reviews of Lender Self-Reports; and response to borrower complaints.

The particular issue cited by the OIG with regard to lender indemnifications is rooted in the nexus between the dates that certain indemnification agreements expired and the dates upon which certain loans were considered to be in default. The Office of General Counsel (OGC) provided its legal opinion to Housing, which determined the definition of the "date of default" found in FHA's indemnification agreements to be bound by FHA's regulatory definitions found in 24 CFR § 203.331. As a result, Housing believes that certain loans identified by the OIG for losses to be recovered are not eligible for such recovery.

Loss Mitigation: While The Office of Housing disagrees with the OIG's broad statement suggesting that "FHA has difficulty ensuring that its program guidance is clearly written for effective implementation," Housing has identified a number of areas in recent years in which policies relative to loss mitigation needed clarification or enhancement. FHA continues to define its guidance through mortgagee letters and updates to its Single Family Handbook, and all changes are made with an aim to be as clear and unambiguous as possible.

FHA has already taken steps to strengthen the post-claims review function. FHA disagrees with the OIG's statement that the lack of post-claims oversight led to a potential loss of $88.5 million per year due to ineligible FHA Home Affordable Modification Program (HAMP) claims. These findings were related to servicing errors. Based on the scope of the post claim reviews, the servicing eligibility criteria used is not a part of the post claim review. These eligibility issues are part of the servicing reviews. Additionally, in accordance with 24 CFR § 203.500, failure to comply with servicing requirements "shall not be a basis for denial of insurance benefits, but failure to comply will be cause for imposition of a civil money penalty, including a penalty under § 30.35(c)(2), or withdrawal of HUD's approval of a mortgagee." Based on 24 CFR § 203.500, HUD will take appropriate actions, if necessary.

Credit Alert Verification Reporting System: The particular issue cited by the OIG with regard to Housing's effective use of controls over borrowers' eligibility related to CAIVRS is rooted in a legal interpretation about delinquent Federal debt. FHA has received guidance from OGC that neither single family mortgage delinquency data in CAIVRS, nor CAIVRS data on claims paid on FHA-insured mortgages, are delinquent Federal debt. OGC has opined that FHA has significant discretion in determining whether mortgage delinquencies represent a debt that must be repaid, since the National Housing Act bestows upon the Department the responsibility for identifying debt and the procedures for collection of claims for debts.

Departmental Clearance Process: This item is a new inquiry, first raised to the attention of FHA by the OIG in October 2015. At this writing, the entrance conference for this audit has just been scheduled for November 4, 2015. The Office of Housing maintains an effective and efficient clearance process, and we look forward to working with the OIG on this audit and receiving more details on their review.

Premium Pricing: The Office of Housing has carefully reviewed the opinions by the OIG regarding premium pricing, but maintains that the removal of the specific handbook language raised by the OIG is not a policy change and that the prohibition is covered by the new language. Additionally, Housing agrees with OGC's interpretation that the referenced state housing finance agency (HFA) down payment assistance programs do not violate FHA rules. Housing looks forward to continuing discussion of this issue with the OIG.

Ginnie Mae

HUD appreciates the OIG's recognition of the complexity of Ginnie Mae's mortgage backed securities (MBS) program and the various risks it must manage, particularly as the profile of our issuer base has changed dramatically to nonbanks. Notwithstanding the increase in staff in recent years, Ginnie Mae continues to manage complex risks, especially as the market continues to grow and diversify.

6. CPD Programs

Grant Accounting

HUD disagrees with the OIG's statement that "HUD's plan does not comply with the GAO legal opinion and allows grantees to spend HOME program funding that would normally be recaptured if the 24-month commitment timeframe was not met." The GAO 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." The GAO opinion also states that "[w]henever an agency fails to comply with a statutory requirement, it is incumbent upon the agency to correct, or otherwise minimize, the noncompliance if it is able to do so." Accordingly, by applying the GAO opinion to FY 2015 and subsequent grants instead of retroactively, 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.

Section 108

Since the OIG memorandum does not identify the audits that are cited as a basis for the issues raised, HUD cannot comment on the accuracy of the data used, nor can we verify the timeline given for one of the cases cited.

The characterization that HUD considers the program to be a success "because there are no reported Section 108 loan defaults" is inaccurate and misleading. CPD has repeatedly pointed out that CDBG funds may have to be used if there is a shortfall in expected repayment sources. However, the fact that such shortfalls exist in some cases should not be surprising because Section 108 projects tend to have higher risk. In fact, each Section 108 applicant must certify that they have been unable to obtain financing for the proposed project from other sources.

The statement that no loan has been declared in default due to noncompliance is misleading because other remedies are available under the CDBG program to secure repayment of disallowed costs on Section 108 loans. This is the same remedy that would normally be taken if a default was declared.

7. Public and Assisted Housing Program Administration

Housing Choice Voucher Monitoring

During FY 2015, PIH continued to improve its monitoring of the Housing Choice Voucher (HCV) Program. Given its limited funding for new systems development and staffing constraints, PIH employs (and continues to refine) a risk-based approach to monitoring third-party intermediaries. This process allows PIH to target providers who pose the greatest risk to program operations and the delivery of the HCV Program. Through the Utilization and National Risk Assessment tools, PIH is able to provide reasonable assurance that program funds are efficiently being used for their intended purpose.

Central Office Cost Centers

The OIG's concerns are noted and are being actively addressed. Negotiations with OMB are complete and the OIG will be contacted soon to bring these audit findings to closure. HUD has improved its monitoring and will establish a process to assess the reasonableness of fees on a periodic basis.

Cash Management Requirements

MTW PHAs' unspent balances originated from Housing Assistance Payments (HAP) have been identified and timely reported to CFO for the FY 2015 financial statements submission in accordance with Generally Accepted Accounting Principles (GAAP). A Voucher Management System (VMS) release is anticipated by the end of CY 2015, which will provide the mechanism for MTW PHAs to report their non-HAP expenses. Implementation of the release will enable HUD to reconcile HAP for MTWs by spring of 2016. Note that the current methodology for determining MTW PHAs' disbursements have followed Office of Housing Voucher Program's (OHVP) cash management procedures since the issuance of PIH Notice 2011-67, similar to procedures for non-MTW PHAs.

Regarding funds at risk of fraud, waste and abuse, MTW PHAs are subject to financial audits, just like non-MTW PHAs. In addition, just like non-MTW PHAs, MTW PHAs will be subject to on-site and remote Financial Management Reviews in CY 2016, in order to begin the transition of accumulated PHA held reserve balances to HUD-held funds.

Regarding the automated process, PIH, CIO, and CFO are working on Office of Public Housing Voucher Program's (OPHVP) cash management process to comply with Treasury regulations, GAAP, and FMFIA. As a module within PIH's Next Generation Management System (NGMS) initiative, this commitment includes the determination of disbursements in a stronger platform, which will import cost and leasing information from the tenant level data. This effort is partially funded. In the interim, HUD will continue to use the ***automated*** method of importing income and expense information for the HCV Program from HUDCAPS and VMS, respectively, for reconciliation purposes and for determination of disbursements based on the most recent actual costs. VMS is relied on by Congressional Appropriation Committees for renewal formulation. Data collected from VMS goes through at least four layers of quality control/scrutiny: (1) system hard edits; (2) PIH's Financial Management Center (FMC) Financial Analysts' quality assurance review; (3) headquarters' Quality Assurance Division (QAD) - Housing Voucher Financial Management Division (FMD) quality assurance/control reviews; and (4) QAD VMS remote and on-site reviews.

The aforementioned systems comprise the most accurate information for HCV Program financial management, including reconciliations and determination of future disbursements. The OPHVP continues to provide timely and accurate disbursements, and adjustment funding as necessary, to 2,300 PHAs nationwide. We continue to strive to prioritize and allocate funding for cash management objectives and the Next Generation Management System overall in this budget constrained environment.

Monitoring of MTW Agencies

There have been several studies of the MTW program over the years, including studies by the Urban Institute (2004) and Abt Associates (2015) and HUD's 2010 Report to Congress. Additionally, individual PHAs are required to measure each of the activities that they implement. In September 2015, the Department entered into a cooperative agreement with the Urban Institute to conduct a comprehensive evaluation of the MTW program. The evaluation will increase the knowledge of certain MTW initiatives in terms of broader applicability, costs and benefits, positive and negative impacts on target populations, and will document how housing assistance at MTW agencies has changed over time, who is being served, at what level of affordability, for how long, and at what cost. The Urban Institute will produce the results of this evaluation in the fall of 2018.

In 2013, HUD developed standardized metrics to track specific indicators for MTW activities, which allows for the results to be aggregated across MTW agencies. The standard metrics are organized under the three statutory objectives of the MTW program. By October 2016, HUD will update the reporting requirements in order to ensure that adequate policies and procedures are in place so that the activities included in Annual MTW Plans are: (1) allowable under MTW statutory purposes; (2) described in sufficient detail to convey anticipated impacts (including financial impacts); and (3) in accordance with the terms and authorizations set forth in the MTW Agreements. We will initiate the Paperwork Reduction Act (PRA) process in late Fall/early Winter and will seek re-approval from OMB.

In the Fall of 2013, MTW Agencies asked the Department to extend agreements given the relatively short amount of time left on existing agreements, which was having an effect of: (1) impacting the ability of Agencies to secure financing (which relies on MTW fungibility) for the development of new public and affordable housing units; and (2) forming new partnerships to deliver services and house the chronically homeless and other special needs populations.

The Department and Agencies have adhered to three guiding principles throughout the discussions: (1) improving the monitoring and evaluation of MTW Agencies; (2) updating contractual language for administrative and legal reasons; and (3) addressing funding inequities. For more than a year, the Department has extensively engaged with the 39 MTW Agencies to extend their MTW Agreements through 2028.

Over-income Families in Public Housing

As the OIG's audit report noted, it does "not expect HUD and the housing authorities to develop policies that would eliminate all over-income families from public housing" but "creating limits to avoid egregious cases seems reasonable." HUD agrees with this approach and is actively considering all options with a priority on addressing the egregious cases of over-income families while not impeding a family's progress towards self-sufficiency. HUD takes very seriously its obligation to provide clean, safe, affordable housing to the neediest population. The Public Housing program is an essential resource for some of the nation's most vulnerable families. HUD strongly supports the efforts of PHAs to further the goals of providing quality, affordable housing to eligible families in a manner that moves families toward increased and sustained self-sufficiency. At the same time, scarce public resources must be provided to those most in need of deeply affordable housing.

Environmental Review Requirements

In response to past environmental reviews, PIH provided certain PHAs with a series of trainings aimed at improving compliance with environmental requirements. Future deliverables include: (1) revised guidance covering all PIH funds; (2) field operating procedures; and (3) the development of internal controls under a risk-based assessment. Risk-based compliance monitoring by HUD's field staff will target the highest risk PHAs and Responsible Entities based on identified factors and will result in improved compliance with environmental review requirements, as well as align PIH with previously the OIG-endorsed models within the Department.

Indian Home Loan Guarantee Program

PIH's Office of Loan Guarantee (OLG) is conducting a comprehensive review of its policies and procedures for the Indian Housing Loan Guarantee Program (Section 184). New and/or revised policies and procedures will be issued through rulemaking or notices, as appropriate, as a result of the review that specifically addresses eligibility and selection criteria, monitoring plans, data quality, performance tracking, risk assessment elements, and ratings. Loan servicing data will be collected in a form that enables HUD to perform data analytics to track and predict loan performance. The OLG will also develop and implement internal file review policies and procedures that provide clear direction for its Direct Guarantee lenders. These policies and procedures will outline the enforcement process and remedies available for these deficiencies or patterns of errors and omissions. In addition, PIH is working with the OCIO to identify an IT solution that would automate current manual processes to achieve greater efficiencies in the management of the program.

Small and Very Small Housing Agencies

PIH is keenly aware of the challenges that face small and very small PHAs. The OIG audited several small PHAs at PIH's request after PIH observed material concerns. PIH has already taken significant steps to improve oversight of and training to small and very small PHAs in response to those prior reviews. PIH continues to use the national risk-based approach to identify PHAs that may have governance issues to provide direct support and continues to promote and enhance the tools to aid the PHAs in program oversight. One of these tools, *Lead the Way*, is a free, online training module to help PHA boards and staff to fulfill their responsibilities in providing effective governance and oversight. *Lead the Way* training benefits all PHAs regardless of size. PIH also looks forward to a continued partnership with the OIG and HUD's Departmental Enforcement Center to assist with additional oversight.

Physical Condition of the Housing Choice Voucher Units

HUD has done housing quality standards (HQS) Quality Assurance reviews on a sample of more than 30,000 voucher units. Based in large part on this review, PIH has developed a revised protocol for inspections of Tenant based voucher units for all public housing and Multi-Family units. A working model of the protocol is in test and could be operational by the end of CY 2016 if adequately resourced.

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

The Secretary designated the Chief Financial Officer as the lead official for overseeing HUD actions to address improper payment issues and to bring HUD into compliance with IPERA requirements. While HUD continues to face challenges related to IPERA compliance, the acting CFO is dedicated to implementing the necessary corrective actions and remains committed to partnering with the other Assistant Secretaries to achieve compliance with IPERA.

9. Administering Programs Directed Toward Victims of Natural Disasters

Ensuring that expenditures are eligible and supported

The Office of Inspector General identified three audits wherein the OIG found that grantees disbursed Community Development Block Grant-Disaster Recovery (CDBG-DR) funds for activities that were unsupported, unreasonable, unnecessary, and/or ineligible. CPD will be preparing management decisions in response to each of those audits. CPD believes grantees have documentation to support the disbursements in question. In cases where the grantees cannot provide the supporting documentation, CPD will implement appropriate corrective actions. It should be noted that through consultation with the OGC, CPD may disagree with the OIG on which costs are legally unsupported, unreasonable, unnecessary, or ineligible.

Evaluation of the Road Home elevation incentive

The OIG's RHEI Evaluation did not make findings that identified program violations. Nevertheless, the report highlighted issues that stem from the program's design that required a response, and as a result of the OIG's review, HUD responded appropriately with the goal of better supporting disaster recovery outcomes. With regard to the Road Home Elevation Incentive (RHEI) program, the OIG inaccurately asserts that CPD has either waived program requirements or retroactively approved the amended action plan from the State of Louisiana when the OIG found deficiencies.

CPD did not waive RHEI program requirements, as RHEI is a program designed by the State of Louisiana which from the outset was a program "to compensate a homeowner for the loss of equity caused by the higher flood elevation standards for new construction and rebuilding." All determinations as to which activities the State would deem eligible under RHEI, as well as RHEI program guidelines and RHEI homeowner agreements, are written and implemented by the State of Louisiana, not HUD. There are no agreements between homeowners and HUD.

OIG also inaccurately asserts that the new approach of using a "valuation inspection" approach to verify whether RHEI funds were used to rehabilitate the home does not consider whether recipients previously received grants or insurance funds for rehabilitation.

All CDBG-DR grantees are required to verify whether an applicant has received other disaster assistance before providing a CDBG-DR award. Pursuant to the State's implementation of the RHEI corrective action plan, the State is properly requiring verification of other duplicative housing rehabilitation assistance the homeowner received before awarding any CDBG-DR housing rehabilitation funds.

Certifying that grantees are following Federal procurement regulations

The OIG indicates that "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."

This contention is inaccurate in two ways. First, only CDBG-DR grantees receiving funds under Public Law 113-2 are required to provide their procurement standards to HUD for review. Prior CDBG-DR appropriations did not impose this requirement. Second, State grantees are not required to conform to applicable Federal law and standards for procurement, as clearly described in 24 CFR § 85.36(a) (or 2 CFR Part 200, when implemented), but are to use their own procurement policies and procedures.

Promoting disaster resiliency within communities trying to recover

The OIG indicates that another major challenge for HUD will be to reduce the risk of substantial recovery costs from future disasters by reporting resilient investments. The OIG specifically identifies an audit of the State of Maryland in which the OIG determined the State did not implement green building standards imposed by HUD's Federal Register Notices governing the award. The OIG notes that HUD is challenged in promoting community resilience, developing State and local capacity, and ensuring a coordinated Federal response that reduces risk and produces a more resilient built environment.

The challenges to implementing effective resilience strategies exist across the landscape of Federal programs. The Department is leading by example by encouraging the use of CDBG-DR funds in support of mitigation efforts and implementing resilience through initiatives such as Rebuild by Design (RBD) and the National Disaster Resilience Competition (NDRC). State and local governments that have participated in RBD and NDRC have had their efforts enhanced by technical assistance provided by the philanthropic community, most notably the Rockefeller Foundation. Further, HUD managed the Hurricane Sandy Rebuilding Task Force and the Task Force's Rebuilding Strategy provides a roadmap to improving and expediting recovery in the wake of major disasters the Federal response is reducing future substantial recovery costs that did not exist prior to Hurricane Sandy. Taken together, these steps are helping to shape the long term view of resilience in communities across the nation and can be expected to help mitigate the costs of recovery in the face of future disaster events.

The Secretary and Deputy Secretary will continue to collaborate closely with the IG as it identifies areas where HUD can improve and where we can build a stronger HUD, one of our six main goals. We look forward to continuing to learn from the IG and to address these and any future challenges facing HUD. We believe that by building a stronger HUD in this manner, we can ultimately improve outcomes for the people we serve and increase our accountability to all of our stakeholders.

Summary Of Financial Statement Audit And Management Assurances

For FY 2015, nine material weaknesses were identified by the Office of Inspector General in HUD's Consolidated Financial Statement Audit Report. The following tables summarize the Department's FY 2015 Financial Statement Audit and Management Assurances. Table 1 summarizes the status of the material weaknesses identified by the Office of the Inspector General. Table 2 summaries the status of the material weaknesses identified by HUD Management and related 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
Non-GAAP Accounting for CPD Grants (FIFO Method)	1	0	0	0	1
Non-GAAP Validation of CPD's Grant Accruals	1	0	0	0	1
Non-GAAP Accounting for PIH Assets and Liabilities *(Formerly part of PIH Cash Management)* [1]	0	1	0	0	1
Non-GAAP Claims Notes and Legal Settlements Receivable – (FHA)	1	0	1	0	0
PIH Cash Management[2]	1	0	1	0	0
Asset Balances for Non-Pooled Loans – (Ginnie Mae)	1	0	0	0	1
Internal Controls Weaknesses in Financial Reporting – (Ginnie Mae)	1	0	0	0	1
Financial Management Governance - (HUD & Ginnie Mae)	1	0	0	0	1
Ginnie Mae's Mortgage-Back Security Liability for Loss Not Reliable	0	1	0	0	1
Ginnie Mae's Budgetary Accounting Data Not Auditable	0	1	0	0	1
Total Material Weaknesses	**8**	**3**	**2**	**0**	**9**

[1] *The original PIH cash management material weakness was divided into two separate findings. One finding for non-compliance with the Treasury Financial Manual Volume 1, Part 4A, Section 2045.10 and a second material weakness finding for Non-GAAP accounting for assets and liabilities of PIH programs, which was merged with new findings related to trial investment accounts. The new merged finding is titled Non-GAAP Accounting for PIH Assets and Liabilities.*
[2] *See footnote 1*

Table 2

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Statement of no assurance					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Financial Management Governance						
Financial Management Governance - (HUD & Ginnie Mae)	1	0	0	0	0	1
Departures from GAAP Accounting						
Non-GAAP Accounting for CPD Grants (FIFO Method)	1	0	0	0	0	1
Non-GAAP Validation of CPD's Grant Accruals	1	0	0	0	0	1
Non-GAAP Accounting for PIH Assets and Liabilities	0	1	0	0	0	1
Ginnie Mae						
Asset Balances for Non-Pooled Loans– (Ginnie Mae)	1	0	0	0	0	1
Internal Controls Weaknesses in Financial Reporting – (Ginnie Mae)	1	0	0	0	0	1
Ginnie Mae's Mortgage-Back Security Liability for Loss Not Reliable	0	1	0	0	0	1
Ginnie Mae's Budgetary Accounting Data Not Auditable	0	1	0	0	0	1
Resolved & Reassessed						
Non-GAAP Claims Notes and Legal Settlements Receivable – (FHA)	1	0	1	0	0	0
PIH Cash Management	1	0	0	0	1	0
Departmental Financial Management Systems Material Weakness[3]	1	0	0	0	1	0
Total Material Weaknesses	**8**	**3**	**1**	**0**	**2**	**8**

[3] *Reassessed to Section 4*

Analysis of Systems, Controls and Legal Compliance

Material Weaknesses Summary by Category

Financial Management Governance

HUD's previous culture contributed to under-investment in our people and our systems, resulting in insufficient implementation of the CFO Act and deficiencies in the financial management governance structure which prevented effective oversight of financial management activities, proper implementation of systems, and appropriate recognition of changes in the business environments and risks. The multiple short-comings contributed to internal controls weaknesses, improper GAAP accounting, misstatements on the financial statements, and instances of noncompliance with laws and regulations.

While the weaknesses in our financial management governance structure hampered effective oversight of financial management activities in the past, we made significant strides in strengthening our governance structure during the past year. We will continue to implement improvements that support a sound, resilient financial governance structure that is flexible enough to adapt to the changing landscape, complex program structure, and culture of HUD.

Departures from GAAP Accounting

Two of our programs, the Office Community Planning and Development (CPD) and the Office of Public and Indian Housing (PIH) departed from Federal GAAP by recording transactions on a cash basis instead of an accrual basis, which impacted some asset, liability, and expense accounts and created potential misalignment of obligation and expenditure by budget year. This resulted in three material weaknesses.

The first material weakness relates to a past method to commit and disburse funds on a first-in first-out (FIFO) method for formula grant programs administrated by CPD was not in accordance with Federal GAAP, which resulted in a misstatement in the combined statement of budgetary resources. Our grant system was updated to discontinue the use of the FIFO method for formula grants issued beginning in fiscal year 2015 and forward. As OIG indicated in their draft report, a sufficient audit trail does not exists within the grant system to unravel all financial events affected by the method to quantify the financial effects on HUD's consolidated financial statements and it is not possible to retroactively undo the past grant awards.

The second material weakness relates to a legacy system limitation which records all payments as expended, thus impeding the timely recognition of advance payments (related receivables and payables) in accordance with U.S. GAAP for public and Indian housing programs administrated by PIH. PIH has developed an extensive reconciliation method that leverages existing data sources, includes a validation with the housing authorities, and provides validated information to update the records to reflect the correct U.S. GAAP accounts. PIH has successfully implemented the method for vast majority of the housing authorities and will finish implementation during fiscal year 2016. In addition, HUD will be review the accounting for tribal investment accounts to ensure compliance with U.S. GAAP.

The third material weakness relates to non-validated grant accrual estimates for grants administrated by CPD. A grant accrual results when a grantee has allowable grant expenses that are not paid by September 30, 2015. Using statistical methods, CPD estimated an accrual for but was unable to validate the estimate due to the limitation of grantee reporting and the unavailability of the Single Audit Clearinghouse.

While HUD successfully remediated accrual accounting for claims and legal settlements, made substantial progress in developing grant accruals, and determining subsidy advances, deeper dives have been initiated to collaboratively analyze the financial events to determine the proper GAAP application and implementation, and develop alternative accrual validation methods.

Ginnie Mae

Key vacant positions and weaknesses in the governance structure[4] impacted the financial reporting process, allowed departures from GAAP in recording loans losses, reimbursable costs, and other accounts, and contributed to untimely documentation for non-pooled loans, loan losses, budgetary accounts, and restated accounts. This resulted in five material weaknesses, of which four are described below and one is included within the overall governance weakness.

The first material weakness relates to system limitation at Ginnie Mae and its master sub-servicers. The systems were unable to meet loan level transactional accounting requirements to comply with GAAP and could not provide timely documentation to support non-pooled loans.

The next material weakness relates to an internal control weaknesses over financial reporting, which contributed to non-GAAP accounting for reimbursable costs and accrued interest earned on non-pooled loans, inconsistent revenue recognition for some fees, and estimation, presentation, and disclosure discrepancy.

The third material weakness relates to non-GAAP accounting treatment of selected accounting transactions for non-pooled loans in the mortgage-backed securities loss liability account and insufficient documentation to support the assumptions used in the loss reserve model.

The final material weakness relates to converting to Federal GAAP for consolidated reporting purposes. Specifically, Ginnie Mae implemented a system to account for its budgetary resources but the implementation was problematic and the data was not reliable.

The extension of the FY 2014 audit to February 27, 2015, limited the timeframe in which to successfully remediate the material weaknesses at Ginnie Mae. HUD has initiated deliberative

[4] The Ginnie Mae financial management governance material weakness is included with the first category and not separately reported.

process to methodically analyze the material weaknesses and work collaboratively with Ginnie Mae to reach resolution including coordination with authoritative agencies.

Financial Management Systems and System Strategies

HUD's long-term under-investment in successful technology resulted in aged financial systems that lacked key functionality and in some cases, no financial systems were in place to meet financial management needs to efficiently and effectively manage operations, which contributed to lost opportunities, misstatement of financial information, and non-compliance.

HUD has successfully implemented a financial management shared service solution. This is the first goal in establishing a sound foundation on which to begin resolve our remaining long-term system weaknesses and limitations. We are working to identify the highest priority items and specific scope details, based on alignment to the strategic plan and an enterprise vision of delivering HUD programs.

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Human Capital Operations	1	0	1	0	0	0
Total Material Weaknesses	**1**	**0**	**1**	**0**	**0**	**0**

Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform except for the below non-conformances					
Non-Conformances	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Departmental Financial Management Systems Material Weakness[5]	0	0	0	0	1	1
FISMA Non-Compliance	1	0	0	0	1	0
Facilities Integrated Resource Management System (FIRMS)	1	0	0	0	0	1
HUD's Procurement System (HPS)	1	0	0	0	0	1
Small Purchase System (SPS)	1	0	0	0	0	1
Integrated Disbursement and Information System (IDIS)	1	0	0	0	0	1
Ginnie Mae's Financial and Accounting System (GFAS)	0	1	0	0	0	1
Total non-conformances	**5**	**1**	**0**	**0**	**2**	**6**

[5] *Reassessed from Section 2*

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

Other Management Information, Assurances, and Legal Compliance

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.

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.

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. Through an intensive effort the Department finished the backlog of ADA investigations and submitted a letter to OMB reporting fourteen separate violations of the Anti-deficiency Act (ADA) that occurred during FYs 2001 – 2004, 2006, 2007, and 2009 – 2013. Only one potential ADA violation remains and is under review.

The Department has worked with OMB to examine its financial controls across all offices to address the variety and systemic nature of the ADA violations. This entailed a comprehensive review of HUD's financial management practices, communication protocols, and written guidance, including the Department's administrative funds control handbook and program plans. The Department continuously sponsors several Appropriations Law training sessions. These sessions are held for those employees with public trust responsibilities to include funding officials and their staff involved in obligating and expending funds throughout HUD and the fiscal year.

Prompt Payment Act

The Prompt Payment Act (PPA) ensures that federal agencies pay vendors in a timely manner and assesses interest penalties against agencies for late payments. 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.

Single Audit Act

The Single Audit Act (amended in 1996) (31 U.S.C. 7501-7507) and OMB Circular A-133 ("Audits of State, Local Governments, and Non-Profit Organizations") provide audit requirements for ensuring that Federal agencies expend these grants funds properly. All non-Federal entities that expend $500,000 or more of Federal awards in a year are required to obtain an annual audit in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, the OMB Circular Compliance Supplement and Government Auditing Standards. The Department encourages adherence to the audit resolution requirements of the Single Audit Act and coordinates the annual update of the OMB Compliance Supplement for single audits.

IPIA (as amended by IPERA and IPERIA) Reporting Details

Risk Assessment

Methodology and Results

OMB Circular A-123, Appendix C, 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 (FY) reported, or 2) $100 million (regardless of the improper payment percentage of total program outlays). HUD determined that programs with expenditures of $40 million and greater would be included in the risk assessment. Based on HUD's analysis of the programs and their funds control activities, HUD 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). Programs that reach this threshold are assessed on a three year cycle. Programs that reach a scored risk threshold are then selected to have an improper payment estimate performed via statistical sampling.

Prior to enactment of the Improper Payments Improvement Act (IPIA), the Improper Payments Elimination and Recovery Act (IPERA), and the Improper Payments Elimination and Recovery Improvement Act (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, 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 OMB approved HUD's request for relief from annual improper payment reporting for those programs. HUD continues to conduct an annual risk assessment of these CDBG programs.

Per the three year cycle, in FY 2015 HUD performed a comprehensive and qualitative risk assessment for 12 of the 33 programs that were in scope. The programs are as follows:

HSG: Personnel Compensation and Benefits	CPD: HAG: Emergency Shelter/Solutions Grants
PIH: Personnel Compensation and Benefits	CPD: HAG: Shelter Plus Care (S+C)
PIH: Section 184 Indian Housing Loan Guarantee – Program Account	CPD: Supportive Housing Program
CPD: CDBG: Entitlement	CPD: HOPWA: Formula Grants
CPD: CDBG: Non-Entitlement (States/Small Cities)	PIH: CDBG: Indian Tribes
CPD: CDBG: Capacity Building	HSG: Service Coordinator/Congregate Services

HUD's methodology involves determining the population and scope of HUD programs to be assessed, performing research, executing interviews, collecting data, updating and populating elements of the risk matrix, and identifying the most susceptible programs. In FY 2015, HUD incorporated payments to Federal employees and charge card payments into the improper payment risk assessment as required by the revised OMB Circular A-123, Appendix C.

HUD's uses the qualitative method when conducting risk assessments as required in OMB Circular A-123, Appendix C. Utilizing this method, HUD scores each program assessed on an Improper Payments Risk Matrix. Different Risk Conditions in the Improper Payments Risk Matrix are used to fulfill each of the Risk Factor requirements from OMB Circular A-123, Appendix C.

HUD assesses each program based on the following Risk Factors:

Quality of Internal Payment Processing Controls; Quality of Monitoring Controls; Quality of External Payment Processing Controls at the Grantee Level; Human Capital Risk; Age of Program; Complexity of Program; Nature of Program Recipients; and Materiality of Expenditures.

The conditions address the risk factors required by OMB circular A-123, Appendix C: whether the program or activity is new to the agency, the complexity of the program or activity reviewed, the volume of payments made annually, whether payments for payment eligibility decisions are made outside of the agency, recent major changes in program funding, authorities, practices, or procedures, the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; inherent risks of improper payments due to the nature of agency programs or operations, significant deficiencies in the audit reports of the agency including, but not limited to, the agency's Office of Inspector General's or the Government Accountability Office's (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certification, and results from prior improper payment work.

None of the programs that were assessed in FY 2015 reached the threshold for statistical sampling. Therefore, only HUD's high-priority program, the Rental Housing Assistance Programs (RHAP), and the legislatively designated as susceptible to significant improper payments Disaster Relief Appropriations Act, 2013 (P.L.113-2) Disaster Assistance – Hurricane Sandy funds have a reported improper payment rate.

Statistical Sampling

Improper Payment Estimate Process – RHAP

RHAP consists of three high-risk program areas: 1) Public Housing; 2) Section 8 Housing Choice Vouchers and Moderate Rehabilitation; and 3) Owner-administered Project-based Assistance programs (Section 8, Section 202, and Section 811.

Three studies were undertaken to estimate the improper payment rate for RHAP. These studies include the: 1) quality control (QC) Study, 2) Income Match Study, and the 3) Billing Study. The result from the prior Billing Study were based on FY 2004 and FY 2009 data and adjusted for inflation. HUD has requested additional funding to obtain an updated Billing Study review. As a Billing Study was not done for FY 2014 data, the previously reported amounts were adjusted for inflation using International Monetary Fund guidelines (1.5 percent).

QC Study

The QC Study sample was designed to obtain a 95 percent 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 percent of the total rents. A nationally representative sample of 600 projects in the United States and Puerto Rico was selected for the study.

The QC rent was calculated for each household in the sample, using the information reported by the public housing agency (PHA)/project, household, Social Security match, and third-party verification. Rent error was calculated by subtracting the QC rent from the actual paid tenant rent (the rent from Forms HUD-50058/50059 that was calculated by the project staff). A discrepancy of $5 or less between the actual and QC rents was not counted as an error. This $5 differential was used to eliminate rounding differences and minor calculation discrepancies that have minimal effect on program-wide subsidy errors.

Income Match Study

Two different processes were used to review earned income and unemployment compensation benefits records. The processes used are described below.

Earned Income

The match with the National Directory of New Hires (NDNH) database identified earned income for 1,126 households from the FY 2014 QC sample. The study used the following three-step protocol for the initial categorization of household member income data:

Step 1: Each case was reviewed and organized by aggregating cases with similar categorizations, such as whether the employer was the same as that identified during the QC Study or a potential new employer.

Step 2: After each case was categorized, a more thorough review was conducted for cases in which it was unknown whether the employer from the NDNH data was the same as the QC employer. During this secondary review, all the cases were re-categorized into two classes, either resolved (no new income discovered) or unresolved (potential new source of income exists). As part of the review process, NDNH earned income was excluded for household members who were live-in aides or dependents.

Step 3: For unresolved cases (potential new source of income exists) tenant addresses were verified using data provided by employers. If the addresses matched, the sources were considered a new source of income. If the addresses did not match or the address information was missing, the contractor reviewed tenant files and conducted follow-up with third parties to determine if identity theft was applicable to these cases. Cases with stolen identities were not considered new sources of unreported income.

During the *initial* review of the data, households were categorized as follows:

- **NDNH and QC employers were the same.** The employer identified through the NDNH data was the same as the employer identified through the QC process. There were 535 households that fell into this category.
- **NDNH earnings were not considered potential new sources.** The earnings identified through the NDNH match were not considered new sources of income for multiple reasons. Most cases were not considered new sources of income because they were not earned during the appropriate time period. Other reasons included income for live-in aides or income for household members who were minors at the time of recertification. There were 324 households that fell into this category.
- **NDNH earnings were considered potential new sources of income.** Cases that had data only in the NDNH data set were considered to be potential new sources of income. This also includes cases where further investigations were done to determine whether the income was a potential new source of income (as discussed above). This category had 267 households.

For the 267 households with a potential new source of earned income, further follow-up actions were taken to determine whether the income should be considered as unreported. The steps taken were as follows:

- If the employer was connected with the work number, it was used to gather wage information.
- All other employers were sent a letter requesting wage verification.
- Follow-up calls were made to all employers who did not respond to the request for verification within seven business days after the request was mailed.

Unemployment Compensation Benefits

The match with the NDNH database identified unemployment compensation income for 282 of the households in the FY 2014 QC sample. During the initial review, these households were categorized as follows:

- **NDNH and QC benefits were the same**. Unemployment compensation benefits were identified in both the QC and the NDNH data.
- **NDNH benefits were not considered new sources**. Unemployment compensation benefits identified through the NDNH match were not received during the appropriate time period.
- **NDNH benefits were considered to be potential new sources of income**. Unemployment compensation benefits were considered potential sources of new unreported income.

For the 31 households in which the NDNH-identified benefits were considered to be potential new sources of income, verification requests were sent to the respective state agencies that administered the benefits to the households.

Improper Payment Estimate Process – Disaster Relief Appropriations Act (DRAA)

The DRAA supplemental appropriations are subject to national standards of a very general nature. None of the standards govern levels of payment or set any rules through which payments can be judged as proper or improper. An attempt to obtain a statistically valid estimation of improper payments would have to account for hundreds of specific program rules for the sample cases. This is the basis for which OMB approved the alternative estimation approach utilized for this program.

Grant Funds

In lieu of a random sample approach to assessing improper payments in the CDBG-DR program, HUD estimated improper payments from the findings of the risk-based audit activities that are supported by the administrative appropriations. Additionally, HUD implemented this alternative sampling protocol for the higher risk grants funded under the Appropriations Act. The Department based the proposed approach on guidance provided in the revised OMB Circular A-123, Appendix C, Part I. While a risk-based, rather than random, selection of examined cases is likely to overstate the level of improper payments reported for the CDBG-DR program, the following is the only feasible method for HUD:

- The Disaster Relief Special Issues (DRSI) Division implements the protocol for the three highest risk grantees under P.L. 113-2 as defined in the approved funds control plan for the appropriation (New York State, New York City and New Jersey).
- Amend the CDBG-DR exhibits in the CPD Grantee Monitoring Handbook to reflect the specific requirements of P.L. 113-2 and the implementing Federal Register Notices, with questions added for the purposes of capturing improper payments identified in financial management and program file-level reviews during the course of on-site monitoring visits.
- Transfer information gathered in monitoring review exhibits into a separate worksheet titled “Grantee Level Template,” to capture improper payments identified as part of each on-site monitoring review.
- Provide an annual “roll-up” of the frequency and total amount of grantee-level improper payments identified throughout the year as calculated through the attached worksheet titled “Fiscal Year Estimate Template.” Funding that grantees received should be monitored based on the total amount of grant funds expended annually for each high-risk grant and the number and amount of improper payments identified, and calculate the estimated amount of improper payments for high risk CDBG-DR grants funded calculated pursuant to P.L. 113-2. This improper payment estimate report should be presented to OCFO for transmittal to OMB.

DRSI performs two on-site monitoring reviews of each of the highest risk grantees with allocations under P.L. 113-2, New York City and the States of New York and New Jersey, over the course of each federal fiscal year. DRSI structures these reviews based on areas of high risk and previous monitoring conclusions. Prior to each visit, DRSI develops a strategy memo for each visit which outlines grantee projects and activities—and particular components or aspects of these projects or activities—that it has targeted for review. Additional information on this process is outlined in HUD’s Internal Control Plan for the oversight of CDBG-DR funds under P.L. 113-2, as submitted to OMB and GAO.

For each monitoring review, a determination is made whether a grantee has made improper payments at the individual program level as part of his or her review of the grantee’s program. As part of each review, HUD staff uses a template to roll-up a grantee’s program-level improper payments data, as gathered during the monitoring review to develop an improper payment estimate for the two fiscal quarters, which the monitoring review covers, for the grantee at an individual level. This template is used for both monitoring reviews and rolled up by DRSI at the end of the fiscal year to create an improper payments estimate for the grantee's activities for the fiscal year.

After the end of the fiscal year, DRSI uses the individual improper payments estimate data for each of the three highest risk grantees to develop an improper payments percentage estimate for the portfolio of grants under P.L. 113-2. In order to do so, DRSI adds the improper payment expenditure estimates for each of the three highest risk grantees together and divides that number by the total amount of funds drawn by those grantees during the fiscal year.

Improper Payment Reporting

All tables listed in the following IPERA sections show FY 2014 data as the Current Year (CY). In previous HUD's AFRs, some tables listed the fiscal year that most recently closed as the CY and others listed the prior fiscal year as the CY. Upon coordination with OMB and HUD OIG, HUD has made the data consistent for reporting.

Table 1

Improper Payment Reduction Outlook
($ in millions)

Program	PY Outlays	PY IP %	PY IP $	CY Outlays [4]	CY IP % [2]	CY IP $	CY Over-payment $	CY Under-payment $	CY + 1 Est. Outlays [1]	CY + 1 Est. IP %	CY + 1 Est. IP $ [3]	CY + 2 Est. Outlays [1]	CY +2 Est. IP %	CY + 2 Est. IP $ [3]	CY + 3 Est. Outlays [1]	CY +3 Est. IP %	CY + 3 Est. IP $
RHAP	31,726.54	3.24%	1,029.07	32,001.12	4.01%	1,281.79	920.05	361.74	32,001.12	3.90%	1,248.04	32,001.12	3.80%	1,216.04	32,001.12	3.70%	1,184.04
CPD/DRAA	190.00	0.00	0.00	1,642.00	1.15%	18.81	18.81	0.00	30.00	1.00%	0.30	38.00	1.00%	0.38	27.00	0.90%	0.24
Total	31,916.54	3.22%	1,029.07	33,643.12	3.87%	1,300.60	938.86	361.74	32,031.12	3.90%	1,248.34	32,039.12	3.80%	1,216.42	32,028.12	3.70%	1,184.28

[1] HUD's budget is not formulated to the level of granular detail by which RHAP's program budget formulation figures can be separated from their component programs. To maintain historical precedent, the CY +1, +2, and +3 outlays are assumed to remain constant at CY levels.

[2] Differences in the CPD/DRAA improper payment rate as reported in the 2014 AFR vs the 2015 AFR are due to previous rounding. Per OMB guidance, the 2015 AFR uses two decimal places to report the rate.

[3] CPD/DRAA reduction targets reflect the relatively abbreviated period in which the funds will be expended. P.L. 113-2 funds must be fully expended by 9/30/2019 (unless an extension is granted by HUD for individual grants, in which case all funds must be expended by 9/20/2022).

[4] In FY 2015 AFR reporting data, HUD excluded certain programs for the RHAP CY Outlays, in prior years the programs were included in the outlays. These programs were excluded because their eligibility and rent calculation rules differed form the standards.

Supplemental Measures

As RHAP is a high-priority program, HUD has established supplemental measures for reducing improper payments in the program.

Since two different program offices [Multifamily Housing (MFH) and Public and Indian Housing (PIH)] are responsible for different parts of the RHAP program, each office has their own supplemental measures as follows:

Program Office	Supplemental Measure	FYE 13 Baseline*	FYE 14 Target	FYE 14 Actual
MFH	Deceased Single Member Households	507	376	460
	Enterprise Income Verification Access Rate	96.8%	95%	96.8%
	Enterprise Income Verification Usage Rate	93.3%	93%	93.7%
	Failed Identity Verification Rate	23,268	25,472	22,092
PIH	Deceased Single Member Households	637	600	1,160
	Enterprise Income Verification Access Rate	99%	99%	99.5%
	Enterprise Income Verification Usage Rate	97%	98%	96%
	Failed Identity Verification Rate	18,401	15,000	21,161
	Income Discrepancy Rate	18,419	17,500	18,499
	Public and Indian Housing Information Center Reporting Rate	99%	99%	99%

*as of Fiscal Year End 2013

Multifamily Housing (MFH)

Deceased Single Member Households – measures the number of deceased single member households within an owner's or management agent's jurisdiction. The measure helps owners and management agents reduce improper payments made to deceased beneficiaries.

As of September 30, 2014, the number of properties that reflected payments to deceased single member households was 460. The fiscal year end (FYE) 2014 target goal was 376. MFH did not meet the target of 376. However, MFH successfully had a 9.1 percent reduction from the baseline of 507.

<u>Enterprise Income Verification Access Rate</u> – measures an owner's or management agent's ability to access HUD's Enterprise Income Verification (EIV) system to verify the employment and income of existing tenants, and to ensure that the right benefits go to the right people.

As the access rate increases, the ability for owners or management agents to use EIV increases. As of September 30, 2014, the percentage of properties that had access to EIV was 96.8 percent. The FYE 2014 target goal is 95.0 percent. MFH expects to maintain a goal of 95.0 percent for this supplemental measure due to the flexibilities for our owners and management agents in their ability to sell and purchase their properties within the MFH portfolio.

<u>Enterprise Income Verification Usage Rate</u> – measures an owner's or management agent's use of HUD's Enterprise Income Verification system to verify the employment and income of existing tenants, and to ensure that the right benefits go to the right people.

With an increase in the EIV usage rate, the dollars of unreported and under-reported income will decline and recovery of overpaid assistance will increase. As of September 30, 2014, the percentage of properties that had used EIV was 93.7 percent. The FYE 2014 target goal is 93.0 percent.

<u>Failed Identity Verification Rate</u> – measures the number of failed identity verifications (such as invalid name, date of birth or social security number) that are reported by owners or management agents to HUD on behalf of program beneficiaries.

This supplemental measure consists of two types of identity verification errors; (1) the number of tenants that have failed the EIV pre-screening test because of invalid or missing personal identifiers (such as invalid last name, date of birth or social security number) and (2) the number of tenants that have failed the SSA identity test because their personal identifiers (last name, DOB, or SSN) do not match SSA's records.

Once the owner's or management agent's research and correct failed identity verifications, their ability to detect unreported and underreported income will increase and improper payments will decrease. In January 2013, MFH staff implemented quarterly reviews that would identify the owner or management agents (O/A) who have unresolved failed identity verifications. This review process improved the overall identification of unreported and under-reported income by ultimately capturing income data on tenants that have not been previously matched to the NDNH database. As of September 30, 2014, the number of properties that had failed identity verifications was 22,092. The FYE 2014 target goal is 25,472.

Public and Indian Housing (PIH)

Deceased Single Member Households – measure is the same as used by MFH. The measure provides PHAs with data to initiate research and elimination of subsidy payments made on behalf of ineligible program beneficiaries. The Supplemental Measure is a dynamic number and can fluctuate dramatically based on the number of deaths that occur in a given month. Once EIV is aware of the death(s), a notice is sent to the PHAs requiring action by the PHA to address the death(s) and to provide specific HAP information, etc. from which the EIV team can determine whether or not a HAP overpayment/improper payment has occurred.

Enterprise Income Verification Access Rate – measure is the same as used by MFH. As the EIV access rate increases, the ability for PHAs to use EIV the greater the potential to reduce the number of improper payments. EIV manages the data contained in the EIV system, notifies PHAs of deficiencies and reports the progress that is achieved by the PHAs.

Enterprise Income Verification Usage Rate – measure is the same as used by MFH. With an increase in the EIV usage rate, the dollars of unreported and underreported income will decline and recovery of overpaid assistance will increase. The Supplemental Measure requires PHAs to actively use the EIV system to address EIV deficiencies. In cases where PHAs are not using the EIV system, a notice is sent to the PHA to address the situation. It is expected that the more PHAs that use the system and the greater the number of corrected deficiencies, the greater the accuracy of HUD's PIC and EIV systems and the less the amount of unreported income/improper payments. It is also important to keep in mind that EIV has lost three (3) staff members over the past year which is significant.

Failed Identity Verification Rate – measure is the same as used by MFH. Once the PHA researches and corrects the SSN, their ability to detect unreported and underreported income will increase and improper payments will decrease. The Supplemental Measure is based on the number of overdue re-certifications at a PHA and the number of tenant/participants that may not have a correct social security number or another type of error (DOB or surname) based on the available PIC records. PHAs are notified of the errors and provided specific guidance for correcting the deficiencies. This particular measure, however, is also being reviewed for a determination as to whether this measure represents an accurate measure of the activity reviewed in this element.

Income Discrepancy Rate – measurement of egregious income discrepancy cases (tenant under reporting of income). PHAs are required to use the EIV system and the Income Discrepancy Report in EIV as a guide to assist in the determination of improper payments based on tenant misreporting or tenant under reporting of income through tenant re-examinations. The Supplemental Measure is currently based on the existing Income Discrepancy Report in EIV which is believed to contain a significant number of false positives based on tenant underreporting or misreporting and which relies on data that may be as much as 6 months old. EIV is developing a new Income Validation Tool that is currently undergoing additional programming to include benefit income, exclusion income and computation, a flagging mechanism for invalid social security numbers and a search mechanism for locating specific members. The new Tool is based on a later timeline and is expected to increase the overall accuracy and to work as an aide in narrowing the tenant underreporting and misreporting of income.

Public and Indian Housing Information Center Reporting Rate – reporting rate is a measure of information on assisted tenants that is transmitted to HUD by public housing agencies. A high reporting rate is necessary to ensure the PHA's ability to verify the employment and income of existing tenants through the EIV system. The greater the number of PHAs successfully reporting into the PIH Information Center (PIC) via completed form HUD 50058 (Family Report), the accuracy of data increases in the PIC database. PHAs are the principals that control whether the required corrective actions are completed timely and effectively and reported accurately in PIC.

Supplemental Measures are reported quarterly on the OMB improper payments website PaymentAccuracy.gov

Improper Payment Root Cause Categories

The root cause of improper payments in RHAP is administrative or process errors made by parties other than a Federal, State or Local agency. These errors are related to program administrative income and rent determination error, intentional tenant misreporting of income, and program administrative billing for assistance payments. The root cause of improper payments in CPD/DRAA funds is administrative or process errors made by state or local agency.

Table 2

Improper Payment Root Cause Category Matrix
($ in millions)

Reason for Improper Payment				RHAP		CPD - DRAA	
				Overpayments	Underpayments	Overpayments	Underpayments
Program Design or Structural Issue							
Inability of Authenticate Eligibility							
Failure to Verify:	Death Data						
	Financial Data						
	Excluded Party Data						
	Prisoner Data						
	Other Eligibility Data (explain)						
Administrative or Process Error Made by:	Federal Agency						
	State or Local Agency					**18.81**	
	Other Party:			**920.05**	**361.74**		
		Program Administrator Income and Rent Determination error					
		-	*Public Housing*	126.07	121.52		
		-	*PHA-administered Section 8 (Vouchers & Moderate Rehabilitation)*	238.13	154.19		
		-	*Owner Administered Section 8*[1]	94.16	35.29		
		Intentional Tenant Misreporting of Income					
		-	*Public Housing*	119.30			
		-	*PHA-administered Section 8 (Vouchers & Moderate Rehabilitation)*	221.76			
		-	*Owner Administered Section 8*[1]	63.79			
		Program Administrator Billings for Assistance Payments[2]					
		-	*Public Housing*	35.53	14.21		
		-	*PHA-administered Section 8 (Vouchers & Moderate Rehabilitation)*				
		-	*Owner Administered Section 8*[1]	21.32	36.54		
Medical Necessity							
Insufficient Documentation to Determine					X		X
Other Reason (a) (explain)							
Other Reason (b) (explain)							
TOTAL				920.05	361.74	18.81	

[1] Owner Administered Section 8 includes: Owner-administered Section 8, Section 202 Project Rental Assistance Contract (PRAC), Section 811 PRAC, and Section 202/162 Project Assistance Contact (PAC)

[2] Program Administrator Billings for Assistance Payments are based on FY 2004 data for public housing and FY 2009 for owner administered Section 8 (The 2014 numbers are from 2013 multiplied by 1.5%)

Corrective Actions

Deceased Single Member Households are cases of HUD over-payments of Housing Assistance Payments (HAP) subsidies for the single deceased tenants that have passed away while residing in a rental housing unit and thus an ineligible household. Reporting is provided to PHAs for research and resolution on a quarterly basis.

HUD utilizes the EIV system, so that owners or management can verify existing tenant income and employment. HUD, in an effort to reduce improper payments caused by tenants not meeting employment or income criteria, is making this system available to more owners and management and making them use the system.

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. HUD continues to have discussions with Treasury to determine the most beneficial way to monitor its programs through the Do Not Pay Initiative, whether through continuous monitoring or batch matching.

HUD has monthly computer matching agreements with the National Directory of New Hires and the Social Security Administration to provide income data to HUD via the Enterprise Income Verification (EIV) system. The EIV system is used by owners to obtain and adequately verify annual income and benefit information in making rental housing subsidy determinations. When unreported and under-reported income is discovered, Owners and Management Agents actively pursue collection of overpaid subsidy from the tenant. In most cases, they enter into a repayment agreement for the recapture of overpaid subsidy.

HUD plans to develop an integrated Subsidy Reporting System (iSERS) that will provide HUD management with the ability to collect and analyze errors for their impacts to Project-Based Section 8 subsidy payments and funding. The system will provide visibility into the value of the contract administrator efforts in resolving errors, and the efforts taken to ensure that the error occurrence is reduced, and where possible, eliminated. It will work alongside the Tenant Rental Certification System (TRACS). iSERS will also capture the category, error, cause, and resolution for each improper payment and is expected to be implemented in late 2016.

Internal Control Over Payments

Status of Internal Controls		
Internal Control Standards	**RHAP - PIH**	**RHAP - MFH**
Control Environment	4	3
Risk Assessment	4	3
Control Activities	4	3
Information and Communications	3	3
Monitoring	4	3

HUD's internal controls over payments are in place and operating effectively. HUD's efforts to address each internal control standard are described in the following narrative.

Control Environment

HUD has made the implementation and reduction of improper payments a key focal point. HUD's Strategic Goal: "Improving the way HUD does business" concentrates on the "accountability" goal of HUD's senior leadership team. The Secretary is holding the senior executives accountable for public trust responsibilities. These public trust responsibilities are addressed in HUD's ethics training annually. HUD's plans, goals, and results for identifying and reducing improper payments are reported in the annual Agency Financial Report.

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 IPERIA requirements. While HUD continues to face challenges related to IPERIA compliance, the CFO is dedicated to implementing the necessary corrective actions to ensure HUD's compliance with IPERIA. The CFO remains committed to its partnership with the Principal Deputy Assistant Secretaries for Public and Indian Housing and Housing related to ensuring IPERIA compliance for their programs.

Risk Assessment

HUD conducts an annual qualitative risk assessment of program activities for those programs with annual expenditures in excess of $40 million. Any assessed programs that are determined to not be a high risk of significant improper payments are reassessed on a three year cycle.

HUD's high priority programs use a quarterly risk assessment tool to manage risks and monitor the use of program funds by PHAs. In addition, high priority programs uses a risk-based approach to target resources to insure high risk PHAs receive adequate oversight. Changes in practice are implemented when needed on a timely basis to provide adequate reporting for grantees. As a result, system enhancements are made to assist in identification and recovery of improper payments, including the development of iSERS and an enhanced Income Verification Tool.

Control Activities

HUD has implemented Supplemental Measures as a control to reduce improper payments in its high-priority program. As detailed earlier in the Supplemental Measure section, these tools assess tenant eligibility and income verification. When unreported and under-reported income is discovered, Owners and Management Agents actively pursue collection of overpaid subsidy from the tenant. In most cases, they enter into a repayment agreement for the recapture of overpaid subsidy. HUD has contracted to monitor, review, and identify errors prior to funds being awarded to owners. 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.

Detailed funds control plans for programs provide optimal segregation of duties and approvals. Further, pre-award and pre-payment reviews are performed to help lessen risks when funds are expended. The pre-award process uses preliminary data provided by HUD, PHAs and numerous reviews and checks and balances to insure the source data for appropriation allocation is correct.

HUD has also performed cost/benefit analysis as to whether or not recovery auditing should be used as a tool to reduce improper payments.

Information and Communications

As reporting requirements are made available to agencies, HUD's OCFO identifies and shares needed information to program offices via memos and meetings. HUD also conducts quarterly meetings to enhance collaborative efforts to reduce improper payment in HUD's high-priority program.

HUD staff is supported by management to improve systems while seeking industry feedback on newly released systems aimed at preventing, reducing, and recapturing improper payments. Managers are provided timely feedback on in-place performance measures which is based on supplemental measure reporting. Performance reviews for work on improper payments are available on the applicable websites for the entity who performed the review. HUD also links these reports on its website and are reported and evaluated widely to stakeholders on a timely basis.

HUD's high-priority program hosts educational webcasts, sends listserv messages clarifying and identifying program intricacies, and participates in industry meetings to answer industry questions. It has also increased the number of national and regional training sessions led by

HUD staff. For training provided in collaboration with PHA industry groups and vendors, HUD provides significant material available to meet the educational needs of the program participants.

Monitoring

Annual improper payment estimates are calculated by independent contractors using statistically sound methods as detailed by OMB Circular A-123, Appendix C. HUD performs triennial reviews on all of its programs by an independent accounting firm. HUD assesses PHA controls via outcomes from a risk assessment process and via the monitoring of issues raised by OIG and annual financial statement audits.

HUD reviews progress against program-specific improper payment reduction targets and results are posted in the annual AFR. HUD performs cost-benefit analysis to determine if payment recapture audits are cost-effective for its programs with $1 million or more in annual outlays. HUD also identifies barriers that impede reduction of improper payments and report them the annual AFR.

Implementation of corrective actions is handled through HUD's Supplemental Measures which are reported quarterly. Annual improper payment estimate studies identify the root causes of reported improper payments.

Accountability

As a part of Secretary Castro's goal of improving the way HUD does business, his current focus is on the leadership, engagement, and accountability within his executive and managerial leadership team. In order to ensure that the leadership team at HUD embraces his "Accountability" goal, the Senior Executives are accountable for public trust stewardship and financial management governance which incorporates compliance with improper payment policies.

At the time of implementation of the Improper Payments Information Act (IPIA), the Secretary designated the Chief Financial Officer (CFO) as the lead official for overseeing HUD actions related to improper payment issues. The CFO is delegated the oversight responsibility to ensure that HUD's compliance with IPIA, IPERA and IPERIA requirements and any supplemental implementation guidance. The Office of the Chief Financial Officer (OCFO) implemented the IPIA requirements and continues to address improper payment issues under the IPERIA. The CFO has delegated the IPERIA compliance responsibility for the Section 8 Tenant Based voucher RHAP and Section 8, 202, and 306 Project Based voucher RHAP programs to the Principal Deputy Assistant Secretaries for Public and Indian Housing and Housing respectively.

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, HUD has invested in a series of critical Information Technology (IT) Transformation Initiatives 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.

The New Core Project is one of HUD's top initiatives to implement a shared services solution for HUD's core financial and administrative systems that improves financial transparency, analytical capabilities, and regulatory compliance. To achieve these goals, HUD is migrating key financial and administrative systems and processes to a Federal Shared Service Provider (FSSP), the Department of the Treasury's Administrative Resource Center (ARC). The New Core project aligns to OMB's mandated "Shared First" Strategy and supports the Department's commitment to building a stronger HUD. HUD is working closely with the OIG, OMB, and GAO as this program is implemented in a series of four releases.

Barriers

The principal causes of improper payments in HUD's rental assistance program are a function of program complexity, the administrative nature of the process, and the scope of the program. An example of program complexity can be demonstrated by the fact that there are 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, application of earned income, 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. These include use of EIV, monitoring efforts to improve the quality of PHA-submitted data to the Public and Indian Housing Information Center (PIC), implementation of the Do Not Pay Initiative, and an integrated Subsidy Reporting System (iSERS) that will provide HUD management with the ability to collect and analyze errors for their impacts to Project-Based Section 8 subsidy payments and funding.

Recapture of Improper Payments Reporting

Programs with Payment Recapture Audit Plans:

- Office of Lead Hazard Control and Healthy Homes (OLHCHH)
- Office of Housing/Federal Housing Administration (FHA)
- Office of Policy Development and Research (PD&R)

- Office of Community Planning and Development (CPD)
- Office of the Chief Human Capital Officer (OCHCO)
- Government National Mortgage Association (GNMA)

Office of Lead Hazard Control and Healthy Homes (OLHCHH) Payment Recapture Audit Plan

OLHCHH reviews and analyzes grantees' and contractors' accounting and financial records during the negotiation of the grants or contracts. Additionally, the supporting documentation provided with each invoice is reviewed to identify erroneous computations. The Office requires that payments be made only after prepayment reviews by the Government Technical Representative (GTR) for grants or Government Technical Monitors (GTMs) and the Contract Oversight Specialist (COS) for contracts. For grants, this is supplemented by the required submittal of the backup documentation for invoices of $100,000 or more for direct lead hazard evaluation and control work, and the unannounced once-per-fiscal-year requirement by the GTR that each lead hazard control or healthy homes production grantee submit all relevant documents to the GTR for evaluation before the GTR authorizes payment. This is an addition to the routine posting of supporting information for invoices onto the Office's on-line Healthy Homes Grants Management System (HHGMS). For contracts, the Office issues performance-based, firm fixed price contracts and task orders, so that the GTM receives documentary support for the accomplishment of the contract's requirements as deliverables in the contract reporting and/or invoicing. This is supplemented by a detailed review of invoices by the COS for errors, including over- and under-payment requests. All of these procedures are in addition to the ongoing requirement that all relevant documents be made available before making payment and provided to the GTR or GTM upon request, with or without cause. The performance of the GTRs, GTMs, and COS is overseen by the Office's management in line with applicable regulations, e.g., title 48 of the Code of Federal Regulations (CFR) (the Federal Acquisition Regulations), 2CFR, part 200 (Grants and Agreements), 24 CFR 84 and 85, and other policy (OMB Circulars and Memoranda, HUD's Grants and Procurement Handbooks, and the Office's Desk Guide), and is incorporated in to their personnel evaluations (e.g., EPPES).

OLHCHH's process for reimbursable funding is as follows:

The requested amount is entered in the electronic Line of Credit Control System (eLOCCS) by the grantee. The grantee then forwards to the GTR: HUD form 27053 (LOCCS voucher), Part 3, invoices, and supporting documentation. The GTR examines the above documentation and approves or disapproves the LOCCS draw down request in the LOCCS System. Grantees are promptly notified if the LOCCS draw down is rejected by the GTR. During the close-out of a grant if it's determined a financial error has occurred during the performance of the grant the grantee provides an explanation of the problem, and if required by the GTR, the grantee submits a check to resolve any financial issues. The GTR forwards the check and letter of explanation to the Budget Officer for recapturing funds. The GTR includes a copy of the check and letter of explanation with the close-out package to the Grant Officer. The Grant Officer documents return funds on the HUD-1044. OLHCHH's process assures quality spending and monitoring for reimbursable funding.

The risks of improper reimbursements are low due to several reasons. OLHCHH is a reimbursable program. Any money that is paid out is for services that have already been completed and invoiced. Additionally, every three months grantees submit information on work performed and provide a financial statement using the SF-425; HUD-Part 3 and supporting documentation. The HUD - Part 3 and HUD-27053 must match data in LOCCS System and all totals must be the same. Under remote monitoring, a GTR performs these internal control checks to ensure accuracy as often as needed. Poor performing Grantees are required to submit weekly or monthly reports. Onsite monitoring is conducted once a year after the risk analysis is completed and/or high risk is determined for each grantee.

Where an overpayment is found to have occurred, the GTR or Contract Oversight Specialist (COS), as applicable, would provide the funds recipient with documentation of the determination of the overpayment, the regulatory, grant-specific, and/or contractual basis for recovering the overpayment, a due date for recoupment, and a due-process opportunity to appeal. The appeal, if made, would go to the Grants Division Director (for grants) or Deputy Director of the Office (for contracts), as applicable. Should the request not be appealed, or the appeal denied, and the funding recipient did not refund the overpayment, the matter would be referred to the Office of General Counsel for further action.

OLHCHH currently has no outstanding non-collectable overpayments.

While, in fact, there are no amounts that needed to be recovered at this time, the Office's procedures, should such amounts arise, depend on when in the course of an appropriation authority amounts were recovered. If the recovery occurred *during* the period when the Office could re-obligate the funds, the Office would apply the funds to their original purpose. For the OLHCHH, this has always been the end of the fiscal year following the fiscal year of the appropriation, except for its American Recovery and Reinvestment Act of 2009 funding, for which the funds were available for obligation until the end of the second following fiscal year. If the recovery occurred after the obligation authority period ended, the Office returns the funds to the U.S. Treasury.

Office of Housing/FHA Payment Recapture Audit Plan

FHA's recovery auditing program is part of its overall program of effective internal control over payments. Internal controls policies and procedures establish a system to monitor improper payments and their causes; and include controls and actions for preventing, detecting, and recovering improper payments. In addition to implementing the controls established by the FHA, programs have taken specific actions to develop and regularly generate a report that identifies potential duplicate disbursements, researching the questionable disbursements and initiating recovery actions for payments deemed to be improper.

As part of the recapture audit plan, internal control documents and files are reviewed, post claim reviews are performed, online disbursement data reviews for SF Claims disbursements are analyzed, a risk assessment survey is performed, risk assessments are performed by programs' manager, OIG and GAO audits are reviewed, a review is done of Lender Activities and Compliance to include lender reviews, grants and contract disbursements are reviewed, and disbursement data is analyzed.

Under Direct Debt Collection, the Financial Operation Center (FOC) is primarily responsible for Generic Debt collection and customer service activities, including responding to debtor inquiries regarding pay-off, payment plans, compromises, disputes and appeals, etc.

The Debt Referral Package primarily consists of copies of legal documents, mortgages, deeds of trust, judgments and other recorded lien documents, lien assignment documents, repayment agreements, credit reports, correspondence to/from debtors; and compromise agreements and supporting documents.

The Debt Collection Asset Management System (DCAMS) is the application used to support the Generic Debt collection process. DCAMS is designed to automatically send collection letters, report delinquent debt to Credit Bureaus and to HUD's Credit Alert Interactive Voice Response System (CAIVRS), assess penalties and administrative costs, and refer eligible debts to the Treasury Offset Program (TOP) and Cross-Servicing based on predefined criteria and the status of that case as reflected in DCAMS data fields (not later than 180 days after the demand letter). DCAMS is consistently updated to prevent improper referral for TOP offset.

For Internal Offsets, over-claimed amounts (negative claim) occur when the mortgagee owes FHA. Single Family Claims Branch (SFCB) sends lenders a billing letter for the excess amounts claimed and tracks the receivables using the Accounts Receivables Sub-system (ARS).

Receivables are established in SFCB's Accounts Receivable Subsystem (ARS) and identified by FHA case number. Each FHA case number is further identified by Section of the Act (which is linked to the appropriate fund) and endorsement date. This later date identifies the cohort year. The Holder of record to which the claim funds were originally disbursed is identified in ARS as the debtor, by default. When the receivable is subsequently liquidated by funds remitted by a Mortgagee or by offset, the collected amount is posted to the previously identified FHA case number, Section of the Act, and Cohort year.

If payment is not received from a lender within 90 days, the receivable is offset against subsequent claims by the lender until the full amount of the receivable is satisfied. If a receivable is not satisfied within 120-150 days, it is referred to the Financial Operations Center (FOC) in Albany, NY, for enforced collection actions. At the time the FOC officially confirms acceptance of the transfer of an aged, delinquent debt, that receivable is removed from ARS with the notation that it has been referred to FOC for recovery.

Another avenue by which over-claimed amounts are recaptured is through Post Claim Reviews. A statistical sample of settled claims is reviewed for compliance with FHA servicing and claim filing requirements. A report of findings, both monetary and financial, is prepared and issued to the individual mortgagee. Mortgagees have two opportunities to refute the findings by providing additional documents, before a final report is issued. If the Mortgagee chooses to pay the monetary findings prior to HUD's issuance of the final report, those funds are deposited to ARS, which applies them to the Mortgage Insurance (MI) fund. Upon issuance of the final report, it is referred to the FOC which establishes it as a receivable and tracks it until paid in full.

If a lender is overpaid on a multifamily claim, the Multifamily Claims Branch will demand the overage back from the lender. If the lender fails to respond to their demands, the debt is referred to the FOC for collection.

Finally, for Treasury Cross-Servicing, the collection of Generic Debt is governed by the Debt Collection Improvement Act (DCIA) and HUD policies (Title I and Other Debt Collection Guidance 4740.2). The Act requires Federal agencies to refer eligible delinquent debts to Treasury (for Cross-Servicing and TOP) by the time a debt is 120 days delinquent. The Treasury's TOP allows Federal Agencies to report delinquent non-tax debt to the Bureau of Financial Service (BFS). BFS performs computer matching with disbursement data and processes an offset when an appropriate match is determined. After referral, Treasury and its private collection agencies are responsible for contacting the debtor to collect the payment of the debt.

The Treasury's Cross Servicing is a process used by BFS to refer the debt collection to a private collection agency, among other actions, in an attempt to collect delinquent debts on behalf of the Federal Agencies.

FOC's recapture process establishes receivables in the Debt Collection Asset Management System (DCAMS) and issues a demand notice to the debtor(s). If the debt remains unpaid, DCAMS issues a "Notice of Intent" warning regarding enforced collection measures and informs debtor regarding his/her due process rights. DCAMS automatically reports information to credit bureaus and CAIVRS. Penalty and administrative cost charges are also automatically assessed if warranted.

If the debt remains unpaid, it is referred to the Department of the Treasury (within 180 days) for offset via the government-wide TOP and for direct collection action by Treasury and Treasury-contracted private collection agencies. Treasury also initiates referral to the Department of Justice (DOJ) for civil litigation and/or initiates administrative wage garnishment (AWG) action if they deem such action to be appropriate.

If Treasury cross-servicing action is not successful, Treasury "returns" the debt to the FOC. If older than 2 years, the receivable is written-off and the case is reclassified "currently not collectible." The FOC keeps the case open if offset via TOP appears fruitful or if other collection measures are applicable (e.g. AWG action by HUD). Otherwise, the FOC terminates collection action, closes the case out (in F71A), and the system issues an IRS Form 1099C the following January if appropriate. Write-off, Termination, Close-out, and 1099C issuance can also occur at any point in the above collection cycle if determined appropriate (e.g. debtor is discharged as bankrupt).

Collections from debtors to HUD go to Treasury Paper-check lockbox or Treasury Pay.gov. Collections from debtors to Treasury or DOJ come to HUD via interagency transfer (i.e. IPAC). No matter the route, all payments are posted to the receivable in DCAMS.

Office of Policy Development and Research (PD&R) Payment Recapture Audit Plan

In the pre-award phase before a grant is awarded, PD&R conducts a review to ensure a grantee has financial controls in place to manage the funds. PD&R checks the grantee's audit on the Federal Audit Clearinghouse to ensure there are no open HUD findings, and checks Treasury's Do Not Pay portal prior to award to ensure there are no debt matches. In addition, PD&R ensures that the grant terms and conditions include the appropriate clauses so that the grantee is aware of their responsibilities in carrying out the grant requirements. These pre-award steps are put in place to minimize the occurrences of improper payments.

As each grant commences and costs are incurred, each drawdown requested by the grantee is reviewed by the Contracting Officer's Technical Representative (COTR). Before approving the drawdown, the COTR compare the work plan to progress reports and project outputs; reviews the SF 269, financial status report; compares the amount of project drawdowns relative to project completion; assess whether the funds requested is appropriate for the services/outputs provided; and verifies that there are no debt matches on Treasury's Do Not Pay system,

These reviews are done with the intent of minimizing improper payments. In the few instances, where overpayments are discovered, the grantees return the funds to HUD, and the funds are credited to the grant for future drawdowns. These funds remain on the grant until one of the following occurs: (1) grantee and COTR closeout documents are submitted and any excess funds are de-obligated, or (2) the period for disbursements has expired and any excess funds are then de-obligated.

Concerning the life cycle of payments, grantees are paid on a cost reimbursable basis and the COTR reviews each payment and checks the work plan and deliverables prior to releasing the funds to ensure there is no risk of erroneous payments during the grant lifecycle. There are also measures put in place for the processing of the final grant payment. Specifically, the terms and conditions for PD&R's grants and cooperative agreements include a clause that requires the withholding of the final payment until the grantee has submitted the required deliverable and it has been accepted by PD&R. This process at the end of the lifecycle of the grant prevents erroneous payments to grantees for unacceptable or incomplete deliverables.

Community Planning and Development (CPD) Payment Recapture Audit Plan

Presently, CPD has a risk assessment and monitoring process that addresses improper payments relating to CPD's program accounts. CPD's program fund regulations are as such that when improper payments are recovered, the funds are returned to Treasury. The CPD improper payments reporting process starts with the field risk analysis and monitoring processes to identify and recapture improper payments.

CPD's Notice CPD-14-04 outlines the methodology for implementing risk analyses for monitoring CPD's grant programs. The risk analysis provides the information needed for CPD to effectively target its resources to grantees that pose the greatest risk to the integrity of CPD's programs. The risk analysis identifies the grantees to be monitored on-site and remotely, which programs are to be covered, and the depth of the review. CPD's risk analysis factors are consistent with Departmental factors outlined in HUD's Monitoring Desk Guide - Policies and Procedures for Program Oversight.

The risk analysis encompasses four factors, including financial considerations. CPD's financial assessment of the risk analysis includes evaluating grantee financial staff capacity, monitoring findings resulting in repayments and grant reduction, and evaluating grant amounts, grantee program income, and grantees' A-133 audits. CPD considers the size of the grant, timely submission of A-133 audits, financial compliance, and expenditure provisions. The financial factor of the risk analysis evaluates the extent to which each grantee accounts for and manages its financial resources in accordance with approved financial management standards and the amount of potential monetary exposure to the Department. When rating a grantee, CPD utilized resources including, but not limited to: financial management and information systems such as Integrated Disbursement and Information System (IDIS), Disaster Recovery Grant Reporting System (DRGR), electronic Special Needs Assistance Programs (eSNAPS), audit management systems, A-133 audits, findings that require repayments or grant reductions, program income, the operation of Revolving Loan Funds (RLFs), Loan Servicing, grantee's financial records, timeliness standards and expenditure rates as they relate to financial management and history of financial activities, Headquarters (HQ) reporting systems, and overall grantee performance.

Based on a grantee's combined risk analysis score, which includes the financial factor score, a grantee will be selected for monitoring. During the monitoring process, CPD will concentrate on those factors that the grantee fared poorly in during the risk assessment such as financial considerations. If a grantee is found to be employing practices that are contrary to HUD's regulation such as improper payments, HUD will initiate the appropriate steps to recapture the money from the improper vendor and return it to the program account.

Office of the Chief Human Capital Officer (OCHO) Payment Recapture Audit Plan

One of OCHCO's enterprise-wide responsibilities is to examine all payments to all employees. On a bi-weekly basis, OCHCO runs a bi-weekly payroll report. These reviews are done with the intent of minimizing improper payments.

OCHCO will examine all payments against prior payments to see if any improper payment was made. If any improper payment was made, OCHCO will then take all the necessary action(s) to rectify the mistake. For an example, OCHCO will collaborate with OCFO in Headquarters, Ft. Worth, and Bureau of Fiscal Services to run all the necessary reports from webTA, HUD's systems, and NFC to see where the discrepancy was made. Once the source has been identified, then OCHCO will correct the issue or see if it is feasible to correct the improper payment.

Through the Payroll, Benefits, and Retirement Division's (PBRD) quality review process, overpayments are identified and validated. Once validated and corrected through the NFC database, the debt is generated and the employee is notified of the indebtedness. After due process, the collection process is initiated.

In the administration of its contract and interagency agreement relationships, including with the Bureau of Fiscal Services (BFS), OCHCO Government Technical Representatives (GTRs) will review and process invoices, verifying invoice submissions against the pricing schedule, financial system, and invoice log prior to approval. The GTRs and OCFO are responsible for reviewing and tracking invoice numbers and amounts to prevent overpayment and duplicate payment for the same services in any given month. The GTR is responsible for comparing the contract/Interagency Agreement (IAA) financial and deliverables schedule to the amount being invoiced. Whereas most OCHCO contracts are fixed price, the GTR will still confirm this against the pricing schedule. Once confirmed, the GTR will complete the Form HUD 27045, Invoice Approval for Contract/Purchase Order or Training Requisition, to authorize vendor payments for services exceeding $2,500. Administrative Payments such as vendor payments, travel and other typical support costs are directly tied to OCHCO's funds control plan which minimizes the risk of overpayments. Vendor Payments are only approved up to the total value of the contract, purchase order or IAA which greatly reduces the possibility of overpayment. At the end of the contract performance period, contracts/IAAs go through formal closeout procedures and reconciliation which identifies any potential overpayments or payments made for incomplete deliverables. OCHCO contracts include a clause that requires the withholding of the final payment until the vendor has submitted the required deliverable and it has been accepted by OCHCO. As a result, this process prevents erroneous payments to vendors for unacceptable or incomplete deliverables at the end of the lifecycle of the contract.

Government National Mortgage Association (GNMA) Payment Recapture Audit Plan

GNMA expenses are classified into three groups; Mortgage Back Securities (MBS) program expenses, administrative expenses (including personnel), and fixed asset amortization. During

FY15, GNMA worked on designing a cost-effective program pertaining to Payment Recapture Audits that will identify and capture improper payments for FY16 and beyond. GNMA will work toward defining its programs and periodically assessing their risk and susceptibility to improper payments, implementing procedures to identify and detect improper payments, identifying payments that meet the threshold related to payment recapture audit program and to determine if it is cost effective to implement a payment recapture audit program, and achieving maximum cost-effective reduction of improper payments.

GNMA will define programs/activities potentially subject to payment recapture audits and obtain payment data to quantify size of the GNMA categories. It will then evaluate the risk of overpayment for GNMA programs/activities by establishing risk rating parameters (high, medium, low); obtaining and evaluating known findings (financial statement audit, internal control program); identifying business processes that initiate payments that may be subject to recovery audits; identify risks of overpayment within the business processes (e.g. fraud, data entry error, duplicate entry, incorrect billing, etc.); identify controls in place to mitigate risks of overpayment; and assigning overall risk rating to GNMA program/activities.

GNMA will then evaluate the cost effectiveness of conducted payment recapture audits for eligible programs/activities according to OMB Circular A-123, Appendix C guidelines. Limited scope pilot recapture audits will then be conducted for eligible programs/activities identified as potentially cost effective. Defined criteria will be established for cost-effective recapture audits. The payment population will be obtained. A statistically valid sample will be developed per OMB Circular A-123, Appendix C guidance. Supporting documentation for payment samples selected will be obtained. Sampled will be tested for improper payments. The improper payments amounts and estimated percentage of improper payments will be calculated. For payment recapture audits that are deemed cost-effective, GNMA will conduct prior year payment recapture audits where applicable.

Key controls over personnel services (time and attendance and human resources actions) and disbursements are documented and assessed in the Administrative Expenses and Accounts Payable and Cash Disbursements process area through GNMA's OMB Circular A-123, Appendix A program.

Programs excluded from the payment recapture audit program where the agency has determined it would not be cost-effective:

OMB was notified October 2015 that it would not be cost effective to conduct a payment recapture audit program for the following programs.

- Office of Public and Indian Housing (PIH)
- Office of Fair Housing and Equal Opportunity (FHEO)
- Office of Housing/Multifamily Housing (MFH)

- Office of Administration (OA)
- Office of the Chief Financial Officer (OCFO)
- Office of General Council (OGC)
- Office of Strategic Planning and Management (OSPM)
- Office of the Chief Information Officer (OCIO)

Justification and Cost-Benefit Analysis

Office of Public and Indian Housing Justification and Cost-Benefit Analysis

It is estimated that 24% of PIH tenant files (13% with underpayments and 11% with overpayments) had their rental contributions incorrectly calculated. Although many of these had small differences, in total there are 720,000 tenant files (3 million x 24%) with errors. These would have to be identified and reviewed with PHA management to facilitate collection.

Tenant underreporting of income accounted for 77% of the improper payments. Since some of the tenants would no longer be in the program when the audit would be completed, collecting the underpayment would be difficult (if not impossible) and costly. Even if the tenants were still in the program, it is highly unlikely that all of the underpayments for those tenants could be collected.

PIH's net improper payment rate is approximately 1.5%. A recovery audit program would be identifying 24% of the tenant files but at best only recouping 1.5% of the payments.

There is no centralized database capturing data used in rental subsidy determinations for all PHAs and thus data mining cannot be effectively employed. Since the participant files are stored locally a recovery auditing program would involve substantial travel costs in addition to staff time.

IPERA suggests using sampling as a cost effective means to perform recovery audits. Per PIH program counsel, under current statutes the collection of subsidy errors could only be made for cases where actual errors were discovered. Accordingly, sampling cannot be used for PIH's programs to help reduce audit costs.

Since program statutes do not permit sampling, 100% of the tenant files would be audited. Resources would be provided by contract labor and PIH could locate sufficient volume of labor to perform the audit of 3,000,000 files / year.

Audit Costs would be substantial. The unit costs from a similar, but smaller project in 2005 inflated to 2015 dollars would be $769. The annual test by a consultant for the AFR reporting had a cost of $2,000 per file. Since PIH should be able to gain volume discounts from these two studies, the cost / file should be much lower. An average audit cost / file of $200 (which covers both labor and travel costs) was used. The cost of $200 / file results in a best-case estimate. In conclusion, PIH developed an estimate for an annual recovery audit of all tenant files. This would have an estimated negative benefit of $108 million (e.g., cost of $621 million versus recoveries of $513 million). Therefore recovery auditing is not cost effective.

Office of Fair Housing and Equal Opportunity Justification and Cost-Benefit Analysis

The Fair Housing Assistance Program (FHAP) payments to agencies in the program are made under fixed amount cooperative agreements and guidance is issued annually that outlines, in detail, how payments will be made for that year. FHEO reviews every case submitted for reimbursement, and the administrative payments are based on past year performance, not cost recovery. FHAP agencies' performance is assessed annually to ensure compliance with performance and payment standards. Any funds returned by an agency are done so as a result of performance and not overpayments.

The Fair Housing Initiatives Program (FHIP), like FHAP, operates under cooperative agreements. Payments are approved by the Government Technical Representative (GTR)/ Government Technical Monitor (GTM) only after deliverables are received, reviewed, and approved. Performance assessments are conducted on each FHIP grantee either annually or at the closeout of grant activities that are only funded annually. As with FHAP, any funds returned to HUD are a result of performance and not overpayments.

The National Fair Housing Training Academy (NFHTA) is a cost reimbursement contract. Contract terms and deliverables are monitored and approved for payment by the GTR. The risk for overpayments is low.

FHIP underwent IPERIA Risk Assessment and an A-123 Internal Controls Over Financial Reporting (ICOFR) review in 2013 and an OIG audit in 2012. FHAP underwent an A-123 ICOFR review in 2014. No issues regarding improper payments were found during any of the reviews and audits conducted on these programs.

The risk that FHEO would make an improper payment as opposed to requiring repayment based on non-compliance is low to non-existent. Therefore, the cost to purchase or develop software, an electronic database, or engage in litigation to recover any potential overpayments would far exceed any recovery.

Office of Housing/Multifamily Housing Justification and Cost-Benefit Analysis

HUD's MFH programs are funded through appropriations and divided into program accounts. A significant number of appropriations under the Project-Based Rental Assistance programs (PBRA) for MFH and other programs are funded with "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 (i.e., contract resources cannot be utilized to perform recovery audits).

There are over 23,000 geographically-distinct Multifamily Housing properties. MFH has over 1.4 million participating families receiving assistance. All households have an initial certification that verifies family composition and income in order to calculate the tenant's total tenant payment, tenant rent, and the assistance payment provided by HUD. Since a tenant's income and family composition may change over time, all 1.4 million participating families must complete an annual recertification. The initial certification and annual recertification process are largely manual. Therefore, if a recovery auditor detected errors for one certification, there is a possibility of additional errors in future re-certifications.

There is a high volume and non-centralized location of records. The tenant files are stored locally at each multifamily property. Therefore, a recovery audit would involve substantial travel costs in addition to staff time.

There is no centralized computer database capturing documents used to support the rental subsidy determinations. Thus, data mining cannot be effectively employed. Tenant underpayments would be subject to collection risk and fair credit reporting. As some tenants may no longer receive HUD assistance, enforcing the collection of underpayments to non-subsidized tenants would be costly for HUD. For HUD to conduct recovery audit, HUD would need to request additional budgetary resources for contract labor to be utilized. EIV has enabled HUD to recover overpaid assistance from past misreporting, as well as verify current reporting of income to correctly calculate subsidy payments

MFH developed an estimate for an annual recovery audit of all tenant files. An average audit cost / file of $200 (which covers labor and travel costs) was used. The cost of $200 / file results in a best-case estimate. This estimate does not account for tenants unable to pay the full recovery amount, tenants skipping out on repayment agreements or the owner retaining administrative costs to enter into a repayment agreement with the tenant.

The estimate supports a negative benefit of $146,049. This estimate does not account for tenants unable to pay the full recovery amount, tenants skipping out on repayment agreements or the owner retaining administrative costs to enter into a repayment agreement with the tenant. Considering that the raw data is a negative benefit, a recovery audit is not cost effective.

Office of Administration Justification and Cost-Benefit Analysis

The Office of Administration (OA) has concluded that a payment recapture audit should not be pursued. OA currently reconciles each individual outlay of the two types of applicable payments: Credit Cards and Training. As a result of the reconciliation, no improper payments have been identified in the last two fiscal years. Therefore, the cost of any additional efforts to recover improper payments would exceed the benefit of improper payment recaptured.

An approved form HUD 10.4 is required for all purchases made with a credit card. The form must contain the vendor, description of item or services, the total cost and copies of quotes from the vendor.

When the cardholder makes a purchase, all reference documents are maintained for statement reconciliation. Monthly, each cardholder must reconcile all statements with purchases. The reconciliation consist of: 1) verifying all charges appearing on the statement were made by the cardholder and 2) ensuring all amounts charged match request and amount obligated.

All reconciled statements must be signed and submitted to the cardholder's approving official. The approving official reviews the statements to confirm: 1) the cardholder agrees with all charges on the statement and 2) all amounts charged match request and amount obligated. The statement and all documentation are submitted to the CFO Accounting Center for payment.

The review process enables OA to identify and avoid the likelihood of an improper payment, before the charge is processed.

If an improper payment is made by the credit card vendor (i.e. same exact invoice paid twice), the process to recoup the payments are handled by the credit card vendor at no additional cost to the Department.

An approved form SF-182 Training Form is submitted to request payment for an approved training course. The form must contain the vendor, description of the class, and all costs.

Throughout the year, the budget staff reviews the training obligations. If payments have been made, they will verify the final payment and de-obligate funding as necessary.

Payments are made via the Department's Accounting Center. If an improper payment is made, the process to recoup the payment is handled by the Accounting Center at no additional cost to the Department.

The review process enables OA to identify and avoid the likelihood of an improper payment. However, no overpayments were recorded in FY 2014 and 2015. OA estimates that a payment recapture audit will not identify additional overpayments to be recovered due to its current improper payment prevention processes. Therefore, a payment recapture audit is not cost-beneficial.

Office of the Chief Financial Officer Justification and Cost-Benefit Analysis

Payments to employees are made thru the Department of the Treasury's Administrative Resource Center (ARC), a Shared Service provider using their WebTA system. WebTA automates and simplifies the time keeping, leave management and leave donor processes. Using webTA enables employees to enter and validate their timesheet and their supervisor to approve their timesheet electronically. WebTA's features allow users to submit, manage, approve, and track leave requests; manage leave donor requests and projects and subprojects at the agency, group and individual levels. Consequently, the likelihood of improper payments to employees is remote.

Payments to vendors are made thru HUD's core accounting system, HUDCAPS, which has systemic controls in place to prevent and/or aid in the detection of improper payments. Moreover, manual controls are administered by the accounting office in conjunction with procurement staff to ensure outlays to vendors are proper. Additionally, monthly post-payment reviews are conducted to validate a representative sample of disbursements and identify areas where controls may need to be strengthened. The OCFO has not identified any significant problems with improper payments; however, the OCFO recognizes the importance of maintaining adequate internal controls to ensure proper payments and its commitment to continuous improvement in disbursement management processes remain very strong.

<u>Office of General Council Justification and Cost-Benefit Analysis</u>

OGC is allowed by law or regulations to recover funds. OGC pursues the recoveries indirectly by working with the Office of the Chief Financial Officer (OCFO), Office of the Chief Procurement Officer (OCPO), or other offices as appropriate. The recipients of payments made by OGC are likely to have resources to repay overpayments from non-Federal funds.

OGC performs labor-intensive reviews of documentation for payments in the process of identifying and collecting any overpayments. OGC does not have any software or tools to detect overpayments and internal reviews of documentation are conducted through a manual review of reports.

Whether a payment recapture audit is cost-effective depends on the amount of money recovered vs. the staff time (salary cost) spent in the recovery. OGC identifies few recaptures because it spends time upfront in closely monitoring and reconciling the amounts to be paid before the money goes out the door. Because the amount recovered is most likely small, the total amount spent to recover the funds may be smaller than the cost of the staff time spent and not cost-effective. Based upon analysis conducted, a payment recapture audit is not cost-effective for OGC.

<u>Office of Strategic Planning and Management Justification and Cost-Benefit Analysis</u>

Office of Strategic Planning and Management's (OSPM) current improper payment prevention efforts show that it is likely that identified overpayments will be recaptured. However, sophisticated software to perform matches and analysis to identify recoverable overpayments would need to be purchased or developed. Finally, it would be expensive to recover some or all of the overpayments since additional staff would be required to perform the payment recovery auditing duties.

OSPM currently reviews expenditures and budget categories to identify improper payments. With a low number of anticipated improper payments recovered under a payment recapture audit, it is likely that the expected recoveries would not be greater than the costs incurred to identify and recover any overpayments.

Office of the Chief Information Officer (OCIO)

IPERA requires any program that expends at least $1 million to implement payment recapture audits, if cost effective to the agency, in order to recover improper payments. OCIO has several outlays for making payments to contractors. One outlay is for all contracts and contract obligations processed via HUD's Prism and paid by the CFO Accounting Center Accounts Payable Office in Ft. Worth, TX. Effective FY 2016 all contracts and contractual related obligations to contractors are now processed via ARC Prism and paid by ARC Account Payable Office.

Efficient techniques such as sophisticated software and matches can't be used to identify significant overpayments at a low cost per overpayment for all contracts and contractual related obligations to contractors processed via ARC Prism and paid by ARC Account Payable Office. Labor-intensive manual reviews of paper documentation would be required. The manual process would require review of Contractor Officer Invoice Tracking Logs, Contracting Officer Representative Invoice Tracking Logs, Vendor's Accounts Receivable records, and ARC Discover reports and/or IPP reports.

OCIO does not have a centralized electronic database to identify or analyze all data elements in recovering overpayments for all contracts and contractual related obligations to contractors processed via ARC Prism and paid by ARC Account Payable Office. Attempts to recover some or all of any potential overpayments for all contracts and contractual related obligations to contractors processed via ARC Prism and paid by ARC Account Payable Office would be costly.

OCIO believes a payment recapture audit should not be pursued for all contracts and contract obligations processed via ARC Prism and paid and reconciled by ARC Account Payable Office. As a result of the reconciliation, no improper payments have been identified this fiscal year. Therefore, the cost of any additional attempts to recover improper payments would exceed the benefit of improper payments recovered. The financial costs of executing a payment recapture audit would outweigh the estimated return on investment for all contracts and contractual related obligations made by OCIO and processed via ARC Prism and paid by ARC Account Payable Office.

Table 4

Improper Payment Recaptures with and without Audit Programs ($ in millions)

Program	Overpayments Recaptured through Payment Recapture Audits												Overpayments Recaptured outside of Payment Recapture Audits	
	Grants					Other					Total			
	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
CPD	19.60	0.17	1%	5%	10%						19.60	0.17	80.87	0.02
OLHCHH	0.01	0.01	100%	85%	85%						0.01	0.01		
FHA Single Family Claims[1]						42.00	30.00	71.43%	73.00%	75.00%	42.00	30.00		
CFO													0.62	0.00
General Counsel													919.97	481.11
Housing													77.86	0.00
PIH													203.39	1.12
Total	19.61	0.18	0.92%			42.00	30.00	71.43%			61.61	30.18	1,282.72	482.25

[1]To ensure consistency across IPERIA reporting, FY 2014 data is included in this chart which was also listed in the FY 2014 AFR. In FY 2014, FHA only included CY amounts recaptured from CY identifactions. FHA's data includes recaptures from CY and PY identifications.

Table 5

Disposition of Funds Recaptured Through Payment Recapture Audits ($ in millions)									
Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other
CPD	0.17	Grants				0.17			
OLHCHH	0.005	Grants				0.005			
OLHCHH	0.005	Grants						0.005	
FHA Single Family Claims	30.00	Other				30			
TOTAL	30.18					30.18		0.005	

Table 6

Aging of Outstanding Overpayments Identified in the Payment Recapture Audits ($ in millions)					
Program or Activity	Type of Payment	Amount Outstanding (0 – 6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount determined to not be collectable
CPD	Grants	19.40			
OLHCHH	Grant	0.00	0.00	0.00	0.00
FHA Single Family Claims	Other	6.00	12.00	50.00	0.00
TOTAL		**25.40**	**12.00**	**50.00**	**0.00**

Additional Comments

To avoid duplication and reduce the number of agency reports related to improper payments, OMB Circular A-123, Appendix C instructed agencies to fulfill the "accountable official" report to the agency OIG via the AFR. Efforts to prevent future improper payments are addressed through the Corrective Actions as well as the Supplemental Measures. The Payment Recapture Audit Analyses and Plans describe HUD's actions it has taken and plans to take to recover improper payments.

Agency Reduction of Improper Payments with the Do Not Pay Initiative

The Do Not Pay Initiative (DNP) was established by the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 to support federal agencies in their efforts to prevent and detect improper payments. DNP helps to ensure the integrity of our nation's payment process by assisting agencies in identifying parties who are potentially ineligible to receive contract awards or payments from the federal government. DNP offers the ability for agencies to screen payment recipients on a pre-payment basis against databases identified in IPERIA through a single, secure web portal, and also provides post-payment screening against these databases to help ensure that any payments to potentially ineligible parties are identified for adjudication and possible recovery.

Results of the Do Not Pay Initiative in Preventing Improper Payments
(Dollars [$] in millions)

	Number (#) of payments reviewed for improper payments	Dollars ($) of payments reviewed for improper payments	Number (#) of payments stopped[1]	Dollars ($) of payments stopped[1]	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with IPERIA specified databases[2]	1,045,462	$74,176.79	0	$0	188	$5.31
Reviews with databases not listed in IPERIA[3]	-	-	-	-	-	-

[1] The requested figures relating to "payments stopped" are currently not applicable to HUD's tracked DNP matching and adjudication process. Current DNP reporting is based on post-payment review of data.
[2] Database use recorded in this line reflects trackable reviews performed in the DNP portal against Death Master File [source: SSA] and SAM Exclusion Records (EPLS)[source:GSA], as is appropriate for HUD payment activities.
[3] HUD primarily uses the databases listed in IPERIA, both in and outside of the DNP portal, to perform its eligibility verification, as they provided all relevant data for performing HUD's reviews for eligibility. Due to the minimal use of outside databases, these figures are not tracked.

The table in this subsection represents the DNP activities from FY 2014 (October 1, 2014 to September 30, 2015). During this period, payments disbursed by HUD were submitted to the scrutiny of post-payment verifications facilitated by the DNP Initiative against the available databases listed in IPERIA. Of these 1,045,462 payments, totaling $74,176,789,719, HUD identified only six improper payments, totaling $8,956 (figures in whole dollars). Of these six payments, the Department recovered $8,640.

- Two (2) payments totaling $6,232 were submitted for collection activities.
- Three (3) payments totaling $2,409 were stopped prior to deposit.
- The remaining payment was below the threshold for cost effective collection.

The effectiveness of program specific pre-payment monitoring and screening of payments against the creation of improper payments to ineligible parties has resulted in an observed ineligible party payment rate of 0.000574% of the number of payments processed and 0.000012% of the value of payments processed (figured rounded to the nearest millionth of a percent). Of these improper payments identified, 5 of the 6 payments (96.48% of the improperly paid dollars) have been recovered or submitted for collection. Management will continue to diligently increase review and monitoring of established internal controls to further prevent future occurrences.

Pre-Payment Use of Do Not Pay and IPERIA Databases

HUD's DNP Policy requires that all HUD program and support offices, including FHA and GNMA, ensure that a thorough pre-payment and pre-award review of available databases with relevant information on eligibility is performed to determine program or award eligibility and prevent improper payments before the release of any Federal funds. Applicable transactions conducted by HUD consist of complex and varied payments and awards, which include verifying a range of transactions, from simple reimbursements to complex awards, against the applicable databases listed in IPERIA. While the efforts made by HUD to ensure that only eligible parties are paid are evident from HUD's success in DNP post-payment screening and adjudication, examples of these efforts are also easy to identify:

- The Office of Policy Development and Research uses the Do Not Pay portal to verify all incoming grant payments prior to approval, focusing on the System for Award Management Exclusion Records (referenced in IPERIA as the Excluded Parties List System [EPLS]), Social Security Administration's Death Master File (DMF), and Treasury Offset Program Debt Check Database. Occasionally, when a verified match is found, steps are taken with the Grantee to verify eligibility or allow an opportunity to correct any ineligibility.
- During the 2015 Notice of Funding Availability (NOFA) process, the Office of Lead Hazard Control and Healthy Homes (OLHCHH) checked all eligible applicants in the DNP portal for possible payment eligibility issues. Since 2013, OLHCHH has used the DNP portal annually to help verify eligibility for all NOFA applicants.

- In conjunction with utilizing the DNP portal on a pre-award/pre-payment and post-award/post-payment screening process, the Community Planning Development (CPD) staff also conducts searches utilizing System for Award Management (SAM) and EPLS, annually and semi-annually, to determine if a payment or award should be directed to an eligible recipient of funds. Additionally, CPD is in the process of entering into a batch matching agreement with DNP that would allow that office to more efficiently screen transactions through the DNP databases.

Post-Payment Adjudication through Do Not Pay

Prior to the November, 2014 implementation of mandatory in-portal adjudication, HUD utilized a DNP Task Force, consisting of members of OCFO and program offices' DNP representatives, to verify and adjudicate payments identified as potentially improper by DNP. During this time period, possible matches were identified through the process of name matching to DMF and EPLS. This process, which created a significant number of false matches, was replaced by in-portal adjudication shortly after the implementation of DNP Release 3.0, allowing a more secure and effective method for identifying verified matches using the Restricted versions of matching processes to databases listed in IPERIA.

Since November, 2014, HUD has expanded the adjudication roles of DNP Users in program offices of the Department with access to the databases on the DNP portal. On a continual basis, members of HUD's DNP Task Force review the DNP portal for verified post-payment matches to the databases listed in IPERIA, including the DMF and EPLS. In the event that a positive match is identified, the appropriate program office DNP representatives are notified by OCFO of the matches returned via the DNP Protal. The program office representatives then coordinate the efforts of their program office to determine if the identified payment was made properly to an eligible recipient. If the payment is found to be improper, the program office takes appropriate action to recover the payment as per internal policy.

Future Efforts with Do Not Pay

Use of the DNP Initiative in the post-payment adjudication process has demonstrated the effectiveness of the long standing processes in place prior to the DNP Initiative, using databases and systems such as SAM, EPLS, and the Federal Awardee Performance and Integrity Information System (FAPIIS) to extensively verify the eligibility of HUD's payment recipients. HUD intends to continue to maintain DNP Liaisons in each program office, to increase the program offices' utilization of the resources on the DNP portal. Additionally, HUD will further incorporate the benefits of the DNP Initiative throughout the Department in the form of pre-payment/pre-award screening and the establishment of pre-award batch matching processes for selected program offices, including CPD and Public and Indian Housing. To this end, HUD has created internal policy and devoted resources to reinforce its commitment to eliminating improper payments to ineligible parties throughout the Department.

Freeze the Footprint

HUD's office space assignments are obtained from the General Services Administration (GSA). The Department does not incur capital expenditures to acquire real estate, and HUD does not have any warehouse space. Through FY 2020, HUD does not anticipate establishing any new locations or expanding any existing locations. HUD's space activities will continue to concentrate on reducing space as existing Occupancy Agreements (OA's) expire and as funding permits. In many relocations and reductions in space, there are significant costs associated with construction, moving, and furniture, so funding must be available to effect these actions.

Since FY 2013, HUD has experienced space reductions at several field offices, resulting in a reduction of 94,833 usable square feet and an annual rent cost reduction of approximately $1.7 million. In addition, the closing was completed of sixteen small field offices that duplicated HUD services in states with at least one other larger office. These closures amount to a reduction of up to 86,337 usable square feet and a rent reduction of nearly $2.8 million annually. To date the reductions HUD has achieved total 181,170 usable square feet, with an estimated cost avoidance of over $4.5 million per annum.

A significant challenge for HUD is that many of the Department's locations were designed when there was a far greater level of staffing. HUD has initiated discussion with GSA to develop strategies to be able to relinquish space that is no longer needed in a marketable fashion so the space can be removed from HUD's inventory. HUD has drafted new design standards and the major challenges we expect to face in issuing these are completing union negotiations and establishing a new organizational culture regarding space, the need to continue reductions, and the collaboration necessary to achieve our goals.

The FY 2012 Freeze the Footprint baseline was 3,291,636 usable square feet. At the end of FY 2015, the footprint was 3,110,466 usable square feet, a reduction of 181,170 usable square feet.

Freeze the Footprint Baseline Comparison			
	FY 2012 Baseline	2015 (CY-1)	Change (FY 2012 Baseline-2015 (CY)
Square Footage	3,291,636	3,110,466	181,170

Reporting of O&M Costs – Owned and Direct Lease Buildings			
	FY 2012 Reported Cost	2015 (CY-1)	Change (FY 2012 Baseline-2015 (CY-1))
Operation and Maintenance Costs ($ in millions)	N/A	N/A	N/A

Civil Monetary Penalty Adjustment for Inflation

To help improve transparency, and compliance with the Federal Civil Penalties Inflation Adjustment Act of 1990, HUD has listed the most recent inflationary adjustments to civil monetary penalties to help ensure penalty adjustments are made easily available to the public in a timely manner. The following table provides HUD's recent adjustments for inflation to its civil monetary penalty amounts.

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level ($ Amount)
False claim, Program Fraud	31 U.S.C. 3802(a)(1)	March 8, 2007	February 19, 2013	$8,500
Ethical violations by HUD employees	42 U.S.C. 3537a(c) HUD Reform Act	September 24, 1996	February 6, 2007	$16,000
Violations by applicants for assistance	42 U.S.C. 3545	N/A	March 8, 2007	$16,000
FHA Mortgagee and Lender violations	12 U.S.C. 1735f-14	March 8, 2007	February 19, 2013	$8,500 $1,525,000/year[1]
Other participants in FHA Programs	12 U.S.C. 1735f-14	March 8, 2007	February 19, 2013	$7,050 $1,335,000/year[1]
Lenders, holders of Indian Loan Guarantees	12 U.S.C. 1715z-13a	March 8, 2007	February 19, 2013	$8,000 $1,525,000/year[1]
Violation by mortgagor of multifamily property	12 U.S.C. 1735f-15	March 8, 2007	February 19, 2013	$42,500
GNMA issuers and custodians	12 U.S.C. 1723i(b)	March 8, 2007	February 19, 2013	$8,500 $1,525,000/year[1]
The False info – Title I Dealers/Brokers	National Housing Act (12 U.S.C. 1703(b)(7))	March 8, 2007	February 19, 2013	$8,500 $1,525,000/year[1]

[1] Maximum penalty for all violations committed during any one-year period.

Civil Monetary Penalty Adjustment for Inflation

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level ($ Amount)
Project-based Section 8 Owners	42 U.S.C. 1437z-1	January 7, 2002	February 19, 2013	$27,500
Fair Housing Act discriminatory housing practices (no prior instances)	42 U.S.C. 3612(g)	N/A	March 8, 2007	$16,000
Multiple Fair Housing Act discriminatory housing practices (one prior instance in a five year period)	42 U.S.C. 3612(g)	March 8, 2007	February 19, 2013	$42,500
Multiple Fair Housing Act discriminatory housing practices (two or more prior instances in a seven year period)	42 U.S.C. 3612(g)	March 8, 2007	February 19, 2013	$70,000
Violation of the National Manufactured Housing Construction and Safety Standards Act	42 U.S.C. 5401 et seq.	April 16, 2003	March 8, 2007	$1,100 $1,375,000/year[2]
Failure to disclose lead-based paint hazards	Residential Lead-Based Paint Hazard Reduction Act of 1992, section 1018 (42 U.S.C. 4852d)	June 22, 2011	June 19, 2014	$16,000

[2] One-year maximum for any related series of violations occurring within one year from the date of the first violation.

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, 2014, through September 30, 2015. 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 2015 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 964 approved management decisions and successfully implemented 786 recommendations. The Department also made good progress in reducing its inventory of potential significantly overdue final actions, which are those recommendations which could potentially be significantly overdue on September 30, 2015. This inventory was successfully addressed and the Department resolved 115 recommendations in this category, which was a reduction of 44.9 percent.

Summary of Management Decisions on Audit Recommendations

Opening Inventory Requiring Decisions	526
New Audit Recommendations Requiring Decisions	987
Management Decisions Made[1]	(964)
Audit Recommendations Still Requiring Decisions[2]	549
Recommendations Beyond Statutory Resolution Period[2]	34

[1] *Management decisions were made on a total of 964 recommendations (126 audits of which 77 had final management decisions). Of these, 506 recommendations were in the opening inventory.*

[2] *This reporting period ended with 549 recommendations without management decisions. Of these, 34 recommendations are over 6 months old.*

Summary of Recommendations with Management Decisions and No Final Action

Opening Inventory – Final Actions Pending[1]	1,405
Management Decisions Made During Report Period	964
Sub-Total Final Actions Pending	2,369
Final Actions Taken[2]	(786)
Audit Recommendations Reopened During Period (Without Final Actions)	0
Total Audit Recommendations Still Requiring Final Actions[3]	1,583

[1] *This figure was adjusted to reflect an error from our now retired legacy system.*

[2] *Final Action was taken on a total of 786 recommendations (212 audits of which 86 had final actions taken, thus closing the audits). The number of recommendations where a management decision and final action were concurrent was 166 in 71 audits.*

[3] *Of the 238 audits remaining, 44.12 percent or 105 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.	283	1,737,219,177
B. Audit Reports on which management decisions were made during the period.	74	2,760,172,963
C. Total audit reports pending final action during period (total of A and B).	357	4,497,392,140
D. Audit Reports on which final action was taken during the period.		
1. Recoveries[1]	40	1,129,273,445
(a) Collections and offsets	38	1,125,033,017
(b) Property	0	0
(c) Other	11	4,240,428
2. Write-offs	26	12,043,880
3. Total of 1 and 2[2]	46	1,141,317,325
E. Audit Reports needing final action at the end of the period (subtract D3 from C).[3]	311	3,356,074,815

[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 9.*

[2] *Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 20.*

[3] *Litigation, legislation, or investigation is pending for 39 audit reports with costs totaling $139,545,607.*

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.	170	6,252,901,465
B. Audit Reports on which management decisions were made during the period.	45	994,020,177
C. Total audit reports pending final action during period (total of A and B).	215	7,246,921,642
D. Audit Reports on which final action was taken during the period.		
1. Value of Audit Reports implemented (completed)	30	22,338,598
2. Value of Audit Reports that management concluded should not or could not be implemented	5	168,195
3. Total of 1 and 2[1]	30	22,506,793
E. Audit Reports needing final action at the end of the period (subtract D3 from C).[2]	185	7,224,414,849

[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 5.

[2] Litigation, legislation, or investigation is pending for 22 audit reports with costs totaling $49,478,074.

Appendices

Appendix A: Glossary of Acronyms

ADA	Anti-Deficiency Act (Public Law No. 97–258)
AFR	Agency Financial Report
AFS	Allowance for Subsidy
AIDS	Acquired Immune Deficiency Syndrome
APG	Agency Priority Goal
APR	Annual Performance Report
ARC	Administrative Resources Center
ARS	Accounts Receivable Subsystem
ASC	Accounting Standards Codification
AWG	Administrative Wage Garnishment
BA	Budget Authority
BFF	Budget Formulation and Forecasting
BFS	Bureau of the Fiscal Service
BPD	Bureau of the Public Debt
CAIVRS	Credit Alert Verification Reporting System
CCB	Change Control Board
CDBG	Community Development Block Grant
CDBG-DR	Community Development Block Grant - Disaster Recovery
CDM	Continuous Diagnostics and Mitigation
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CGE	Concur Government Edition
CIO	Chief Information Officer
CIRT	Computer Incident Response Team
CISO	Chief Information Security Officer
CM	Continuous Monitoring
CMHI	Cooperative Management Housing Insurance

CNA	Comprehensive Needs Assessment
CoC	Continuum of Care
COCC	Central Office Cost Centers
COS	Contract Oversight Specialist
COTR	Contracting Officer’s Technical Representative
COTS	Commercial off the Shelf
CPD	Office of Community Planning and Development
CSAM	Cyber Security Assessment & Management
CSRS	Civil Service Retirement System
CWCOT	Claims Without Conveyance of Title
CY	Calendar Year
DCAMS	Debt Collection Asset Management System
DCIA	Debt Collection Improvement Act
DHS	U.S Department of Homeland Security
DHHL	Department of Hawaiian Home Lands
DOD	U.S. Department of Defense
DOE	U.S. Department of Energy
DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
DLP	Data Loss Prevention
DMF	Death Master File
DNP	Do Not Pay
DRAA	Disaster Relief Appropriations Act
DRGR	Disaster Recovery Grant Reporting
DRIG	Disaster Recovery Information Guide
DRSI	Disaster Recovery Special Issues
EEM	Energy Efficient Mortgage
EHLP	Emergency Homeowner’s Loan Program
EIV	Enterprise Income Verification System
ELOCCS	Electronic Line of Credit Control System
eLOCCS	Electronic Line of Credit Control System

eSNAPS	electronic Special Needs Assistance Programs
EPA	Environmental Protection Agency
ENW	Economic Net Worth
EPIC	Energy and Performance Information Center
EPLS	Excluded Parties List System
EPPES	Employee Performance Planning and Evaluation System
ERO	Ginnie Mae’s Office of Enterprise Risk
ERP	Enterprise Resource Planning
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
FECA	Federal Employee Compensation Act of 1916
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act (Public Law No. 104-208)
FHA	Federal Housing Administration
FHA-HAMP	FHA’s Home Affordable Modification Program
FHAP	Fair Housing Assistance Program
FHASL	Federal Housing Administration Subsidiary Ledger
FHEO	Office of Fair Housing and Equal Opportunity
FHIP	Fair Housing Initiatives Program
FIFO	First-in, First-out
FIRMS	Facilities Integrated Resources Management System
FISMA	Federal Information Security Management Act (Public Law No. 107–347)
FMFIA	Federal Managers’ Financial Integrity Act (Public Law No. 97-255)
FMC	Financial Management Center
FOC	Financial Operation Center
FSSP	Federal Shared Service Provider

FY	Fiscal Year
FYE	Fiscal Year End
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
GSA	General Services Administration
GTM	Government Technical Monitors
GTR	Government Technical Representative
H4H	HOPE for Homeowners
HAMP	Home Affordable Modification Program
HAP	Housing Assistance Payment
HCAAF	Human Capital Assessment and Accountability Framework
HCV	Housing Choice Voucher
HEARTH Act	Homeless Emergency Assistance and Rapid Transition to Housing Act
HEAT	HUD Enterprise and Architectural Transformation
HECM	Home Equity Conversion Mortgage
HEROS	HUD’s Environmental Review Online System
HFI	Held for Investment
HHGMS	Healthy Homes Grants Management System
HHS	U.S. Department of Health and Human Services
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
HPS	HUD Procurement System

HQ	Headquarters
HQS	Housing Quality Standard
HUD	U.S. Department of Housing and Urban Development
HUDCAPS	HUD's Central Accounting and Program System
IAA	Inter-Agency Agreement
IAS	Inventory of Automated System
ICDBG	Indian Community Development Block Grant
ICOFR	Internal Controls Over Financial Reporting
IDIS	Integrated Disbursement and Information System
IG	Inspector General
IHA	Indian Housing Authority
IHBG	Indian Housing Block Grant
IP	Improper Payment
IPA	Initial Privacy Assessment
IPA	Intergovernmental Personnel Act of 1970 (Public Law 91-648)
IPAC	Intra-Government Payment and Collection
IPERA	Improper Payments Elimination and Recovery Act (Public Law No. 111-204)
IPERIA	Improper Payments Elimination and Recovery Improvement Act (Public Law No. 112-248)
IPIA	Improper Payments Information Act of 2002 (Public Law No. 107-300)
IPP	Invoice Processing Platform
IPT	Integrated Project Team
iREMS	Integrated Real Estate Management System
IRS	Internal Revenue Service
ISCM	Information Security Continuous Monitoring
iSERS	integrated Subsidy Reporting System
IT	Information Technology
JFMIP	Joint Financial Management Improvement Program
LEED	Leadership in Energy and Environmental Design
LIHTC	Low-Income Housing Tax Credit
LOCCS	Line of Credit Control System
LLG	Liability for Loan Guarantees

LLR	Loan Loss Reserve
LRS	Loan Review System
LSHR	Lead Safe Housing Rule
MBS	Mortgage Backed Securities
MCA	Maximum Claim Amount
MFH	Multifamily Housing
MI	Mortgage Insurance
moveLINQ	moveLINQ Relocation Management Software
MMI	Mutual Mortgage Insurance
MMS	Manager Self-Service
MNA	Mortgage Note Assigned
Mod Rehab	Moderate Rehabilitation
MSS	Master Sub-servicer
MTW	Moving-to-Work
NAHA	National Affordable Housing Act of 1990
NAPA	National Academy of Public Administration
NC	Non-Compliance
NCATS	National Cybersecurity Assessment and Technical Services
NCIS	New Core Interface Solution
NDNH	National Directory of New Hires
New Core	New Core project
NFC	National Finance Center
NFHTA	National Fair Housing Training Academy
NGMS	Next Generation Management System
NHHBG	Native Hawaiian Housing Block Grant
NIST	National Institute of Standards
NOFA	Notice of Funding Availability
NRA	Net Restricted Assets
NDRC	National Disaster Resilience Competition
NSP	Neighborhood Stabilization Program
NSP1	Neighborhood Stabilization Program 1

NSP2	Neighborhood Stabilization Program 2
NSP3	Neighborhood Stabilization Program 3
OA	Office of Administration
OA	Occupancy Agreements
O/A	Owner of Management Agents
OCFO	Office of the Chief Financial Officer
OCHCO	Office of the Chief Human Capital Officer
OCIO	Office of the Chief Information Officer
OCPO	Office of the Chief Procurement Officer
OGC	Office of General Council
OHVP	Office of Housing Voucher Program
OIG	Office of Inspector General
OITS	Office of IT Security
OLG	Office of Loan Guarantee
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
OPEB	Other Post-Employment Benefits
OPHVP	Office of Public Housing Voucher Program
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
OSPM	Office of Strategic Planning and Management
PAE	Participating Administrative Entity
PBRA	Project-Based Rental Assistance
PBRD	Payroll, Benefits, and Retirement Division
PBV	Project-Based Vouchers
PD&R	Office of Policy Development and Research
RFL	Revolving Loan Funds
PH Capital Fund	Public Housing Capital Fund

PHA	Public Housing Authority
PIC	PIH Information Center
PIH	Office of Public and Indian Housing
PIT	Point-in-Time
PIV	Personal Identity Verification
P.L.	Public Law
PMM	Purchase Money Mortgages
PNA	Physical Needs Assessment
POA&M	Plan of Action & Milestones
POST	Public and Indian Housing One-Stop Tool
PPA	Prompt Payment Act (Public Law No. 97-177)
PP&E	Property, Plant, and Equipment
PPM	Project Portfolio Management
PRA	Paperwork Reduction Act
PRISM	Federal acquisition system used by ARC
PY	Previous Year
Q1	Quarter 1
Q3	Quarter 3
Q4	Quarter 4
QAD	Quality Assurance Division
QC	Quality Control
QMR	Quarterly Management Reviews
RA	Risk Assessment
RAD	Rental Assistance Demonstration
RAP	Rental Assistance Payment
RBD	Rebuild by Design
Recovery Act	American Recovery and Reinvestment Act of 2009
REMIC	Real Estate Mortgage Investment Conduits
Rent Supp	Rental Supplement
RHAP	Rental Housing Assistance Programs
RHEI	Road Home Elevation Incentive

RIF	Rural Innovation Fund
RLF	Revolving Loan Fund
RMF	Risk Management Framework
RSSI	Required Supplementary Stewardship Information
SAM	System for Award Management
SBR	Statement of Budgetary Resources
SD	Significant Deficiency
SDLC	System Development Life Cycle
S&E	Salary and Expense
SEMAP	Section 8 Management Assessment Program
SF	Single Family
SFCB	Single Family Claims Branch
SFDW	Single Family Data Warehouse
SFFAS	Statements of Federal Financial Accounting Standards
SHP	Supportive Housing Program
SMART	Single Family Mortgage Notes Recovery Technology System
SNAPS	Special Needs Assistance Programs
SP	Special Publication
SPS	Small Purchase System
SRI	Special Risk Insurance
SSA	Social Security Administration
SSP	Shared Service Provider
SSN	Social Security Number
SSVF	Supportive Services for Veteran Families
TA	Technical Assistance
TAFS	Treasury Account Fund Symbols
TBRA	Tenant-Based Rental Assistance
TDHE	Tribally Designated Housing Entity
TE	Tax Exempt
TI	Transformation Initiatives
TOP	Treasury Offset Program

TPV	Tenant Protection Voucher
TR	Technical Release
TRACS	Tenant Rental Assistance Certification System
Treasury	U.S. Department of the Treasury
U.S.	United States of America
U.S.C.	United States Code
USDA	U.S. Department of Agriculture
USICH	United States Interagency Council on Homelessness
USSGL	US Standard General Ledger
VA	U.S. Department of Veterans Affairs
VAMC	VA Medical Center
VASH	Veterans Affairs Supportive Housing
VMS	Voucher Management System
WebTA	HUD’s Time and Attendance 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

Help for Homeowners, Renters, and Citizens

Owning a Home
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

Featured Initiatives

HUD Program Offices and Field Offices

Center for Faith-Based and Neighborhood Partnerships
Chief Financial Officer
Chief Information Officer
Community Planning and Development
Fair Housing and Equal Opportunity
Federal Housing Administration (FHA)
General Counsel
Ginnie Mae
Healthcare Programs
Lead Hazard Control and Healthy Homes
HOME Investment Partnerships 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

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 2014 Annual Performance Report & FY 2016 Annual Performance Plan
HUD Webcasts
Online Library
Performance.gov
HUDUser.gov

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, 2015, HUD's goal was to preserve and expand affordable rental housing for an approximately 100,000 households. HUD is already serving approximately 5.5 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 Certification System (TRACS) and Integrated Real Estate Management System (iREMS).
- **Limitations/advantages of data:** TRACS and iREMS 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 TRACS 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. TRACS edits every field, according to the HUD rental assistance program policies. iREMS uploads data from TRACS 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. iREMS was certified and accredited by the Chief Information Security Officer on June 5, 2013, and TRACS was certified and accredited on January 20, 2014.

Project Rental Assistance Contract (Sections 202 Elderly and 811 Persons with Disabilities)

- **Data source:** TRACS and iREMS.
- **Limitations/advantages of the data:** TRACS and iREMS 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 TRACS 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. TRACS edits every field, according to the HUD rental assistance program policies. iREMS uploads data from TRACS 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. iREMS was certified and accredited by the Chief Information Security Officer on June 5, 2013, and TRACS 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.
- **Limitations/advantages of the data:** Public housing agencies (PHAs) self-report inventory and occupancy data in HUD's Inventory Management System/Public and Indian Housing Information Center. This data is used to calculate Capital Fund and Operating Fund Grants. PHAs annually certify to the accuracy of public housing building and unit counts within the Inventory Management System/Public and Indian Housing Information Center system, as required by the Capital Programs Division.
- **Validation, verification, and improvement of measure:** Through the annual Capital Fund certification process, errors in physical inventory information are identified in the Inventory Management System/Public Housing Information Center. PHAs are required to correct errors before certifying to the accuracy of the data for that development. When a PHA encounters errors that the PHA or field office staff cannot correct, the PHA is required to inform the Real Estate Assessment Center Technical Assistance Center Help Desk. This center assigns a Help Ticket number to the PHA, and the PHA enters the number and a comment within their certification.

  The largest data set used in the calculation of Operating Subsidy is unit status data from the Inventory Management System/Public and Indian Housing Information Center. Tenant move-ins and move-outs are captured via form 50058 submissions, and PHAs and HUD field offices collaborate to add units to funded vacancy categories. The Inventory Management System/Public and Indian Housing Information Center unit status data benefitted from a major clean-up in 2011. In addition to recent technical efforts to correct system-driven data anomalies, PIH is developing additional tools to further enhance the ability of PHAs and Field Offices to ensure that the PIC unit status data is accurate. Furthermore, when a PHA encounters errors that the PHA or field office staff cannot correct, the PHA is required to inform the Real Estate Assessment Center Technical Assistance Center Help Desk. This center assigns a Help Ticket number to the PHA, and the PHA enters the number on the Operating Subsidy form they submit to the Field Office.

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 PHAs 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:** Voucher Management System (VMS) data validation now occurs early in the reporting process each month via the Budget Formulation and Forecasting (BFF) tool. BFF looks at the immediate reported month against its four preceding periods and identifies outliers, i.e., significant variances from trends. When an outlier is identified, a financial analyst reviews the data, and if necessary, contacts the PHA to resolve differences.

1. 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 PHA. Corrections are entered directly into the Voucher Management System to ensure that the data are accurate.
2. 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 PHA to determine if the leasing, Housing Assistance Program expenses, and Net Restricted Assets are consistent with data reported in the Voucher Management System.
3. REAC also compares VMS to FASS data and rejects it if it is materially different.

PIH Moderate Rehabilitation

- **Data source:** Each year, PHAs 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 December 31, 2015, in partnership with the VA, HUD's 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 (PIT) count 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 annual performance report 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 annual performance report. Additionally, due to changes under the HEARTH Act, HUD is able to prevent renewal grants from receiving renewal funds until the annual performance report is submitted. The 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 PHAs, 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, 2015, HUD's goal was to complete a total of 89,004 energy efficient or healthy green retrofitted units.

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. 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:** There are two: (1) Data is available after lenders input. Lenders may input 1-6 months after closing, and (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, PHAs 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; under this methodology, a collection of cost-effective interventions are together recorded as equivalent to an energy-efficient unit. 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 PHAs.

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:** The Grants Management System collects information on whether the HOPE VI units being built achieve a comprehensive green standard (for example, LEED for Homes), a non-comprehensive energy-efficiency standard (for example, ENERGY STAR for New Homes), or meet 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; the Grants Management System does not collect data on building practices that exceed the minimum standards, but do not reach the level of a green standard.
- **Validation, verification, and improvement of measure:** Grantees are required to report in 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 to provide technical assistance to grantees that are completing their reporting requirements.

Choice Neighborhoods

- **Data source:** The Choice Neighborhoods Inform system.
- **Limitations/advantages of the data:** With development completed in FY 2015, the Choice Neighborhoods Inform system collects information on whether the Choice Neighborhoods units being built achieve a comprehensive green standard (for example, LEED for Homes), a non-comprehensive energy-efficiency standard (for example, ENERGY STAR for New Homes), or another local energy efficiency standard. The only limitation of the data in the Choice Neighborhoods Inform system is that it is self-reported.
- **Validation, verification, and improvement of measure:** Grantees are required to report in the Inform system quarterly. Each quarter, the grants management team in charge of each grant reviews the data with the grantee for accuracy. In addition, the Choice Neighborhoods program has a data collection cooperative agreement with a technical assistance provider who supports grantees in completing their reporting requirements.

Lead Hazard Control 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

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

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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=afr2015.pdf

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