

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

# AGENCY FINANCIAL REPORT

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## FISCAL YEAR 2016

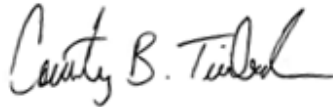


## About This Report

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) 2016 APR with its Congressional Budget Justification and will post it on the Department's web site at [www.hud.gov](http://www.hud.gov).

### Note from the Deputy Chief Financial Officer

Due to the revision of the HUD financial statements to address presentation issues, this report has been reissued as of March 1, 2017. The information presented in the Analysis of Financial Condition and Results in Section 1, and Section 2 of this reissued report has been revised to ensure that HUD's financial position is accurately presented. No other changes to the original content of this document have been made. The financial statements contained in the agency report rely on the original assurance statements of the agency management that was in place during fiscal year 2016, the period covered by the financial statements.



Courtney B. Timberlake  
Deputy Chief Financial Officer



The Fiscal Year 2016 Agency Financial Report is Available on the Web at:  
<http://portal.hud.gov/hudportal/documents/huddoc?id=afr2016.pdf>

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# Message from the Secretary

**November 15, 2016**

I am pleased to present the U.S. Department of Housing and Urban Development's (HUD) Agency Financial Report (AFR) for Fiscal Year (FY) 2016. This is the final AFR that HUD will publish during President Obama's Administration, and it details our agency's longstanding commitment to strengthening the nation's housing market in ways that protect homeowners, improve neighborhoods, and boost the U.S. economy.

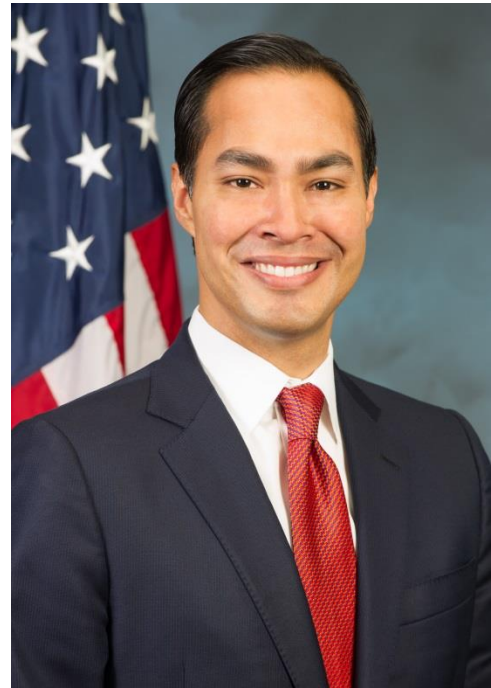
Without question, our nation's housing market has made remarkable progress since the Great Recession. Real residential investment—which includes new housing construction and home improvements—grew by more than eight percent for six straight quarters, far outpacing overall gross domestic product (GDP) growth. Sales of existing homes climbed to their highest level in more than nine years. and we have continued to see sharp gains in homeowner equity, which is nearly \$7 trillion higher than when President Obama took office. I am proud that HUD has helped lead this turnaround.

HUD has also done important work to help Americans of all backgrounds lift themselves up and build a better future. We have preserved public housing and invested in new affordable housing. We have joined forces with states, cities, towns, and tribal communities to help end homelessness, including reducing veteran homelessness by nearly 50 percent. We have also fought to make our rental market more affordable. All of this work has been a vital part of the President's longstanding effort to help more Americans succeed today, and live healthier lives long into the future.

This report shows how HUD is investing in stronger communities in big cities, small towns, and rural areas across the nation. It outlines our financial results for FY 2016 and performance results as of the end of the 3rd quarter—with a specific focus on the Department's internal two-year (FY 2016-FY 2017) Agency Priority Goals.

We are committed to building on our accomplishments by helping HUD's outstanding public servants improve their skills. We are also addressing internal challenges like those identified by HUD's Office of Inspector General.

FY 2016 and prior year audits identified 11 material internal control weaknesses: (1) Weak Internal Controls Over Financial Reporting Led to Errors and Delays in the Preparation of Financial Statements and Notes; (2) HUD Assets and Liabilities Were Misstated and Not



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**Message from Secretary Castro**

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Adequately Supported; (3) Significant Reconciliations Were Not Completed in a Timely Manner; (4) CPD's Formula Grant Accounting Did Not Comply With Generally Accepted Accounting Principles (GAAP), Resulting in Misstatements on the Financial Statements; (5) HUD's Financial Management System Weaknesses Continued in 2016; (6) Material Asset Balances Related to Nonpooled Loans Were Not Auditable; (7) Ginnie Mae's Internal Controls Over Financial Reporting Continued To Have Weaknesses; (8) The Allowance for Loan Loss Account Balances Were Unreliable; (9) HUD's and Ginnie Mae's Financial Management Governance Was Ineffective; (10) Cash Flow Modeling Errors Were Not Detected; and (11) FHA's Controls Over Financial Reporting Related to Budgetary Resources Had Weaknesses.

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 efforts will go a long way in making HUD more efficient and effective, improving how we serve the communities that count on us.

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 will be discussed in the 2016 Annual Performance Report, to be published in February 2017.

Our nation can't fulfill any of our major goals—whether it's tackling inequality, improving healthcare, keeping neighborhoods safe, or making sure every child gets a good education—without also focusing on housing. That is because housing is one of the most basic needs we have, a need that is as much about how we live as about where we live. HUD is committed to continue doing its part by investing in opportunity so that one day every American will have the strong foundation they need to thrive.

Sincerely,



Julián Castro

Secretary

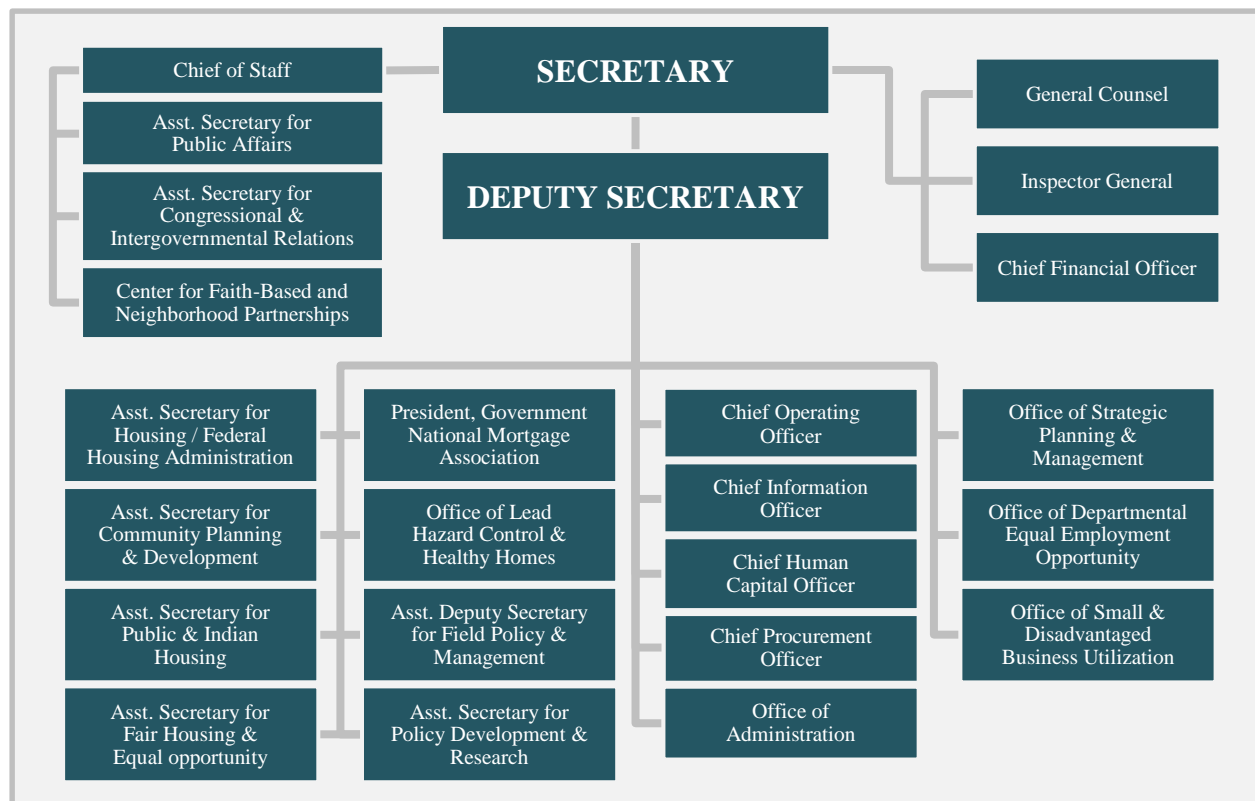
## Mission, Organization, and Major Program Activities

### 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 Organization and Reporting Structure



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**Mission, Organization, and Major Program Activities**

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**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 sure 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 mortgage backed securities 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.

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**Mission, Organization, and Major Program Activities**

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**Office of Housing**

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

Housing is also home to the Office of Housing Counseling which funds housing counseling grants and will soon begin certifying individual Housing Counselors. Please see the following helpful links:

- [Single Family Housing](#)
- [Multifamily Housing](#)
- [Healthcare Programs](#)
- [Office of Housing Counseling](#)
- [Office of Risk Management and Regulatory Affairs](#)

**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.

As of September 30<sup>th</sup>, 2016, PIH's workforce totaled 1,397 within 11 major offices at Headquarters, 45 field offices, and 6 Office of Native American Program (ONAP) Offices, 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 &amp; Agency Priority Goals

## Strategic Goals & Agency Priority Goals

The [HUD Strategic Plan FY 2014-2018](#) defines agency strategic goals and objectives with over 100 output or outcome measures of success, as revised by targets established in the Department's most recent Annual Performance Plan. For the two-year period, FY 2016 to FY 2017, HUD focused on five 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 HUD's progress toward key measures through these areas. For detailed quarterly assessments of progress, readers may consult the archived quarterly updates on [Performance.gov](#). Note that the agency priority goals do not reflect the full scope of the agency's strategic goals and mission.

HUD's FY 2014 – 2018 Strategic Framework			
<b>Mission: Create strong, sustainable, inclusive communities and quality, affordable homes for all.</b>			
Strategic Goals			
<b>Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers</b>	<b>Meet the Need for Quality Affordable Rental Homes</b>	<b>Use Housing as a Platform to Improve Quality of Life</b>	<b>Build Strong, Resilient, and Inclusive Communities</b>
Strategic Objectives			
<b>Housing Market</b> Establish a sustainable housing finance system that provides support during market disruptions, with a properly defined role for the U.S. Government.	<b>Rental Investment</b> Ensure sustainable investments in affordable rental housing.	<b>End Homelessness</b> End homelessness for Veterans, people experiencing chronic homelessness, families, youth, and children.	<b>Fair Housing</b> Reduce housing discrimination, affirmatively further fair housing through HUD programs, and promote diverse, inclusive communities.
<b>Credit Access</b> Ensure equal access to sustainable housing financing and achieve a more balanced housing market, particularly in underserved communities.	<b>Rental Alignment</b> Preserve quality affordable rental housing, where it is needed most, by simplifying and aligning the delivery of rental housing programs.	<b>Economic Prosperity</b> Promote advancements in economic prosperity for residents of HUD-assisted housing.	<b>Green and Healthy Homes</b> Increase the health and safety of homes and embed comprehensive energy efficiency and healthy housing criteria across HUD programs.
<b>FHA's Financial Health</b> Restore the Federal Housing Administration's financial health, while supporting the housing market recovery and access to mortgage financing.		<b>Health and Housing Stability</b> Promote the health and housing stability of vulnerable populations.	<b>Disaster Resilience</b> 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.
			<b>Community Development</b> Strengthen communities' economic health, resilience, and access to opportunity.
Highlighted items denote Agency Priority Goal areas.			

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**Strategic Goals & Agency Priority Goals**

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HUD's 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, our analysis will focus on our annual progress toward FY 2016 targets<sup>1</sup>.

## **FY 2016-2017 Agency Priority Goal: Preserve Affordable Rental Housing**

**HUD remains committed to preserving and expanding the nation's current affordable housing stock. Between October 1, 2015, and September 30, 2017, HUD aims to preserve and expand affordable rental housing through its rental housing programs to serve an additional 133,470 households over a baseline of 5,541,583 households.**

### **Overview**

During the past 80 years, the federal government has invested billions of dollars in the development and maintenance of affordable public and assisted multifamily housing. Despite the sizable investment and the great demand for such housing, assisted units continue to be lost. Some units have been lost because of their deteriorated physical condition. Others, both publicly and privately owned, have been removed from the affordable inventory because of owners' decisions or because periods of affordability have expired. Some multifamily housing programs either have no option for owners to renew their subsidy contracts with HUD or do not support contract renewal 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.<sup>2</sup>

Rather than view these trends as an obstacle, HUD is taking advantage of an opportunity provided through the Rental Assistance Demonstration (RAD). This program helps public housing agencies to leverage public and private debt and equity in order to reinvest in the public housing stock and address critical deferred maintenance needs. Furthermore, RAD units convert into a Section 8 platform with a long-term contract that, by law, must be renewed. This ensures that the units remain permanently affordable to low-income households. HUD remains committed to providing decent, safe, sanitary, and affordable options for low-income renters through RAD, tax credits, Choice Neighborhoods, mixed financed public housing development, and other creative programs.

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<sup>1</sup> Unless otherwise noted, performance data for FY 2016 is through the third fiscal quarter (Q3).

<sup>2</sup> U.S. Department of Housing and Urban Development, November 2010; Capital Needs in the Public Housing Program, [http://portal.hud.gov/hudportal/documents/huddoc?id=PH\\_Capital\\_Needs.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=PH_Capital_Needs.pdf)

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**Strategic Goals & Agency Priority Goals**

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RAD makes it possible for public housing authorities to address capital repair and replacement needs of their properties, preserving these affordable rental units. RAD allows public housing authorities 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**

- Revise the Real Estate Assessment Center's scoring system, timeframes, and operation of physical and financial assessments of HUD-assisted properties.
- Maintain strong occupancy rates in the Public Housing program and maximize voucher and budget utilization in the House Choice Voucher (HCV) program
- Support the development and preservation of affordable housing through FHA Multifamily Mortgage Insurance, in conjunction with other funding or financial resources such as through the FHA Low Income Housing Tax Credit (LIHTC) pilot.
- Ensure that the households currently being served by HUD rental assistance programs have a viable 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 Office of Housing, Community Planning and Development (CPD), and the Office of Public and Indian Housing (PIH). In addition, FHA Multifamily mortgages, LIHTC, 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**

As of the third quarter of FY 2016, HUD has *exceeded* its FY 2016 target to serve an additional 70,520 households (5,612,103 cumulative) by 74 percent, serving an additional 122,927 households, resulting in a cumulative total of 5,664,510 households served. Leasing continues to be very strong for the Section 8 HCV program and with nearly 73,000 new households served in

**Strategic Goals & Agency Priority Goals**

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FY 2016, it is at its highest point since sequestration.<sup>3</sup> Much of the growth in leasing is attributed to better utilization of the HCV program. Excluding RAD conversion projects, the housing national occupancy rate is 96.06 percent, just above the target goal. Many RAD conversions involve redevelopment work and relocation of residents, which causes a temporary increase in vacancies.

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<sup>3</sup> Beginning in March 1, 2013, mandatory across-the-board spending cuts to various federal budget outlays took effect, also known as budget sequestration. HUD was faced with cutting approximately 5% from its budget, suddenly reducing the amount HUD disbursed to Public Housing Authorities (PHAs) from the Operating Fund. These cuts impacted the ability of PHAs to administer and renew vouchers for thousands of low-income families across the country. The budget uncertainty caused by sequestration also limited each PHAs ability to predict future funding, making PHAs slow to respond once sequestration cuts were restored.

## Strategic Goals &amp; Agency Priority Goals

*Key Indicator: Number of households served through HUD rental assistance*

Households in Occupied Rental Units Receiving Assistance by Program	FY 2015 Cumulative Baseline	FY 2016 Cumulative Actual (Q3)	FY 2016 Cumulative Target	FY 2017 Cumulative Target
Multifamily Assisted Housing Programs <sup>4</sup>	1,333,798	1,406,638	1,357,399	1,377,772
Other Multifamily Subsidies	89,920	86,796	85,920	81,920
Insured Tax Exempt or Low-Income Housing Tax Credit	203,168	226,833	241,047	280,719
<b>TOTAL Housing Programs</b>	<b>1,626,886</b>	<b>1,720,267</b>	<b>1,684,366</b>	<b>1,740,411</b>
Tenant-Based Rental Assistance (HCV)	2,212,756	2,254,166	2,240,800	2,265,800
Rental Assistance Demonstration (RAD) units moved to TBRA	15,786	20,957	41,248	64,350
Public Housing	1,065,241	1,048,958	1,015,352	969,729
PIH Mod Rehab	20,333	19,636	19,502	18,502
Mainstream Vouchers	14,007	14,288	14,070	14,070
Native American Housing (ONAP)	12,751	12,863	13,101	13,451
<b>TOTAL Public and Indian Housing</b>	<b>3,340,874</b>	<b>3,370,868</b>	<b>3,344,073</b>	<b>3,345,902</b>
HOME Rental	282,100	282,224	277,100	268,000
McKinney/Continuums of Care (CoC)	138,177	138,177 <sup>5</sup>	145,177	151,527
Tax Credit Assistance Program <sup>6</sup>	59,580	59,580	59,580	59,580
Community Development Block Grants – Disaster Relief	45,778	52,894	53,763	62,167
Housing Opportunities for Persons Living with AIDS (HOPWA)	25,660	18,242	25,614	25,164
Neighborhood Stabilization Program <sup>7</sup> (NSP)	21,544	21,544	21,544	21,544
HOME TBRA <sup>8</sup>	984	714	886	788
<b>TOTAL Community Planning and Development</b>	<b>573,823</b>	<b>573,375</b>	<b>583,664</b>	<b>588,770</b>
<b>HUD TOTAL</b>	<b>5,541,583</b>	<b>5,664,510</b>	<b>5,612,103</b>	<b>5,675,083</b>

<sup>4</sup> Includes Section 8, RAD to Project-Based Rental Assistance (PBRA), Section 202/811, Rental Housing Assistance Programs, Rent Supplement, and Section 232 units (Residential Care Facilities).

<sup>5</sup> Reports annually only. No quarterly change to report.

<sup>6</sup> Program is no longer active. Historic units contribute to the yearly cumulative total, however there are no cumulative targets.

<sup>7</sup> *ibid*

<sup>8</sup> This is not cumulative data. Only Q4 data is reported.

## Strategic Goals &amp; Agency Priority Goals

*Supporting Indicators:*

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

The first component of the RAD allows projects funded under the public housing and Section 8 Moderate Rehabilitation (Mod Rehab) programs to convert their assistance to long-term, or project-based rental assistance (PBRA) or tenant-based rental assistance (TBRA) vouchers. HUD is exercising its discretion to prioritize public housing conversions under the competitive requirements of this component. Targets are cumulative.

FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual (Q3)	FY 2016 Target	FY 2017 Target
30	6,167	19,570	39,395	75,000	125,000

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

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) or project-based rental assistance (PBRA). Targets are cumulative.

FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual (Q3)	FY 2016 Target	FY 2017 Target
4,789	7,511	14,826	20,683	17,900	25,000

- *Housing Choice Voucher budget utilization rate*

This metric is measured using the calendar year to date Housing Assistance Payment (HAP) spending as a percentage of budget authority. PIH works closely with Public Housing Authorities (PHAs) to identify specific budget utilization, voucher utilization, and limited HAP reserve targets, which will optimize the number of households that a PHA is able to serve given its budget and current reserve level.

CY 2013 Actual	CY 2014 Actual	CY 2015 Actual	CY 2016 Actual (Q3)	CY 2016 Target	CY 2017 Target
103.48%	96.93%	98.33%	101.82%	99.00%	99.00%

## Strategic Goals &amp; Agency Priority Goals

- *Public Housing occupancy rate*

FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual (Q3)	FY 2016 Target	FY 2017 Target
95.85%	95.63%	95.80%	95.69%	96.00%	96.00%

## FY 2016-2017 Agency Priority Goal: End Homelessness

**In partnership with other agencies, the Department of Housing and Urban Development will reduce the total number of homeless families, youth and children, and people experiencing chronic homelessness, as well as keep the number of Veterans living on the street at zero (as measured by the 2018 Point-in-Time count).**

### Overview

The annual “Point-in-Time” (PIT) count estimates the scope of homelessness on a single night in January. Based on data reported by more than 3,000 cities and counties, the January 2015 one-night estimate revealed a 36 percent drop in homelessness among Veterans and a 22 percent reduction among individuals experiencing long-term or chronic homelessness since the 2010 release of Opening Doors. HUD’s estimate also found a decline of 19 percent in the number of families experiencing homelessness since 2010. Overall, a total of 564,708 people experienced homelessness in the United States on a single night in January 2015.

In 2010, the Obama administration released Opening Doors, the first-ever comprehensive federal strategic plan to prevent and end homelessness. The plan set the stage for HUD’s goals of preventing and ending homelessness for veterans by 2015; preventing and ending homelessness for individuals experiencing chronic homelessness by 2017; preventing and ending homelessness for families, youth, and children by 2020; and ultimately setting a path to ending all types of homelessness.

HUD will continue its longstanding work with the US Interagency Council on Homelessness (USICH) and all its other federal, state, and local partners to deploy effective solutions, such as rapid re-housing, permanent supportive housing, and housing vouchers for the populations for which these are proven effective. These tools should be informed by a Housing First approach, in which preconditions and barriers to housing entry are removed and people move into housing as quickly as possible. HUD and its partners are taking concerted steps to understand the best strategies to prevent and end homelessness among unaccompanied youth, especially for high-risk groups, including youth aging out of foster care and LGBTQ youth. HUD’s success in reducing homelessness depends on effectively using and targeting resources. However, continued investments in programs that work, such as HUD’s Homeless Assistance Grants, are crucial to reaching the goals laid out in Opening Doors.

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**Strategic Goals & Agency Priority Goals**

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**Strategies**

- Implement the Homelessness Emergency and Rapid Transition to Housing (HEARTH) Act amendments to McKinney-Vento Homeless Assistance Act and encourage Continuums of Care (CoC) to use their existing resources more effectively. In particular, CoCs are urged to reallocate existing projects to create new permanent supportive housing for individuals experiencing chronic homelessness or rapid re-housing for households with children that are coming from the streets or shelters. HUD will urge and support CoC efforts to prioritize the chronically homeless and those whose needs are most severe in all existing permanent supportive housing.
- Fully engage and leverage mainstream housing assistance, including Housing Choice Vouchers, Public Housing, HOME Investment Partnerships, Community Development Block Grants (CDBG), and Multifamily Housing. We will build capacity among public housing authorities and multifamily property owners to serve more households experiencing homelessness in their programs.
- Improve data and performance management through the adoption of a common data standard for housing stability and sharing data across systems, such as Homeless Management Information Systems (HMIS) and systems used by the Department of Veterans Affairs (VA) and the Department of Health and Human Services (HHS).
- Continue to strengthen collaborations at all levels of government and with the private sector, including within HUD and with the United States Interagency Council on Homelessness (USICH), VA, HHS, the Department of Labor (DOL), the Department of Education (ED), the Department of Agriculture, and others.
- Implement USICH Framework to End Youth Homelessness, integrate HMIS and Runaway and Homeless Youth Management Information Systems, and leverage HUD's PIT count to improve strategies for identifying and serving youth experiencing homelessness.
- Promote implementation of coordinated assessment systems for CoCs through training, technical assistance, and guidance by the Office of Special Needs Assistance Programs to better target resources.

**Contributing Programs**

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

- HUD-VA Supportive Housing (HUD-VASH) Program
- Continuum of Care Program
- Emergency Solutions Grant Program
- Housing Choice Vouchers

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**Strategic Goals & Agency Priority Goals**

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- Public Housing
- Multifamily Housing Programs

Contributing programs or partners outside the agency: VA, USICH, HHS, DOL, ED, and a host of other federal agency partners.

**Measuring Our Progress***Progress towards the Veterans goal*

HUD's goal for 2014 was to reduce the number of veterans experiencing homelessness reported at a point in time to 27,500, as measured by the 2015 PIT count. In the 2015 PIT count, HUD reported 47,725 veterans experiencing homelessness at a point in time. Progress through 2015 will be assessed through the January 2016 PIT count, which measures the impact of the previous year's activities; for which data will be available publicly in the fall of 2016. Through the first quarter of FY 2016, 16,480 Veterans were placed into permanent housing through a combination of HUD and VA programs, of which 6,759 were served by HUD-VASH; this number rose to 12,277 by the end of March. Since 2008, more than 79,000 vouchers have been awarded and over 111,000 homeless veterans have been served through the HUD-VASH program. To date, 25 communities, including Austin, Houston, Las Vegas, Philadelphia, the state of Connecticut, and the Commonwealth of Virginia have been confirmed for ending Veterans homelessness. HUD continues to track and confirm that many individual communities have effectively ended homelessness among Veterans, a fact that is proof that this goal is achievable when the federal government makes targeted investments and communities execute effectively on the ground.

*Performance-based Funding in the Continuum of Care Grant Program*

On May 2, HUD awarded \$355 million to more than 1,200 local homeless housing and service programs across the U.S. and Puerto Rico in Continuum of Care (CoC) grants, building upon the \$1.6 billion HUD awarded through a first round of funding in March. The competition to award FY 2015 CoC grants was the most competitive ever, resulting in \$124 million in projects, many of which were lower performing projects, being reallocated to provide permanent supportive housing and rapid re-housing solutions for those experiencing homelessness. Secretary Julián Castro explained in his announcement, "as we continue to make progress toward ending homelessness in this country, HUD is challenging communities to use more cost effective solutions to help those experiencing homelessness."

*HUD-VA Supportive Housing (HUD-VASH)*

On January 8, HUD and the Department of Veterans Affairs (VA) awarded \$5.9 million to 26 tribes for the tribal HUD-VASH demonstration project. Since then, HUD partnered with VA to develop and implement joint field trainings for the tribes, two of which were conducted in FY16. The first Native American Veteran was housed through the program on May 13. On June

## Strategic Goals &amp; Agency Priority Goals

2, HUD and VA awarded nearly \$38 million to help more than 5,200 homeless Veterans find a permanent place to call home – and the supportive services they need to remain stably housed.

*Innovative Federal Partnerships*

On June 24, HUD and the Department of Justice (DOJ) awarded \$8.7 million to address homelessness and reduce recidivism among the justice-involved homeless population of former prisoners through the Pay for Success (PFS) model. PFS leverages philanthropic and private dollars to provide assistance up front, with the government paying after the model generates results. Funded by DOJ and implemented through a HUD/DOJ partnership, this demonstration advances a new financing model to expand permanent supportive housing for the reentry population.

*Key Indicators:*

- *Total Veterans living on the streets, experiencing homelessness*

FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2015 Target	FY 2016 Target	FY 2017 Target
17,570	16,220	NA <sup>9</sup>	TBD	TBD	TBD

- *Total homeless Veterans temporarily living in shelters or transitional housing*

FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2015 Target	FY 2016 Target	FY 2017 Target
32,119	31,505	NA <sup>10</sup>	12,500	12,500	12,500

- *Individuals experiencing chronic homelessness*

FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2015 Target	FY 2016 Target	FY 2017 Target
83,989	83,170	NA <sup>11</sup>	66,000	56,000	15,000

<sup>9</sup> The FY 2015 data, which was collected during the January 2016 Point-in-Time Count, will be published in the fall of 2016.

<sup>10</sup> *ibid*

<sup>11</sup> *ibid*

## Strategic Goals &amp; Agency Priority Goals

*Supporting Indicators:*

- Number of new permanent supportive housing beds dedicated to individuals and families experiencing chronic homelessness*

FY 2014 Actual	FY 2015 Actual	FY 2015 Target	FY 2016 Target	FY 2017 Target
5,170	NA <sup>12</sup>	Tracking Only	25,500	25,500

- Percent of new permanent supportive housing beds dedicated to individuals and families experiencing chronic homelessness*

FY 2014 Actual	FY 2015 Actual	FY 2015 Target	FY 2016 Target	FY 2017 Target
98%	NA <sup>13</sup>	Tracking Only	100%	100%

## FY 2016-2017 Agency Priority Goal: Increase educational attainment among HUD-assisted tenants

**Increase educational attainment for HUD-assisted tenants by improving access to stable, quality, and affordable education, as measured by increasing the percentage of HUD-assisted tenants who are currently enrolled in college.**

### Overview

The persistent and growing education gap between children of low-income families and higher-income families demands further attention to the agency's role in supporting the educational attainment of our residents. Improving access to stable, quality, and equitable education for HUD-assisted children is crucial to increasing employment opportunities and breaking the cycle of intergenerational poverty. Recent research on HUD's Moving to Opportunity experiment confirmed that place matters for children's educational attainment and access to opportunity, now and in the future.<sup>14</sup> HUD is exploring options to increase the use of housing vouchers in high opportunity areas, through mobility counseling and the Small Area Fair Market Rent (SAFMR) demonstration.

The department is equally committed to investing in communities where low-income and rent-assisted residents are concentrated. The Choice Neighborhood and Promise Zone programs were

<sup>12</sup> *ibid*

<sup>13</sup> *ibid*

<sup>14</sup> Chetty, Raj, et al. Is the United States still a land of opportunity? Recent trends in intergenerational mobility. No. w19844. National Bureau of Economic Research, 2014.

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developed with an understanding that these long-term revitalization efforts require community-driven solutions and cross-sector involvement to holistically increase opportunity and outcomes for residents. HUD is working with the Department of Education on several initiatives from increasing access to early childhood education to improving access to financial assistance and tax credits that make college more affordable. Through the alignment of resources at the local level, we can most effectively improve the quality of life for the children and families HUD serves.

**Strategies**

- Encourage PHAs to support higher education access and attainment for residents. Implement strategies to increase Free Application for Federal Student Aid (FAFSA) assistance and completion. Collaborate with federal, local, and non-governmental partners to support local education initiatives for tenants ranging from early childhood education, grade level reading proficiency, higher education, and career training.
- Improve access to and sharing of education data for HUD-assisted households to better understand the impact of our housing and services on educational attainment. Through research projects, place-based initiatives, and state data-sharing agreements, HUD is getting more information on resident-level educational access and achievement outcomes that will enable better targeting of services.
- Increase connections to partnerships with educational philanthropies and nonprofits. HUD is collaborating with several organizations which focus on expanding digital literacy, increasing STEM education for young girls, positive law enforcement interaction and vocational training, youth development programs, reducing chronic absenteeism, and improving grade level reading for third graders – a critical marker of future educational success. These partners include the Annie E. Casey Foundation, Learning for Life, ABCmouse.com, AARP, the National Center for Women and Technology (NCWIT), the Campaign for Grade Level Reading (GLR), First Book, Learning for Life, GreatSchools, and others.

**Contributing Programs**

Contributing programs and agencies include: HUD Office of the Secretary, Office of Policy Development and Research, Public and Indian Housing, Choice Neighborhoods, ConnectHome, Promise Zones, ED, HHS, among other federal partners.

**Measuring Our Progress***Lifting Up Best Practices*

On April 29, 2016, Secretary Castro announced the partnership with the Campaign for Grade-Level Reading at the Tampa Housing Authority. The Campaign for Grade-Level Reading is a collaborative effort by foundations, nonprofit organizations, business leaders, and government

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agencies that focuses on reading proficiency by the end of third grade, which is an important predictor of school success and high school graduation. Through the partnership, PHAs will be connected to local resources in the solution areas that are critical to achieving reading proficiency -- school readiness, school attendance, and summer learning. PHAs in the pilot group will be part of a community of practice to understand the resources needed most by housing authorities to engage in this work.

***Testing Promising Practices***

HUD is conducting in-house, rapid experiments to determine the effectiveness of strategies to encourage FAFSA completion among our tenants. First, HUD and the Department of Education signed a data-sharing MOU that helps us better understand rates of FAFSA completion and other outcomes among HUD-assisted youth. With that in place, HUD collaborated with the White House Social and Behavioral Sciences Team and ED to experimentally test whether using behaviorally informed letters from various senders and with various messages – and in some cases, follow-up via text or email - can increase the rate at which high school students and recent graduates in HUD assisted households complete the FAFSA. Finally, HUD is funding education navigators in a limited number of public housing authority who will assist public housing youth residents with FAFSA completion and postsecondary education preparedness; awards are expected December 2016.

***Place-based Initiatives***

On June 6, the Obama administration named the final nine Promise Zones, rounding out the 22-community initiative in high poverty urban, rural, and tribal areas. The federal government will work strategically with local leaders in Promise Zones to boost economic activity and job growth, improve educational opportunities, reduce crime, and leverage private investment to improve the quality of life in these vulnerable areas; HUD is the lead organization for the 14 urban communities. All Promise Zones will receive priority access to federal investments that further their strategic plans, federal staff on the ground to help them implement their goals, and five full-time AmeriCorps Volunteers in Service to America members to strengthen the capacity of the Promise Zone initiatives.

On June 28, HUD awarded \$8 million to ten severely distressed neighborhoods to stimulate affordable housing and economic development through Choice Neighborhood Planning Grants. These awards will help local leaders to craft their own plans to revitalize and transform these neighborhoods. Schools districts are key planning partners, as these communities develop comprehensive approaches to address the interconnected challenges of distressed housing, inadequate schools, poor health, high crime, and lack of capital.

## Strategic Goals &amp; Agency Priority Goals

*Key Indicators<sup>15</sup>:*

- Percentage of HUD-assisted tenants who are currently enrolled in college.*

FY 2015 Actual	FY 2016 Actual (Q3)	FY 2016 Target	FY 2017 Target
No Data	NA	Establish Baseline	TBD

- Percentage of HUD-assisted tenants ages 17-34 who have completed a FAFSA application.*

Percentage of all HUD-assisted residents aged 17-34 in Public Housing, Housing Choice Voucher, and Multifamily Housing Programs who completed a FAFSA application in the most recent application cycle, according to a match to Federal Student Aid (FSA) data.

FY 2015 Actual	FY 2016 Actual (Q3)	FY 2016 Target	FY 2017 Target
27%	NA	Establish Baseline	TBD

- Percentage of HUD-assisted tenants ages 17-34 who completed a FAFSA application and then received aid to attend school*

Percentage of all HUD-assisted residents aged 17-34 in Public Housing, Housing Choice Voucher, and Multifamily Housing Programs who enrolled in college, among those who completed a FAFSA application in the most recent application cycle, according to a match to FSA data.

FY 2015 Actual	FY 2016 Actual (Q3)	FY 2016 Target	FY 2017 Target
18%	NA	Establish Baseline	TBD

<sup>15</sup> Data toward FY 2016 actuals will not be available until (approx.) mid-FY 2017. FY 2016 tenant data will be compared with the 2016-17 academic year FAFSA application cycle, which includes applications the Spring 2017 semester. Therefore, this data will consistently be published on a significant delay.

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**FY 2016-2017 Agency Priority Goal: Increase the energy efficiency and health of the nation's housing stock.**

**HUD is committed to increasing the health and safety of homes and embed comprehensive energy efficiency and healthy housing criteria across HUD programs. Since FY 2010, HUD has completed over 510,000 green or healthy units. Between October 1, 2015 and September 30, 2017, HUD aims to increase the energy efficiency and health of the nation's housing stock by enabling an additional 160,000 cost-effective, energy efficient or healthy housing units.**

**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.<sup>16</sup> With approximately 5.6 million housing units assisted through its rental assistance programs, HUD's share of this total is significant. HUD spends an estimated \$6.4 billion annually on utilities (both water and energy) in the form of allowances for tenant-paid utilities, direct operating grants for public housing, and housing assistance payments for privately-owned assisted housing. Utility costs account for around 22 percent of public housing operating budgets, and a similar share in the assisted housing sector.

Reducing these rising costs—generating savings for residents and owners, as well as for taxpayers—is a key HUD priority. Significant progress has been made over the past five years with energy retrofits, healthy housing interventions, or new energy projects completed in more than 510,000 housing units.

In FY 2016-17, HUD will continue or expand energy investments in the residential sector to support the goals of President Obama's Climate Action Plan to cut energy waste in half by 2030 and accelerate clean energy leadership—both in HUD-assisted housing, as well as in market-rate housing. We will reduce barriers to financing energy efficiency as well as on-site renewable energy generation, help unlock innovative and traditional sources of capital, and strengthen codes and standards that promote energy efficiency and healthy housing.

The need to retrofit HUD-assisted housing is not limited to the efforts to increase energy efficiency and reduce costs. Housing is also an important determinant of health, and poor housing conditions are associated with a wide range of health conditions, including respiratory infections, asthma, lead poisoning, and injuries. HUD makes homes healthy and safe through several programs, led by the Office of Lead Hazard Control and Healthy Homes' (OLHCHH) lead hazard control grant programs and Lead Safe Housing Rule (LSHR) compliance. OLHCHH

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<sup>16</sup> Department of Energy, 2011 Building Energy Data Book, Table 2.4.1.

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also educates the general public about healthy homes through a public communications campaign to help people connect the dots between their health and their home.

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 the rehabilitation programs that make required lead hazard reduction measures in assisted housing covered by the LSHR. With funding for OLVCHH grant activities projected to be approximately level through FY 2016, and the CDBG and HOME Investment Partnership Program (HOME) experiencing significant funding reductions in recent years, the number of pre-1978 housing units made lead-safe in 2016 is expected to decrease.

**Strategies*****Boost Energy Efficiency and Renewable Energy***

- ***Strengthen HUD's programs and policies in new and existing HUD-assisted housing to support the President's goal of cutting energy waste in half by 2030.*** In order to achieve this goal, HUD will be pursuing a number of actions, including:
  - Updating energy codes and standards;
  - Implementing a green Physical Needs Assessment (PNA) in public housing within the parameters established by Congress, as well as a uniform Capital Needs Assessment (CNA) "e-tool" for privately-owned, HUD-assisted and/or FHA-insured multifamily housing when a CNA is required by the Office of Multifamily Housing;
  - Supporting the adoption of comprehensive utility benchmarking protocols across HUD's portfolio;
  - Providing incentives for energy efficient and green building through HUD's competitive grant programs, such as Choice Neighborhoods;
  - Continued implementation of voluntary leadership efforts, such as the multifamily Better Buildings Challenge;
  - Strengthening partnerships with the Department of Energy (DOE), the Environmental Protection Agency (EPA), the Department of Agriculture (USDA), and other federal agencies; and
  - Making available HUD's technical assistance (TA) resources to support energy upgrades and healthy housing.
- ***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, DOE, USDA, and the Treasury Department will for the first time focus on solar and renewable energy in public and assisted housing, as well as LIHTC properties, by

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**Strategic Goals & Agency Priority Goals**

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implementing a key goal of the President's Climate Action Plan, to reach 300 megawatts—equivalent to the energy used by over 90,000 homes—of renewable energy in federally-assisted housing.

- ***Leverage private sector and other innovative sources of capital for energy efficiency and renewable energy investments.*** HUD, working with federal and state partners, will help expand the pool of private and public capital investment for energy efficiency and renewable energy programs across the residential spectrum. This includes expanding multifamily Property Assessed Clean Energy (PACE) guidance and FHA guidance for single family PACE. In FY 2016 FHA announced guidance for single family PACE, providing eligibility for homes with a PACE obligation that is structured as a special assessment. Congress has also authorized the first Pay for Success demonstration to support energy and water efficiency investments in up to 20,000 units of HUD assisted multifamily housing. The demonstration will allow HUD to enter into contracts with outside entities, which would raise private capital for water and energy upgrades in aging HUD-assisted apartment buildings.
- ***Support and expand the Better Buildings Challenge for multifamily buildings.*** In June 2013, HUD partnered with DOE to expand the Better Buildings Challenge to multifamily housing. The Better Buildings Challenge is a voluntary initiative that asks building owners and managers to commit to lowering energy use across their portfolio by 20 percent over the next 10 years. Multifamily partners include owners or managers of market rate as well as well as affordable housing. As of March 2016, 110 partners representing more than 650,000 units with 600 million square feet have joined the Challenge.

HUD's Annual Report to Congress, *Moving to the Next Level: Progress Report and Energy Update* (August 2016), provides an in-depth description of HUD's energy strategies, and detailed results. See [http://portal.hud.gov/hudportal/documents/huddoc?id=Report\\_Congress8-9-16.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=Report_Congress8-9-16.pdf)

***Enhance Safe and Healthy Housing***

- ***Embed healthy and safe housing principles and research in all HUD programs.*** HUD will work at the Department-wide level to ensure that the health and safety of housing is embedded in HUD programs by making available information on best practices and healthy homes research findings.
- ***Support lead and healthy homes interventions and research.*** HUD will provide grants to states and local communities to conduct lead hazard control activities in older housing units. HUD will encourage applicants for its Lead Hazard Control grant programs to apply for Healthy Homes Supplemental Funding, which can be used to address housing-related health and safety hazards that may cause or contribute to a wide range of illnesses and diseases, including asthma, injuries, and cancer. OLHCHH will also fund research

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**Strategic Goals & Agency Priority Goals**

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for developing and assessing cost-effective methods for identifying and mitigating housing-related health and safety hazards.

- *Expand housing management practices that protect the health of residents.* Housing management practices that promote healthier environments for residents include practices that use integrated pest management systems for pest control, utilize low toxic cleaners for regular maintenance, and adopt in-building smoke free policies that create healthier breathing environments throughout multifamily buildings.
- *Review HUD's existing physical condition assessment methods for opportunities to improve HUD's ability to identify health hazards.* HUD's existing physical condition assessment methods focus on traditional physical safety hazards, which may miss certain recognized conditions that can result in health hazards. Consistent with the Surgeon General's Call to Action to Promote Healthy Homes, HUD's Leading Our Nation to Healthier Homes: The Healthy Homes Strategic Plan, and the federal Advancing Healthy Housing: A Strategy for Action, HUD will conduct a review of existing physical condition assessment methods for potential improvements in identifying health hazards. This review will include HUD's physical condition assessment protocols, such as the Uniform Physical Condition Standards for Voucher Programs (UPCS-V).
- *Ensure that all HUD programs and grantees comply with LSHR requirements and other lead safety and disclosure requirements.*
- *Work with Administration partners to encourage an interagency focus on addressing lead hazard prevention for both paint and other sources, including tap water.*

### Contributing Programs

This performance goal includes major HUD programs that produce, manage, or finance affordable housing. The program lead is CPD's Office of Economic Resilience, which coordinates a broad-based Departmental effort to reduce the energy requirements of HUD's national portfolio. Meanwhile, OLHCHH manages and funds lead hazard control and healthy housing retrofits, promoting tenant health and safety.

### Measuring Our Progress

*Key Indicator: Number of HUD-assisted or HUD-associated units completing energy-efficient or healthy retrofits or new construction.*

A total of 46,766 energy efficient and healthy units were reported through FY 2016 (Q3), against the FY 2016 target of 79,537 units, and against the two-year FY 2016-17 APG target of 160,000 units. Of these, energy efficient completions reported through the third quarter totaled 32,807 units, while lead hazard control and healthy home completions totaled 13,959. These totals include the following programs:

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	FY 2013 Actual Units	FY 2014 Actual Units	FY 2015 Actual Units	FY 2014 & 2015 Actual Units	FY 2014 & 2015 Target Units	FY 2016 Actual (Q3) Units	FY 2016 Target Units	FY 2017 Target Units	FY 2016 & 2017 Actual (Q3) Units	FY 2016 & 2017 Target Units
<b>PIH</b>	37,242	30,285	27,793	58,078	47,454	12,142	21,485	20,212	12,142	41,697
<b>CPD</b>	14,546	7,923	8,748	16,671	16,543	5,068	7,651	7,551	5,068	15,202
<b>Housing</b>	13,500	18,711	22,204	40,915	52,033	15,597	31,018	33,318	15,597	64,336
<b>Lead Safe and Healthy Homes<sup>17</sup></b>	10,663	21,570	18,601	40,171	46,229	13,959	16,500	16,500	13,959	33,000
<b>Stretch Units<sup>18</sup></b>	N/A	N/A	N/A	N/A	N/A	N/A	2,883	2,882	N/A	5,765
<b>Total</b>	<b>75,951</b>	<b>78,489</b>	<b>77,346</b>	<b>155,835</b>	<b>162,259</b>	<b>46,766</b>	<b>79,537</b>	<b>80,463</b>	<b>46,766</b>	<b>160,000</b>

*Community Planning and Development (CPD):*

- CDBG new construction units built to Energy STAR: 315 units through Q3.
- HOME new construction built to ENERGY STAR (or Title 24 in California): 4,753 units through Q3.

*Housing:*

- 202/811 new construction funded by the FY 2010 Notice of Funding Availability: 483 through Q3.
- FHA Multifamily Endorsements with green features: 10,738 units through Q3.
- Mark to Market green retrofits: 791 units through Q3.
- RAD completions using LIHTC funding: 5,810 units through Q3.
- Single Family Energy Efficient Mortgages: 160 units through Q3.
- 203 (k) rehab loans with energy efficient improvements: 3,536 units through Q3.

<sup>17</sup> Lead Safe and Healthy Homes units include OLHCHH units and CPD funded Lead Safe Housing Rule (LSHR) units.

<sup>18</sup> Stretch units are not assigned to any specific program office but instead emphasize the Department's commitment to aiming for 160,000 completed units every two-year APG cycle.

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**Strategic Goals & Agency Priority Goals**

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***PIH:***

- Public Housing Capital Fund energy efficient unit equivalents<sup>19</sup>: 10,685 units through Q3.
- Energy efficient Developed/Retrofitted units, including Choice Neighborhoods, Hope VI, and Mixed Finance: 1,457 units through Q3.

***Lead Safe and Healthy Homes:***

- OLHCHH Lead Hazard Control Grants: 4,065 units through Q3.
- OLHCHH Healthy Housing Grants: 12 units through Q3.
- OLHCHH Enforcement units: 188 units through Q3.
- CPD CDBG LSHR Compliance: 9,694 units through Q3. These CPD-funded units are tracked by OLHCHH as part of the agency's healthy homes activities.

Additional programs report annually-only and will be available in December of 2016, including CPD's CDBG-Disaster Recovery and PIH's Energy Performance Contracts.

Depending upon the program, many grantees have 30+ days after the end of the quarter to provide HUD with their data. In addition to this 30-day window, program offices often require additional time to process and verify the data. Therefore, a complete record of completions by quarter are not generally available until at least 60-days after the close of the quarter.

***Supporting Indicators:***

- ***Number of properties participating in utility data benchmarking***

This metric is currently being revised for the *FY18 Annual Performance Plan* to reflect HUD's new utility benchmarking strategy, which will report on a per-unit basis. Tracking will begin in CY17.

- ***Installed megawatts toward federal renewable energy target***

Measurement of the number of megawatts (MW) of installed renewable energy capacity and the number of megawatts of renewable energy committed to within the HUD-assisted

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<sup>19</sup> PIH Capital Fund units include "equivalent units." These are derived using an OMB-approved methodology that counts the 10 most cost-effective Energy Conservation Measures (ECMs) installed. Unit equivalents allow HUD to approximate an energy retrofit by bundling individual ECMs reported for individual public housing developments.

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portfolio. As of July 2016, HUD has received commitments for over 344 MW (not yet installed).

FY 2016 Actual (Q3)	FY 2016 Target	FY 2017 Target
76 MW	45 MW	50 MW

- Estimated impact of energy efficiency programs on HUD-assisted portfolio*

In FY 2016 HUD began tracking several outcomes using an energy savings model. Estimated savings include savings realized in units reported by HUD energy efficiency programs and initiatives since FY 2010. In addition to unit projections, future targets are based upon historical trends likely to shape future potential of initiatives and energy costs. The data in this model are based upon energy market research, providing an evidence-based tool that the Department can use to better understand the broad impact of its energy efficiency activities.

	FY 2016 Actual (Q2)	FY 2016 Target	FY 2017 Target
Cumulative estimate of energy savings in the HUD-assisted portfolio	2.8%	2.9%	4.5%
Estimated share of HUD-assisted portfolio impacted by energy efficiency programs	11.2%	12.1%	13.6%

- Estimated cumulative reduction in carbon emissions (metric tons)*

FY 2016 Actual (Q2)	FY 2016 Target	FY 2017 Target
134,441	141,036	157,964

- Estimated cumulative gallons of water saved*

FY 2016 Actual (Q2)	FY 2016 Target	FY 2017 Target
20.9 million	21.6 million	31.9 million

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**Strategic Goals & Agency Priority Goals**

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**FY 2016-2017 Agency Priority Goal: Expand in-home adoption of high-speed internet.**

**Narrow the digital divide by ensuring that 50 percent of public housing households with school-age children in ConnectHome communities are connected with at-home high-speed internet by September 30, 2017.**

**Overview**

ConnectHome is a demonstration program aimed at narrowing the digital divide in 28 communities across the nation. ConnectHome offers HUD-assisted residents free or substantially discounted high-speed internet access in their homes as well as the resources and training residents need to take advantage. The program is particularly focused on decreasing the “homework gap” by enabling school-age children to access the internet at home. ConnectHome operates as a platform for collaboration between the federal government, local governments, public housing agencies, internet service providers, philanthropic foundations, nonprofit organizations, and other stakeholders to develop and implement local solutions.

**Strategies**

In order to achieve success, this program will be deploying the following strategies:

- Increase adoption of high-speed internet by building new models to provide infrastructure and to offer residents free or discounted service.
- Empower residents to take full advantage of high-speed internet by connecting them with localized, free, and culturally sensitive training in essential digital literacy skills that will allow them to effectively utilize high-speed Internet.
- Make high-speed internet adoption sustainable by providing devices and technical support to our residents and by refocusing existing HUD resources to supplement and sustain the work of ConnectHome.

**Contributing Programs**

HUD's Office of the Secretary and PIH will lead this effort. The Office of Policy Development and Research will work with PIH and local PHAs to collect and analyze data. PHAs will be crucial to the success of this initiative, as they will help collect high-speed internet survey data and provide outreach support to tenants and stakeholders.

**Measuring Our Progress**

Since launching last year, the ConnectHome initiative has made great strides increasing access to high-speed internet in its 28 pilot communities. As of August 2016, approximately 4,400 public housing kindergarten through 12<sup>th</sup> grade (K-12) households in these pilot communities have

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**Strategic Goals & Agency Priority Goals**


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gained access to new high-speed internet service through ConnectHome, with over 50 percent of K-12 households in the pilot community developments living with high-speed internet access.

HUD is also working to finalize two rules supporting high speed internet connectivity, for which the public comment period completed in July. One rule requires HUD-funded new residential construction and substantial rehabilitation projects to support high-speed internet connectivity. Another rule will integrate high-speed internet feasibility and needs assessment into CPD's Consolidated Planning process.

***Key Indicator: Percentage of public housing households with school-age children in ConnectHome communities with at-home high-speed internet***

FY 2016 Actual (Q3)	FY 2016 Target	FY 2017 Target
54%	35%	50%

54 percent represents the share of all surveyed households in pilot communities with an internet connection that are not smartphone and smartphone data-plan dependent. A large sample of select developments in ConnectHome communities revealed that pre-ConnectHome pilot in-home internet access was higher than expected, exceeding the FY 2016 target of 35 percent. PIH is currently reevaluating its FY 2017 target based upon baseline survey results.

***Supporting Indicator:***

- Number of Public Housing households with school-age children that gain free or low-cost high-speed internet access through ConnectHome***

FY 2016 Actual (Aug)	FY 2016 Target	FY 2017 Target
4,385	10,000	TBD

PIH does not anticipate hitting our target of 10,000 newly connected K-12 households. Current estimates range between 6,000-7,000 by fiscal year's end (9/30/16). Number includes households that may have already had access to some internet but now have access to additional internet (eg., free building Wi-Fi) through ConnectHome.

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**Forward Looking Information**

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## 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 affected most HUD programs during FY 2016 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, and to the ongoing success of public and assisted housing investments. Financial constraints increase demand by PHAs for administrative and operational flexibility. HUD is implementing such flexibilities through the Rental Assistance Demonstration, which gives PHAs access to private capital, and by working toward an evidence-based expansion of housing agencies participating in the Moving to Work program.

By the end of FY 2016, the unemployment rate remained at 5.0 percent, a level that many economists consider to represent full employment. Labor force participation and the employment-to-population ratio both increased slightly compared with a year earlier.<sup>1</sup> These employment gains should facilitate further gains in median household income, which grew 5.2 percent from the 2014 level to \$56,500 in 2015.<sup>2</sup> The improving employment and income situation is likely to strengthen the ability of first-time home buyers to enter the housing market in coming years.

In the second quarter of 2016, purchases of new single-family homes were up 17 percent and of existing homes were up 4 percent from a year earlier. Sales to first-time buyers accounted for 32 percent of all sales transactions in that quarter, remaining significantly below the historic norm of 40 percent. As of June 2016, prices of owner-occupied homes, as measured by the Case-Shiller index, had increased by 5.1 percent from the previous year. Factors restraining sales include more stringent bank lending standards, a low sales inventory, and weakening ownership affordability driven by the house price increases and slightly higher interest rates. The turmoil in the mortgage market has substantially ended, as the overall delinquency rate fell to a 10-year low of 4.7 percent in the second quarter, and the proportion of mortgage loans in the foreclosure process, at 1.6 percent, is now near the long-term average of 1.5 percent.

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<sup>1</sup> Bureau of Labor Statistics. "Employment Situation Summary Table A. Household data, seasonally adjusted," August 2016. <http://www.bls.gov/news.release/empsit.a.htm>

<sup>2</sup> S&P Global. 2016. "Home Price Gains in June Concentrated in South and West According to the S&P CoreLogic Case-Shiller Indices." S&P Dow Jones Indices, August 30, 2016.

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**Forward Looking Information**

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Housing construction also was strong in mid-2016, with starts occurring at a rate of 1.2 million units annually.<sup>3</sup> Construction at this pace would be just sufficient to accommodate annual housing formation, were it not for expected demolition of several hundred thousand obsolete units. On balance, the housing markets at a national level can be expected to continue to tighten. The rental vacancy rate, at 6.7 percent in June 2016, is the lowest level—reflecting the tightest national rental market—since 1985.<sup>4</sup> Because of a declining homeownership rate and relatively strong rental market in this recovery, multifamily units have increased from 13 percent of housing starts in the third quarter of 2009, when the recovery began, to 34 percent in the second quarter of 2016. Over the long run, multifamily units have averaged 24 percent of housing starts.<sup>5</sup>

A new HUD rental affordability index shows that since 2000, rising rents have outpaced income growth, eroding the affordability of renting a home. The index relates median renter household income to the qualifying income for the median-priced rental unit. The rental affordability index worsened by 14 percent between the beginning of 2001 and the second quarter of 2016, declining from 140.1 percent to 120.5 percent. The latter value implies that the median renter has only 20.5 percent more income than the minimum necessary to qualify, at 30 percent of income, for the median-priced unit.<sup>6</sup>

Very low-income renters are disproportionately burdened by a supply gap in affordable housing. In 2013, only 65.2 affordable rental units were available per 100 very low income renters.<sup>7</sup> 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 veterans 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.

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<sup>3</sup> S&P Global. 2016. "Home Price Gains in June Concentrated in South and West According to the S&P CoreLogic Case-Shiller Indices." S&P Dow Jones Indices, August 30, 2016.

<sup>4</sup> Census Bureau. Historical Table 1. "Quarterly Rental Vacancy Rates: 1956 to Present."

<sup>5</sup> HUD PD&R. 2016. "National Housing Market Summary, 2nd Quarter, 2016."

<sup>6</sup> HUD PD&R. 2016. "September 2016 National Scorecard." [www.HUD.gov/scorecard](http://www.HUD.gov/scorecard)

<sup>7</sup> HUD PD&R. 2015. *Worst Case Housing Needs: 2015 Report to Congress*.

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**Forward Looking Information**

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

Under the *National Response Framework* developed since Hurricane Katrina, HUD has a major role in helping implement disaster recovery. Further, executive orders require federal agencies to plan for climate change-related risk and modernize programs to support climate-resilient investment. Over the longer term, new disasters and emerging national needs such as coastal development and insufficient flood insurance have potential to create new needs and require significant changes in the Department's program operations. The National Disaster Resilience Competition awards in FY 2016 have potential to help by reducing vulnerabilities to future disasters through more effective resilience planning and projects.

HUD is continuing to integrate evidence and research in operations and policy, consistent with multiple governmental initiatives. Major components of this effort include the Office of Policy Development and Research's demonstration and evaluation program, which is guided by a forthcoming learning agenda, *HUD Research Roadmap FY 2018–2022*; increased collaboration with external partners to address cross-cutting policy issues through research; the leveraging of HUD's data infrastructure by linking administrative data with surveys and other external data sources; and the continuing integration of evidence into business operations through quarterly HUDstat meetings. Major evaluation reports that will be released through FY 2017 to inform policy development include the following:

- *Interim Rental Assistance Demonstration (RAD) Evaluation*. Provides the first systematic evidence about the conversion of public housing properties to project-based Section 8 Housing to leverage external capital.
- *Family Options Study: 36-month Results*. Follows up on homeless families after three years in an experimental study of various housing and services interventions to homeless families.
- *HUD-VASH Evaluation and Exit Study*. Co-published with the Veterans Administration, this study investigates causes of exit, destinations, and service use of formerly homeless clients who are leaving the HUD-VASH program.
- *American Indian, Alaskan Native Housing Needs: Final Report* and *Native Hawaiian Housing Needs*. These reports provide crucial information about the housing needs of native populations as mandated by Congress.

## Analysis of Financial Condition and Results

## 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)

	2016	2015
Total Assets	\$149.3	\$142.5
Total Liabilities	\$37.1	\$48.5
Net Position	\$112.2	\$94.0
FHA Insurance-In-Force	\$1,318	\$1,283
Ginnie Mae Mortgage-Backed Securities Guarantees	\$1,728	\$1,609
Other HUD Program Commitments	\$35.1	\$38.1

In FY 2016, FHA made material changes in the Consolidated Balance Sheet (BS), the Statement of Net Cost (SNC) and the Statement of Changes in Net Position (SCNP) to recognize the reduction of forecasted expenses in the Home Equity Conversion Mortgage (HECM) cash flow model assumptions used to calculate the agency's Liability for Loan Guarantees (LLG), under advisement from the Office of Inspector General. Historically reported property Maintenance and Operating (M&O) management expenses that served as the basis for forecast expenses in the

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**Analysis of Financial Condition and Results**

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cash flow model were discovered in 2016 to have erroneously included accrued costs that do not represent cash flows. LLG is calculated as the present value of expected cash flows to and from the Government, and therefore the model assumption of future M&O management expenses was too high. Removing these amounts from the forecast assumption reduced FHA's LLG by \$830 million in FY14 and \$833 million in FY 2015. As a result, the total gross cost of HECM expenses reported on the SNC for FY 2014, including the LLG, caused the cumulative results of operations reported on the SCNP to be reduced by \$1.4 billion compared to the cumulative results of operations excluding these totals. Similarly, the forecast LLG for the 2015 Annual Financial Report also included higher forecast assumptions of M&O expenses. However, there was less of a net impact on FY 2015 reporting. The net effect of the error for both years, offset by the adjustment for the annual re-estimates, resulted in the overall HECM gross cost reported on the SNC in FY 2015 to be higher by \$1.4 million and the cumulative result of operations on the SCNP to be lower by \$835 million.

Maintenance and Operating (M&O) expenses represent primarily Management and Marketing contract expenses maintained in the Single Family Asset Management System (SAMS) property management system. FHA uses M&O expenses in the cash flow model assumptions to calculate the LLG. In FY14 and FY15, the M&O expense reports FHA received for HECM showed significant increases in M&O expenses over previous years. FHA initially attributed the increases to an increase in expenses related to HECM property sales and projected the increase to level off and return to previous levels. In FY16, further research of the M&O data found that accrued costs (interest, service fees from assignment to conveyance, and mortgage insurance premiums) were being incorrectly included in the M&O expenses. These activities were inappropriate to include since they do not represent cash flows.

FHA has restated its FY15 financial statements to correct the reported balance of the LLG in the current period per guidance from the Office of Inspector General. Due to the imminent publishing of the FY16 audited financial statements, the FY15 restatement will be presented comparatively. Recalculation of the FY14 corrected LLG and net costs of operations are reflected in the restated FY15 beginning balance of the Statement of Changes in Net Position. The restatement will affect the line balances of the Loan Receivables and Related Foreclosed Property, Other Liabilities, LLG and Current Year Results of Operations on the Balance Sheet; the HECM Gross Cost with the Public on the Statement of Net Cost; the Changes in Net Position beginning balance, Other Financing Sources and Net Costs of Operations on the Statement of Changes in Net Position; and related footnotes.

Note 30, in the Notes to the Financial Statements in Section 2, provides further details.

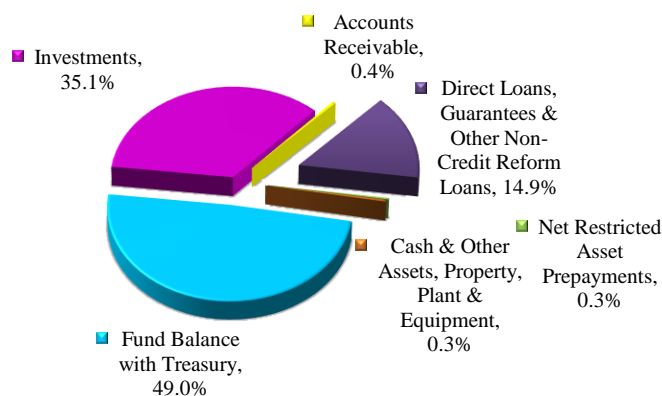
## Analysis of Financial Condition and Results

## Analysis of Financial Position

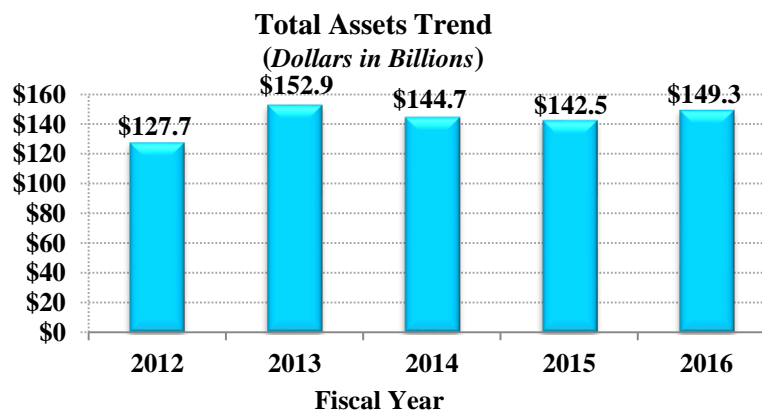
### Assets – Major Accounts

Total Assets for FY 2016, as reported in the Consolidated Balance Sheet, are displayed in the graph on the next page. Total Assets of \$149.3 billion are comprised of Fund Balance with Treasury of \$73.2 billion, Investments of \$52.4 billion, Accounts Receivable of \$0.6 billion, Direct Loans & Loan Guarantees of \$19.5 billion, Other Non-Credit Reform Loans of \$2.7 billion, Net Restricted Asset Prepayments of \$0.4 billion, and Cash & Other Monetary Assets, Other Assets and Property, Plant & Equipment of \$0.5 billion at September 30, 2016.

**Composition of HUD Assets - FY16**



Total Assets increased \$6.8 billion (4.8 percent) from \$142.5 billion at September 30, 2015. The net increase was due primarily to an increase of \$24.6 billion (89.2 percent) in Investments and an increase of \$4.5 billion (30.1 percent) in Direct Loans & Loan Guarantees, being offset by a decrease of \$21.5 billion (22.7 percent) in Fund Balance with Treasury, a decrease of \$0.2 billion (21.7 percent) in Accounts Receivable, a decrease of \$0.5 Billion (17.0 percent) in Other Non-Credit Reform Loans, and a decrease of \$0.3 billion (43.3 percent) in Net Restricted Asset Prepayments. The chart below shows Total Assets for FY 2016 and the four preceding years. The changes and trends affecting Total Assets are discussed below it.



**Analysis of Financial Condition and Results**

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Fund Balance with Treasury of \$73.2 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. Fund Balance with Treasury decreased \$21.5 billion from FY 15 to FY 16 due primarily to decreases of \$18.2 billion for FHA, \$0.8 billion for Ginnie Mae, \$2.2 billion for CDBG, \$0.2 billion for HOME, \$0.3 billion for PIH, \$0.1 billion for Housing for the Elderly and Disabled, offset by an increase of \$0.1 billion in Section 8 and an increase of \$0.2 billion in the Homeless program. The FHA decrease is primarily due to an increase in Mutual Mortgage Insurance Fund (MMI) and Cooperative Management Housing Insurance Fund (CMHI) investments in U.S. Treasury securities that resulted in a Fund Balance with Treasury decrease offset by increases from borrowings and settlement funds. CDBG program funding decreased primarily due to an increase in outlays in FY 2016 for certain programs in CDBG.

Investments of \$52.4 billion consist primarily of investments by FHA's MMI/CMHI fund and by Ginnie Mae, in non-marketable, intra-governmental, Treasury securities (i.e., investments not sold in public markets). FHA's investments increased by \$21.6 billion and Ginnie Mae's investments increased by \$3.0 billion. Ginnie Mae's increase is due to negative subsidy and downward re-estimate payment from the financing fund into Capital Reserve Fund which is swept in Treasury Securities. Ginnie Mae received approval to start investing the balance in the capital reserve into US Treasury securities.

Accounts Receivable of \$0.6 billion primarily consists of claims to cash from the public, state and local authorities for bond refunding, Ginnie Mae premiums, FHA partial claims and settlements receivables, and Section 8 year-end settlements. FHA's decrease of \$0.2 billion was primarily due to a decrease in partial claims receivables offset by an increase in settlements receivables.

Direct Loan and Loan Guarantees of \$19.5 billion are attributed to 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 \$4.8 billion was primarily attributed to an increase in HECM loans receivables and single family forward loans receivable relating to partial claims notes.

Other Non-Credit Reform Loans of \$2.7 billion consists of Ginnie Mae Advances Against Defaulted Mortgage-Backed Security Pools, Mortgage Loans Held for Investment, Short Sale Claims Receivable, and Foreclosed Property.

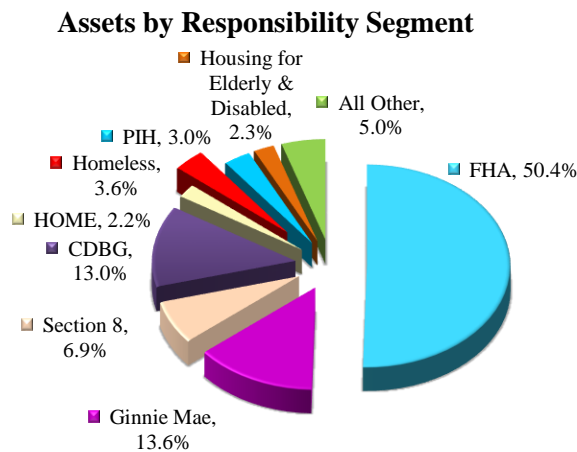
Net Restricted Asset Prepayments of \$0.4 billion are the Department's estimates of Net Restricted Assets (NRA) balances maintained by Public Housing Authorities (PHAs) under the Housing Choice Vouchers Program. NRA balances represent cash reserves used by PHAs to cover program expenses reported by these entities as a result of recent funding shortfalls faced by the Department and additional advances to PHAs participating in the Moving to Work Program.

### Analysis of Financial Condition and Results

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 increased because of spending on internally developed software.

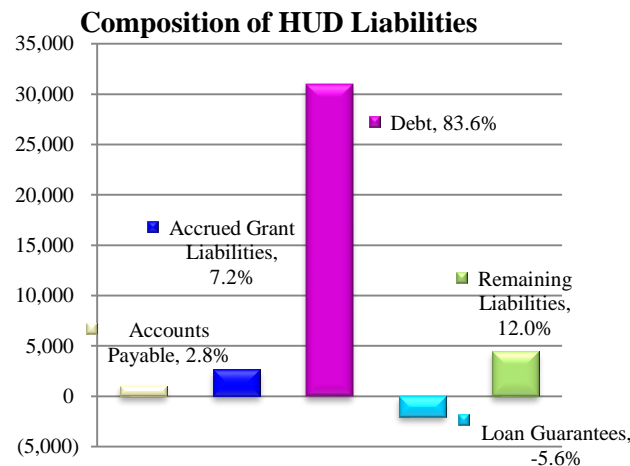
#### Assets – Major Programs

The chart below presents Total Assets for FY 2016 by major responsibility segment or program.



#### Liabilities – Major Accounts

Total Liabilities for FY 2016, as reported in the Consolidated Balance Sheets, are displayed in the chart below.



Total Liabilities of \$37.1 billion consist primarily of Intragovernmental Debt in the amount of \$31.0 billion (83.6 percent), Accounts Payable of \$1.0 billion (2.8 percent), Accrued Grant Liabilities of \$2.7 billion (7.2 percent), Loan Guarantees and Remaining Liabilities amounting to \$2.4 billion (6.4 percent) at September 30, 2016.

### Analysis of Financial Condition and Results

Total Liabilities decreased by \$11.4 billion from FY 15 to FY 16, due primarily to a decrease of \$15.5 billion of Loan Guarantees (mostly FHA), offset by an increase of \$3.9 billion of Intragovernmental Debt (mostly FHA) and an increase of \$0.3 billion of Accrued Grant Liabilities. CDBG, HOME, & Homeless liabilities increased by \$0.2 billion primarily due to grant accruals. The department implemented the grant accrual policy in FY 2014.

The chart below presents Total Liabilities for FY 2016 and the four preceding years. A discussion of the changes and trends impacting Total Liabilities is presented in the subsequent paragraphs.



The Loan Guarantee Liability consists of the Liability for Loan Guarantees (LLG) related to Credit Reform loans made after October 1, 1991 and the loan loss reserves (LLR) for pre-1992 loan guarantees. LLG 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 \$15.5 billion (115.3 percent) decrease from FY 15 to FY 16 in Loan Guarantee Liability is primarily due to a \$16.1 billion decrease in FHA's Single Family Forward Loan LLG. This decrease in Single Family Forward loan guarantee liability is mainly due to the inclusion of the 2016 book-of-business negative liability and change in projected future cash flows from the existing pre-2016 portfolio to the MMI fund. There was also a \$1.9 billion decrease in the HECM LLG. This HECM decrease is due to better house price appreciation forecasts.

Debt includes primarily Intragovernmental Debt of \$31.0 billion. The Intragovernmental Debt is primarily the result of an increase of FHA's principal debt with the Treasury. The largest borrowing of \$21.6 billion was in MMI/CMHI funds. GI/SRI funds had borrowings of \$3.9 billion.

Accounts Payable consist primarily of pending grants payments.

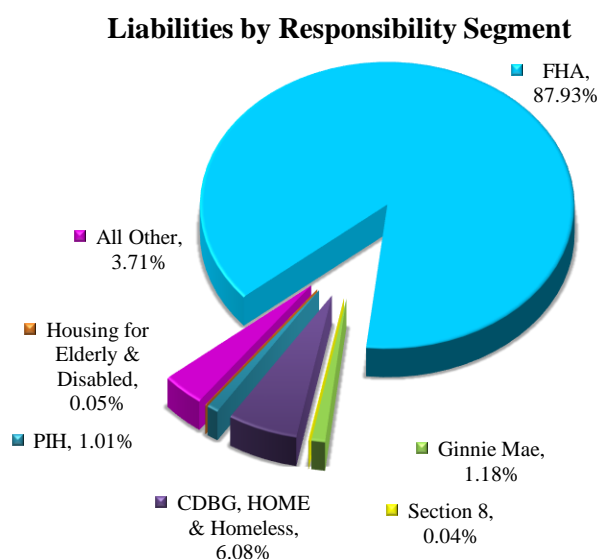
### Analysis of Financial Condition and Results

Accrued Grant Liabilities increased by \$0.3 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 \$2.4 billion to \$2.7 billion for FY 2015 and FY 2016 respectively. The increase was primarily in the CDBG programs.

Remaining Liabilities of \$4.5 billion consist of Intragovernmental Liabilities, Federal Employee and Veteran Benefits, and Other Liabilities.

#### *Liabilities – Major Programs*

The chart below presents Total Liabilities for FY 2016 by responsibility segment.



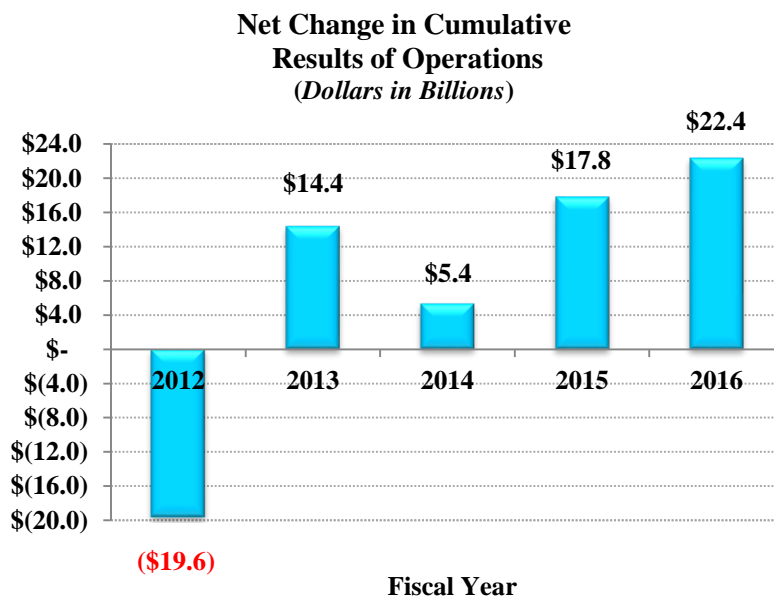
#### **Changes in Net Position**

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 \$18.1 billion from the prior fiscal year. The net increase in Net Position is primarily attributable to a \$4.2 billion decrease in Unexpended Appropriations and \$22.3 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 \$4.5 billion during FY 2016. Net Cost of Operations reflected no change from the prior year and Total Financing Sources increased by \$4.5 billion. Note 30 in Section 2 of the AFR discusses FHA Restatements that impacted HUD's overall Net Position.

## Analysis of Financial Condition and Results

This chart below presents HUD's Net Change in Cumulative Results of Operations for FY 2016 and the four preceding years.



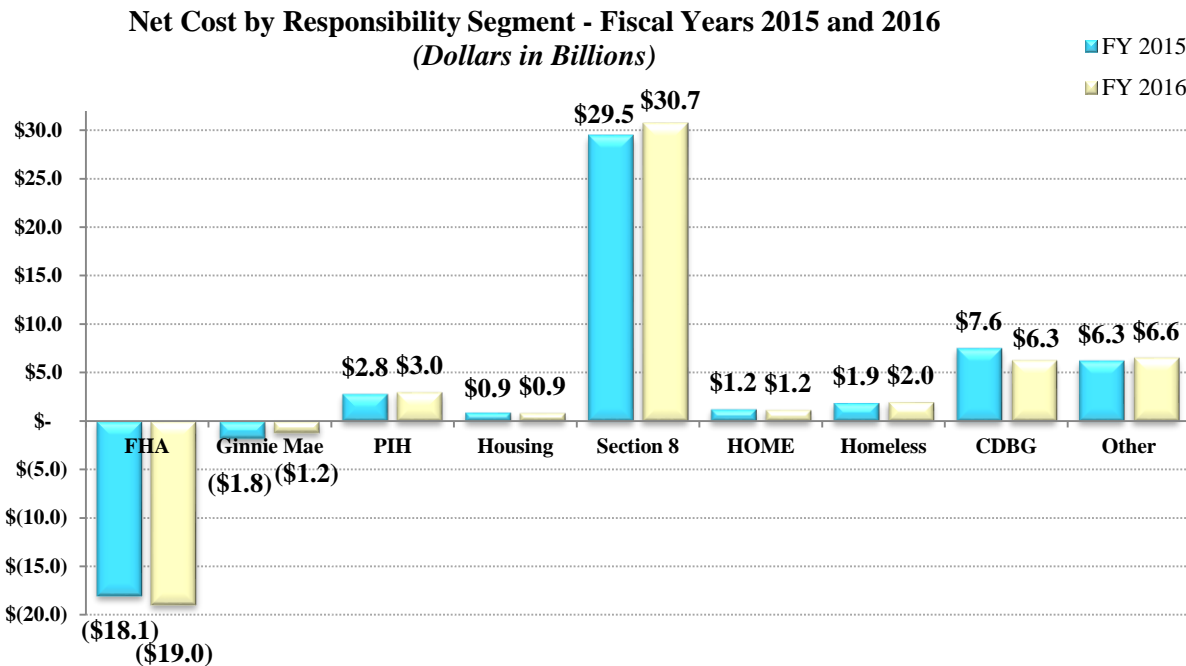
**Unexpended Appropriations:** The decrease of \$4.2 billion from \$51.1 billion in FY 2015 to \$46.9 billion is due primarily to additional expenditure of \$2.4 billion for CDBG, \$0.4 billion in PIH, \$0.2 billion for HOME, \$0.4 billion for Housing for the Elderly and Disabled, \$0.2 billion in Section 8, \$0.5 billion in FHA, and \$0.4 billion for All Other programs, with an offset of additional funding of \$0.2 billion for Homeless Assistance Grants.

**Financing Sources:** As shown in HUD's Statement of Changes in Net Position, HUD's financing sources for FY 2016 totaled \$52.7 billion. This amount is comprised primarily of \$54.5 billion in Appropriations Used, offset by approximately \$1.8 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 2016, resulting in no change from the prior fiscal year. (Differences from the table below are due to rounding.) Net Cost of Operations consists of total costs, including direct program and administrative costs, offset by program exchange revenues.

## Analysis of Financial Condition and Results

The chart below presents HUD's Total Net Cost for FY 2015 and FY 2016 by responsibility segment.



As shown in the chart above, Gross Cost of Operations was primarily a result of spending of \$30.7 billion, (101.1 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 \$1.2 billion (4.0 percent) more than the prior fiscal year. FHA Net Cost decreased by \$0.9 billion (5.1 percent), due primarily to a decrease in Single Family gross costs offset by an increase in HECM gross costs. Gross costs decreased primarily because of a decrease FHA's downward re-estimates and negative subsidies.

### 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*

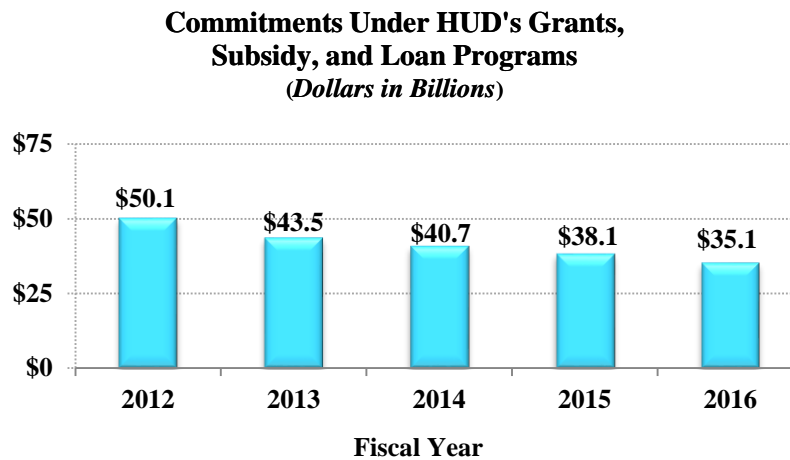
HUD's Contractual Commitments of \$35.1 billion in FY 2016 represent HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Administrative Commitments (reservations) of \$8.5 billion relate to specific projects, for which funds will be provided upon execution of the related contract.

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**Analysis of Financial Condition and Results**

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The chart below presents HUD's Contractual Commitments for FY 2016 and the four preceding years.

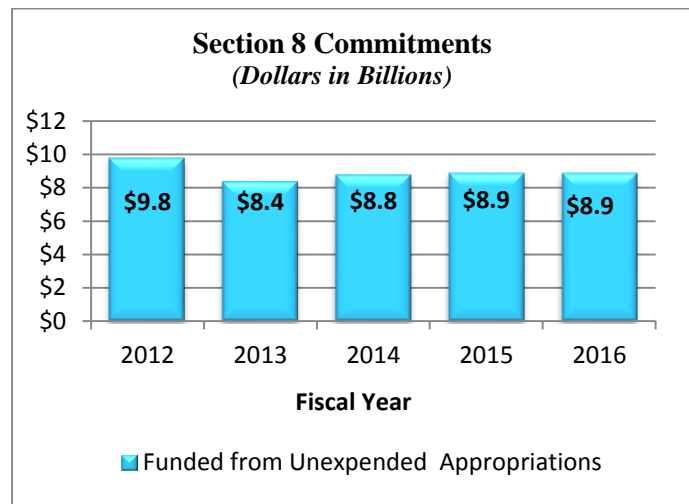


These commitments are funded primarily by a combination of unexpended appropriations and permanent indefinite appropriations, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund the current year's portion of contracts entered into prior to FY 1988 in the rental assistance program. The remaining HUD programs receive direct appropriations. Since FY 1988, HUD has 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 (6.7 percent) during FY 2016. (The difference in the chart above is due to rounding.) The change is primarily attributable to a decrease of \$1.8 billion in the CDBG program, a decrease of \$0.2 billion in HOME, a decrease of \$0.3 billion in PIH, and a decrease in All Other Commitments of \$1.0 billion, offset by an increase of \$0.2 billion in FHA's commitments.

### Analysis of Financial Condition and Results

The chart below presents HUD's Section 8 Contractual Commitments for FY 2016 and the four preceding years.



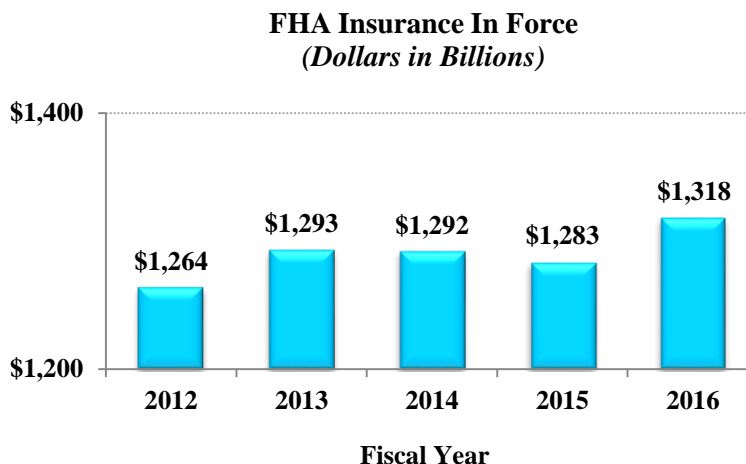
To contain the costs of future Section 8 contract renewals, HUD began converting all expiring contracts to one-year terms during FY 1996. By changing to one-year contract terms, HUD effectively reduced the annual budget authority needed from Congress to fund the subsidies while still maintaining the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

#### ***FHA Insurance-In-Force***

FHA administers a wide range of activities to make mortgage financing more accessible to the home-buying public and to increase the availability of affordable housing to families and individuals, particularly to the nation's poor and disadvantaged. FHA insures private lenders against loss on mortgages, which finance single family homes, multifamily projects, healthcare facilities, property improvements, manufactured homes, and reverse mortgages, also referred to as Home Equity Conversion Mortgages (HECM). The chart on the next page presents FHA's Insurance-In-Force (including the Outstanding Balance of HECM loans) of \$1,318 billion for FY 2016 and the four preceding years. This is an increase of \$35 billion (2.7 percent) from the FY 2015 FHA Insurance-In-Force of \$1,283 billion. The HECM insurance in force includes balances drawn by the mortgagee; interest accrued on the balances drawn, service charges, and mortgage insurance premiums.

### Analysis of Financial Condition and Results

The chart below presents FHA's Insurance-In-Force for FY 2016 and the four preceding years.



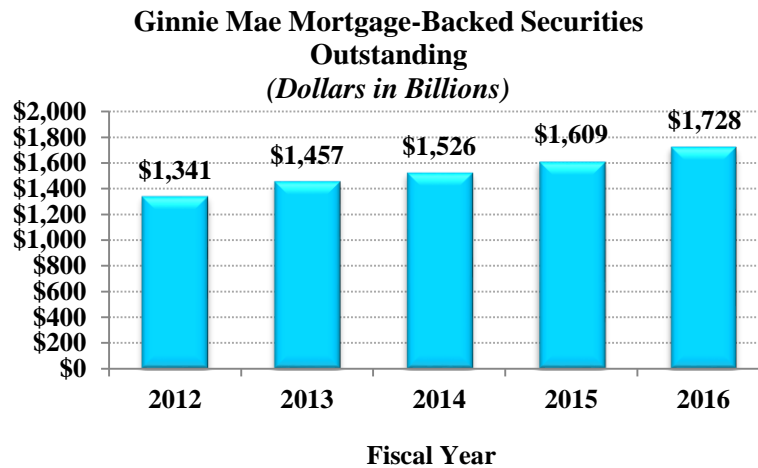
#### Ginnie Mae Guarantees

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, 2016 and 2015, were approximately \$1,728 billion and \$1,609 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. While Ginnie Mae's risks related to outstanding commitments are much less than outstanding securities due in large part to the Federal guarantee on the underlying portfolio, Ginnie Mae is also able to mitigate risk through its ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2016 and 2015 were \$96 billion and \$160 billion, respectively.

### Analysis of Financial Condition and Results

The chart below presents Ginnie Mae MBS for FY 2016 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 2016 and 2015, Ginnie Mae issued a total of \$103 billion and \$93 billion, respectively, in its multi-class securities program. The estimated outstanding balance of multiclass securities in the total MBS securities balance at September 30, 2016 and 2015 were \$474 billion and \$473 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.
- Platinum Securities – 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 2016 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 internal controls to support effective and efficient programmatic operations and compliance with applicable laws and regulations.

HUD cannot provide a reasonable statement of assurance of its internal controls over the effectiveness and efficiency of operations (Section 2) as of September 30, 2016. Eleven material weaknesses related to the design and execution of HUD's internal controls were identified during the FY 2016 independent financial statement audit.

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 11 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, 2016.

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, 2016 due to the 11 material weaknesses and six systems non-conformances. Additional details related to the material weaknesses and systems nonconformance are further discussed in the document.



Julián Castro

Secretary

November 15, 2016

## Message from the Deputy Chief Financial Officer

## Message from the Deputy Chief Financial Officer

Toward the end of this past fiscal year, I was honored to join HUD as its Deputy Chief Financial Officer. The Department, on October 1, 2015, had become the first Cabinet-level agency to move its core financial management systems to a Federal Shared Service Provider. In this process, the Department completed, in April 2016, the close out of New Core, the Department's project to implement a shared services solution for its core financial and administrative systems in partnership with the Department of Treasury Administrative Resource Center (ARC). Despite experiencing data migration and reporting challenges typical in any transformation of this size and complexity, New Core allowed HUD to establish a sound framework for its financial infrastructure, with benefits including adopting standard federal accounting and financial management processes; strengthening HUD's internal controls and funds control processes; reducing risk of legacy system failure; and resolving known financial compliance issues.



After decades of delay in upgrading technology in its financial infrastructure, HUD has made noteworthy advances in modernizing its financial systems. Also typical for such a complex systems transformation, HUD experienced some setbacks by uncovering longstanding problems in processes run using outdated systems. In the FY 2016 audit, HUD received a disclaimer of opinion from the Office of Inspector General (OIG). The disclaimer of opinion was based on delays related to restatements of prior year financial statements by HUD's component entities, Ginnie Mae and FHA, and in the completion of the Department's final consolidated financial reporting. These delays prevented the OIG from obtaining sufficient evidence to complete the audit within the planned timeframe. In the audit report, the OIG cited eleven material weaknesses, seven significant deficiencies and five instances of non-compliance with laws and regulations.

HUD has placed the highest priority on the resolution of audit deficiencies and has extensive efforts underway to remediate the underlying causes. Many of the material weaknesses share the same underlying cause – shortcomings in HUD's financial management systems. The time needed to resolve audit deficiencies is in part dependent upon execution of the replacement of remaining legacy systems. The majority of HUD's loans, grants, commitments, obligations, and payments still flow through antiquated systems developed fifteen to thirty years ago that require

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**Message from the Deputy Chief Financial Officer**

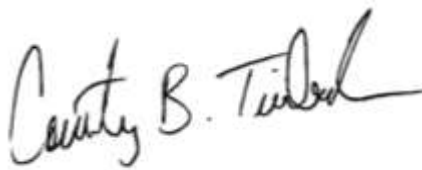
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complex interfaces into New Core's Oracle environment. HUD will be moving these transactions into modernized financial systems encompassing an enterprise data warehouse, grant and loan accounting, and Public and Indian Housing Section 8 Accounting that will be included within two initiatives: the Voucher Management System/HUDCAPS Decommissioning and Enterprise Data Warehouse (EDW) initiatives. As part of these efforts, the Department expects to replace its current interface into the New Core Oracle environment by June 2017, and to begin activities to enable the replacement of key remaining legacy systems through these two initiatives by the end of fiscal year 2018. The Department notes that funding constraints may diminish HUD's ability to integrate application systems and retire legacy systems that continue to pose a risk to HUD programs and customers.

In addition to the close out of New Core, I am pleased to report progress that has been made in the fiscal year toward the remediation of deficiencies in CPD grant accounting and grant accrual validation, accounting for PIH assets and liabilities, and shortly after the close of FY 2016, a reduction in reconciliation differences by \$5 billion. HUD took a significant step forward in putting a sound, resilient financial governance structure in place by establishing in September 2016 the Financial Management (FM) Council, a sub-council of the Executive Operations Council. Chaired by the Deputy Chief Financial Officer and involving all principals, the FM Council will provide leadership and due diligence to promote effective financial and operational management oversight and stewardship of HUD resources to protect against fraud, waste, and abuse.

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

Sincerely,



Courtney B. Timberlake  
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, 2016, and 2015, 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, 2016, and 2015. 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, 2016, and 2015.

The **Combined Statement of Budgetary Resources**, which presents the budgetary resources available to HUD during FY 2016 and 2015, the status of these resources at September 30, 2016, and 2015, and the outlay of budgetary resources for the years ended September 30, 2016, and 2015.

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

## Financial Statements

U.S. Department Of Housing And Urban Development  
Consolidated Balance Sheet  
For the Periods Ending September 2016 and September 2015  
(Dollars in Millions)

	2016	2015 (Restated)
Assets:		
Intragovernmental:		
Fund balance with Treasury (Note 4)	\$ 73,198	\$ 94,691
Short-Term Investments (Note 6)	15,954	12,923
Long-Term Investments held to maturity (Note 6)	36,398	14,754
Accounts Receivable, Net (Note 7)	1	-
Other Assets (Note 12)	43	9
<b>Total Intragovernmental Assets</b>	<b>\$ 125,594</b>	<b>\$ 122,377</b>
Cash (Note 5)	\$ 60	\$ 45
Investments (Note 6)	31	31
Accounts Receivable, Net (Note 7)	611	780
Direct Loan and Loan Guarantees, Net (Note 8)	19,476	14,965
Other Non-Credit Reform Loans (Note 9)	2,680	3,227
General Property, Plant, and Equipment (Note 10)	381	329
PIH Prepayments (Note 11)	380	672
Other Assets (Note 12)	53	45
<b>Total Assets</b>	<b>\$ 149,266</b>	<b>\$ 142,471</b>
Liabilities:		
Intragovernmental		
Accounts payable (Note 13)	\$ 24	\$ 16
Debt (Note 14)	31,002	27,150
Other Intragovernmental Liabilities (Note 17)	3,024	3,148
<b>Total Intragovernmental Liabilities</b>	<b>\$ 34,050</b>	<b>\$ 30,314</b>
Accounts payable (Note 13)	\$ 1,006	\$ 966
Accrued Grant Liabilities (Note 13)	2,663	2,388
Loan Guarantees (Note 8)	(2,057)	13,473
Debt Held by the Public (Note 14)	8	8
Federal Employee and Veterans Benefits (Note 15)	64	69
Loss Reserves (Note 16)	3	-
Other Governmental Liabilities (Note 17)	1,367	1,239
<b>Total Liabilities</b>	<b>\$ 37,104</b>	<b>\$ 48,457</b>
Commitments and Contingencies (Note 19)	\$ 55	\$ 55
Net Position:		
Unexpended appropriations - earmarked funds (Note 20)	\$ (342)	\$ (305)
Unexpended appropriations - other funds	47,257	51,420
Cumulative results of operations - earmarked funds (Note 20)	22,655	21,417
Cumulative results of operations - other funds	42,592	21,482
<b>Total Net Position</b>	<b>\$ 112,162</b>	<b>\$ 94,014</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 149,266</b>	<b>\$ 142,471</b>

The accompanying notes are an integral part of these statements

## Financial Statements

U.S. Department Of Housing And Urban Development Consolidated Statement Of Net Cost For the Periods Ending September 2016 and September 2015 (Dollars in Millions)			
		2016	2015 (Restated)
<b>COSTS</b>			
<b>Federal Housing Administration</b>			
Gross Costs (Note 21)	\$	(17,758)	\$ (16,203)
Less: Earned Revenues		(1,218)	(1,849)
Net Program Costs		(18,976)	(18,052)
(Gain)/Loss on pension, ORB or OPEB Assumption Changes		-	-
Net program costs including Assumption Changes		(18,976)	(18,052)
<b>Government National Mortgage Association</b>			
Gross Costs (Note 21)	\$	432	\$ (234)
Less: Earned Revenues		(1,646)	(1,555)
Net Program Costs		(1,214)	(1,789)
(Gain)/Loss on pension, ORB or OPEB Assumption Changes		-	-
Net program costs including Assumption Changes		(1,214)	(1,789)
<b>Section 8 Rental Assistance</b>			
Gross Costs (Note 21)	\$	30,653	\$ 29,482
Less: Earned Revenues		-	-
Net Program Costs		30,653	29,482
(Gain)/Loss on pension, ORB or OPEB Assumption Changes		-	-
Net program costs including Assumption Changes		30,653	29,482
<b>Public and Indian Housing Loans and Grants (PIH)</b>			
Gross Costs (Note 21)	\$	2,995	\$ 2,835
Less: Earned Revenues		-	-
Net Program Costs		2,995	2,835
(Gain)/Loss on pension, ORB or OPEB Assumption Changes		-	-
Net program costs including Assumption Changes		2,995	2,835
<b>Homeless Assistance Grants</b>			
Gross Costs (Note 21)	\$	1,957	\$ 1,894
Less: Earned Revenues		5	(4)
Net Program Costs		1,962	1,890
(Gain)/Loss on pension, ORB or OPEB Assumption Changes		-	-
Net program costs including Assumption Changes		1,962	1,890
<b>Housing for the Elderly and Disabled</b>			
Gross Costs (Note 21)	\$	974	\$ 1,037
Less: Earned Revenues		(109)	(136)
Net Program Costs		865	901
(Gain)/Loss on pension, ORB or OPEB Assumption Changes		-	-
Net program costs including Assumption Changes		865	901
<b>Community Development Block Grants (CDBG)</b>			
Gross Costs (Note 21)	\$	6,286	\$ 7,567
Less: Earned Revenues		-	-
Net Program Costs		6,286	7,567
(Gain)/Loss on pension, ORB or OPEB Assumption Changes		-	-
Net program costs including Assumption Changes		6,286	7,567
<b>HOME</b>			
Gross Costs (Note 21)	\$	1,167	\$ 1,241
Less: Earned Revenues		-	-
Net Program Costs		1,167	1,241
(Gain)/Loss on pension, ORB or OPEB Assumption Changes		-	-
Net program costs including Assumption Changes		1,167	1,241
<b>Other</b>			
Gross Costs (Note 21)	\$	6,351	\$ 6,071
Less: Earned Revenues		(37)	(29)
Net Program Costs		6,314	6,042
(Gain)/Loss on pension, ORB or OPEB Assumption Changes		-	-
Net program costs including Assumption Changes		6,314	6,042
<b>Costs Not Assigned to Programs</b>			
		262	218
Less: Earned Revenues Not Attributed to Programs		-	-
<b>Consolidated</b>			
Gross Costs (Note 21)	\$	33,319	\$ 33,908
Less: Earned Revenues		(3,005)	(3,573)
<b>Net Cost of Operations</b>	<b>\$</b>	<b>30,314</b>	<b>\$ 30,335</b>

The accompanying notes are an integral part of these statements

Figures may not add to totals because of rounding.

## Financial Statements

U.S. Department Of Housing And Urban Development  
Consolidated Statement Of Changes In Net Position  
For the Periods Ending September 2016 and September 2015  
(Dollars in Millions)

	2016			2015 (Restated)		
	Funds From Dedicated Collections	All Other Funds	Total	Funds From Dedicated Collections	All Other Funds	Total
<b>CUMULATIVE RESULTS OF OPERATIONS:</b>						
Beginning of Period	\$ 21,417	\$ 20,646	\$ 42,063	\$ 19,621	\$ 4,063	\$ 23,684
Adjustments:						
Changes in Accounting Principles	-	-	-	-	-	-
Corrections and Errors	(5)	835	830	(3)	1,371	1,368
Beginning Balance, As Adjusted	\$ 21,412	\$ 21,481	\$ 42,893	\$ 19,618	\$ 5,434	\$ 25,052
<b>BUDGETARY FINANCING SOURCES:</b>						
Other Adjustments (Rescissions, etc.)	\$ (1)	\$ -	\$ (1)	\$ -	\$ -	\$ -
Appropriations Used	89	54,372	54,461	115	52,878	52,993
Non-Exchange Revenue	5	201	206	3	-	3
Donations and Forfeitures of Cash/Equivalents	-	-	-	-	-	-
Transfers In/Out Without Reimbursement	-	-	-	-	-	-
Other Budgetary Financing Sources	-	-	-	-	-	-
<b>OTHER FINANCING SOURCES (NON-EXCHANGE):</b>						
Donations and Forfeitures of Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers-In/Out Without Reimbursement	-	-	-	-	-	-
Imputed Financing	1	158	159	1	64	65
Other	13	(2,170)	(2,157)	-	(4,879)	(4,879)
Total Financing Sources	107	52,561	52,668	119	48,063	48,182
Net Cost of Operations	1,136	(31,450)	(30,314)	1,680	(32,015)	(30,335)
Net Change	1,243	21,111	22,354	1,799	16,048	17,847
<b>CUMULATIVE RESULTS OF OPERATIONS</b>	<b>\$ 22,655</b>	<b>\$ 42,592</b>	<b>\$ 65,247</b>	<b>\$ 21,417</b>	<b>\$ 21,482</b>	<b>\$ 42,899</b>
<b>UNEXPENDED APPROPRIATIONS:</b>						
Beginning of Period	\$ (320)	\$ 51,435	\$ 51,115	\$ (221)	\$ 56,442	\$ 56,221
Adjustments:						
Changes in Accounting Principles	-	-	-	-	-	-
Corrections and Errors	14	(15)	(1)	-	574	574
Beginning Balance, As Adjusted	\$ (306)	\$ 51,420	\$ 51,114	\$ (221)	\$ 57,016	\$ 56,795
<b>BUDGETARY FINANCING SOURCES:</b>						
Appropriations Received	\$ -	\$ 51,088	\$ 51,088	\$ -	\$ 47,639	\$ 47,639
Appropriations Transferred-In/Out	80	(80)	-	55	(56)	(1)
Other Adjustments (Rescissions, etc.)	(27)	(799)	(826)	(24)	(301)	(325)
Appropriations Used	(89)	(54,372)	(54,461)	(115)	(52,878)	(52,993)
Total Budgetary Financing Sources	\$ (36)	\$ (4,163)	\$ (4,199)	\$ (84)	\$ (5,596)	\$ (5,680)
<b>TOTAL UNEXPENDED APPROPRIATIONS</b>	<b>\$ (342)</b>	<b>\$ 47,257</b>	<b>\$ 46,915</b>	<b>\$ (305)</b>	<b>\$ 51,420</b>	<b>\$ 51,115</b>
<b>NET POSITION</b>	<b>\$ 22,313</b>	<b>\$ 89,849</b>	<b>\$ 112,162</b>	<b>\$ 21,112</b>	<b>\$ 72,902</b>	<b>\$ 94,014</b>

The accompanying notes are an integral part of these statements

Figures may not add to totals because of rounding.

## Financial Statements

U.S. Department Of Housing And Urban Development  
 Combined Statement Of Budgetary Resources  
 For The Periods Ending September 2016 and September 2015  
 (Dollars in Millions)

	2016		2015 (Restated)	
	Non Budgetary Credit Program Financing Accounts		Non Budgetary Credit Program Financing Accounts	
	Budgetary	Accounts	Budgetary	Accounts
<b>Budgetary Resources:</b>				
Unobligated Balance Brought Forward, October 1	\$ 44,388	\$ 35,488	\$ 34,729	\$ 49,760
Adjustments to Unobligated Balance Brought Forward, October 1	7	(3)	(13)	-
Unobligated Balance Brought Forward, Oct 1, As Adjusted	44,395	35,485	34,716	49,760
Recoveries of Prior Year Unpaid Obligations	1,039	463	716	397
Other Changes in Unobligated Balance	(1,089)	-	(710)	3
<b>Unobligated Balance From Prior Year Budget Authority, Net</b>	<b>44,345</b>	<b>35,948</b>	<b>34,722</b>	<b>50,160</b>
Appropriations (discretionary and mandatory)	51,256	-	47,457	-
Borrowing Authority (discretionary and mandatory)	-	13,078	-	12,146
Contract Authority (discretionary and mandatory)	-	-	-	-
Spending Authority From Offsetting Collections	28,704	22,658	26,158	28,452
<b>Total Budgetary Resources</b>	<b>\$ 124,305</b>	<b>\$ 71,684</b>	<b>\$ 108,337</b>	<b>\$ 90,758</b>
<b>Status of Budgetary Resources:</b>				
Obligations Incurred				
Direct	\$ 55,328	\$ 51,020	\$ 63,700	\$ 49,732
Reimbursable	214	3,613	249	5,538
<b>Subtotal</b>	<b>\$ 55,542</b>	<b>\$ 54,633</b>	<b>\$ 63,949</b>	<b>\$ 55,270</b>
Unobligated Balances, End of Year				
Apportioned	\$ 12,247	\$ 5,677	\$ 13,115	\$ 4,478
Exempt From Apportionment	-	-	-	-
Unapportioned	55,667	11,374	31,273	31,010
<b>Unexpired unobligated balance, end of year</b>	<b>\$ 67,914</b>	<b>\$ 17,051</b>	<b>\$ 44,388</b>	<b>\$ 35,488</b>
Expired unobligated balance, end of year	849	-	-	-
<b>Total Unobligated Balance, End of Year</b>	<b>\$ 68,763</b>	<b>\$ 17,051</b>	<b>\$ 44,388</b>	<b>\$ 35,488</b>
<b>Total Status of Budgetary Resources</b>	<b>\$ 124,305</b>	<b>\$ 71,684</b>	<b>\$ 108,337</b>	<b>\$ 90,758</b>
<b>Change in Obligated Balance</b>				
<b>Unpaid Obligations:</b>				
Unpaid Obligations, Brought Forward, October 1	\$ 39,326	\$ 2,758	\$ 41,087	\$ 2,511
Adjustment to Unpaid Obligations, Start of Year	(8)	3	15	-
Obligations Incurred	55,542	54,633	63,949	55,270
Outlays (gross)	(57,520)	(54,048)	(65,009)	(54,626)
Actual Transfers, Unpaid Obligations	-	-	-	-
Recoveries of Prior Year Unpaid Obligations	(1,039)	(463)	(716)	(397)
<b>Unpaid Obligations, End of Year (gross)</b>	<b>\$ 36,301</b>	<b>\$ 2,883</b>	<b>\$ 39,326</b>	<b>\$ 2,758</b>
<b>Uncollected Payments:</b>				
Uncollected Payments, Fed Sources, Brought Forward, Oct 1	\$ (18)	\$ (56)	\$ (12)	\$ (57)
Adjustment to Uncollected Payments, Fed Sources, Start of Year	-	-	-	-
Change in Uncollected Customer Payments, Fed Sources	(23)	5	(6)	1
Actual Transfers, Uncollected Payments, Fed sources	-	-	-	-
<b>Uncollected Payments, Fed sources, End of Year</b>	<b>\$ (41)</b>	<b>\$ (51)</b>	<b>\$ (18)</b>	<b>\$ (56)</b>
<b>Memorandum (non-add) Entries:</b>				
<b>Obligated Balance, Start of Year</b>	<b>\$ 39,300</b>	<b>\$ 2,705</b>	<b>\$ 41,090</b>	<b>\$ 2,454</b>
<b>Obligated Balance, End of Year</b>	<b>\$ 36,260</b>	<b>\$ 2,832</b>	<b>\$ 39,308</b>	<b>\$ 2,702</b>
<b>Budget Authority and Outlays, Net:</b>				
Budget Authority, Gross (discretionary and mandatory)	\$ 79,960	\$ 35,736	\$ 73,615	\$ 40,598
Actual Offsetting Collections (discretionary and mandatory)	(28,826)	(31,888)	(26,639)	(41,108)
Change in Uncollected Customer Payments from Fed sources (discretionary and mandatory)	(23)	5	(6)	1
Recoveries of prior year paid obligations (discretionary and mandatory)	28	-	-	-
Anticipated Offsetting Collections (discretionary and mandatory)	-	-	-	-
<b>Budget Authority, Net (discretionary and mandatory)</b>	<b>\$ 51,139</b>	<b>\$ 3,853</b>	<b>\$ 46,970</b>	<b>\$ (509)</b>
Outlays, Gross (discretionary and mandatory)	\$ 57,520	\$ 54,048	\$ 65,009	\$ 54,626
Actual Offsetting Collections (discretionary and mandatory)	(28,826)	(31,888)	(26,639)	(41,108)
<b>Outlays, Net (discretionary and mandatory)</b>	<b>\$ 28,694</b>	<b>\$ 22,160</b>	<b>\$ 38,370</b>	<b>\$ 13,518</b>
Distributed Offsetting Receipts	(2,302)	-	(2,844)	-
<b>Agency Outlays, Net (discretionary and mandatory)</b>	<b>\$ 26,392</b>	<b>\$ 22,160</b>	<b>\$ 35,526</b>	<b>\$ 13,518</b>
The accompanying notes are an integral part of these statements				

Figures may not add to totals because of rounding.

## Notes to Financial Statements

### September 30, 2016 and 2015

#### 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 Authorities (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.

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**Notes to Financial Statements**

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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 funds of \$17,500 million between FY 2005 through FY 2012 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 Hurricanes Katrina, Rita, Wilma and Ike. Funds of \$3,011 million were disbursed as of September 30, 2016. Any remaining unobligated 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, 2016.

## **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 2016 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

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**Notes to Financial Statements**

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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 2016 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 8, to estimate the cash flows associated with future loan

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**Notes to Financial Statements**

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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 restricted net position (RNP) are monitored by the Department and estimated by HUD on a recurring basis. The RNP balances are the basis for PIH prepayments recorded by the Department in its comparative financial statements for FY 2016 and FY 2015.

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 Community Planning and Development (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

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**Notes to Financial Statements**

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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 end of the 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 for 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 requires that FHA maintain a 2 percent Capital Ratio in the MMI Fund. 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.

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**Notes to Financial Statements**

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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 disbursement of funds to PHAs.

***Ginnie Mae Fees***

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

**F. Appropriations and Moneys Received from Other HUD Programs**

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

Monies received from other HUD programs, such as interest subsidies and rent supplements, are recorded as revenue for the liquidating accounts when services are rendered. Monies received

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**Notes to Financial Statements**

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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.

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.

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. FHA's loans receivable includes Mortgage Notes Assigned (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,

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**Notes to Financial Statements**

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“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, are 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 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 from

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**Notes to Financial Statements**

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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). FHA values its Pre-Credit Reform related notes and properties in inventory at net realizable value, determined on the basis of net cash flows. To value these items, FHA uses historical claim data, revenues from premiums and recoveries, and expenses of selling and maintaining properties.

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.

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**Notes to Financial Statements**

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**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 \$18,000 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 2016 and FY 2015 were \$49 million and \$103 million, respectively.

**O. Indian Housing Block Grant Program (IHBG)**

The Indian Housing Block Grant Program (IHBG) program is authorized under the Native American Housing Assistance and Self Determination Act of 1996 (NAHASDA). The IHBG is a highly unusual dual-purpose grant program. Its primary purpose is to provide formula grants for a range of eligible affordable housing activities (section 202 of such Act) on Indian reservations and in other Indian areas. Under section 204(b) of such Act and implementing regulations, recipients are authorized to invest its IHBG block grant funds for up to five years "for the purposes of carrying out affordable housing activities in investment securities and other obligations as approved by the Secretary." The investments are to be made only in securities guaranteed or insured by the United States, and income from these investments remain with the recipients for use on housing related activities. By the five-year deadline, recipients must either spend the funds on eligible affordable housing activities or return the funds to HUD. The control and ownership of the funds during the investment period resides with the grantees.

## Notes to Financial Statements

IHBG recipients must meet certain criteria to be eligible to invest IHBG funds. Total invested IHBG funds were approximately \$260 million as of September 30, 2016, and \$273 million as of September 30, 2015.

### 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) escrow monies collected by FHA that are either deposited at the U.S. Treasury or in minority-owned banks or invested in U.S. Treasury securities and (2) cash remittances from Section 8 bond refunding deposited in the General Fund of the Treasury.

HUD's assets as of September 30, 2016 and 2015, were as follows (dollars in millions):

Description	2016			2015		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Intragovernmental						
Fund Balance with Treasury (Note 4)	\$ 73,145	\$ 53	\$ 73,198	\$ 94,651	\$ 40	\$ 94,691
Short-Term Investments (Note 6)	15,954	-	15,954	12,923	-	12,923
Long-Term Investments Held-To-Maturity (Note 6)	36,398	-	36,398	14,754	-	14,754
Accounts Receivable, Net (Note 7)	1	-	1	-	-	-
Other Assets (Note 12)	43	-	43	9	-	9
Total Intragovernmental Assets	\$ 125,541	\$ 53	\$ 125,594	\$ 122,337	\$ 40	\$ 122,377
Cash and Other Monetary Assets (Note 5)	-	60	60	-	45	45
Investments (Note 6)	31	-	31	31	-	31
Accounts Receivable, Net (Note 7)	493	118	611	686	94	780
Loan Receivables and Related Foreclosed Property, Net (Note 8)	19,372	104	19,476	14,832	133	14,965
Other Non-Credit Reform Loans Receivable, Net (Note 9)	2,680	-	2,680	3,227	-	3,227
General Property, Plant and Equipment, Net (Note 10)	381	-	381	329	-	329
PIH Prepayments (Note 11)	380	-	380	672	-	672
Other Assets (Note 12)	24	29	53	8	37	45
<b>Total Assets</b>	<b>\$ 148,902</b>	<b>\$ 364</b>	<b>\$ 149,266</b>	<b>\$ 142,122</b>	<b>\$ 349</b>	<b>\$ 142,471</b>

### 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, 2016 and 2015, were as follows (dollars in millions):

Description	2016	2015
Revolving Funds	\$ 22,311	\$ 40,170
Appropriated Funds	49,794	53,241
Trust Funds	200	14
Other	893	1,266
<b>Total - Fund Balance</b>	<b>\$ 73,198</b>	<b>\$ 94,691</b>

The Department's Fund Balance with Treasury includes receipt accounts established under current Federal Credit Reform legislation and cash collections deposited in restricted accounts

**Notes to Financial Statements**

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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, 2016 and 2015, were as follows (dollars in millions):

## Notes to Financial Statements

Status of Resources - 2016

<u>Description</u>	<u>Unobligated Available</u>	<u>Unobligated Unavailable</u>	<u>Obligated Not Yet Disbursed</u>	<u>Unfilled Customer Orders</u>	<u>Status of Total Resources</u>	<u>Fund Balance</u>	<u>Other Authority</u>	<u>Total Resources</u>
FHA	\$ 5,643	\$ 48,526	\$ 2,997	\$ (35)	\$ 57,131	\$ 20,820	\$ 36,311	\$ 57,131
Ginnie Mae	195	16,053	562	-	16,810	856	15,954	16,810
Section 8 Rental Assistance	763	166	8,902	-	9,831	9,831	-	9,831
PIH Loans and Grants	88	20	4,411	-	4,519	4,519	-	4,519
Homeless Assistance Grants	2,216	756	2,391	-	5,363	5,363	-	5,363
Section 202/811	226	412	1,642	(1)	2,279	2,279	-	2,279
CDBG	7,442	579	11,337	-	19,358	19,358	-	19,358
Home	231	34	2,965	-	3,230	3,230	-	3,230
Section 235/236	10	37	742	-	789	789	-	789
All Other	1,108	1,335	3,235	(57)	5,621	5,609	12	5,621
<b>Total</b>	<b>\$ 17,922</b>	<b>\$ 67,918</b>	<b>\$ 39,184</b>	<b>\$ (93)</b>	<b>\$ 124,931</b>	<b>\$ 72,654</b>	<b>\$ 52,277</b>	<b>\$ 124,931</b>

Status of Resources Covered by Fund Balance

<u>Description</u>	<u>Unobligated Available</u>	<u>Unobligated Unavailable</u>	<u>Obligated Not Yet Disbursed</u>	<u>Unfilled Customer Orders</u>	<u>Fund Balance</u>	<u>Non-Budgetary: Suspense, Deposit and Receipt Accounts</u>	<u>Total Fund Balance</u>
FHA	\$ 5,643	\$ 12,215	\$ 2,997	\$ (35)	20,820	\$ -	\$ 20,820
Ginnie Mae	195	99	562	-	856	523	1,379
Section 8 Rental Assistance	763	166	8,902	-	9,831	-	9,831
PIH Loans and Grants	88	20	4,411	-	4,519	-	4,519
Homeless Assistance Grants	2,216	756	2,391	-	5,363	-	5,363
Section 202/811	226	411	1,642	(1)	2,278	-	2,278
CDBG	7,442	580	11,337	-	19,359	-	19,359
Home	231	34	2,965	-	3,230	-	3,230
Section 235/236	10	37	742	-	789	-	789
All Other	1,108	1,323	3,235	(57)	5,609	21	5,630
<b>Total</b>	<b>\$ 17,922</b>	<b>\$ 15,641</b>	<b>\$ 39,184</b>	<b>\$ (93)</b>	<b>\$ 72,654</b>	<b>\$ 544</b>	<b>\$ 73,198</b>

Status of Resources Covered by Other Authority

<u>Description</u>	<u>Unobligated Available</u>	<u>Unobligated Unavailable</u>	<u>Obligated Not Yet Disbursed</u>	<u>Unfilled Customer Orders</u>	<u>Permanent Indefinite Authority</u>	<u>Investment Authority</u>	<u>Borrowing Authority</u>
FHA	\$ -	\$ 36,311	\$ -	\$ -	\$ -	\$ 36,311	\$ -
Ginnie Mae	-	15,954	-	-	-	15,954	-
Section 8 Rental Assistance	-	-	-	-	-	-	-
PIH Loans and Grants	-	-	-	-	-	-	-
Section 202/811	-	-	-	-	-	-	-
Section 235/236	-	-	-	-	-	-	-
All Other	-	12	-	-	-	-	12
<b>Total</b>	<b>\$ -</b>	<b>\$ 52,277</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 52,265</b>	<b>\$ 12</b>

Status of Receipt Account Balances

<u>Description</u>	<u>Fund Balance</u>
FHA	\$ -
Ginnie Mae	523
Section 8 Rental Assistance	-
All Other	21
<b>Total</b>	<b>\$ 544</b>

Breakdown of All Other

<u>Description</u>	<u>Fund Balance</u>
All Other HUD suspense/deposit funds	\$ 21
<b>Total</b>	<b>\$ 21</b>

## Notes to Financial Statements

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	994	13,038	624	-	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
<b>Total</b>	<b>\$ 17,592</b>	<b>\$ 62,296</b>	<b>\$ 42,082</b>	<b>\$ (71)</b>	<b>\$ 121,899</b>	<b>\$ 94,267</b>	<b>\$ 27,632</b>	<b>\$ 121,899</b>

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	994	115	624	-	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
<b>Total</b>	<b>\$ 17,592</b>	<b>\$ 34,664</b>	<b>\$ 42,082</b>	<b>\$ (71)</b>	<b>\$ 94,267</b>	<b>\$ 424</b>	<b>\$ 94,691</b>

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
<b>Total</b>	<b>\$ -</b>	<b>\$ 27,632</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 27,620</b>	<b>\$ 12</b>

Status of Receipt Account Balances

Description	Fund Balance
FHA	\$ -
Ginnie Mae	409
Section 8 Rental Assistance	-
All Other	15
<b>Total</b>	<b>\$ 424</b>

Breakdown of All Other

Description	Fund Balance
All Other HUD suspense/deposit funds	\$ 15
<b>Total</b>	<b>\$ 15</b>

## Notes to Financial Statements

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.

As the result of one our new internal controls, HUD initiated a project which quickly identified weaknesses in the validation of the general ledger and sub-ledger balances. Although a number of historical items have been resolved, efforts were still underway on September 30, 2016, to research, analyze, and resolve the remaining historical items. HUD has assessed the available information for the remaining items and determined there are no supportable financial statement impacts to record.

### 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, 2016 and 2015, deposits in transit were \$60 million and \$45 million, respectively.

### Note 6: Investments

The U.S. Government short-term securities are non-marketable intra-governmental securities. These are U.S. Treasury securities issued with a maturity date of three months or less consisting primarily of one-day overnight certificates that are issued with a stated rate of interest to be applied to their par amount with a maturity date on the next business day. These overnight certificates are measured at amortized cost which approximates fair value. Interest rates established by the U.S. Treasury as of September 30, 2016, were 0.11 percent. During FY 2015, interest rate was 0.00 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2016 and 2015, were as follows (dollars in millions):

Short-Term	Cost	Amortized	Accrued	Net	Market
<b>FY 2016</b>	\$ 15,954	\$ -	\$ -	\$ 15,954	\$ 15,802
<b>FY 2015</b>	\$ 12,923	\$ -	\$ -	\$ 12,923	\$ 12,923

The U.S. Government long-term securities are non-marketable intra-governmental securities. Interest rates established by the U.S. Treasury as of September 30, 2016, were 0.52 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2016 and 2015, were as follows (dollars in millions):

Long-Term	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
<b>FY 2016</b>	\$ 36,311	\$ 54	\$ 33	\$ 36,398	\$ 36,423
<b>FY 2015</b>	\$ 14,731	\$ 10	\$ 13	\$ 14,754	\$ 14,764

## Notes to Financial Statements

**Investments in Private-Sector Entities**

These investments in private-sector entities are the result of FHA's 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, 2016 and 2015 (dollars in millions):

	<b>Beginning Balance</b>	<b>Net Acquisition</b>	<b>Share of Earnings or Losses</b>	<b>Return of Investment</b>	<b>Redeemed</b>	<b>Ending Balance</b>
<b><u>2016</u></b>						
601 Program	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Risk Sharing Debentures	31	-	-	-	-	31
Total	<u>\$ 31</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31</u>
<b><u>2015</u></b>						
601 Program	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Risk Sharing Debentures	41	19	-	-	(29)	31
Total	<u>\$ 41</u>	<u>\$ 19</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (29)</u>	<u>\$ 31</u>

**Note 7: Accounts Receivable (Net)**

The Department's accounts receivable represent 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 adjusts the total delinquencies greater than 90 days by the effects of economic stress factors, which include likely payoffs, foreclosures, bankruptcies, and hardships 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

**Notes to Financial Statements**

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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, 2016 and 2015, HUD was due \$10 million and \$13 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 represent 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, and FHA partial claims, settlements receivable and foreclosed property proceeds due from the public.

## Notes to Financial Statements

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2016 and 2015 (dollars in millions):

<u>Description</u>	2016			2015		
	Gross Accounts Receivable	Allowance for Loss	Total, Net	Gross Accounts Receivable	Allowance for Loss	Total, Net
Intragovernmental	\$ 1	\$ -	\$ 1	\$ -	\$ -	\$ -
Public						
Sustained Audit Costs	\$ 146	\$ -	\$ 146	\$ 158	\$ -	\$ 158
Bond Refundings	10	-	10	13	-	13
Section 8 Settlements	6	-	6	4	-	4
Section 236 Excess Rental Income	5	(1)	4	5	(1)	4
Other Receivables:	-					
FHA	531	(288)	243	649	(241)	408
Ginnie Mae	294	(189)	105	453	(322)	131
Other Receivables	99	(2)	97	64	(2)	62
<b>Total Accounts Receivable</b>	<b>\$ 1,092</b>	<b>\$ (480)</b>	<b>\$ 612</b>	<b>\$ 1,346</b>	<b>\$ (566)</b>	<b>\$ 780</b>

## 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.

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 healthcare by reducing the cost of capital.

The FHA also 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.

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**Notes to Financial Statements**

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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 subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans and guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans and loan guarantees reported in the current year result from disbursement of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

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 2016 and FY 2015:

**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

## Notes to Financial Statements

- f) HECM Loan Guarantee 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):

2016					
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans, Net
<b>Direct Loan Programs</b>					
FHA					
a) MMI/CHMI Direct Loan Program	\$ -	\$ -	\$ -	\$ -	\$ -
b) GI/SRI Direct Loan Program	8	13	(4)	-	17
Housing for the Elderly and Disabled	1,167	14	(10)	-	1,171
All Other			-		
a) CPD Revolving Fund	5	-	(5)	1	1
b) Flexible Subsidy Fund	405	57	(45)	-	417
<b>Total</b>	<b>\$ 1,585</b>	<b>\$ 84</b>	<b>\$ (64)</b>	<b>\$ 1</b>	<b>\$ 1,606</b>
2015					
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans, Net
<b>Direct Loan Programs</b>					
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
<b>Total</b>	<b>\$ 1,859</b>	<b>\$ 99</b>	<b>\$ (61)</b>	<b>\$ 2</b>	<b>\$ 1,899</b>

## Notes to Financial Statements

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

	2016				Value of Assets Related to Direct Loans
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	
<b><u>Direct Loan Programs</u></b>					
FHA					
a) MMI/CHMI Direct Loan Program	\$ -	\$ -	\$ (3)	\$ -	\$ (3)
b) GI/SRI Direct Loan Program	554	1	27	-	582
All Other					
a) Green Retrofit Program	\$ 57	\$ 1	\$ (53)	\$ -	\$ 5
b) Emergency Homeowners' Loan Program	34	-	(35)	-	(1)
c) EHLRP Receipt Account	104	-	-	-	104
<b>Total</b>	<b>\$ 749</b>	<b>\$ 2</b>	<b>\$ (64)</b>	<b>\$ -</b>	<b>\$ 687</b>

	2015				Value of Assets Related to Direct Loans
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	
<b><u>Direct Loan Programs</u></b>					
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) EHLRP Receipt Account	133	-	-	-	133
<b>Total</b>	<b>\$ 349</b>	<b>\$ 1</b>	<b>\$ (85)</b>	<b>\$ -</b>	<b>\$ 265</b>

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

<b><u>Direct Loan Programs</u></b>	<b><u>Current Year</u></b>	<b><u>Prior Year</u></b>
FHA Risk Sharing Program	\$ 452	\$ 103
All Other		
a) Green Retrofit Program	\$ -	\$ -
b) Emergency Homeowners' Loan Program	-	-
<b>Total</b>	<b>\$ 452</b>	<b>\$ 103</b>

## Notes to Financial Statements

**E. Subsidy Expense for Direct Loans by Program and Component** (dollars in millions):**E1. Subsidy Expense for New Direct Loans Disbursed** (dollars in millions):

<u>Direct Loan Programs</u>	2016				
	Interest		Fees and Other		
	Differential	Defaults	Collections	Other	Total
FHA Risk Sharing Program	\$ (68)	\$ 4	\$ (9)	\$ 21	\$ (52)
All Other					
a) Green Retrofit Program	\$ -	\$ -	\$ -	\$ -	\$ -
b) Emergency Homeowners' Loan Program	-	-	-	-	-
<b>Total</b>	<b>\$ (68)</b>	<b>\$ 4</b>	<b>\$ (9)</b>	<b>\$ 21</b>	<b>\$ (52)</b>

<u>Direct Loan Programs</u>	2015				
	Interest		Fees and Other		
	Differential	Defaults	Collections	Other	Total
FHA Risk Sharing Program	\$ (5)	\$ -	\$ (3)	\$ (1)	\$ (9)
All Other					
a) Green Retrofit Program	\$ -	\$ -	\$ -	\$ -	\$ -
b) Emergency Homeowners' Loan Program	-	-	-	-	-
<b>Total</b>	<b>\$ (5)</b>	<b>\$ -</b>	<b>\$ (3)</b>	<b>\$ (1)</b>	<b>\$ (9)</b>

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

<u>Direct Loan Programs</u>	2016			
	Total	Interest Rate	Technical	Total
	Modification	Re-estimates	Re-estimates	Re-estimates
FHA Risk Sharing Program	\$ -	\$ -	\$ -	\$ -
All Other				
a) Green Retrofit Program	\$ -	\$ -	\$ (13)	\$ (13)
b) Emergency Homeowners' Loan Program	-	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (13)</b>	<b>\$ (13)</b>

<u>Direct Loan Programs</u>	2015			
	Total	Interest Rate	Technical	Total
	Modification	Re-estimates	Re-estimates	Re-estimates
FHA Risk Sharing Program	\$ -	\$ -	\$ -	\$ -
All Other				
a) Green Retrofit Program	\$ -	\$ -	\$ -	\$ -
b) Emergency Homeowners' Loan Program	-	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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

<u>Direct Loan Programs</u>	Current Year	Prior Year
FHA Risk Sharing Program	\$ (52)	\$ (9)
All Other		
a) Green Retrofit Program	\$ (13)	\$ -
b) Emergency Homeowners' Loan Program	-	-
<b>Total</b>	<b>\$ (65)</b>	<b>\$ (9)</b>

## Notes to Financial Statements

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

<u>Direct Loan Programs</u>	2016				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
FHA Risk Sharing Program	0.0%	2.6%	(7.1%)	0.0%	(4.5%)
All Other					
a) Green Retrofit Program	41.0%	42.6%	0.0%	(1.3%)	82.3%
b) Emergency Homeowners' Loan Program	0.0%	0.0%	0.0%	97.7%	97.7%

<u>Direct Loan Programs</u>	2015				
	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%

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

<u>Beginning Balance, Changes, and Ending Balance</u>	<u>FY 2016</u>	<u>FY 2015</u>
Beginning balance of the subsidy cost allowance	\$ 85	\$ 152
Add: subsidy expense for direct loans disbursed during the reporting years by component:		
a) Interest rate differential costs	(68)	(5)
b) Default costs (net of recoveries)	4	-
c) Fees and other collections	(9)	(3)
d) Other subsidy costs	21	(1)
<b>Total of the above subsidy expense components</b>	(52)	(9)
Adjustments:		
a) Loan modifications	-	-
b) Fees received	1	-
c) Foreclosed properties acquired	-	-
d) Loans written off	(15)	(31)
e) Subsidy allowance amortization	29	1
f) Other	-	(4)
<b>Ending balance of the subsidy cost allowance before re-estimates</b>	48	109
Add or subtract subsidy re-estimates by component:		
a) Interest rate re-estimate	2	-
b) Technical/default re-estimate	33	(24)
Adjustment prior years' credit subsidy reestimates	(19)	-
<b>Total of the above re-estimate components</b>	16	(24)
Ending balance of the subsidy cost allowance	<u>\$ 64</u>	<u>\$ 85</u>

## Notes to Financial Statements

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

2016					
	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	\$ -	\$ (5)	\$ 7	\$ 23
b) Multi Family	-	-	-	-	-
c) HECM	-	-	-	-	-
GI/SRI					
a) Single Family	\$ -	\$ -	\$ (3)	\$ 9	\$ 6
b) Multi Family	1,780	230	(817)	1	1,194
c) HECM	4	2	(5)	(2)	(1)
<b>Total</b>	<b>\$ 1,805</b>	<b>\$ 232</b>	<b>\$ (830)</b>	<b>\$ 15</b>	<b>\$ 1,222</b>
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)
<b>Total</b>	<b>\$ 1,972</b>	<b>\$ 236</b>	<b>\$ (824)</b>	<b>\$ 15</b>	<b>\$ 1,399</b>

## Notes to Financial Statements

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

2016					
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	\$ 10,320	\$ 5	\$ (7,327)	\$ 2,817	\$ 5,815
b) Multi Family	-	-	-	-	-
c) HECM	4,472	2,350	(1,580)	36	5,278
GI/SRI					
a) Single Family	\$ 350	\$ -	\$ (241)	\$ 73	\$ 182
b) Multi Family	735	-	(365)	1	371
c) HECM	3,595	1,830	(1,279)	132	4,278
H4H					
a) Single Family	\$ 5	\$ -	\$ (5)	\$ 1	\$ 1
All Other					
a) Indian Housing Loan Guarantee	-	-	-	37	37
b) Native Hawaiian Housing Loan Guarantee	-	-	-	(1)	(1)
<b>Total</b>	<b>\$ 19,477</b>	<b>\$ 4,185</b>	<b>\$ (10,797)</b>	<b>\$ 3,096</b>	<b>\$ 15,961</b>

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	\$ 8,802	\$ -	\$ (7,053)	\$ 3,130	\$ 4,879
b) Multi Family	-	-	-	-	-
c) HECM	2,182	992	(790)	10	2,394
GI/SRI					
a) Single Family	\$ 292	\$ 1	\$ (233)	\$ 94	\$ 154
b) Multi Family	655	-	(272)	1	384
c) HECM	3,106	1,517	(1,172)	101	3,552
H4H					
a) Single Family	\$ 4	\$ -	\$ 2	\$ 1	\$ 7
All Other					
a) Indian Housing Loan Guarantee	-	-	-	31	31
b) Native Hawaiian Housing Loan Guarantee	-	-	-	(1)	(1)
<b>Total</b>	<b>\$ 15,041</b>	<b>\$ 2,510</b>	<b>\$ (9,518)</b>	<b>\$ 3,367</b>	<b>\$ 11,400</b>

	<b>2016</b>	<b>2015</b>
Total Credit Program Receivables and Related Foreclosed Property, Net	<u>\$19,476</u>	<u>\$14,965</u>

## Notes to Financial Statements

**J. Guaranteed Loans Outstanding** (dollars in millions):**J1. Guaranteed Loans Outstanding** (dollars in millions):

<u>Loan Guarantee Programs</u>	<u>2016</u>	
	<u>Outstanding Principal, Guaranteed Loans, Face Value</u>	<u>Amount of Outstanding Principal Guaranteed</u>
FHA Programs		
a) MMI/CMHI Funds	\$ 1,207,833	\$ 1,097,974
b) GI/SRI Funds	127,737	115,318
c) H4H Program	91	83
All Other	7,862	7,856
<b>Total</b>	<b>\$ 1,343,523</b>	<b>\$ 1,221,231</b>

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

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

<u>Loan Guarantee Programs</u>	<u>2016 Current Year Endorsements</u>	<u>Cumulative</u>	
		<u>Current Outstanding Balance</u>	<u>Maximum Potential Liability</u>
FHA Programs	\$ 14,612	\$ 104,648	\$ 148,097

<u>Loan Guarantee Programs</u>	<u>2015 Current Year Endorsements</u>	<u>Cumulative</u>	
		<u>Current Outstanding Balance</u>	<u>Maximum Potential Liability</u>
FHA Programs	\$ 15,890	\$ 105,471	\$ 149,645

## Notes to Financial Statements

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

<u>Loan Guarantee Programs</u>	<u>2016</u>	
	<u>Outstanding Principal, Guaranteed Loans, Face Value</u>	<u>Amount of Outstanding Principal Guaranteed</u>
FHA Programs		
a) MMI/CMHI Funds	\$ 221,841	\$ 219,866
b) GI/SRI Funds	12,224	12,168
c) H4H Program	-	-
All Other	980	979
<b>Total</b>	<b>\$ 235,045</b>	<b>\$ 233,013</b>

<u>Loan Guarantee Programs</u>	<u>2015</u>	
	<u>Outstanding Principal, Guaranteed Loans, Face Value</u>	<u>Amount of Outstanding Principal Guaranteed</u>
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
<b>Total</b>	<b>\$ 225,499</b>	<b>\$ 223,641</b>

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

<u>Loan Guarantee Programs</u>	<u>2016</u>		
	<u>Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims</u>	<u>Liabilities for Loan Guarantees for Post- 1991 Guarantees (Present Value)</u>	<u>Total Liabilities For Loan Guarantees</u>
FHA Programs	\$ -	\$ (2,360)	\$ (2,360)
All Other	-	303	303
<b>Total</b>	<b>\$ -</b>	<b>\$ (2,057)</b>	<b>\$ (2,057)</b>

<u>Loan Guarantee Programs</u>	<u>2015</u>		
	<u>Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims</u>	<u>Liabilities for Loan Guarantees for Post- 1991 Guarantees (Present Value)</u>	<u>Total Liabilities For Loan Guarantees</u>
FHA Programs	\$ 7	\$ 13,177	\$ 13,184
All Other	-	289	289
<b>Total</b>	<b>\$ 7</b>	<b>\$ 13,466</b>	<b>\$ 13,473</b>

## Notes to Financial Statements

**L. Subsidy Expense for Post-1991 Guarantees:***L1. Subsidy Expense for Loan Guarantees (dollars in millions):*

2016					
<u>Loan Guarantee Programs</u>	<u>Endorsement Amount</u>	<u>Default Component</u>	<u>Fees Component</u>	<u>Other Component</u>	<u>Subsidy Amount</u>
FHA					
a) MMI/CMHI Funds, Excluding HECM	\$ 221,841	\$ 5,586	\$ (16,461)	\$ 1,791	\$ (9,084)
b) MMI/CMHI Funds, HECM	14,612	844	(945)	-	(101)
c) GI/SRI Funds	12,224	181	(661)	-	(480)
d) H4H Program	-	-	-	-	-
All Other	-	12	-	-	12
<b>Total</b>	<b>\$ 248,677</b>	<b>\$ 6,623</b>	<b>\$ (18,067)</b>	<b>\$ 1,791</b>	<b>\$ (9,653)</b>

2015					
<u>Loan Guarantee Programs</u>	<u>Endorsement Amount</u>	<u>Default Component</u>	<u>Fees Component</u>	<u>Other Component</u>	<u>Subsidy Amount</u>
FHA					
a) MMI/CMHI Funds, Excluding HECM	\$ 213,125	\$ 5,685	\$ (18,707)	\$ -	\$ (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
<b>Total</b>	<b>\$ 240,381</b>	<b>\$ 6,875</b>	<b>\$ (20,465)</b>	<b>\$ -</b>	<b>\$ (13,590)</b>

*L2. Modification and Re-estimates (dollars in millions):*

2016				
<u>Loan Guarantee Programs</u>	<u>Total Modifications</u>	<u>Interest Rate Re-estimates</u>	<u>Technical Re-estimates</u>	<u>Total Re-estimates</u>
FHA				
a) MMI/CMHI Funds	\$ -	\$ -	\$ (7,897)	\$ (7,897)
b) GI/SRI Funds	-	-	(225)	(225)
All Other	-	-	(28)	(28)
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (8,150)</b>	<b>\$ (8,150)</b>

2015				
<u>Loan Guarantee Programs</u>	<u>Total Modifications</u>	<u>Interest Rate Re-estimates</u>	<u>Technical Re-estimates</u>	<u>Total Re-estimates</u>
FHA				
a) MMI/CMHI Funds	\$ -	\$ -	\$ (2,247)	\$ (2,247)
b) GI/SRI Funds	-	-	(1,618)	(1,618)
All Other	-	-	(12)	(12)
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (3,877)</b>	<b>\$ (3,877)</b>

## Notes to Financial Statements

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

<u>Loan Guarantee Programs</u>	<u>Current Year</u>	<u>Prior Year</u>
FHA		
a) MMI/CMHI Funds	\$ (17,082)	\$ (15,333)
b) GI/SRI Funds	(704)	(2,130)
c) H4H Program	-	-
All Other	\$ (17)	\$ (4)
Total	<u>\$ (17,803)</u>	<u>\$ (17,467)</u>

**M. Subsidy Rates for Loan Guarantees by Programs and Component:***Budget Subsidy Rates for Loan Guarantees for FY 2016 Cohorts*

<u>Loan Guarantee Program</u>	<u>Default</u>	<u>Fees and Other Collections</u>	<u>Total</u>
<b>FHA Programs</b>			
MMI/CMHI			
Single Family - Forward	2.3%	(6.1%)	(3.8%)
Single Family - HECM	5.8%	(6.5%)	(0.7%)
Single Family - Refinancing	10.0%	(10.0%)	0.0%
Multi Family - Section 213	0.0%	0.0%	0.0%
GI/SRI Funds			
Apartments - NC/SC	2.4%	(5.2%)	(2.7%)
Apartments - NC/SC04/01/2016	1.9%	(4.3%)	(2.4%)
Apartments - Refinance	0.3%	(5.0%)	(4.7%)
Apartments Refinance - 04/01/16	0.3%	(3.9%)	(3.6%)
Healthcare			
MM - FHA Full Insurance - Health Care	4.0%	(7.4%)	(3.4%)
MF- - Hospitals	3.2%	(6.5%)	(3.2%)
H4H Programs			
Single Family - Section 257	0.0%	0.0%	0.0%
<b>All Other Programs</b>			
CDBG, Section 108(b)	0.0%	0.0%	0.0%
Loan Guarantee Recovery	50.0%	0.0%	50.0%
Indian Housing (weighted average)	0.6%	0.0%	0.6%
Native Hawaiian Housing	0.5%	0.0%	0.5%
Title VI Indian Housing	11.5%	0.0%	11.5%

## Notes to Financial Statements

*Budget Subsidy Rates for Loan Guarantees for FY 2015 Cohorts*

<u>Loan Guarantee Program</u>	<u>Default</u>	<u>Fees and Other Collections</u>	<u>Total</u>
<b>FHA Programs</b>			
MMI/CMHI			
Single Family - Forward	2.7%	(9.9%)	(7.2%)
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			
Apartments	2.5%	(6.2%)	(3.7%)
Apartments Refinance	0.3%	(5.0%)	(4.7%)
Healthcare			
Residential Care	3.8%	(8.0%)	(4.2%)
Hospitals	2.6%	(7.1%)	(4.5%)
H4H			
Single Family - Section 257	0.0%	0.0%	0.0%
<b>All Other Programs</b>			
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%

## Notes to Financial Statements

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

<b>Beginning Balance, Changes, and Ending Balance</b>	<b>2016</b>	<b>2015</b>
Beginning balance of the loan guarantee liability	\$ 15,571	\$ 32,919
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:		
(a) Interest supplement costs	-	-
(b) Default costs (net of recoveries)	6,623	6,875
(c) Fees and other collections	(18,067)	(20,465)
(d) Other subsidy costs	1,791	-
Total of the above subsidy expense components	\$ (9,653)	\$ (13,590)
Adjustments:		
(a) Loan guarantee modifications	-	-
(b) Fees Received	14,029	13,288
(c) Interest supplemental paid	-	-
(d) Foreclosed property and loans acquired	11,165	13,561
(e) Claim payments to lenders	(22,445)	(26,642)
(f) Interest accumulation on the liability balance	(177)	580
(g) Other	828	364
Ending balance of the loan guarantee liability	\$ 9,318	\$ 20,480
Add or Subtract subsidy re-estimates by component:		
(a) Interest rate re-estimate	-	-
(b) Technical/default re-estimate	(3,549)	(3,877)
(c) Adjustment of prior years credit subsidy re-estimates	(6,272)	(1,032)
Total of the above re-estimate components	(9,821)	(4,909)
<b>Ending balance of the loan guarantee liability</b>	<b>\$ (503)</b>	<b>\$ 15,571</b>
Less: unrealized Ginnie Mae claims from defaulted loans	\$ (1,554)	\$ (2,098)
<b>Ending balance of the loan guarantee liability</b>	<b>\$ (2,057)</b>	<b>\$ 13,473</b>

**O. Administrative Expenses** (dollars in millions):

<b>Loan Guarantee Program</b>	<b>2016</b>	<b>2015</b>
FHA	\$ 586	\$ 557
All Other	-	-
<b>Total</b>	<b>\$ 586</b>	<b>\$ 557</b>

## Notes to Financial Statements

**Note 9: Other Non-Credit Reform Loans**

The following shows HUD's Other Non-Credit Reform Loans Receivable as of September 30, 2016 and 2015 (dollars in millions):

<u>Description</u>	2016		
	Ginnie Mae Reported Balances	Allowance for Loan Losses Due to Payment of Probable Claims by FHA	Value of Assets Related to Loans
Mortgage Loans Held for Investment	\$ 3,470	\$ (1,243)	\$ 2,227
Advances Against Defaulted Mortgage-Backed Security Pools, net	21	-	21
Properties Held for Sale, net	41	-	41
Foreclosed Property	595	(217)	378
Short Sale Claims Receivable	107	(94)	13
<b>Total</b>	<b>\$ 4,234</b>	<b>\$ (1,554)</b>	<b>\$ 2,680</b>

<u>Description</u>	2015		
	Ginnie Mae Reported Balances	Allowance for Loan Losses 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)	-
<b>Total</b>	<b>\$ 5,325</b>	<b>\$ (2,098)</b>	<b>\$ 3,227</b>

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 (HFI)**

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, or
- B. Mortgage loans were previously insured but insurance is currently denied (collectively with A, referred to as uninsured mortgage loans).

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**Notes to Financial Statements**

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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, 2016 and 2015, 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 2016 and 2015. The fair value option allows certain financial assets, such as acquired

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**Notes to Financial Statements**

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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, 2016 and 2015, 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, 2016 and 2015, was \$3,470 million and \$4,362 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 represent loan pass-through payments made to fulfill Ginnie Mae's guaranty of timely principal and interest payments to MBS security holders. Per U.S. GAAP, Ginnie Mae is required to report advances net of an allowance to the extent that management believes that they will not be collected. The allowance is estimated based on historical loss experience of future collections from the borrowers, proceeds from the sale of the property, or recoveries from third-party insurers such as FHA, USDA, VA, and PIH.

Once Ginnie Mae purchases the loans from the pools, the associated advances are reclassified to the appropriate asset class. The advances balance is \$21 million in FY 2016 and \$119 million in FY 2015.

**Properties Held for Sale, Net**

Properties held for sale represent assets for which 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

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**Notes to Financial Statements**

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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, 2016 and 2015, was \$41 million and \$30 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 assessing current and historic accounting practices for potential restatement. Foreclosed Property, net as of September 30, 2016, was \$596 million, and, net as of September 30, 2015, was \$769 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

## Notes to Financial Statements

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 assessing current and historic accounting practices for potential restatement. Short Sale Claims Receivable, net as of September 30, 2016 and 2015, was \$107 and \$45 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, 2016, and September 30, 2015 (dollars in millions):

Description	2016			2015		
	Cost	Accumulated Depreciation and Amortization	Book Value	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	\$ 9	\$ (3)	\$ 6	\$ 7	\$ -	\$ 7
Leasehold Improvements	-	-	-	-	-	-
Internal Use Software	217	(172)	45	186	(152)	34
Internal Use Software in Development	330	-	330	288	-	288
<b>Total</b>	<b>\$ 556</b>	<b>\$ (175)</b>	<b>\$ 381</b>	<b>\$ 481</b>	<b>\$ (152)</b>	<b>\$ 329</b>

### Note 11: PIH Prepayments

HUD's assets include the Department's estimates for restricted net position (RNP) balances maintained by Public Housing Authorities (PHAs) under the Housing Choice Voucher Program. RNP balances represent disbursements to PHAs that are in excess of their expenses. PHAs can use RNP to cover any valid housing assistance program (HAP) expenses. PIH has estimated RNP balances of \$209 million and \$171 million for FY 2016 related to the Housing Choice Voucher and Moving to Work Programs, respectively.

## Notes to Financial Statements

**Note 12: Other Assets**

The following shows HUD's Other Assets as of September 30, 2016 and 2015 (dollars in millions):

<u>Description</u>	<b>2016</b>				
	<u>FHA</u>	<u>Ginnie Mae</u>	<u>Section 8</u>	<u>Other</u>	<u>Total</u>
Intragovernmental Assets:					
Other Assets	\$ -	\$ -	\$ 5	\$ 38	\$ 43
Total Intragovernmental Assets	-	-	5	38	43
Public:					
Escrow Monies Deposited at Minority-Owned Banks	\$ 29	\$ -	\$ -	\$ -	\$ 29
Other Assets	24	-	-	-	24
<b>Total</b>	<b>\$ 53</b>	<b>\$ -</b>	<b>\$ 5</b>	<b>\$ 38</b>	<b>\$ 96</b>

<u>Description</u>	<b>2015</b>				
	<u>FHA</u>	<u>Ginnie Mae</u>	<u>Section 8</u>	<u>Other</u>	<u>Total</u>
Intragovernmental Assets:					
Other Assets	\$ 1	\$ -	\$ 4	\$ 4	\$ 9
Total Intragovernmental Assets	1	-	4	4	9
Public:					
Escrow Monies Deposited at Minority-Owned Banks	\$ 37	\$ -	\$ -	\$ -	\$ 37
Other Assets	8	-	-	-	8
<b>Total</b>	<b>\$ 46</b>	<b>\$ -</b>	<b>\$ 4</b>	<b>\$ 4</b>	<b>\$ 54</b>

Intragovernmental Other Assets primarily represent the Department's Policy, Development and Research program. Other Assets with the public represent FHA's (1) escrow monies collected that are deposited in minority-owned banks, (2) deposits in transit, and (3) advances and prepayments.

## Notes to Financial Statements

## Note 13: Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2016 and 2015 (dollars in millions):

<u>Description</u>	<u>2016</u>			<u>2015</u>		
	<u>Covered</u>	<u>Not-Covered</u>	<u>Total</u>	<u>Covered</u>	<u>Not-Covered</u>	<u>Total</u>
Intragovernmental						
Accounts Payable	\$ 24	\$ -	\$ 24	\$ 16	\$ -	\$ 16
Debt	31,002	-	31,002	27,150	-	27,150
Other Intragovernmental Liabilities	<u>2,788</u>	<u>236</u>	<u>3,024</u>	<u>3,132</u>	<u>16</u>	<u>3,148</u>
Total Intragovernmental Liabilities	\$ 33,814	\$ 236	\$ 34,050	\$ 30,298	\$ 16	\$ 30,314
Accounts Payable	1,006	-	1,006	966	-	966
Accrued Grant Liabilities	2,663	-	2,663	2,388	-	2,388
Liabilities for Loan Guarantees	(2,057)	-	(2,057)	13,473	-	13,473
Debt	8	-	8	8	-	8
Federal Employee and Veterans' Benefits	-	64	64	-	69	69
Loss Liability	3	-	3	-	-	-
Other Liabilities	<u>1,235</u>	<u>132</u>	<u>1,367</u>	<u>1,105</u>	<u>134</u>	<u>1,239</u>
<b>Total Liabilities</b>	<b>\$ 36,672</b>	<b>\$ 432</b>	<b>\$ 37,104</b>	<b>\$ 48,238</b>	<b>\$ 219</b>	<b>\$ 48,457</b>

HUD's other governmental liabilities principally consist 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 17.

## 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, 2016 (dollars in millions):

<u>Description</u>	<u>Beginning Balance</u>	<u>Net Borrowings</u>	<u>Ending Balance</u>
Debt to the Federal Financing Bank	\$ 103	\$ 452	\$ 555
Debt to the U.S. Treasury	27,047	3,400	30,447
Held by the Public	<u>8</u>	<u>-</u>	<u>8</u>
<b>Total</b>	<b>\$ 27,158</b>	<b>\$ 3,852</b>	<b>\$ 31,010</b>
Classification of Debt:			
Intragovernmental Debt			\$ 31,002
Debt held by the Public			<u>8</u>
<b>Total</b>			<b>\$ 31,010</b>

## Notes to Financial Statements

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):

<u>Description</u>	<u>Beginning Balance</u>	<u>Net Borrowings</u>	<u>Ending Balance</u>
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
<b>Total</b>	<u>\$ 27,670</u>	<u>\$ (512)</u>	<u>\$ 27,158</u>
Classification of Debt:			
Intragovernmental Debt			\$ 27,150
Debt held by the Public			8
<b>Total</b>			<u><b>\$ 27,158</b></u>

FHA's overall Debt for U.S. Borrowings from Treasury did not change from FY 2015 to FY 2016; however, FHA did alter the presentation of borrowings from both from Treasury and from FFB due to a reclassification amount of \$19 million from the borrowings from FFB (decreased borrowings from \$122 million to \$103 million), to our borrowings from Treasury (increased from \$26,901 million to \$26,921 million). The reclassification was a correction of an error in the first year of our FFB reporting in FY 2015.

Interest paid on borrowings as of September 30, 2016 and 2015, was \$1,221 million and \$1,191 million, respectively. The purpose of these borrowings is discussed in the following paragraphs.

### Borrowings from the U.S. Treasury

In FY 2016 and FY 2015, FHA had outstanding borrowings of \$30,319 million and \$26,901 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 and 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 2016.

HUD's Other Programs had outstanding borrowings in FY 2016 and FY 2015 of \$128 million and \$127 million, respectively. These borrowings were for the Indian Housing Loan Guarantee Program, the Native Hawaiian Housing Block Grant Program, the Emergency Homeowner's Loan Program and the Green Retrofit Program from the U.S. Treasury.

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**Notes to Financial Statements**

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

In FY 2016 and FY 2015, FHA had outstanding borrowings of \$555 million and \$122 million, respectively, from the FFB.

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.

Starting in FY 2015, FHA began a Federal Financing Bank (FFB) Risk Share program, an inter-agency partnership between HUD, FFB and the Housing Finance Authorities (HFAs). The FFB Risk Share program provides funding for multifamily mortgage loans insured by FHA. Under this program, FHA records a direct loan from the public and borrowing from FFB. The program does not change the basic structure of Risk Sharing; it only substitutes FFB as the funding source. The HFAs would originate and service the loans, and share in any losses.

**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 2016, HUD recorded imputed costs of \$67 million which consisted of \$23 million for pension and \$44 million for 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. 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 \$64 million as of September 30, 2016, and \$69 million as of September 30, 2015. Future payments on this liability are to be funded by future financing sources.

In addition to the imputed costs of \$67 million noted above, HUD recorded net benefit expenses totaling \$49 million for FY 2016 and \$179 million for FY 2015.

## Notes to Financial Statements

**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. In FY2016, Ginnie Mae recorded \$1 million in loss reserves. 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 Corporate Watch to assist in the analysis of potential defaults. Corporate Watch 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, 2016 (dollars in millions):

<u>Description</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	\$ -	\$ 2,765	\$ 2,765
Unfunded FECA Liability	15	-	15
Employer Contributions and Payroll Taxes	-	9	9
Miscellaneous Receipts Payable to Treasury	-	221	221
Advances to Federal Agencies	-	14	14
Total Intragovernmental Liabilities	\$ 15	\$ 3,009	\$ 3,024
Other Liabilities			
FHA Other Liabilities	\$ -	\$ 543	\$ 543
FHA Escrow Funds Related to Mortgage Notes	-	311	311
Ginnie Mae Deferred Income	292	20	312
Deferred Credits	-	4	4
Deposit Funds	-	9	9
Accrued Unfunded Annual Leave	77	-	77
Accrued Funded Payroll Benefits	-	32	32
Contingent Liability	55	-	55
Other	7	17	24
<b>Total Other Liabilities</b>	<b>\$ 446</b>	<b>\$ 3,945</b>	<b>\$ 4,391</b>

## Notes to Financial Statements

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

<u>Description</u>	<u>Non- Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	\$ -	\$ 2,888	\$ 2,888
Unfunded FECA Liability	16	-	16
Employer Contributions and Payroll Taxes	-	5	5
Miscellaneous Receipts Payable to Treasury	-	228	228
Advances to Federal Agencies	-	11	11
Total Intragovernmental Liabilities	\$ 16	\$ 3,132	\$ 3,148
Other Liabilities			
FHA Other Liabilities	\$ -	\$ 412	\$ 412
FHA Escrow Funds Related to Mortgage Notes	-	314	314
Ginnie Mae Deferred Income	272	34	306
Deferred Credits	-	18	18
Deposit Funds	-	13	13
Accrued Unfunded Annual Leave	79	-	79
Accrued Funded Payroll Benefits	-	33	33
Contingent Liability	55	-	55
Other	7	2	9
<b>Total Other Liabilities</b>	<b>\$ 429</b>	<b>\$ 3,958</b>	<b>\$ 4,387</b>

### 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.

### Other Liabilities

In FY 2016, FHA Other Liabilities consist of liabilities for premiums collected on unendorsed cases of \$345 million and miscellaneous liabilities of \$198 million which include disbursements in transit and unearned premium revenue. In FY 2015, premiums collected on unendorsed cases were \$326 million and miscellaneous liabilities were \$86 million. Premiums collected for unendorsed cases represent liabilities associated with premiums collections for cases that have yet to be endorsed.

Other liabilities current consist mostly of suspense funds, receipt accruals and payroll-related costs. Other liabilities non-current of \$7 million is Ginnie Mae's Bank Popular liability for potential loan portfolio representation and warranty issues.

## 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, 2016 and 2015, was \$1,335,660 million and \$1,292,056 million, respectively. The amount of outstanding principal guaranteed (insurance-in-force) as of September 30, 2016 and 2015, was

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**Notes to Financial Statements**

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\$1,213,376 million and \$1,178,052 million, respectively, as disclosed in Note 8J. The maximum claim amount (MCA) outstanding for FHA's reverse mortgage insurance program (HECM) as of September 30, 2016 and 2015, was \$148,097 million and \$149,645 million, respectively. As of September 30, 2016 and 2015, the insurance-in-force (the outstanding balance of active loans) was \$104,648 million and \$105,471 million, 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, 2016 and 2015, was approximately \$1,728,091 million and \$1,608,790 million, 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, 2016 and 2015, were \$95,578 million and \$159,568 million, 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 2016 and FY 2015, Ginnie Mae issued a total of \$102,529 million and \$93,092 million, 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, 2016 and 2015, were \$473,217 million and \$472,677 million, 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

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**Notes to Financial Statements**

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from annual grants. The amount of loan guarantees outstanding as of September 30, 2016 and 2015, was \$1,708 million and \$2,012 million, 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**

The general counsel has reviewed FHA's legal actions and claims for FY 2016 and determined as of September 30, 2016, that the ultimate resolution of legal actions would not affect FHA's consolidated financial statements. 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. A union grievance case, *Fair and Equitable Arbitration Remedy*, FMCS No. 03-07743, 66 FLRA 867, was filed based on alleged violations of articles of the parties' Collective Bargaining Agreement. The grievance alleged that HUD failed to treat employees fairly and equitably based upon the manner in which the Agency posted and subsequently selected candidates from job advertisements and vacancy announcements. Although the litigation is not final, the estimated potential loss is probable at this time and as a result, the Department has recorded a contingent liability of \$55 million in its financial statements. Pending litigation on this case will likely take one or many years to resolve. The Union's version of compliance could cost up to \$665 million, including attorney's fees, if the parties do not resolve this matter, and if the Union gets all of its requested relief. Other ongoing suits cannot be reasonably determined at this time and in the opinion of management and general counsel, the ultimate resolution of the other 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 2016, Ginnie Mae was authorized to use \$23 million for payroll and payroll related expense, funded by commitment fees.

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**Notes to Financial Statements**

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**Rental Assistance Demonstration (RAD) Conversion Program**

The Rental Assistance Demonstration (RAD) conversion program was created in order to give public housing authorities (PHAs) a powerful tool to preserve and improve public housing properties and address a nationwide backlog of deferred maintenance. RAD also gives program owners the opportunity to enter into long-term contracts that facilitate the financing of improvements.

**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 \$13,625 million 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](http://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

## Notes to Financial Statements

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, 2016 (dollars in millions):

		Tenant Based Rental	Project Based Rental	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Other	Eliminations	Total Earmarked Funds
	Ginnie Mae	Assistance	Assistance	Assistance	Subsidy	Trust Fund	Act Funds	Other	Eliminations	Funds
<b>Balance Sheet</b>										
Fund Balance w/Treasury	\$ 1,379	\$ 12	\$ 18	\$ 9	\$ 433	\$ 14	\$ 9	\$ -	\$ 13	\$ 1,887
Cash and Other Monetary Assets	60	-	-	-	-	-	-	-	-	60
Investments	15,954	-	-	-	-	-	-	-	-	15,954
Accounts Receivable	113	-	-	4	-	-	-	-	-	117
Loans Receivable	-	-	-	-	417	-	6	-	-	423
Other Non-Credit Reform Loans Receivable	4,233	-	-	-	-	-	-	-	-	4,233
General Property, Plant and Equipment	83	-	-	-	-	-	-	-	-	83
Other	-	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 21,822</b>	<b>\$ 12</b>	<b>\$ 18</b>	<b>\$ 13</b>	<b>\$ 850</b>	<b>\$ 14</b>	<b>\$ 15</b>	<b>\$ -</b>	<b>\$ 13</b>	<b>\$ 22,757</b>
Debt - Intragovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	\$ -	\$ -	\$ 5
Accounts Payable - Intragovernmental	-	-	-	-	-	-	-	-	-	-
Accounts Payable - Public	113	-	-	-	-	3	-	-	-	116
Loan Guarantees	-	-	-	-	-	-	-	-	-	-
Loss Liability	2	-	-	-	-	-	-	-	-	2
Other Liabilities - Intragovernmental	-	-	-	-	-	-	-	-	-	-
Other Liabilities - Public	321	-	-	-	-	-	-	-	-	321
<b>Total Liabilities</b>	<b>\$ 436</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3</b>	<b>\$ 5</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 444</b>
Unexpended Appropriations	\$ -	\$ 12	\$ 18	\$ (5)	\$ (377)	\$ -	\$ 10	\$ -	\$ -	\$ (342)
Cumulative Results of Operations	21,386	-	-	18	1,227	11	-	-	13	22,655
<b>Total Net Position</b>	<b>\$ 21,386</b>	<b>\$ 12</b>	<b>\$ 18</b>	<b>\$ 13</b>	<b>\$ 850</b>	<b>\$ 11</b>	<b>\$ 10</b>	<b>\$ -</b>	<b>\$ 13</b>	<b>\$ 22,313</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 21,822</b>	<b>\$ 12</b>	<b>\$ 18</b>	<b>\$ 13</b>	<b>\$ 850</b>	<b>\$ 14</b>	<b>\$ 15</b>	<b>\$ -</b>	<b>\$ 13</b>	<b>\$ 22,757</b>
<b>Statement of Net Cost For the Period Ended</b>										
Gross Costs	\$ 432	\$ 33	\$ 34	\$ -	\$ (4)	\$ 15	\$ 16	\$ -	\$ -	\$ 526
Less Earned Revenues	(1,646)	-	-	-	(4)	(12)	-	-	-	(1,662)
<b>Net Costs</b>	<b>\$ (1,214)</b>	<b>\$ 33</b>	<b>\$ 34</b>	<b>\$ -</b>	<b>\$ (8)</b>	<b>\$ 3</b>	<b>\$ 16</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,136)</b>
<b>Statement of Changes in Net Position for the Period Ended</b>										
Net Position Beginning of Period	\$ 20,175	\$ 8	\$ 9	\$ 12	\$ 839	\$ 14	\$ 55	\$ -	\$ -	\$ 21,112
Correction of Errors	(6)	-	-	-	-	-	-	-	-	(6)
Appropriations Received	-	-	-	-	-	-	-	-	-	-
Transfers In/Out Without Reimbursement	-	37	43	-	-	-	(13)	-	13	80
Imputed Costs	1	-	-	-	-	-	-	-	-	1
Donations and Forfeitures of Cash & Cash Equivalen	-	-	-	-	-	-	-	-	-	-
Penalties, Fines, and Administrative Fees Revenue	2	-	-	-	-	-	-	-	-	2
Other Adjustments	-	-	-	1	3	-	(16)	-	-	(12)
<b>Net Cost of Operations</b>	<b>1,214</b>	<b>(33)</b>	<b>(34)</b>	<b>-</b>	<b>8</b>	<b>(3)</b>	<b>(16)</b>	<b>-</b>	<b>-</b>	<b>1,136</b>
<b>Change in Net Position</b>	<b>\$ 1,217</b>	<b>\$ 4</b>	<b>\$ 9</b>	<b>\$ 1</b>	<b>\$ 11</b>	<b>\$ (3)</b>	<b>\$ (45)</b>	<b>\$ -</b>	<b>\$ 13</b>	<b>\$ 1,207</b>
<b>Net Position End of Period</b>	<b>\$ 21,386</b>	<b>\$ 12</b>	<b>\$ 18</b>	<b>\$ 13</b>	<b>\$ 850</b>	<b>\$ 11</b>	<b>\$ 10</b>	<b>\$ -</b>	<b>\$ 13</b>	<b>\$ 22,313</b>

## Notes to Financial Statements

The following shows funds from dedicated collections as of September 30, 2015 (dollars in millions):

		Tenant Based Rental	Project Based Rental	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Other	Total Earmarked Funds
	Ginnie Mae	Assistance	Assistance	Assistance	Subsidy	Trust Fund	Act Funds	Other	Funds
<b>Balance Sheet</b>									
Fund Balance w/Treasury	\$ 2,142	\$ 8	\$ 9	\$ 8	\$ 380	\$ 14	\$ 42	\$ -	\$ 2,603
Cash and Other Monetary Assets	45	-	-	-	-	-	-	-	45
Investments	12,923	-	-	-	-	-	-	-	12,923
Accounts Receivable	131	-	-	4	-	-	18	-	153
Loans Receivable	-	-	-	-	459	-	(2)	-	457
Other Non-Credit Reform Loans Receivable	5,325	-	-	-	-	-	-	-	5,325
General Property, Plant and Equipment	58	-	-	-	-	-	-	-	58
Other	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 20,624</b>	<b>\$ 8</b>	<b>\$ 9</b>	<b>\$ 12</b>	<b>\$ 839</b>	<b>\$ 14</b>	<b>\$ 58</b>	<b>\$ -</b>	<b>\$ 21,564</b>
Debt - Intragovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3	\$ -	\$ 3
Accounts Payable - Intragovernmental	-	-	-	-	-	-	-	-	-
Accounts Payable - Public	135	-	-	-	-	-	-	-	135
Loan Guarantees	-	-	-	-	-	-	-	-	-
Loss Liability	-	-	-	-	-	-	-	-	-
Other Liabilities - Intragovernmental	-	-	-	-	-	-	-	-	-
Other Liabilities - Public	314	-	-	-	-	-	-	-	314
<b>Total Liabilities</b>	<b>\$ 449</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3</b>	<b>\$ -</b>	<b>\$ 452</b>
Unexpended Appropriations	\$ 1	\$ 8	\$ 9	\$ -	\$ (376)	\$ -	\$ 55	\$ -	\$ (303)
Cumulative Results of Operations	20,174	-	-	12	1,215	14	-	-	21,415
<b>Total Net Position</b>	<b>\$ 20,175</b>	<b>\$ 8</b>	<b>\$ 9</b>	<b>\$ 12</b>	<b>\$ 839</b>	<b>\$ 14</b>	<b>\$ 55</b>	<b>\$ -</b>	<b>\$ 21,112</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 20,624</b>	<b>\$ 8</b>	<b>\$ 9</b>	<b>\$ 12</b>	<b>\$ 839</b>	<b>\$ 14</b>	<b>\$ 58</b>	<b>\$ -</b>	<b>\$ 21,564</b>
<b>Statement of Net Cost For the Period Ended</b>									
Gross Costs	\$ (234)	\$ 23	\$ 16	\$ (3)	\$ 3	\$ 9	\$ 79	\$ -	\$ (107)
Less Earned Revenues	(1,551)	-	-	(2)	(3)	(11)	-	-	(1,567)
<b>Net Costs</b>	<b>\$ (1,785)</b>	<b>\$ 23</b>	<b>\$ 16</b>	<b>\$ (5)</b>	<b>\$ -</b>	<b>\$ (2)</b>	<b>\$ 79</b>	<b>\$ -</b>	<b>\$ (1,674)</b>
<b>Statement of Changes in Net Position for the Period Ended</b>									
Net Position Beginning of Period	\$ 18,390	\$ 31	\$ 25	\$ 10	\$ 838	\$ 12	\$ 157	\$ -	\$ 19,463
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	-	-	-	-	1	-	-	-	1
Other Adjustments	(1)	-	-	-	-	-	(23)	-	(24)
<b>Net Cost of Operations</b>	<b>1,785</b>	<b>(23)</b>	<b>(16)</b>	<b>5</b>	<b>-</b>	<b>2</b>	<b>(79)</b>	<b>-</b>	<b>1,674</b>
<b>Change in Net Position</b>	<b>\$ 1,785</b>	<b>\$ (23)</b>	<b>\$ (16)</b>	<b>\$ 5</b>	<b>\$ 1</b>	<b>\$ 2</b>	<b>\$ (102)</b>	<b>\$ -</b>	<b>\$ 1,652</b>
<b>Net Position End of Period</b>	<b>\$ 20,175</b>	<b>\$ 8</b>	<b>\$ 9</b>	<b>\$ 12</b>	<b>\$ 839</b>	<b>\$ 14</b>	<b>\$ 55</b>	<b>\$ -</b>	<b>\$ 21,112</b>

## 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

## Notes to Financial Statements

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):

<u>2016</u>	Low Rent									
	Federal Housing		Section 8 Rental	Public Housing Loans and Grants	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Consolidating
	<u>Administration</u>	<u>Ginnie Mae</u>	<u>Assistance</u>							
Intragovernmental										
Costs	\$ 1,239	\$ 4	\$ 49	\$ 29	\$ 6	\$ 17	\$ 18	\$ 4	\$ 513	\$ 1,879
Public Costs	(18,997)	428	30,604	2,966	1,951	957	6,268	1,163	5,838	31,178
Subtotal Costs	\$ (17,758)	\$ 432	\$ 30,653	\$ 2,995	\$ 1,957	\$ 974	\$ 6,286	\$ 1,167	\$ 6,351	\$ 33,057
Unassigned Costs									\$ 262	\$ 262
Total Costs										\$ 33,319
Intragovernmental										
Earned Revenue	\$ (1,151)	\$ (84)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (20)	\$ (1,255)
Public Earned Revenue	(67)	(1,562)	-	-	5	(109)	-	-	(17)	(1,750)
Total Earned Revenue	(1,218)	(1,646)	-	-	5	(109)	-	-	(37)	(3,005)
Net Cost of Operations	<u>\$ (18,976)</u>	<u>\$ (1,214)</u>	<u>\$ 30,653</u>	<u>\$ 2,995</u>	<u>\$ 1,962</u>	<u>\$ 865</u>	<u>\$ 6,286</u>	<u>\$ 1,167</u>	<u>\$ 6,576</u>	<u>\$ 30,314</u>

<u>2015</u>	Low Rent									
	Federal Housing		Section 8 Rental	Public Housing Loans and Grants	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants	HOME	All Other	Consolidating
	<u>Administration</u>	<u>Ginnie Mae</u>	<u>Assistance</u>							
Intragovernmental										
Costs	\$ 1,206	\$ 4	\$ 70	\$ 37	\$ 13	\$ 47	\$ 20	\$ 8	\$ 316	\$ 1,721
Public Costs	(17,409)	(238)	29,412	2,798	1,881	990	7,547	1,233	5,755	31,969
Subtotal Costs	\$ (16,203)	\$ (234)	\$ 29,482	\$ 2,835	\$ 1,894	\$ 1,037	\$ 7,567	\$ 1,241	\$ 6,071	\$ 33,690
Unassigned Costs									\$ 218	\$ 218
Total Costs										\$ 33,908
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	<u>\$ (18,052)</u>	<u>\$ (1,789)</u>	<u>\$ 29,482</u>	<u>\$ 2,835</u>	<u>\$ 1,890</u>	<u>\$ 901</u>	<u>\$ 7,567</u>	<u>\$ 1,241</u>	<u>\$ 6,260</u>	<u>\$ 30,335</u>

## Notes to Financial Statements

## 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 2016 (dollars in millions):

<b>Budget Functional Classification</b>	<b>Gross Cost</b>	<b>Earned Revenue</b>	<b>Net Cost</b>
Intragovernmental:			
Commerce and Housing Credit	\$ 1,246	\$ (1,236)	\$ 10
Community and Regional Development	70	(6)	64
Income Security	350	(12)	338
Administration of Justice	4		4
Other Multiple Functions	209	(1)	208
<b>Total Intragovernmental</b>	<b>1,879</b>	<b>(1,255)</b>	<b>624</b>
With the Public:			
Commerce and Housing Credit	\$ (18,487)	\$ (1,749)	\$ (20,236)
Community and Regional Development	6,393	-	6,393
Income Security	43,145	-	43,145
Administration of Justice	74	(1)	73
Other Multiple Functions	53	-	53
<b>Total with the Public</b>	<b>\$ 31,178</b>	<b>\$ (1,750)</b>	<b>\$ 29,428</b>
Not Assigned to Programs:			
Income Security	262	-	262
<b>Total with the Public</b>	<b>\$ 262</b>	<b>\$ -</b>	<b>\$ 262</b>
TOTAL:			
Commerce and Housing Credit	\$ (17,241)	\$ (2,985)	\$ (20,226)
Community and Regional Development	6,463	(6)	6,457
Income Security	43,757	(12)	43,745
Administration of Justice	78	(1)	77
Other Multiple Functions	262	(1)	261
<b>TOTAL:</b>	<b>\$ 33,319</b>	<b>\$ (3,005)</b>	<b>\$ 30,314</b>

## Notes to Financial Statements

The following shows HUD's total cost and earned revenue by budget functional classification for FY 2015 (dollars in millions):

<b>Budget Functional Classification</b>	<b>Gross Cost</b>	<b>Earned Revenue</b>	<b>Net Cost</b>
Intragovernmental:			
Commerce and Housing Credit	\$ 1,212	\$ (1,920)	\$ (708)
Community and Regional Development	86	-	86
Income Security	424	(15)	409
Other Multiple Functions	(1)	-	(1)
<b>Total Intragovernmental</b>	<b>1,721</b>	<b>(1,935)</b>	<b>(214)</b>
With the Public:			
Commerce and Housing Credit	\$ (17,734)	\$ (1,629)	\$ (19,363)
Community and Regional Development	7,659	-	7,659
Income Security	41,676	(7)	41,669
Administration of Justice	61	(1)	60
Other Multiple Functions	307	(1)	306
<b>Total with the Public</b>	<b>\$ 31,969</b>	<b>\$ (1,638)</b>	<b>\$ 30,331</b>
Not Assigned to Programs:			
Income Security	218	-	218
<b>Total with the Public</b>	<b>\$ 218</b>	<b>\$ -</b>	<b>\$ 218</b>
TOTAL:			
Commerce and Housing Credit	\$ (16,522)	\$ (3,549)	\$ (20,071)
Community and Regional Development	7,745	-	7,745
Income Security	42,318	(22)	42,296
Administration of Justice	61	(1)	60
Other Multiple Functions	306	(1)	305
<b>TOTAL:</b>	<b>\$ 33,908</b>	<b>\$ (3,573)</b>	<b>\$ 30,335</b>

## Note 23: Expenditures by Strategic Goals

As HUD updated its Strategic Plan to address the economic and community development issues the nation is facing, four 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 to improve quality of life

Goal 4: Build strong, resilient and inclusive communities

In addition to the four Strategic Goals, HUD has additional eight management objectives establishing strategies and metrics for acquisitions, departmental clearance, equal employment opportunity, financial management, grants management, human capital, information management, and organizational structure.

## Notes to Financial Statements

The following table shows the expenditures allocated to HUD's Strategic Goals for FY 2016 (dollars in millions):

	Goal 1	Goal 2	Goal 3	Goal 4	Management Objectives	Total
<b>Programs</b>						
FHA	\$ (12,335)	\$ (2,846)	\$ (759)	\$ (3,036)	\$ -	\$ (18,976)
Ginnie Mae	(910)	(304)	-	-	-	(1,214)
Section 8 Rental Assistance	-	25,066	200	5,387	-	30,653
Low Rent Public Housing Loans and Grants	419	2,197	75	304	-	2,995
Homeless Assistance Grants	-	1,373	589	-	-	1,962
Housing for the Elderly and Disabled	-	538	76	251	-	865
Community Development Block Grants	1,257	314	943	3,772	-	6,286
HOME	315	630	-	222	-	1,167
All Other Programs	365	3,696	805	1,365	83	6,314
<b>Total</b>	<u>(10,889)</u>	<u>30,664</u>	<u>1,929</u>	<u>8,265</u>	<u>83</u>	<u>30,052</u>
<b>Costs Not Assigned To Programs</b>						\$ 262
<b>Total</b>						<u><u>30,314</u></u>

The following table shows the expenditures allocated to HUD's Strategic Goals for FY 2015 (dollars in millions):

	Goal 1	Goal 2	Goal 3	Goal 4	Management Objectives	Total
<b>Programs</b>						
FHA	\$ (11,734)	\$ (2,708)	\$ (722)	\$ (2,888)	\$ -	\$ (18,052)
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
<b>Total</b>	<u>(10,626)</u>	<u>29,760</u>	<u>2,091</u>	<u>8,860</u>	<u>32</u>	<u>30,117</u>
<b>Costs Not Assigned To Programs</b>						\$ 218
<b>Total</b>						<u><u>30,335</u></u>

## 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.

## Notes to Financial Statements

The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas for FY 2016 (dollars in millions):

<u>HUD's Cross-Cutting Programs</u>	<u>Public and Indian Housing</u>	<u>Housing</u>	<u>Community Planning and Development</u>	<u>Other</u>	<u>Consolidated</u>
<b><u>Section 8</u></b>					
Intragovernmental Gross Costs	\$ 36	\$ 13	\$ -	\$ -	\$ 49
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	\$ 36	\$ 13	\$ -	\$ -	\$ 49
Gross Costs with the Public	\$ 19,869	\$ 10,652	\$ 83	\$ -	\$ 30,604
Earned Revenues	-	-	-	-	-
Net Costs with the Public	\$ 19,869	\$ 10,652	\$ 83	\$ -	\$ 30,604
<b>Net Program Costs</b>	<b>\$ 19,905</b>	<b>\$ 10,665</b>	<b>\$ 83</b>	<b>\$ -</b>	<b>\$ 30,653</b>
<b><u>Low Rent Public Housing Loans &amp; Grants</u></b>					
Intragovernmental Gross Costs	\$ 29	\$ -	\$ -	\$ -	\$ 29
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	\$ 29	\$ -	\$ -	\$ -	\$ 29
Gross Costs with the Public	\$ 2,957	\$ -	\$ -	\$ 9	\$ 2,966
Earned Revenues	-	-	-	-	-
Net Costs with the Public	\$ 2,957	\$ -	\$ -	\$ 9	\$ 2,966
<b>Net Program Costs</b>	<b>\$ 2,986</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9</b>	<b>\$ 2,995</b>
<b><u>Homeless Assistance Grants</u></b>					
Intragovernmental Gross Costs	\$ -	\$ -	\$ -	\$ 6	\$ 6
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	\$ -	\$ -	\$ -	\$ 6	\$ 6
Gross Costs with the Public	\$ -	\$ -	\$ 1,914	\$ 37	\$ 1,951
Earned Revenues	-	-	-	5	5
Net Costs with the Public	\$ -	\$ -	\$ 1,914	\$ 42	\$ 1,956
<b>Net Program Costs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,914</b>	<b>\$ 48</b>	<b>\$ 1,962</b>
<b><u>Housing for the Elderly and Disabled</u></b>					
Intragovernmental Gross Costs	\$ -	\$ 17	\$ -	\$ -	\$ 17
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	\$ -	\$ 17	\$ -	\$ -	\$ 17
Gross Costs with the Public	\$ 2	\$ 955	\$ -	\$ -	\$ 957
Earned Revenues	-	-	-	(109)	(109)
Net Costs with the Public	\$ 2	\$ 955	\$ -	\$ (109)	\$ 848
<b>Net Program Costs</b>	<b>\$ 2</b>	<b>\$ 972</b>	<b>\$ -</b>	<b>\$ (109)</b>	<b>\$ 865</b>
<b><u>Community Development Block Grants</u></b>					
Intragovernmental Gross Costs	\$ -	\$ -	\$ 18	\$ -	\$ 18
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	\$ -	\$ -	\$ 18	\$ -	\$ 18
Gross Costs with the Public	\$ 59	\$ -	\$ 6,202	\$ 7	\$ 6,268
Earned Revenues	-	-	-	-	-
Net Costs with the Public	\$ 59	\$ -	\$ 6,202	\$ 7	\$ 6,268
<b>Net Program Costs</b>	<b>\$ 59</b>	<b>\$ -</b>	<b>\$ 6,220</b>	<b>\$ 7</b>	<b>\$ 6,286</b>
<b><u>All Other</u></b>					
Intragovernmental Gross Costs	\$ 128	\$ 109	\$ 38	\$ 238	\$ 513
Intragovernmental Earned Revenues	-	-	-	(20)	(20)
Intragovernmental Net Costs	\$ 128	\$ 109	\$ 38	\$ 218	\$ 493
Gross Costs with the Public	\$ 4,812	\$ 214	\$ 550	\$ 262	\$ 5,838
Earned Revenues	-	-	-	(17)	(17)
Net Costs with the Public	\$ 4,812	\$ 214	\$ 550	\$ 245	\$ 5,821
<b>Net Program Costs</b>	<b>\$ 4,940</b>	<b>\$ 323</b>	<b>\$ 588</b>	<b>\$ 463</b>	<b>\$ 6,314</b>
Costs Not Assigned to Programs	\$ 89	\$ 104	\$ 69	\$ -	\$ 262
<b>Net Program Costs (including indirect costs)</b>	<b>\$ 5,029</b>	<b>\$ 427</b>	<b>\$ 657</b>	<b>\$ 463</b>	<b>\$ 6,576</b>

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The following table shows the Department's cross-cutting costs among its major program areas for FY 2015 (dollars in millions):

<u>HUD's Cross-Cutting Programs</u>	<u>Public and Indian Housing</u>	<u>Housing</u>	<u>Community Planning and Development</u>	<u>Other</u>	<u>Consolidated</u>
<b>Section 8</b>					
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
<b>Net Program Costs</b>	<b>\$ 19,090</b>	<b>\$ 10,313</b>	<b>\$ 80</b>	<b>\$ (2)</b>	<b>\$ 29,481</b>
<b>Homeless Assistance Grants</b>					
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
<b>Net Program Costs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,846</b>	<b>\$ 44</b>	<b>\$ 1,890</b>
<b>CDBG</b>					
Intragovernmental Gross Costs	\$ -	\$ -	\$ 20	\$ -	\$ 20
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	\$ -	\$ -	\$ 20	\$ -	\$ 20
Gross Costs with the Public	\$ 55	\$ -	\$ 7,456	\$ 36	\$ 7,547
Earned Revenues	-	-	-	-	-
Net Costs with the Public	\$ 55	\$ -	\$ 7,456	\$ 36	\$ 7,547
<b>Net Program Costs</b>	<b>\$ 55</b>	<b>\$ -</b>	<b>\$ 7,476</b>	<b>\$ 36</b>	<b>\$ 7,567</b>
<b>All Other</b>					
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
<b>Net Program Costs</b>	<b>\$ 4,979</b>	<b>\$ 490</b>	<b>\$ 604</b>	<b>\$ (31)</b>	<b>\$ 6,042</b>
Costs Not Assigned to Programs	\$ 63	\$ 102	\$ 53	\$ -	\$ 218
<b>Net Program Costs (including indirect costs)</b>	<b>\$ 5,042</b>	<b>\$ 592</b>	<b>\$ 657</b>	<b>\$ (31)</b>	<b>\$ 6,260</b>

## 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

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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 FY 2009 and which contains minimal activity.

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

	Fiscal Year 2016				
	Single Family Forward Program	HECM Program	Multifamily/Healthcare Program	Administrative Costs	Total
Costs					
Intragovernmental Gross Costs	\$ 791	\$ 234	\$ 196	\$ 17	\$ 1,238
Intragovernmental Earned Revenues	(662)	(403)	(85)	-	(1,150)
Intragovernmental Net Costs	\$ 129	\$ (169)	\$ 111	\$ 17	\$ 88
Gross Costs with the Public	\$ (18,763)	\$ (306)	\$ (518)	\$ 591	\$ (18,996)
Earned Revenues	(14)	(1)	(53)	-	(68)
Net Costs with the Public	\$ (18,777)	\$ (307)	\$ (571)	\$ 591	\$ (19,064)
<b>Net Program Costs</b>	<b>\$ (18,648)</b>	<b>\$ (476)</b>	<b>\$ (460)</b>	<b>\$ 608</b>	<b>\$ (18,976)</b>

	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	\$ (13,284)	\$ (3,994)	\$ (699)	\$ 567	\$ (17,410)
Earned Revenues	(11)	(1)	(46)	-	(58)
Net Costs with the Public	\$ (13,295)	\$ (3,995)	\$ (745)	\$ 567	\$ (17,468)
<b>Net Program Costs</b>	<b>\$ (13,473)</b>	<b>\$ (4,520)</b>	<b>\$ (642)</b>	<b>\$ 583</b>	<b>\$ (18,052)</b>

## 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

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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, 2016 (dollars in millions):

<u>Programs</u>	<u>Undelivered Orders</u>				<u>Undelivered Orders - Obligations, Unpaid</u>
	<u>Unexpended Appropriations</u>	<u>Permanent Indefinite</u>	<u>Investment Authority</u>	<u>Offsetting Collections</u>	
FHA	\$ 127	\$ 80	\$ -	\$ 1,989	\$ 2,196
Ginnie Mae	-	-	-	448	448
Section 8 Rental Assistance	8,898	-	-	-	8,898
Low Rent Public Housing Loans and Grants	4,041	-	-	-	4,041
Homeless Assistance Grants	2,215	-	-	-	2,215
Housing for the Elderly and Disabled	1,623	-	-	-	1,623
Community Development Block Grants	9,588	-	-	-	9,588
HOME Partnership Investment Program	2,647	-	-	-	2,647
Section 235/236	742	-	-	-	742
All Other	2,739	-	-	-	2,739
<b>Total</b>	<b>\$ 32,620</b>	<b>\$ 80</b>	<b>\$ -</b>	<b>\$ 2,437</b>	<b>\$ 35,137</b>

## Notes to Financial Statements

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2015 (dollars in millions):

<u>Programs</u>	<u>Undelivered Orders</u>				
	<u>Unexpended Appropriations</u>	<u>Permanent Indefinite</u>	<u>Investment Authority</u>	<u>Offsetting Collections</u>	<u>Undelivered Orders - Obligations, Unpaid</u>
FHA	\$ 140	\$ 79	\$ -	\$ 1,825	\$ 2,044
Ginnie Mae	-	-	-	488	488
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
<b>Total</b>	<b>\$ 35,815</b>	<b>\$ 79</b>	<b>\$ -</b>	<b>\$ 2,313</b>	<b>\$ 38,207</b>

## 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, 2016 (dollars in millions):

<u>Programs</u>	<u>Reservations</u>			
	<u>Unexpended Appropriations</u>	<u>Permanent Indefinite Appropriations</u>	<u>Offsetting Collections</u>	<u>Total Reservations</u>
Section 8 Rental Assistance	\$ 194	\$ -	\$ -	\$ 194
Low Rent Public Housing Loans and Grants	9	-	-	9
Homeless Assistance Grants	231	-	-	231
Housing for the Elderly and Disabled	140	-	-	140
Community Development Block Grants	7,436	-	-	7,436
HOME Partnership Investment Program	226	-	-	226
Section 235/236	-	-	-	-
All Other	266	-	-	266
<b>Total</b>	<b>\$ 8,502</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,502</b>

## Notes to Financial Statements

The following chart shows HUD's administrative commitments as of September 30, 2015 (dollars in millions):

<u>Programs</u>	<u>Reservations</u>			
	<u>Unexpended Appropriations</u>	<u>Permanent Indefinite Appropriations</u>	<u>Offsetting Collections</u>	<u>Total Reservations</u>
Section 8 Rental Assistance	\$ 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
<b>Total</b>	<b>\$ 8,654</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,654</b>

### Note 27: Apportionment Categories of Obligations Incurred

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

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

	<u>Category A</u>	<u>Category B</u>	<u>Total</u>
<b>2016</b>			
Direct	\$ 912	\$ 105,436	\$ 106,348
Reimbursable	-	3,827	3,827
<b>Total</b>	<b>\$ 912</b>	<b>\$ 109,263</b>	<b>\$ 110,175</b>
<b>2015</b>			
Direct	\$ 984	\$ 112,449	\$ 113,433
Reimbursable	-	5,787	5,787
<b>Total</b>	<b>\$ 984</b>	<b>\$ 118,236</b>	<b>\$ 119,220</b>

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

The President's Budget containing actual FY 2016 data is not available for comparison to the Statement of Budgetary Resources. Actual FY 2016 data will be available in the Appendix to the Budget of the United States Government, FY 2018.

## Notes to Financial Statements

For FY 2015, 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 2015 (dollars in millions):

	Budgetary Resources	Obligations Incurred	Distributed Offsetting	Net Outlays
<b><u>Combined Statement of Budgetary Resources</u></b>	\$ 199,095	\$ 119,220	\$ (2,844)	\$ 51,889
Difference #1 - Resources related to HUD's expired accounts not reported in the President's Budget	(892)	(56)	-	(1)
Difference #2 - Offsetting receipts not included in the President's Budget	1	-	11	(3)
Difference #3 - Ginnie Mae restatement of the Statement of Budgetary Resources	-	(33)	-	-
Difference #4 - Rounding issues	7	(3)	-	4
<b>United States Budget</b>	<b><u>\$ 198,211</u></b>	<b><u>\$ 119,128</u></b>	<b><u>\$ (2,833)</u></b>	<b><u>\$ 51,889</u></b>

## Note 29: Reconciliation of Net Cost of Operations to Budget

This note (formerly the Statement of Financing) links the proprietary data to the budgetary data. Most transactions are recorded in both proprietary and budgetary accounts. However, because different accounting bases are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts. The Reconciliation of Net Cost of Operations to Budget is as follows for the periods ending September 30, 2016 and 2015 (dollars in millions):

## Notes to Financial Statements

	2016	2015
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 110,175	\$ 119,220
Spending Authority from Offsetting Collections and Recoveries	(62,119)	(68,756)
Obligations Net of Offsetting Collections	\$ 48,056	\$ 50,464
Offsetting Receipts	(2,302)	(2,844)
Net Obligations	\$ 45,754	\$ 47,620
<b>Other Resources</b>		
Transfers In/Out Without Reimbursement	\$ -	\$ -
Imputed Financing from Costs Absorbed by Others	158	65
FHA Transfers Out to U.S. Dept. of Treasury for negative subsidies	(2,063)	(4,217)
CFO Other Resources	-	4
Net Other Resources Used to Finance Activities	\$ (1,905)	\$ (4,148)
<b>Total Resources Used to Finance Activities</b>	\$ 43,849	\$ 43,472
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods/Services/Benefits		
Services Ordered but Not Yet Provided	\$ 3,317	\$ 2,867
Credit Program Resources that Increase LLG or Allowance for Subsidy	517	243
Credit Program Resources not Included in Net Cost (Surplus) of Operations	-	-
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(49,156)	(48,956)
Resources that Fund Expenses from Prior Periods	(6,886)	(14,991)
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	56,032	62,720
Other	1,352	3,259
<b>Total Resources Used to Finance Items Not Part of Net Cost of Operations</b>	\$ 5,176	\$ 5,142
<b>Total Resources Used to Finance the Net Cost of Operations</b>	\$ 49,025	\$ 48,614
<b>Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period</b>		
Upward/Downward Re-estimates of Credit Subsidy Expense	\$ (9,737)	\$ (4,917)
Increase in Exchange Revenue Receivable from the Public	(109)	(334)
Change in Loan Loss Reserve	(7)	(1)
Revaluation of Assets or Liabilities	-	19
Depreciation and Amortization	21	16
Changes in Bad Debt Expenses Related to Credit Reform Receivables	5	(42)
Reduction of Credit Subsidy Expense from Guarantee Endorsements and Modifications	(9,716)	(13,607)
Increase in Annual Leave Liability	57	-
Other	775	587
<b>Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period</b>	\$ (18,711)	\$ (18,279)
<b>Net Cost of Operations</b>	<b>\$ 30,314</b>	<b>\$ 30,335</b>

With the exception of Ginnie Mae, HUD included the following items in line 2 above titled “Spending Authority from Offsetting Collections and Recoveries”: Actual Offsetting Collections (SBR line 4176), Changes in Uncollected Customer Payments from Federal Sources (SBR line 4177) and Recoveries (SBR line 3042). Due to collections precluded from obligation,

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**Notes to Financial Statements**

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Ginnie Mae used an alternative calculation as follows: Spending Authority from Offsetting Collections (SBR line 1890) and Recoveries (SBR line 3042).

## **Note 30: Restatement of the Department's Fiscal Year 2015 Financial Statements**

### **Restatement of FHA's Fiscal Year 2015 Financial Statements**

In FY 2016, FHA corrected material misstatements identified by OIG in the Consolidated Balance Sheet (BS), the Statement of Net Cost (SNC) and the Statement of Changes in Net Position (SCNP) to recognize the reduction of accrued expenses in the Home Equity Conversion Mortgage (HECM) cash flow model assumptions used to calculate the agency's Liability for Loan Guarantees (LLG). Historically reported property Maintenance and Operating (M&O) management expenses inadvertently included accrued costs that resulted in FHA's LLG to be overstated by \$830 million in FY 2014 and \$833 million in FY 2015. As a result, the overstated total gross cost of HECM expenses reported on the SNC for FY 2014 caused the cumulative results of operations reported on the SCNP to be understated by \$1,371 million. The same correction was made in the calculation of the FY 2015 model expense rate assumptions however, there was less of a net impact on FY 2015 reporting. The net effect of the error for both years, offset by the adjustment for the annual reestimates, resulted in the overall HECM gross cost reported on the SNC in FY 2015 to be overstated by \$2 million and the cumulative result of operations on the SCNP to be understated by \$835 million.

Maintenance and Operating (M&O) expenses represent primarily Management and Marketing contract expenses maintained in the SAMS property management system. FHA uses M&O expenses in the cash flow model assumptions to calculate the LLG. In FY 2014 and FY 2015, the M&O expense reports FHA received for HECM showed significant increases in M&O expenses over previous years. FHA initially attributed the increases to an increase in expenses related to HECM property sales and projected the increase to level off and return to previous levels. In FY 2016, further research of the M&O data found that accrued costs (interest, service fees from assignment to conveyance, and mortgage insurance premiums) were being incorrectly included in the M&O expenses. These activities were inappropriate to include since they do not represent cash flows.

FHA has restated its FY 2015 financial statements to correct the reported balance of the LLG in the current period. Due to the imminent publishing of the FY 2016 audited financial statements, the FY 2015 restatement will be presented comparatively. Recalculation of the FY 2014 corrected LLG and net costs of operations are reflected in the restated FY 2015 beginning balance of the Statement of Changes in Net Position. The restatement will affect the line balances of the Loan Receivables and Related Foreclosed Property, Other Liabilities, LLG and Current Year Results of Operations on the Balance Sheet; the HECM Gross Cost with the Public on the Statement of Net Cost; the Changes in Net Position beginning balance, Other Financing

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**Notes to Financial Statements**

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Sources and Net Costs of Operations on the Statement of Changes in Net Position; and related footnotes.

**Restatement of Ginnie Mae's Fiscal Year 2015 Statement of Budgetary Resources**

Ginnie Mae's Statement of Budgetary Resources (SBR) for fiscal year FY 2015 was restated to correct material errors resulting from the inability of Ginnie Mae's accounting system (GFAS) to support and perform budgetary accounting and reporting functions. GFAS has since been configured to perform this task. Furthermore, Ginnie Mae has completed its data migration and reconciliation efforts related to its budgetary accounting process. The reconciliation effort identified root causes related to the initial system configuration, as well as errors in the unautomated budgetary resources recording process. As a result, Ginnie Mae has recorded adjustments to its unpaid obligation balance, which was understated by \$39 million. The restated SBR also reflects an error correction, which pre-closed apportioned resources with an impact of \$1,028 million, thereby understating apportioned resources and overstating unapportioned resources.

**Restatement of CFO's FY 2015 Financial Statements**

Several Section 8 programs with Rental Assistance Demonstration (RAD) conversation funds were incorrectly classified as All Other Funds instead of Funds from Dedicated Collections. This caused a misclassification of FY 2015 Net Position on the Balance Sheet and Statement of Changes in Net Position in the amount of \$15 million. In FY 2016, CFO restated the FY 2015 Financial Statements; the overall net impact on Net Position was zero.

## Notes to Financial Statements

Balance Sheet (dollars in millions)	September 30, 2015 Consolidated Financial Statements (without restatement)	September 30, 2015 Consolidated Financial Statements (with restatement)	Impact of September 30, 2015 Restatements
<b>ASSETS</b>			
Intragovernmental			
Fund Balance with Treasury (Note 4)	\$ 94,691	94,691	\$ -
Short-Term Investments (Note 6)	12,923	12,923	-
Long-Term Investments Held-To-Maturity (Note 6)	14,754	14,754	-
Other Assets (Note 12)	9	9	-
<b>Total Intragovernmental</b>	<b>\$ 122,377</b>	<b>122,377</b>	<b>\$ -</b>
Cash and Other Monetary Assets (Note 5)	\$ 45	45	\$ -
Investments (Note 6)	31	31	-
Accounts Receivable, Net (Note 7)	780	780	-
Direct Loan and Loan Guarantees, Net (Note 8)	14,425	14,965	(540)
Other Non-Credit Reform Loans (Note 9)	3,227	3,227	-
General Property, Plant and Equipment, Net (Note 10)	329	329	-
PIH Prepayments (Note 11)	672	672	-
Other Assets (Note 12)	45	45	-
<b>TOTAL ASSETS</b>	<b>\$ 141,931</b>	<b>142,471</b>	<b>\$ (540)</b>
<b>LIABILITIES</b>			
Intragovernmental Liabilities			
Accounts Payable (Note 13)	\$ 15	16	\$ (1)
Debt (Note 14)	27,150	27,150	-
Other Intragovernmental Liabilities (Note 17)	2,610	3,148	(538)
<b>Total Intragovernmental</b>	<b>\$ 29,775</b>	<b>30,314</b>	<b>\$ (539)</b>
Accounts Payable (Note 13)	\$ 966	966	\$ -
Accrued Grant Liabilities (Note 13)	2,388	2,388	-
Loan Guarantee Liability (Note 8)	14,307	13,473	834
Debt Held by the Public (Note 14)	8	8	-
Federal Employee and Veteran Benefits (Note 15)	69	69	-
Loss Reserves (Note 16)	-	-	-
Other Governmental Liabilities (Note 17)	1,239	1,239	-
<b>TOTAL LIABILITIES</b>	<b>\$ 48,752</b>	<b>48,457</b>	<b>\$ 295</b>
Commitments and Contingencies (Note 19)	55	55	-
<b>Net Position</b>			
Unexpended Appropriations - Funds From Dedicated Collections (Note 20)	\$ (320)	(305)	\$ (15)
Unexpended Appropriations - Other Funds	51,435	51,420	15
Cumulative Results of Operations - Funds From Dedicated Collections (Note 20)	21,417	21,417	-
Cumulative Results of Operations - Other Funds	20,647	21,482	(835)
<b>TOTAL NET POSITION - Funds From Dedicated Collections</b>	<b>21,097</b>	<b>21,112</b>	<b>(15)</b>
<b>TOTAL NET POSITION - All Other Funds</b>	<b>72,082</b>	<b>72,902</b>	<b>(820)</b>
<b>Total Net Position</b>	<b>\$ 93,179</b>	<b>94,014</b>	<b>\$ (835)</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 141,931</b>	<b>142,471</b>	<b>\$ (540)</b>

Statement of Net Cost (dollars in millions)	September 30, 2015 Consolidated Financial Statements (without restatement)	September 30, 2015 Consolidated Financial Statements (with restatement)	Impact of September 30, 2015 Restatements
<b>Program Costs</b>			
Gross Costs	\$ 33,910	\$ 33,908	\$ 2
Less: Earned Revenue	(3,573)	(3,573)	-
Net Program Costs	\$ 30,337	\$ 30,335	\$ 2
<b>Net Cost of Operations</b>	<b>\$ 30,337</b>	<b>\$ 30,335</b>	<b>\$ 2</b>

## Notes to Financial Statements

Statement of Changes in Net Position (dollars in millions)	September 30, 2015 Consolidated Financial Statements (without restatement)	September 30, 2015 Consolidated Financial Statements (with restatement)	Impact of September 30, 2015 Restatements
<b>Cumulative Results of Operations:</b>			
<b>Beginning Balances</b>	\$ 23,685	\$ 23,684	\$ 1
<b>Adjustments</b>			-
Corrections of Errors	(3)	1,368	(1,371)
<b>Beginning Balances, As Adjusted</b>	\$ 23,682	\$ 25,052	\$ (1,370)
<b>Budgetary Financing Sources:</b>			
Other Adjustments	\$ -	\$ -	\$ -
Appropriations Used	52,993	52,993	-
Non-exchange Revenue	3	3	-
<b>Other Financing Sources (Non-Exchange):</b>			
Imputed Financing	\$ 65	\$ 65	\$ -
Other	(4,342)	(4,879)	537
Total Financing Sources	48,719	48,182	537
Net Cost of Operations	(30,337)	(30,335)	(2)
Net Change	\$ 18,382	\$ 17,847	\$ 535
<b>Cumulative Results of Operations</b>	<b>\$ 42,064</b>	<b>\$ 42,899</b>	<b>\$ (835)</b>
<b>Unexpended Appropriations:</b>			
<b>Beginning Balances</b>	\$ 56,220	\$ 56,221	\$ (1)
<b>Adjustments</b>			
Changes in Accounting Principles	-	-	-
Corrections of Errors	574	574	-
<b>Beginning Balances, As Adjusted</b>	\$ 56,794	\$ 56,795	\$ (1)
<b>Budgetary Financing Sources:</b>			
Appropriations Received	\$ 47,639	\$ 47,639	\$ -
Appropriations Transferred In/Out	-	-	-
Other Adjustments	(325)	(325)	-
Appropriations Used	(52,993)	(52,994)	1
Total Budgetary Financing Sources	\$ (5,679)	\$ (5,680)	\$ 1
<b>Unexpended Appropriations</b>	\$ 51,115	\$ 51,115	\$ -
<b>Net Position</b>	<b>\$ 93,179</b>	<b>\$ 94,014</b>	<b>\$ (835)</b>

## Notes to Financial Statements

Statement of Budgetary Resources (dollars in millions)	September 30, 2015		September 30, 2015		Impact of September 30, 2015 Restatements
	Consolidated Financial Statements (without restatement)		Consolidated Financial Statements (with restatement)		
<b>Budgetary Resources:</b>					
Unobligated Balance, Brought Forward	\$ 84,489	\$	84,489	\$	-
Adjustments to Unobligated Balance Brought Forward, October 1	-		(13)		13
Unobligated Balance Brought Forward, Oct 1, As Adjusted	\$ 84,489	\$	84,477	\$	12
Recoveries of Prior Year Unpaid Obligations	1,107		1,113		(6)
Other changes in unobligated balance	(709)		(707)		(2)
<b>Unobligated balance from prior year budget authority, net</b>	<b>\$ 84,887</b>	<b>\$</b>	<b>84,883</b>	<b>\$</b>	<b>4</b>
Appropriations (discretionary and mandatory)	\$ 47,458	\$	47,457	\$	1
Borrowing Authority (discretionary and mandatory)	12,146		12,146		-
Contract Authority (discretionary and mandatory)	-		-		-
Budget Authority from non expenditure transfers, net	-		-		-
Spending Authority from offsetting collections	\$ 54,610	\$	54,610		-
<b>Total Budgetary Resources</b>	<b>\$ 199,101</b>	<b>\$</b>	<b>199,096</b>	<b>\$</b>	<b>5</b>
<b>Status of Budgetary Resources:</b>					
Direct	\$ 113,432	\$	113,433	\$	(1)
Reimbursable	5,754		5,787		(33)
<b>Subtotal</b>	<b>\$ 119,186</b>	<b>\$</b>	<b>119,220</b>	<b>\$</b>	<b>(34)</b>
Apportioned	\$ 16,604	\$	17,593	\$	(989)
Exempt from Apportionment	-		-		-
Unapportioned	63,311		62,283		1,028
<b>Unexpired unobligated balance, end of year</b>	<b>\$ 79,915</b>	<b>\$</b>	<b>79,876</b>	<b>\$</b>	<b>39</b>
<b>Total Status of Budgetary Resources</b>	<b>\$ 199,101</b>	<b>\$</b>	<b>199,096</b>	<b>\$</b>	<b>5</b>
<b>Change in Obligated Balance:</b>					
<b>Unpaid Obligations:</b>					
Unpaid obligations, brought forward, Oct 1	\$ 43,598	\$	43,598	\$	-
Adjustments to unpaid obligations, start of year (+ or -)	-		15		(15)
Obligations incurred	119,186		119,220		(34)
Outlays (gross) (-)	(119,635)		(119,635)		-
Actual transfers, unpaid obligations (net) (+ or -)	-		-		-
Recoveries of prior year unpaid obligations (-)	(1,107)		(1,113)		6
<b>Unpaid obligations, end of year</b>	<b>\$ 42,042</b>	<b>\$</b>	<b>42,085</b>	<b>\$</b>	<b>(43)</b>
<b>Uncollected Payments:</b>					
Uncollected payments, Fed sources, brought forward, Oct 1 (-)	\$ (64)	\$	(69)	\$	5
Adjustment to uncollected payments, Fed sources, start of year (+ or -)	-		-		-
Change in uncollected payments, Fed sources (+ or -)	(6)		(5)		(1)
Actual Transfers, uncollected payments from Federal sources (net) (+ or -)	-		-		-
<b>Uncollected payments, Fed sources, end of year (-)</b>	<b>\$ (70)</b>	<b>\$</b>	<b>(74)</b>	<b>\$</b>	<b>4</b>
<b>Memorandum Entries</b>					
<b>Obligated balance, start of year (+ or -)</b>	<b>\$ 43,534</b>	<b>\$</b>	<b>43,544</b>	<b>\$</b>	<b>(10)</b>
<b>Obligated balance, end of year (net)</b>	<b>\$ 41,972</b>	<b>\$</b>	<b>42,011</b>	<b>\$</b>	<b>(39)</b>
<b>BUDGET AUTHORITY, NET:</b>					
Budget authority, gross (discretionary and mandatory)	\$ 114,212	\$	114,213	\$	(1)
Actual offsetting collections (discretionary and mandatory) (-)	(67,752)		(67,747)		(5)
Change in uncollected customer payments from, Fed Sources (disc and mand)	(6)		(5)		(1)
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	-		-		-
<b>Budget Authority, net (discretionary and mandatory) Subtotal</b>	<b>\$ 46,454</b>	<b>\$</b>	<b>46,461</b>	<b>\$</b>	<b>(7)</b>
<b>Outlays, net (discretionary and mandatory)</b>					
Gross Outlays	\$ 119,635	\$	119,635	\$	-
Actual offsetting collections (discretionary and mandatory) (-)	(67,749)		(67,747)		(2)
<b>Outlays, net (discretionary and mandatory)</b>	<b>\$ 51,886</b>	<b>\$</b>	<b>51,888</b>	<b>\$</b>	<b>(2)</b>
Distributed offsetting receipts	\$ (2,844)	\$	(2,844)	\$	-
<b>Agency Outlays, net (discretionary and mandatory)</b>	<b>\$ 49,042</b>	<b>\$</b>	<b>49,044</b>	<b>\$</b>	<b>(2)</b>

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**Notes to Financial Statements**

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**Notification Letter for the Reissuance of the Department's Fiscal Year 2016 Agency Financial Report (AFR)**

The eleventh-hour identification of material changes in component financial statements initiated multiple updates and changes in the Departmental consolidated financial statements and notes. This had a cascading effect on the remainder of the schedule, resulting in a truncated schedule for preparation and review of the final materials, including weaknesses in reconciling and cross-checking internal controls and limited the time for audit by OIG. After release of the consolidated financial statements on November 15, 2016, the audit of the financial statements continued. This resulted in the discovery of errors in the financial information after release. These errors were generally attributed to the last-minute material changes at the component level, which were not fully incorporated throughout the financial information due to a compressed timeframe and weaknesses in internal controls processes, including shifting conditions and limitations on the ability to rapidly adjust to changing circumstances.

HUD determined that its FY 2016 financial statements contained a misclassification between line items on the Combined Statement of Budgetary Resources (SBR) of \$557 million – specifically impacting the lines for Unobligated Balance Brought Forward, Apportioned Unexpired, Unapportioned Unexpired, and Unpaid Obligations Brought Forward. In addition, notes were updated for inconsistencies with the FY 2016 financial statements, which had compounding consequences, thus inflating the errors values. These inconsistencies resulted in a gross adjustment of \$253,781 million for FY 2016 in the presentation of the notes and did not impact the principal financial statements. Also, HUD determined that its FY 2015 financial statements contained a misclassification between line items on the SBR of \$8 million, specifically impacting the lines for Uncollected Payments from Federal Sources – Beginning Balance and Actual Offsetting Collections, and an inconsistency within the FY 2015 Statement of Changes in Net Position (SCNP) of \$2,810 million, specifically impacting the lines for Cumulative Results of Operations – Beginning of Period – Balance and Adjustments – Corrections and Errors, as well as Total Financing Sources – Dedicated and Total Financing Sources – All Other. In addition, notes were updated for number inconsistencies with the financial statements, which had compounding consequences, thus inflating the errors values. These inconsistencies resulted in a gross adjustment of \$262,662 million for FY 2015 in the presentation of the notes and schedules and did not impact the financial statements. Overall, the combined adjustments to the financial statements resulted in a net adjustment of \$3 million, but no change in HUD's financial position or impact to our programs. In other words, while the presentation of the financial information was inaccurate, the correction of these inaccuracies did not represent a change in cash balances or any improper payments, or misallocation of HUD resources.

## 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.

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**Required Supplementary Stewardship Information**

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- **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.

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**Required Supplementary Stewardship Information**

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- 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.

## Required Supplementary Stewardship Information

## 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 2012 through 2016.

**Investments in Non-Federal Physical Property**  
**Fiscal Year 2012 – 2016**  
*(Dollars in millions)*

Program	2012	2013	2014	2015	2016
<b>CPD</b>					
CDBG	\$1,115	\$1,129	\$986	\$922	\$996
Disaster Grants <sup>1</sup>	\$332	\$330	\$319	\$394	\$412
HOME	\$23	\$21	\$24	\$18	\$14
SHP/CoC - Homeless <sup>2</sup>	\$11	\$1	\$1	\$0	\$3
NSP <sup>3</sup>	\$16	\$6	\$1	\$1	\$1
RIF <sup>4</sup>	\$0	\$3	\$1	\$0	\$0
<b>PIH</b>					
ICDBG <sup>5</sup>	\$117	\$54	\$60	\$0	\$115
NHHBG	\$13	\$12	\$10	\$9	\$0
IHBG <sup>6</sup>	\$271	\$268	\$244	\$290	\$208
HOPE VI	\$122	\$127	\$82	\$57	\$63
Choice Neighborhoods <sup>7</sup>	\$0	\$3	\$22	\$43	\$70
PH Capital Fund	\$2,223	\$1,798	\$1,706	\$1,916	\$1,830
<b>TOTAL</b>	<b>\$4,243</b>	<b>\$3,752</b>	<b>\$3,456</b>	<b>\$3,650</b>	<b>\$3,712</b>

**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 were awarded in February, 2016.
6. Historical amounts were updated to reflect corrections made since the last report.
7. Choice Neighborhoods reported separately from HOPE VI for the first time in FY 2012, however the amount was not material to be included in the FY 2012 AFR.

## Required Supplementary Stewardship Information

## 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 2012 through 2016.

## Investments in Human Capital

Fiscal Year 2012 – 2016

(Dollars in millions)

Program	2012	2013	2014	2015	2016
<b>CPD</b>					
CDBG	\$29	\$24	\$26	\$25	\$21
Disaster Grants <sup>1</sup>	\$171	\$311	\$809	\$379	\$400
ESG	\$4	\$3	\$3	\$3	\$3
NSP TA <sup>2</sup>	\$1	\$1	\$0	\$0	\$0
SHP/CoC - Homeless	\$33	\$31	\$26	\$25	\$16
HOPWA	\$1	\$1	\$1	\$0	\$0
Community Compass <sup>3</sup>	\$5	\$21	\$29	\$38	\$48
<b>PIH</b>					
IHBG	\$1	\$1	\$1	\$2	\$1
HOPE VI	\$15	\$12	\$14	\$5	\$5
Choice Neighborhoods <sup>4</sup>	\$0	\$2	\$3	\$5	\$12
<b>OLHCHH</b>					
Lead Technical Assistance	\$0	\$0	\$1	\$0	\$0
<b>TOTAL</b>	<b>\$260</b>	<b>\$407</b>	<b>\$913</b>	<b>\$482</b>	<b>\$506</b>

## 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, FY 2015 and FY 2016.
3. The FY 2016 expenditure increase is due to increased technical assistance and TA to PIH grantees and housing authorities, as well as intensive training and direct TA for grantee compliance with new AFFH requirements.
4. Choice Neighborhoods reported separately from HOPE VI for the first time in FY 2012, however the amount was not material to be included in the FY 2012 AFR.

**Results of Human Capital Investments:** The table on the next page presents the results (number of people trained) of human capital investments made by HUD's CPD, PIH, and OLHCHH programs for fiscal years 2012 through 2016.

## Required Supplementary Stewardship Information

**Results of Investments in Human Capital  
Number of People Trained  
Fiscal Year 2012 – 2016**

<b>Program</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>CPD</b>					
CDBG	65,741	68,236	54,350	51,808	47,805
SHP/CoC - Homeless <sup>1</sup>	27.4%	16.5%	11.9%	N/A	N/A
HOPWA	1,426	1,595	1,415	1,064	502
NSP TA <sup>2</sup>	1,414	6,995	1,397	811	27
RIF <sup>3</sup>	0	1,048	279	397	0
Community Compass <sup>4</sup>	N/A	9,791	13,722	31,631	32,823
<b>PIH</b>					
NHHBG <sup>5</sup>	0	0	0	0	113
IHBG <sup>6</sup>	770	1,077	1,167	1,756	1,752
HOPE VI (see table on page 7)					
Choice Neighborhoods (see table on page 8)					
<b>OLHCHH</b>					
Lead Technical Assistance	600	590	1,069	512	2,120
<b>TOTAL</b>	<b>69,951</b>	<b>89,332</b>	<b>73,399</b>	<b>87,979</b>	<b>85,142</b>

**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 or FY 2016 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 2013, 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 through FY 2016.
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. The number of people trained in FY2015 was corrected based on the last approved QPR. The final reporting period for the RIF program was 09/30/2015.
4. FY 2013 was the first year of reporting Community Compass', formerly OneCPD's, results of investments in human capital in the RSSI. The FY 2015 reported number has been revised, in order to make the FY 2015 and FY 2016 data comparable, with the same data elements, e.g., live in-person and remote; self-paced on line, and recorded trainings.
5. A lack of S&E funding prevented ONAP from offering training in FY 2012-2015. Grantee received training from HUD staff and, in FY 2016, from two contracted training providers. Amount invested in FY 2016 was not material to be included in the AFR.
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

## Required Supplementary Stewardship Information

HOPE VI's key cumulative performance information for fiscal years 2012, 2013, 2014, 2015 and 2016, since the program's inception.

**Key Results of HOPE VI Program Activities**  
**Fiscal Years 2012 – 2016**

<b>HOPE VI Service</b>	<b>2012 Enrolled</b>	<b>2012 Completed</b>	<b>% Completed</b>	<b>2013 Enrolled</b>	<b>2013 Completed</b>	<b>% Completed</b>
Employment Preparation, Placement, & Retention <sup>1</sup>	82,630	N/A	N/A	84,792	N/A	N/A
Job Skills Training Programs	33,566	17,753	53%	34,664	18,322	53%
High School Equivalent Education	17,684	5,164	29%	18,206	5,263	29%
Entrepreneurship Training	3,672	1,613	44%	3,730	1,635	44%
Homeownership Counseling	16,163	6,964	43%	16,504	7,046	43%
<b>HOPE VI Service</b>	<b>2014 Enrolled</b>	<b>2014 Completed</b>	<b>% Completed</b>	<b>2015 Enrolled</b>	<b>2015 Completed</b>	<b>% Completed</b>
Employment Preparation, Placement, & Retention <sup>1</sup>	85,997	N/A	N/A	87,005	N/A	N/A
Job Skills Training Programs	35,001	18,536	53%	35,364	18,685	53%
High School Equivalent Education	18,389	5,315	29%	18,533	5,334	29%
Entrepreneurship Training	3,746	1,649	44%	3,755	1,654	44%
Homeownership Counseling	16,650	7,160	43%	16,837	7,350	44%
<b>HOPE VI Service</b>	<b>2016 Enrolled</b>	<b>2016 Completed</b>	<b>% Completed</b>			
Employment Preparation, Placement, & Retention <sup>1</sup>	87,564	N/A	N/A			
Job Skills Training Programs	35,675	18,877	53%			
High School Equivalent Education	18,705	5,381	29%			
Entrepreneurship Training	3,795	1,682	44%			
Homeownership Counseling	17,399	7,804	45%			

**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, 2015 and 2016.

## Required Supplementary Stewardship Information

Key Results of Choice Neighborhoods Program Activities  
Fiscal Years 2014 – 2016

Choice Neighborhoods Service	2014 <sup>1</sup>	2015	2016
Current Total Original Assisted Residents	5,813	7,017	10,089
Current Total Original Assisted Residents in Case Management	2,900	3,063	4,882
High School Graduation Rate <sup>2</sup>	N/A	N/A	N/A
Number of Residents (in Case Management) Who Completed Job Training or Other Workforce Development Programs	411	867	343

## Notes:

1. 2014 was the first year of reporting results for Choice Neighborhoods Human Capital Investments.
2. Program level High School Graduation Rate data is currently not available for 2014, 2015 and 2016 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, for fiscal years 2012 through 2016.

## Investments in Research and Development

Fiscal Year 2012 – 2016

(Dollars in millions)

Program	2012	2013	2014	2015	2016
<b>OLHCHH</b>					
Lead Hazard Control	\$1	\$2	\$3	\$4	\$5
<b>TOTAL</b>	<b>\$1</b>	<b>\$2</b>	<b>\$3</b>	<b>\$4</b>	<b>\$5</b>

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**Required Supplementary Stewardship Information**


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**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 2012 – 2016***(Dollars)*

<b>Program</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>OLHCHH</b>					
Lead Hazard Control					
Per-Housing Unit Cost	\$5,763	\$6,321	\$7,755	\$8,909	\$9,048
<b>TOTAL</b>	<b>\$5,763</b>	<b>\$6,321</b>	<b>\$7,755</b>	<b>\$8,909</b>	<b>\$9,048</b>

**Required Supplementary Information**

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## **Required Supplementary Information**

Presented on the following pages are the 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 the section.

## Required Supplementary Information

**U.S. Department of Housing and Urban Development**  
**Consolidating Balance Sheet**  
**For the Period Ending September 2016**  
**Dollars in Millions**

	Federal Housing Administration (FHA)	Government Mortgage Association (GNMA)	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants (CDBG)	HOME	All Other	Financial Statement Eliminations	Consolidating
<b>Assets:</b>											
Interagency:											
Fund balance with Treasury (Note 4)	\$ 20,820	\$ 1,379	\$ 9,831	\$ 4,519	\$ 5,363	\$ 2,279	\$ 19,358	\$ 3,230	\$ 6,419	\$ -	\$ 73,198
Short-term Overnight Investments (Note 6)	-	15,954	-	-	-	-	-	-	-	-	15,954
Long-term Investments held to maturity (Note 6)	36,398	-	-	-	-	-	-	-	-	-	36,398
Accounts Receivable, Net (Note 7)	-	7	-	-	-	-	-	-	1	(7)	1
Loans Receivable	-	-	-	-	-	-	-	-	-	-	-
Other Assets (Note 12)	-	-	5	-	1	-	-	-	39	(3)	43
<b>Total Interagency Assets</b>	<b>57,218</b>	<b>17,340</b>	<b>9,836</b>	<b>4,519</b>	<b>5,364</b>	<b>2,279</b>	<b>19,358</b>	<b>3,231</b>	<b>6,459</b>	<b>(10)</b>	<b>125,594</b>
Cash (Note 5)	-	60	-	-	-	-	-	-	-	-	60
Investments (Note 6)	31	-	-	-	-	-	-	-	-	-	31
Accounts Receivable, Net (Note 7)	243	106	68	42	2	14	11	-	125	-	611
Direct Loan and Loan Guarantees, Net (Note 8)	17,742	-	-	-	-	1,171	-	-	563	-	19,476
Other Non-Credit Reform Loans (Note 9)	-	4,235	-	-	-	-	-	-	-	(1,555)	2,680
General Property, Plant, and Equipment (Note 10)	-	83	-	-	-	-	-	-	298	-	381
PIH Prepayments (Note 11)	-	-	380	-	-	-	-	-	-	-	380
Other Assets (Note 12)	53	-	-	-	-	-	-	-	-	-	53
<b>Total Assets</b>	<b>75,287</b>	<b>21,824</b>	<b>10,284</b>	<b>4,561</b>	<b>5,366</b>	<b>3,464</b>	<b>19,369</b>	<b>3,231</b>	<b>7,445</b>	<b>(1,565)</b>	<b>149,266</b>
<b>Liabilities:</b>											
Interagency:											
Accounts Payable (Note 13)	\$ 7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24	\$ (7)	\$ 24
Debt (Note 14)	30,874	-	-	-	-	-	-	-	128	-	31,002
Other Interagency Liabilities (Note 17)	2,765	-	9	2	10	-	-	-	241	(3)	3,024
<b>Total Interagency Liabilities</b>	<b>33,646</b>	<b>-</b>	<b>9</b>	<b>2</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>393</b>	<b>(10)</b>	<b>34,050</b>
Accounts Payable (Note 13)	495	113	4	13	8	6	42	7	318	-	1,006
Accrued Grant Liabilities (Note 13)	-	-	-	253	168	14	1,707	312	109	-	2,663
Loan Guarantees (Note 8)	(805)	-	-	-	-	-	-	-	303	(1,555)	(2,057)
Debt Held by the Public (Note 14)	-	-	-	8	-	-	-	-	-	-	8
Federal Employee and Veteran Benefits (Note 15)	-	-	-	-	-	-	-	-	64	-	64
Environmental Cleanup Costs	-	-	-	-	-	-	-	-	-	-	-
Benefits Due and Payable	-	-	-	-	-	-	-	-	-	-	-
Loss Reserve (Note 16)	-	3	-	-	-	-	-	-	-	-	3
Other Governmental Liabilities (Note 17)	854	322	-	-	-	-	-	-	191	-	1,367
<b>Total Liabilities</b>	<b>34,190</b>	<b>438</b>	<b>13</b>	<b>376</b>	<b>186</b>	<b>20</b>	<b>1,749</b>	<b>319</b>	<b>1,378</b>	<b>(1,565)</b>	<b>37,104</b>
<b>Commitments and Contingencies (Note 19)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>55</b>	<b>-</b>	<b>55</b>
<b>Net Position:</b>											
Unexpended Appropriations - Funds From Dedicated Collections (Note 20)	-	-	30	-	-	-	-	-	(372)	-	(342)
Unexpended Appropriations - All Other Funds	414	-	10,182	4,158	5,178	1,904	17,609	2,912	4,560	-	47,757
Unexpended Operations - All Other Funds	-	21,386	59	27	2	1,540	11	-	1,286	13	27,555
Cumulative Results of Operations - All Other Funds	40,683	-	-	-	-	-	-	-	283	(13)	42,992
<b>Total Net Position - Funds From Dedicated Collections</b>	<b>-</b>	<b>21,386</b>	<b>30</b>	<b>27</b>	<b>2</b>	<b>1,540</b>	<b>11</b>	<b>-</b>	<b>884</b>	<b>13</b>	<b>22,113</b>
<b>Total Net Position - All Other Funds</b>	<b>41,097</b>	<b>-</b>	<b>10,241</b>	<b>4,185</b>	<b>5,180</b>	<b>3,444</b>	<b>17,620</b>	<b>2,912</b>	<b>5,833</b>	<b>(13)</b>	<b>89,449</b>
<b>Total Net Position</b>	<b>41,097</b>	<b>21,386</b>	<b>10,271</b>	<b>4,185</b>	<b>5,180</b>	<b>3,444</b>	<b>17,620</b>	<b>2,912</b>	<b>6,667</b>	<b>-</b>	<b>112,162</b>
<b>Total Liabilities and Net Position</b>	<b>75,287</b>	<b>21,824</b>	<b>10,284</b>	<b>4,561</b>	<b>5,366</b>	<b>3,464</b>	<b>19,369</b>	<b>3,231</b>	<b>7,445</b>	<b>(1,565)</b>	<b>149,266</b>

The accompanying notes are an integral part of these statements.

Figures may not add to totals because of rounding.

## Required Supplementary Information

**U.S. Department of Housing and Urban Development**  
**Consolidating Balance Sheet**  
**For the Period Ending September 2015 (Restated)**  
**Dollars in Millions**

	Federal Housing Administration (FHA)	Government Mortgage Association (GNMA)	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants (CDBG)	HOME	All Other	Financial Statement Eliminations	Consolidating
<b>Assets:</b>											
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
Short-term Overnight Investments (Note 6)	-	12,923	-	-	-	-	-	-	-	-	12,923
Long-term Investments held to maturity (Note 6)	14,754	-	-	-	-	-	-	-	-	-	14,754
Accounts Receivable, Net (Note 7)	-	-	-	-	-	-	-	-	-	-	-
Loans Receivable	1	-	-	-	-	-	-	-	-	-	-
Other Assets (Note 12)	-	-	4	-	-	-	-	-	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 (Note 5)	-	45	-	-	-	-	-	-	-	-	45
Investments (Note 6)	31	-	-	-	-	-	-	-	-	-	31
Accounts Receivable, Net (Note 7)	408	131	33	55	8	14	12	1	118	-	780
Direct Loan and Loan Guarantees, Net (Note 8)	12,923	-	-	-	-	1,417	-	-	625	-	14,965
Other Non-Credit Reform Loans (Note 9)	-	5,325	-	-	-	-	-	-	-	(2,098)	3,227
General Property, Plant, and Equipment (Note 10)	-	58	-	-	-	-	-	-	271	-	329
PIH Prepayments (Note 11)	-	-	672	-	-	-	-	-	-	-	672
Other Assets (Note 12)	45	-	-	-	-	-	-	-	-	-	45
Total Assets	67,219	20,624	10,401	4,921	5,169	3,836	21,536	3,450	7,413	(2,098)	142,471
<b>Liabilities:</b>											
Intragovernmental:											
Accounts Payable (Note 13)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15	\$ -	\$ 16
Debt (Note 14)	27,023	-	-	-	-	-	-	-	127	-	27,150
Other Intragovernmental Liabilities (Note 17)	2,889	-	13	2	5	-	-	-	259	-	3,148
Total Intragovernmental Liabilities	29,913	-	13	2	5	-	-	-	381	-	30,314
Accounts Payable (Note 13)	545	135	6	17	16	2	30	6	209	-	966
Accrued Grant Liabilities (Note 13)	-	-	-	330	132	24	1,514	324	64	-	2,388
Loan Guarantees (Note 8)	15,282	-	-	-	-	-	-	-	289	(2,098)	13,473
Debt Held by the Public (Note 14)	-	-	-	8	-	-	-	-	-	-	8
Federal Employee and Veteran Benefits (Note 15)	-	-	-	-	-	-	-	-	69	-	69
Environmental Cleanup Costs	-	-	-	-	-	-	-	-	-	-	-
Benefits Due and Payable	-	-	-	-	-	-	-	-	-	-	-
Loss Reserve (Note 16)	725	314	-	-	-	-	-	-	199	-	1,239
Other Governmental Liabilities (Note 17)	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	46,465	449	20	357	153	26	1,544	330	1,211	(2,098)	48,857
<b>Commitments and Contingencies (Note 19)</b>											
<b>Net Position:</b>											
Unexpended Appropriations - Funds From Dedicated Collections (Note 20)	-	1	17	18	16	-	-	\$	(362)	-	(365)
Unexpended Appropriations - All Other Funds	871	-	10,364	4,550	4,996	2,272	19,991	3,115	5,340	-	51,499
Unexpended Appropriations - Dedicated Collections (Note 20)	-	20,174	-	-	-	-	-	-	1,433	-	21,417
Cumulative Results of Operations - All Other Funds	19,883	-	-	(4)	4	1,538	1	-	60	-	21,482
<b>Total Net Position - Funds From Dedicated Collections</b>	-	20,175	17	18	16	-	-	\$	881	-	21,112
<b>Total Net Position - All Other Funds</b>	\$ 20,754	\$ -	\$ 10,364	\$ 4,564	\$ 5,000	\$ 3,810	\$ 19,992	\$ 3,115	\$ 5,321	\$ -	\$ 72,902
<b>Total Net Position</b>	\$ 20,754	\$ 20,175	\$ 10,381	\$ 4,564	\$ 5,016	\$ 3,810	\$ 19,992	\$ 3,130	\$ 6,302	\$ -	\$ 94,014
<b>Total Liabilities and Net Position</b>	\$ 67,219	\$ 20,624	\$ 10,401	\$ 4,921	\$ 5,169	\$ 3,836	\$ 21,536	\$ 3,450	\$ 7,413	\$ (2,098)	\$ 142,471

The accompanying notes are an integral part of these statements.  
*Figures may not add to totals because of rounding.*

## Required Supplementary Information

**U.S. Department of Housing and Urban Development**  
**Consolidating Statement of Net Cost**  
**For the Period Ending September 2016**  
**Dollars in Millions**

	Federal Housing Administration (FHA)	Government National Mortgage Association (GNMA)	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants (CDBG)	HOME	All Other	Eliminations	Consolidating
Intragovernmental Gross Costs (Note 21)	1,239	5	49	29	6	17	17	4	513	-	1,879
Less: Intragovernmental Earned Revenue	(1,151)	(84)	-	-	-	-	-	-	(20)	-	(1,255)
Intragovernmental Net Costs	88	(79)	49	29	6	17	17	4	493	-	624
Gross Costs With the Public	(18,997)	427	30,604	2,966	1,951	957	6,269	1,163	5,838	-	31,178
Less: Earned Revenues From the Public	(67)	(1,562)	-	-	5	(109)	-	-	(17)	-	(1,750)
Net Costs With the Public	(19,064)	(1,135)	30,604	2,966	1,956	848	6,269	1,163	5,821	-	29,428
Total Net Cost	(18,976)	(1,214)	30,653	2,995	1,962	865	6,286	1,167	6,314	-	30,052
(Gain) Loss on Pension, ORB or OPEB Assumption Changes	-	-	-	-	-	-	-	-	-	-	-
Net program costs including Assumption Changes	(18,976)	(1,214)	30,653	2,995	1,962	865	6,286	1,167	6,314	-	30,052
Costs Not Assigned to Programs	-	-	-	-	-	-	-	-	263	(1)	262
Less: Earned Revenues Not Attributed to Programs	-	-	-	-	-	-	-	-	-	-	-
<b>Net Cost of Operations</b>	<b>(18,976)</b>	<b>(1,214)</b>	<b>30,653</b>	<b>2,995</b>	<b>1,962</b>	<b>865</b>	<b>6,286</b>	<b>1,167</b>	<b>6,577</b>	<b>(1)</b>	<b>30,314</b>

**Consolidating Statement of Net Cost**  
**For the Period Ending September 2015 (Restated)**  
**Dollars in Millions**

	Federal Housing Administration (FHA)	Government National Mortgage Association (GNMA)	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants (CDBG)	HOME	All Other	Eliminations	Consolidating
Gross Costs (Note 21)	(16,203)	(234)	29,482	2,835	1,894	1,037	7,567	1,241	6,071	-	33,690
Less: Earned Revenues	(1,849)	(1,555)	-	-	(4)	(136)	-	-	(29)	-	(3,573)
Net Program Costs	(18,052)	(1,789)	29,482	2,835	1,890	901	7,567	1,241	6,042	-	30,117
(Gain) Loss on Pension, ORB or OPEB Assumption Changes	-	-	-	-	-	-	-	-	-	-	-
Net Program Costs including Assumption Changes	(18,052)	(1,789)	29,482	2,835	1,890	901	7,567	1,241	6,042	-	30,117
Costs Not Assigned to Programs	-	-	-	-	-	-	-	-	218	-	218
Less: Earned Revenues Not Assigned to Programs	-	-	-	-	-	-	-	-	-	-	-
<b>Net Cost of Operations</b>	<b>(18,052)</b>	<b>(1,789)</b>	<b>29,482</b>	<b>2,835</b>	<b>1,890</b>	<b>901</b>	<b>7,567</b>	<b>1,241</b>	<b>6,260</b>	<b>-</b>	<b>30,335</b>

The accompanying notes are an integral part of these statements.

Figures may not add to totals because of rounding.

## Required Supplementary Information

**U.S. Department of Housing and Urban Development**  
**Consolidating Statement of Changes in Net Position**  
**For the Period Ending September 2016**  
**Dollars in Millions**

	Federal Housing Administration (FHA)	Government National Mortgage Association (GNMA)	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants (CDBG)	HOME	All Other	Eliminations	Total
<b>Cumulative Results of Operations</b>											
<b>Net Position - Beginning of Period</b>											
Funds From Dedicated Collections:	-	20,174	-	-	-	-	-	-	1,243	-	21,417
All Other Funds:	19,046	-	-	(3)	5	1,537	-	-	61	-	20,646
Beginning Balances	19,046	20,174	-	(3)	5	1,537	-	-	1,304	-	42,063
<b>Adjustments</b>											
Changes in Accounting Principles											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	-	-	-	-	-	-	-	-	-	-	-
Corrections of Errors											
Funds From Dedicated Collections:	-	(5)	-	-	-	-	-	-	-	-	(5)
All Other Funds:	835	-	-	-	-	-	-	-	-	-	835
Beginning Balances, As Adjusted											
Funds From Dedicated Collections:	-	20,169	-	-	-	-	-	-	1,243	-	21,412
All Other Funds:	19,881	-	-	(3)	5	1,537	-	-	61	-	21,481
Total Beginning Balances, As Adjusted	19,881	20,169	-	(3)	5	1,537	-	-	1,304	-	42,893
<b>Budgetary Financing Sources</b>											
<b>Other Adjustments (+/-)</b>											
Funds From Dedicated Collections:	-	(1)	-	-	-	-	-	-	-	-	(1)
All Other Funds:	-	-	-	-	-	-	-	-	-	-	-
<b>Appropriations Used</b>											
Funds From Dedicated Collections:	-	-	68	8	6	-	-	-	7	-	89
All Other Funds:	3,393	-	30,471	2,913	1,916	904	6,231	1,143	7,401	-	54,372
<b>Nonexchange Revenue</b>											
Funds From Dedicated Collections:	-	3	(1)	-	-	-	-	-	3	-	5
All Other Funds:	-	-	1	-	-	15	-	-	185	-	201
<b>Donations and Forfeitures of Cash and Cash Equivalents</b>											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	-	-	-	-	-	-	-	-	-	-	-
<b>Transfers-In/Out Without Reimbursement</b>											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	-	-	-	-	-	(122)	-	-	-	122	-
<b>Other</b>											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	-	-	173	104	37	71	66	24	(475)	-	-
<b>Other Financing Sources (Non Exchange):</b>											
<b>Donations and Forfeitures of Property</b>											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	-	-	-	-	-	-	-	-	-	-	-
<b>Transfers-In/Out Without Reimbursement</b>											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	(13)	13	-
All Other Funds:	480	-	-	-	-	-	-	-	(344)	(136)	-
<b>Imputed Financing</b>											
Funds From Dedicated Collections:	-	1	-	-	-	-	-	-	-	-	1
All Other Funds:	16	-	-	-	-	-	-	-	142	-	158
<b>Other</b>											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	13	-	13
All Other Funds:	(2,063)	-	-	-	-	-	-	-	(107)	-	(2,170)
<b>Total Financing Sources</b>											
Funds From Dedicated Collections:	-	3	67	8	6	-	-	-	10	13	107
All Other Funds:	1,826	-	30,645	3,017	1,953	868	6,297	1,167	6,802	(14)	52,561
<b>Total Financing Sources</b>	<b>1,826</b>	<b>3</b>	<b>30,712</b>	<b>3,025</b>	<b>1,959</b>	<b>868</b>	<b>6,297</b>	<b>1,167</b>	<b>6,812</b>	<b>(1)</b>	<b>52,668</b>
<b>Net Cost of Operations</b>											
Funds From Dedicated Collections:	-	1,214	(67)	(8)	(6)	-	-	-	3	-	1,136
Penalties and Fines Revenue	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	18,976	-	(30,586)	(2,987)	(1,956)	(865)	(6,286)	(1,167)	(6,580)	1	(31,450)
<b>Net Change</b>											
Funds From Dedicated Collections:	-	1,217	-	-	-	-	-	-	13	13	1,243
All Other Funds:	20,802	-	59	30	(3)	3	11	-	222	(13)	21,111
<b>Cumulative Results of Operations</b>											
Funds From Dedicated Collections:	-	21,386	-	-	-	-	-	-	1,256	13	22,655
All Other Funds:	40,683	-	59	27	2	1,540	11	-	283	(13)	42,592
<b>Cumulative Results of Operations</b>	<b>40,683</b>	<b>21,386</b>	<b>59</b>	<b>27</b>	<b>2</b>	<b>1,540</b>	<b>11</b>	<b>-</b>	<b>1,539</b>	<b>-</b>	<b>65,247</b>

Figures may not add to totals because of rounding.

## Required Supplementary Information

**U.S. Department of Housing and Urban Development**  
**Consolidating Statement of Changes in Net Position**  
**For the Period Ending September 2016 (continued)**  
Dollars in Millions

	Federal Housing Administration (FHA)	Government National Mortgage Association (GNMA)	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants (CDBG)	HOME	All Other	Eliminations	Total
<b>Unexpended Appropriations:</b>											
<b>Net Position - Beginning of Period</b>											
Funds From Dedicated Collections:	-	1	3	18	17	-	-	5	(364)	-	(320)
All Other Funds:	871	-	10,378	4,550	4,996	2,272	19,991	3,115	5,262	-	51,435
Beginning Balances	871	1	10,381	4,568	5,013	2,272	19,991	3,120	4,898	-	51,115
<b>Adjustments</b>											
Changes in Accounting Principles											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	-	-	-	-	-	-	-	-	-	-	-
Corrections of Errors											
Funds From Dedicated Collections:	-	(1)	15	-	-	-	-	-	-	-	14
All Other Funds:	-	-	(15)	-	-	-	-	-	-	-	(15)
Beginning Balances, as Adjusted											
Funds From Dedicated Collections:	-	-	18	18	17	-	-	5	(364)	-	(306)
All Other Funds:	871	-	10,363	4,550	4,996	2,272	19,991	3,115	5,262	-	51,420
Total Beginning Balances, as Adjusted	871	-	10,381	4,568	5,013	2,272	19,991	3,120	4,898	-	51,114
<b>Budgetary Financing Sources:</b>											
<b>Appropriations Received</b>											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	3,437	-	30,248	2,548	2,250	583	3,860	950	7,212	-	51,088
<b>Appropriations Transferred-In/Out</b>											
Funds From Dedicated Collections:	-	-	80	-	-	-	-	-	-	-	80
All Other Funds:	-	-	41	(22)	-	-	(1)	-	(98)	-	(80)
<b>Other Adjustments (+/-)</b>											
Funds From Dedicated Collections:	-	-	-	(10)	(11)	-	-	(5)	(1)	-	(27)
All Other Funds:	(501)	-	1	(5)	(152)	(47)	(10)	(10)	(75)	-	(799)
<b>Appropriations Used</b>											
Funds From Dedicated Collections:	-	-	(68)	(8)	(6)	-	-	-	(7)	-	(89)
All Other Funds:	(3,393)	-	(30,471)	(2,913)	(1,916)	(904)	(6,231)	(1,143)	(7,401)	-	(54,372)
<b>Total Budgetary Financing Sources</b>											
Funds From Dedicated Collections:	-	-	12	(18)	(17)	-	-	(5)	(8)	-	(36)
All Other Funds:	(457)	-	(181)	(392)	182	(368)	(2,382)	(203)	(362)	-	(4,163)
<b>Total Budgetary Financing Sources</b>	<b>(457)</b>	<b>-</b>	<b>(169)</b>	<b>(410)</b>	<b>165</b>	<b>(368)</b>	<b>(2,382)</b>	<b>(208)</b>	<b>(370)</b>	<b>-</b>	<b>(4,199)</b>
<b>Total Unexpended Appropriations</b>											
Funds From Dedicated Collections:	-	-	30	-	-	-	-	-	(372)	-	(342)
All Other Funds:	414	-	10,182	4,158	5,178	1,904	17,609	2,912	4,900	-	47,257
<b>Total Unexpended Appropriations</b>	<b>414</b>	<b>-</b>	<b>10,212</b>	<b>4,158</b>	<b>5,178</b>	<b>1,904</b>	<b>17,609</b>	<b>2,912</b>	<b>4,528</b>	<b>-</b>	<b>46,915</b>
<b>Net Position</b>											
Funds From Dedicated Collections:	-	21,386	30	-	-	-	-	-	884	13	22,313
All Other Funds:	41,097	-	10,241	4,185	5,180	3,444	17,620	2,912	5,183	(13)	89,849
<b>Net Position</b>	<b>41,097</b>	<b>21,386</b>	<b>10,271</b>	<b>4,185</b>	<b>5,180</b>	<b>3,444</b>	<b>17,620</b>	<b>2,912</b>	<b>6,067</b>	<b>-</b>	<b>112,162</b>

Figures may not add to totals because of rounding.

## Required Supplementary Information

**U.S. Department of Housing and Urban Development**  
**Consolidated Statement of Changes in Net Position**  
**For the Period Ending September 2015 (Restated)**  
**Dollars in Millions**

	Federal Housing Administration (FHA)	Government National Mortgage Association (GNMA)	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants (CDBG)	HOME	All Other	Eliminations	Total
<b>Cumulative Results of Operations</b>											
<b>Net Position - Beginning of Period</b>											
Funds From Dedicated Collections:	-	18,385	-	-	-	-	-	-	1,236	-	19,621
All Other Funds:	2,013	-	-	(4)	-	1,951	1	-	102	-	4,063
Beginning Balances	2,013	18,385	-	(4)	-	1,951	1	-	1,338	-	23,684
<b>Adjustments</b>											
Changes in Accounting Principles											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	-	-	-	-	-	-	-	-	-	-	-
Corrections of Errors											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	(3)	-	(3)
All Other Funds:	1,371	-	-	-	-	-	-	-	-	-	1,371
Beginning Balances, As Adjusted											
Funds From Dedicated Collections:	-	18,385	-	-	-	-	-	-	1,233	-	19,618
All Other Funds:	3,384	-	-	(4)	-	1,951	1	-	102	-	5,434
Total Beginning Balances, As Adjusted	3,384	18,385	-	(4)	-	1,951	1	-	1,335	-	25,052
<b>Budgetary Financing Sources</b>											
Other Adjustments (+/-)											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	-	-	-	-	-	-	-	-	-	-	-
Appropriations Used											
Funds From Dedicated Collections:	-	-	39	(1)	-	-	75	2	-	-	115
All Other Funds:	2,206	-	29,245	2,720	1,850	946	7,423	1,210	7,278	-	52,878
Nonexchange Revenue											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	3	-	3
All Other Funds:	-	-	-	-	-	-	-	-	-	-	-
Donations and Forfeitures of Cash and Cash Equivalents											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	-	-	-	-	-	-	-	-	-	-	-
Transfers-In/Out Without Reimbursement											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	-	-	-	-	-	(544)	-	-	544	-	-
Other											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	-	-	198	116	44	86	69	29	(542)	-	-
<b>Other Financing Sources (Non Exchange):</b>											
Donations and Forfeitures of Property											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	-	-	-	-	-	-	-	-	-	-	-
Transfers-In/Out Without Reimbursement											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	442	-	-	-	-	-	-	-	(442)	-	-
Imputed Financing											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	1	-	1
All Other Funds:	15	-	-	-	-	-	-	-	49	-	64
Other											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	(4,216)	-	-	-	-	-	-	-	(663)	-	(4,879)
<b>Total Financing Sources</b>											
Funds From Dedicated Collections:	-	-	39	(1)	-	-	75	2	4	-	119
All Other Funds:	(1,553)	-	29,443	2,836	1,894	488	7,492	1,239	6,224	-	48,063
<b>Total Financing Sources</b>	<b>(1,553)</b>	<b>-</b>	<b>29,482</b>	<b>2,835</b>	<b>1,894</b>	<b>488</b>	<b>7,567</b>	<b>1,241</b>	<b>6,228</b>	<b>-</b>	<b>48,182</b>
<b>Net Cost of Operations</b>											
Funds From Dedicated Collections:	-	1,789	(39)	1	-	-	(75)	(2)	6	-	1,680
Penalties and Fines Revenue	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	18,052	-	(29,443)	(2,836)	(1,890)	(901)	(7,492)	(1,239)	(6,266)	-	(32,015)
Net Change											
Funds From Dedicated Collections:	-	1,789	-	-	-	-	-	-	10	-	1,799
All Other Funds:	16,499	-	-	-	4	(413)	-	-	(42)	-	16,048
<b>Cumulative Results of Operations</b>											
Funds From Dedicated Collections:	-	20,174	-	-	-	-	-	-	1,243	-	21,417
All Other Funds:	19,883	-	-	(4)	4	1,538	1	-	60	-	21,482
<b>Cumulative Results of Operations</b>	<b>19,883</b>	<b>20,174</b>	<b>-</b>	<b>(4)</b>	<b>4</b>	<b>1,538</b>	<b>1</b>	<b>-</b>	<b>1,303</b>	<b>-</b>	<b>42,899</b>

Figures may not add to totals because of rounding.

## Required Supplementary Information

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

	Federal Housing Administration (FHA)	Government National Mortgage Association (GNMA)	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for the Elderly and Disabled	Community Development Block Grants (CDBG)	HOME	All Other	Eliminations	Total
<b>Unexpended Appropriations:</b>											
Net Position - Beginning of Period											
Funds From Dedicated Collections:	-	2	1	17	16	-	91	7	(355)	-	(221)
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	24,457	3,439	5,113	-	56,221
Adjustments											
Changes in Accounting Principles											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	-	-	-	-	-	-	-	-	-	-	-
Corrections of Errors											
Funds From Dedicated Collections:	-	-	-	-	-	-	-	-	-	-	-
All Other Funds:	-	-	574	-	-	-	-	-	-	-	574
Beginning Balances, as Adjusted											
Funds From Dedicated Collections:	-	2	1	17	16	-	91	7	(355)	-	(221)
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	10,576	4,784	4,869	2,683	24,457	3,439	5,113	-	56,795
<b>Budgetary Financing Sources:</b>											
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 Transferred-In/Out											
Funds From Dedicated Collections:	-	-	55	-	-	-	-	-	-	-	55
All Other Funds:	-	-	-	(16)	-	-	-	-	(40)	-	(56)
Other Adjustments (+/-)											
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:	-	-	(39)	1	-	-	(75)	(2)	-	-	(115)
All Other Funds:	(2,206)	-	(29,245)	(2,720)	(1,850)	(946)	(7,423)	(1,210)	(7,278)	-	(52,878)
Total Budgetary Financing Sources											
Funds From Dedicated Collections:	-	(1)	16	1	-	-	(91)	(2)	(7)	-	(84)
All Other Funds:	(1)	-	(211)	(217)	143	(411)	(4,375)	(317)	(207)	-	(5,596)
<b>Total Budgetary Financing Sources</b>	<b>(1)</b>	<b>(1)</b>	<b>(195)</b>	<b>(216)</b>	<b>143</b>	<b>(411)</b>	<b>(4,466)</b>	<b>(319)</b>	<b>(214)</b>	<b>-</b>	<b>(5,680)</b>
Total Unexpended Appropriations											
Funds From Dedicated Collections:	-	1	17	18	16	-	-	5	(362)	-	(305)
All Other Funds:	871	-	10,364	4,550	4,996	2,272	19,991	3,115	5,261	-	51,420
<b>Total Unexpended Appropriations</b>	<b>871</b>	<b>1</b>	<b>10,381</b>	<b>4,568</b>	<b>5,012</b>	<b>2,272</b>	<b>19,991</b>	<b>3,120</b>	<b>4,899</b>	<b>-</b>	<b>51,115</b>
Net Position											
Funds From Dedicated Collections:	-	20,175	17	18	16	-	-	5	881	-	21,112
All Other Funds:	20,754	-	10,364	4,546	5,000	3,810	19,992	3,115	5,321	-	72,902
<b>Net Position</b>	<b>20,754</b>	<b>20,175</b>	<b>10,381</b>	<b>4,564</b>	<b>5,016</b>	<b>3,810</b>	<b>19,992</b>	<b>3,120</b>	<b>6,202</b>	<b>-</b>	<b>94,014</b>

Figures may not add to totals because of rounding.

## Required Supplementary Information

**U.S. Department of Housing and Urban Development**  
**Combining Statement of Budgetary Resources**  
**For the Period Ending September 2016**  
**Dollars in Millions**

	Federal Housing Administration (FHA)	Government National Mortgage Association (GNMA)	Section 8 Rental Assistance (SRA)	Public and Indian Housing Loans and Grants (PIH)	Housing for the Elderly and Disabled (HED)	Community Development Block Grants (CDBG)	HOME	All Other	Budgetary Total	Federal Housing Administration Non-Budgetary	Government National Mortgage Association Non-Budgetary	Other Non-Budgetary Credit Program Accounts	Total Non-Budgetary Credit Program Accounts
<b>Budgetary Resources:</b>													
Unobligated Balance Brought Forward, October 1	16,733	13,001	790	156	2,626	441	9,029	264	44,388	33,986	1,031	471	35,488
Adjustments to Unobligated Balance Brought Forward, October 1	-	-	-	-	5	-	-	-	2	-	-	-	(3)
<b>Unobligated Balance Brought Forward, Oct 1, As Adjusted</b>	<b>16,733</b>	<b>13,001</b>	<b>790</b>	<b>156</b>	<b>2,631</b>	<b>441</b>	<b>9,029</b>	<b>264</b>	<b>44,395</b>	<b>33,983</b>	<b>1,031</b>	<b>471</b>	<b>35,485</b>
Recoveries of Prior Year Unpaid Obligations	241	17	126	14	389	40	9	29	1,039	463	-	-	1,502
Other Changes in Unobligated Balance	(681)	(1)	-	(17)	(161)	(169)	(10)	(14)	(56)	-	-	-	(1,089)
<b>Unobligated Balance From Prior Year Budget Authority, Net</b>	<b>16,293</b>	<b>13,017</b>	<b>916</b>	<b>153</b>	<b>2,859</b>	<b>312</b>	<b>9,028</b>	<b>279</b>	<b>44,345</b>	<b>34,446</b>	<b>1,031</b>	<b>471</b>	<b>35,948</b>
Appropriations	3,431	-	30,370	2,529	2,250	583	3,859	950	7,284	51,256	-	-	51,256
Borrowing Authority	-	-	-	-	-	-	-	-	-	13,076	-	2	13,078
Contract Authority	-	-	-	-	-	-	-	-	-	-	-	-	-
Spending Authority From Offsetting Collections	25,010	3,268	-	-	-	368	-	-	58	19,800	2,766	92	22,658
<b>Total Budgetary Resources</b>	<b>44,734</b>	<b>16,285</b>	<b>31,286</b>	<b>2,682</b>	<b>5,109</b>	<b>1,263</b>	<b>12,887</b>	<b>1,229</b>	<b>8,830</b>	<b>67,322</b>	<b>3,797</b>	<b>565</b>	<b>71,684</b>
<b>Status of Budgetary Resources</b>													
New obligations and upward adjustments (total)	6,976	24	30,357	2,572	2,128	626	4,866	964	6,815	50,911	-	109	51,020
Direct	-	196	-	-	9	1	-	-	6	214	-	-	3,613
Reimbursable	6,976	220	30,357	2,574	2,137	627	4,866	964	6,821	50,911	3,613	109	54,633
Subtotal	-	-	-	-	-	-	-	-	-	-	-	-	110,175
<b>Unobligated Balances, End of Year</b>	<b>70</b>	<b>181</b>	<b>763</b>	<b>88</b>	<b>2,216</b>	<b>226</b>	<b>7,441</b>	<b>231</b>	<b>1,031</b>	<b>5,574</b>	<b>15</b>	<b>88</b>	<b>5,677</b>
Apportioned, unexpired account	-	-	-	-	-	-	-	-	-	-	-	-	-
Exempt From Apportionment, unexpired accounts	-	-	-	-	-	-	-	-	-	-	-	-	-
Unapportioned, unexpired accounts	37,648	15,880	166	2	196	355	574	2	844	55,667	169	368	11,374
<b>Unexpired unobligated balance, end of year</b>	<b>37,718</b>	<b>16,061</b>	<b>929</b>	<b>90</b>	<b>2,412</b>	<b>581</b>	<b>8,015</b>	<b>233</b>	<b>1,875</b>	<b>16,411</b>	<b>184</b>	<b>456</b>	<b>17,051</b>
Expired unobligated balance, end of year	40	4	-	18	560	55	6	32	134	849	-	-	849
<b>Total unobligated balance, end of year (total)</b>	<b>37,758</b>	<b>16,065</b>	<b>929</b>	<b>108</b>	<b>2,972</b>	<b>636</b>	<b>8,021</b>	<b>265</b>	<b>2,009</b>	<b>16,411</b>	<b>184</b>	<b>456</b>	<b>17,051</b>
<b>Total Status of Budgetary Resources</b>	<b>44,734</b>	<b>16,285</b>	<b>31,286</b>	<b>2,682</b>	<b>5,109</b>	<b>1,263</b>	<b>12,887</b>	<b>1,229</b>	<b>8,830</b>	<b>67,322</b>	<b>3,797</b>	<b>565</b>	<b>71,684</b>
<b>Change in Obligated Balance</b>													
<b>Unpaid Obligations:</b>													
Unpaid Obligations, Brought Forward, October 1	565	353	8,902	4,710	2,536	1,964	12,495	3,184	4,617	39,326	2,485	2	2,758
Adjustment to Unpaid Obligations, Start of Year	-	-	-	-	(5)	-	-	-	(3)	(8)	3	-	(5)
New Obligations and Upward Adjustments	6,976	220	30,357	2,574	2,137	627	4,866	964	6,821	55,542	50,911	109	54,633
Outlays (gross)	(6,953)	(221)	(30,231)	(2,860)	(1,887)	(910)	(6,015)	(1,154)	(7,289)	(57,520)	(3,656)	(106)	(54,048)
Actual Transfers, Unpaid Obligations	-	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries of Prior Year Unpaid Obligations	(241)	(17)	(126)	(14)	(389)	(40)	(9)	(29)	(174)	(1,039)	(463)	-	(463)
Unpaid Obligations, End of Year (gross)	347	335	8,902	4,410	2,392	1,641	11,337	2,965	3,972	36,301	2,650	5	2,883
<b>Uncollected Payments:</b>													
Uncollected Payments, Fed Sources, Brought Forward, Oct 1	(15)	-	-	-	-	-	-	-	(3)	(18)	-	(56)	(74)
Adjustment to Uncollected Payments, Fed Sources, Start of Year	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in Uncollected Customer Payments, Fed Sources	(20)	-	-	-	-	(1)	-	-	(2)	(23)	-	5	(18)
Actual Transfers, Uncollected Payments, Fed sources	-	-	-	-	-	-	-	-	-	-	-	-	-
Uncollected Payments, Fed sources, End of Year	(35)	-	-	-	-	(1)	-	-	(5)	(41)	-	(51)	(92)
<b>Memorandum (non-add) Entries:</b>													
<b>Obligated Balance, Start of Year</b>	<b>550</b>	<b>353</b>	<b>8,902</b>	<b>4,710</b>	<b>2,531</b>	<b>1,964</b>	<b>12,495</b>	<b>3,184</b>	<b>4,611</b>	<b>39,300</b>	<b>2,488</b>	<b>271</b>	<b>2,705</b>
<b>Obligated Balance, End of Year</b>	<b>312</b>	<b>335</b>	<b>8,902</b>	<b>4,410</b>	<b>2,392</b>	<b>1,640</b>	<b>11,337</b>	<b>2,965</b>	<b>3,967</b>	<b>36,260</b>	<b>2,650</b>	<b>(46)</b>	<b>2,832</b>
<b>Budget Authority and Outlays, Net:</b>													
Budget Authority, Gross (discretionary and mandatory)	28,441	3,268	30,370	2,529	2,250	951	3,859	950	7,342	79,960	32,876	94	35,736
Actual Offsetting Collections (discretionary and mandatory)	(24,991)	(3,382)	-	(1)	(1)	(369)	(1)	-	(81)	(28,826)	(29,027)	(96)	(31,888)
(discretionary and mandatory)	(20)	-	-	-	-	(1)	-	-	(2)	(23)	-	5	(18)
Recoveries of prior year paid obligations (discretionary and mandatory)	1	-	-	1	1	1	1	-	24	28	-	-	28
Anticipated Offsetting Collections (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Budget Authority, Net (discretionary and mandatory)</b>	<b>3,431</b>	<b>(114)</b>	<b>30,370</b>	<b>2,529</b>	<b>2,250</b>	<b>581</b>	<b>3,859</b>	<b>950</b>	<b>7,283</b>	<b>51,139</b>	<b>3,849</b>	<b>1</b>	<b>3,853</b>
Outlays, Gross (discretionary and mandatory)	6,953	221	30,231	2,860	1,887	910	6,015	1,154	7,289	57,520	50,286	106	54,048
Actual Offsetting Collections (discretionary and mandatory)	(24,991)	(3,382)	-	(1)	(1)	(369)	(1)	-	(81)	(28,826)	(29,027)	(96)	(31,888)
<b>Outlays, Net (discretionary and mandatory)</b>	<b>(18,038)</b>	<b>(3,161)</b>	<b>30,231</b>	<b>2,859</b>	<b>1,886</b>	<b>541</b>	<b>6,014</b>	<b>1,154</b>	<b>7,208</b>	<b>28,694</b>	<b>21,259</b>	<b>10</b>	<b>22,160</b>
Distributed Offsetting Receipts	(2,000)	-	(5)	-	-	(297)	-	-	(297)	(2,302)	-	-	(2,302)
<b>Agency Outlays, Net (discretionary and mandatory)</b>	<b>(20,038)</b>	<b>(3,161)</b>	<b>30,226</b>	<b>2,859</b>	<b>1,886</b>	<b>541</b>	<b>6,014</b>	<b>1,154</b>	<b>6,911</b>	<b>26,392</b>	<b>21,259</b>	<b>10</b>	<b>22,160</b>

Figures may not add to totals because of rounding.

## Required Supplementary Information

**U.S. Department of Housing and Urban Development**  
**Combining Statement of Budgetary Resources**  
**For the Period Ending September 2015 (Restated)**  
**Dollars in Millions**

	Government		Public and		Housing for		Community		HOME		Budgetary		Federal Housing		Government		Total Non-	
	Federal Housing Administration (FHA)	National Mortgage Association (GNMA)	Section 8 Rental Assistance	Indian Housing Loans and Grants (IHLG)	Homeless Assistance Grants (HAG)	Disability Grants	Development and Black Block Grants (CDBG)	Disability Grants	HOME	All Other	Total	Non-Budgetary	Administration	Non-Budgetary	National Mortgage Association	Other Non-Budgetary Credit Program Accounts	Budgetary Program Accounts	Total
<b>Budgetary Resources:</b>																		
Unobligated Balance Brought Forward, October 1	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	(13)																	(13)
<b>Unobligated Balance Brought Forward, Oct 1, As Adjusted</b>	<b>8,132</b>	<b>9,016</b>	<b>736</b>	<b>150</b>	<b>2,460</b>	<b>570</b>	<b>12,177</b>	<b>200</b>	<b>1,255</b>	<b>34,716</b>	<b>45,569</b>	<b>3,751</b>	<b>440</b>	<b>49,760</b>	<b>84,476</b>			
Recoveries of Prior Year Unpaid Obligations	50	7	107	26	274	44	716	19	14	397	1,113	1	14	397	1,113			
Other Changes in Unobligated Balance	(241)	(1)	(93)	(6)	(142)	(34)	(188)	(7)	(93)	(710)	382	382	3	3	(707)			
<b>Unobligated Balance From Prior Year Budget Authority, Net</b>	<b>7,961</b>	<b>9,022</b>	<b>843</b>	<b>172</b>	<b>2,592</b>	<b>426</b>	<b>12,167</b>	<b>212</b>	<b>1,327</b>	<b>34,722</b>	<b>45,951</b>	<b>3,752</b>	<b>487</b>	<b>50,160</b>	<b>84,882</b>			
Appropriations	2,225	-	29,090	2,506	2,135	555	3,066	900	6,580	47,457	-	-	-	-	47,457			
Borrowing Authority	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Contract Authority	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Spending Authority From Offsetting Collections	21,716	4,247	-	-	7	127	-	-	61	26,158	25,563	2,817	72	28,452	54,610			
<b>Total Budgetary Resources</b>	<b>31,902</b>	<b>13,269</b>	<b>29,933</b>	<b>2,678</b>	<b>4,734</b>	<b>1,108</b>	<b>15,233</b>	<b>1,112</b>	<b>8,468</b>	<b>108,337</b>	<b>83,660</b>	<b>6,569</b>	<b>529</b>	<b>90,758</b>	<b>199,095</b>			
<b>Status of Budgetary Resources</b>																		
New obligations and upward adjustments (total)																		
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	-	246	-	-	-	-	-	-	3	249	-	-	5,538	-	5,538			
Subtotal	15,170	268	29,143	2,522	2,109	666	6,204	848	7,019	63,949	49,673	-	59	55,270	119,219			
<b>Unobligated Balances, End of Year</b>																		
Apportioned, unexpired account	56	128	698	113	2,085	254	9,021	237	523	13,115	3,509	867	102	4,478	17,593			
Exempt From Apportionment, unexpired accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Unapportioned, unexpired accounts	16,676	12,873	92	43	540	188	8	27	826	31,273	30,478	164	368	31,010	62,283			
<b>Unexpired unobligated balance, end of year</b>	<b>16,732</b>	<b>13,001</b>	<b>790</b>	<b>156</b>	<b>2,625</b>	<b>442</b>	<b>9,029</b>	<b>264</b>	<b>1,349</b>	<b>44,388</b>	<b>33,987</b>	<b>1,031</b>	<b>470</b>	<b>35,488</b>	<b>79,876</b>			
Expired unobligated balance, end of year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
<b>Total unobligated balance, end of year (total)</b>	<b>16,732</b>	<b>13,001</b>	<b>790</b>	<b>156</b>	<b>2,625</b>	<b>442</b>	<b>9,029</b>	<b>264</b>	<b>1,349</b>	<b>44,388</b>	<b>33,987</b>	<b>1,031</b>	<b>470</b>	<b>35,488</b>	<b>79,876</b>			
<b>Total Status of Budgetary Resources</b>	<b>31,902</b>	<b>13,269</b>	<b>29,933</b>	<b>2,678</b>	<b>4,734</b>	<b>1,108</b>	<b>15,233</b>	<b>1,112</b>	<b>8,468</b>	<b>108,337</b>	<b>83,660</b>	<b>6,569</b>	<b>529</b>	<b>90,758</b>	<b>199,095</b>			
<b>Change in Obligated Balance</b>																		
<b>Unpaid Obligations:</b>																		
Unpaid Obligations, Brought Forward, October 1	587	281	8,865	4,871	2,605	2,303	12,861	3,568	5,146	41,087	2,229	265	17	2,511	43,598			
Adjustment to Unpaid Obligations, Start of Year	-	15	-	-	-	-	15	-	-	-	-	-	-	-	15			
New Obligations and Upward Adjustments	15,170	268	29,143	2,522	2,109	666	6,204	848	7,019	63,949	49,673	5,538	59	55,270	119,219			
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Recoveries of Prior Year Unpaid Obligations	(50)	(7)	(107)	(26)	(274)	(44)	(24)	(19)	(165)	(716)	(382)	(1)	(14)	(397)	(1,113)			
Unpaid Obligations, End of Year (gross)	565	355	8,902	4,710	2,536	1,963	12,494	3,184	4,617	39,326	2,485	270	3	2,758	42,084			
<b>Uncollected Payments:</b>																		
Uncollected Payments, Fed Sources, Brought Forward, Oct 1	(8)	-	-	-	-	-	-	-	(4)	(12)	-	(2)	(55)	(57)	(69)			
Adjustment to Uncollected Payments, Fed Sources, Start of Year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Change in Uncollected Customer Payments, Fed Sources	(6)	-	-	-	-	-	-	-	-	(6)	-	-	2	(1)	1	(5)		
Actual Transfers, Uncollected Payments, Fed sources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Uncollected Payments, End of Year	(14)	-	-	-	-	-	-	-	(4)	(18)	-	-	-	(56)	(74)			
<b>Memorandum (non-add) Entries:</b>																		
<b>Obligated Balance, Start of Year</b>	<b>579</b>	<b>296</b>	<b>8,865</b>	<b>4,871</b>	<b>2,605</b>	<b>2,303</b>	<b>12,861</b>	<b>3,568</b>	<b>5,142</b>	<b>41,090</b>	<b>2,229</b>	<b>263</b>	<b>(38)</b>	<b>2,454</b>	<b>43,544</b>			
<b>Obligated Balance, End of Year</b>	<b>551</b>	<b>355</b>	<b>8,902</b>	<b>4,710</b>	<b>2,536</b>	<b>1,963</b>	<b>12,494</b>	<b>3,184</b>	<b>4,613</b>	<b>39,308</b>	<b>2,485</b>	<b>270</b>	<b>(53)</b>	<b>2,702</b>	<b>42,010</b>			
<b>Budget Authority and Outlays, Net:</b>																		
Budget Authority, Gross (discretionary and mandatory)	23,941	4,247	29,090	2,506	2,142	682	3,066	900	7,041	73,615	37,709	2,817	72	40,598	114,213			
Actual Offsetting Collections (discretionary and mandatory)	(21,710)	(4,358)	-	-	(6)	(506)	-	-	(59)	(26,639)	(38,213)	(2,819)	(76)	(41,108)	(67,747)			
Change in Uncollected Customer Payments from Fed sources (discretionary and mandatory)	(6)	-	-	-	-	-	-	-	-	(6)	-	-	2	(1)	1	(5)		
Anticipated Offsetting Collections (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
<b>Budget Authority, Net (discretionary and mandatory)</b>	<b>2,225</b>	<b>(111)</b>	<b>29,090</b>	<b>2,506</b>	<b>2,136</b>	<b>176</b>	<b>3,066</b>	<b>900</b>	<b>6,982</b>	<b>46,970</b>	<b>(504)</b>	-	(5)	(509)	<b>46,461</b>			
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)	-	-	(59)	(26,639)	(38,213)	(2,819)	(76)	(41,108)	(67,747)			
<b>Outlays, Net (discretionary and mandatory)</b>	<b>(6,568)</b>	<b>(4156)</b>	<b>28,999</b>	<b>2,657</b>	<b>1,898</b>	<b>456</b>	<b>6,547</b>	<b>1,213</b>	<b>7,324</b>	<b>38,370</b>	<b>10,822</b>	<b>2,713</b>	<b>(17)</b>	<b>13,518</b>	<b>51,888</b>			
Disbursed Offsetting Receipts	(2,797)	-	-	-	-	-	-	-	(47)	(2,844)	-	-	-	-	-			
<b>Agency Outlays, Net (discretionary and mandatory)</b>	<b>(9,365)</b>	<b>(4,156)</b>	<b>28,999</b>	<b>2,657</b>	<b>1,898</b>	<b>456</b>	<b>6,547</b>	<b>1,213</b>	<b>7,277</b>	<b>35,526</b>	<b>10,822</b>	<b>2,713</b>	<b>(17)</b>	<b>13,518</b>	<b>49,044</b>			

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<sup>1</sup>

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

## Report on the Financial Statements

### Introduction

The Chief Financial Officers Act of 1990 requires HUD to prepare the accompanying consolidated balance sheets as of September 30, 2016 and 2015 (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 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, which include the design, implementation, and maintenance of internal controls relevant to the

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<sup>1</sup> This report is supplemented by four separate reports issued by HUD 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 included 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 2016 and 2015 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit (audit report 2017-FO-0003, issued November 15, 2016); (2) Audit of Federal Housing Administration Financial Statements for Fiscal Years 2016 and 2015 (Restated) (audit report 2017-FO-0002, issued November 14, 2016); (3) Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2016 and 2015 (Restated) (audit report 2017-FO-0001, issued November 14, 2016); and (4) HUD's Fiscal Years 2016 and 2015 (Restated) Consolidated Financial Statements Audit (Reissued) (audit report 2017-FO-0005, issued March 1, 2017).

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**Independent Auditor's Report**

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preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

We are required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994 and implemented by OMB Bulletin 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**

During our fiscal year 2016 audit, HUD's acting general counsel refused to sign off on certain matters included in the management representation letter concerning all known actual or possible litigation, claims, and assessments related to HUD, including its component entities. We believe that HUD's acting general counsel is responsible for and knowledgeable about those matters that should be considered in Office of the Chief Financial Officer (OCFO) management's preparation and fair presentation of the financial statements. Due to HUD's acting general counsel's refusal to sign off on these matters, which is a scope limitation, we lacked assurance that all known actual or possible litigation, claims, and assessments had been properly accounted for or disclosed in the consolidated financial statements in accordance with GAAP.

We identified several other matters for which we were unable to obtain adequate audit evidence to provide a basis of opinion on the fiscal years 2016 and 2015 (restated) financial statements. When evaluating these areas and their impacts on the financial statements as a whole, we determined that multiple material financial statement line items were impacted and the issues identified were pervasive and material to the fiscal years 2016 and 2015 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.

The other matters that we identified related to (1) improper budgetary accounting, (2) a disclaimer of opinion on Ginnie Mae's financial statements, (3) unvalidated grant accrual estimates, (4) improper and unreliable accounting for assets and liabilities, and (5) significant unreconciled subledger to general ledger differences. Additional details are discussed below.

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**Independent Auditor's Report**

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Improper budgetary accounting. HUD continued to use budgetary accounting for its Office of Community Planning and Development (CPD) programs that was not performed in accordance with Federal GAAP, which resulted in misstatements in HUD's combined statement of budgetary resources. Therefore, we could not assess whether the balances reported were reasonable.

HUD used a cumulative and first-in first-out (FIFO) method<sup>2</sup> to disburse and commit CPD program funds that was not in accordance with GAAP for Federal grants. These methods 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 considered pervasive because of the dollar risk exposure and volume of CPD grant activities from several thousand grantees (as of September 30, 2016, approximately \$2.7 billion in disbursements and \$2.4 billion in undisbursed obligations were impacted that were related to the HOME 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.

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 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.

Disclaimer of opinion on Ginnie Mae financial statements. In fiscal year 2016, for the third consecutive year, Ginnie Mae could not bring its material asset balances related to its nonpooled loan assets into an auditable state. Specifically, we were unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of the \$4.2 billion (net

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<sup>2</sup> The Federal Accounting Standards Advisory Board (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 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) Financial Audit Manual, 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 are the first funds committed and disbursed, regardless of the source year in which grant funds were committed for the activity.

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**Independent Auditor's Report**

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of allowance) in nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio, and Ginnie Mae continued to improperly account for FHA reimbursable costs as an expense instead of capitalizing the costs as an asset.

A number of Ginnie Mae balance sheet line items made up the \$4.2 billion in nonpooled loan assets,<sup>3</sup> which were consolidated into the other non-credit-reform loans reported on HUD's consolidated balance sheet. This condition occurred because Ginnie Mae lacked financial management systems capable of handling its loan-level transaction accounting requirements. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence. As a result, we determined that our audit scope was insufficient to express an opinion on Ginnie Mae's \$4.2 billion in nonpooled loan assets as of September 30, 2016.

Ginnie Mae continued to improperly account for FHA reimbursable costs as an expense instead of capitalizing the costs as an asset in fiscal year 2016. This practice caused Ginnie Mae's asset and net income line items to be misstated, resulting in misstatements in HUD's consolidated assets, expenses, and net position. Due to multiple years of incorrect accounting, we believe the cumulative effect of the errors identified was material. However, we were unable to determine with sufficient accuracy a proposed adjustment to correct the errors due to insufficient available data.

Unvalidated grant accrual estimates. 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. We were unable to obtain sufficient, appropriate audit evidence that the fiscal years 2015 and 2016 estimates were reasonable. This lack of evidence was due to (1) CPD's not validating its accrued grant liability estimates, (2) CPD's inability to provide adequate supporting documentation for grant disbursements in a timely manner, and (3) 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 CPD's accrued grant liability estimates. Therefore, we could not form an opinion on CPD's accrued grant liability estimates for fiscal years 2016 and 2015. CPD's estimated accrued grant liabilities were \$2.3 billion and \$2 billion for fiscal years 2016 and 2015, respectively. These amounts accounted for 85 percent of HUD's total \$2.7 billion accrued grant liabilities in fiscal year 2016 and 84 percent of HUD's total \$2.4 billion accrued grant liabilities in fiscal year 2015.

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<sup>3</sup> These are (1) mortgage loans held for investment, net (\$3.47 billion); (2) claims receivable, net (\$709 million); (3) accrued interest receivable, net (\$19 million); and (4) acquired property, net (\$41 million).

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**Independent Auditor's Report**

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*Improper and unreliable accounting for assets and liabilities.* HUD did not properly account for several types of assets and liabilities reported on its balance sheet, causing misstatements or unreliable balances. Specifically, (1) balances reported for non-FHA loan guarantees and property, plant, and equipment balances could not be relied upon; (2) payments advanced to Indian Housing Block Grant (IHBG) grantees for investment purposes were not recorded as advances; and (3) loans receivable related to the Emergency Homeowners' Loan Program (EHLPP) could not be audited.

During fiscal year 2016, HUD was undergoing a reconciliation and cleanup effort for balances related to its non-FHA loan guarantee programs. Many discrepancies had been identified, and adjustments had been processed during the fiscal year to address some of the discrepancies identified totaling \$17.3 billion. However, as of September 30, 2016, HUD was in the process of researching and resolving additional discrepancies identified, and the review was ongoing. As a result, we could not rely on HUD's non-FHA loan guarantee balances, including its loan guarantee liability (\$303 million), foreclosed property (\$36 million), unpaid obligations (\$22.4 million), and memorandum accounts used to track the status of loan guarantee authority. There were no other compensating audit procedures that could be performed to obtain reasonable assurance regarding these balances.

HUD's accounting for its property, plant, and equipment did not comply with Federal GAAP. Specifically, HUD could not support balances related to internal use software totaling \$254.3 million. In addition, HUD did not adequately record property, plant, and equipment balances related to furniture and equipment and leasehold improvements. Therefore, the total HUD proper property, plant, and equipment balance of \$297 million could not be relied upon.

HUD authorized recipients of Federal funds to retain funding advanced to them before incurring eligible expenses; however, HUD did not recognize these funds as advances on its financial statements in accordance with Statements on Federal Financial Accounting Standards 1. As of June 30, 2016, as much as \$260.1 million was being held in investment accounts with IHBG grantees, which represented an advance in accordance with the standards. HUD elected to present these as expenses on its statement of net cost once they were disbursed. Therefore, we believe the Office of Public and Indian Housing (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, 2016.

Lastly, weaknesses in the accounting for the EHLPP loans receivable portfolio continued, which limited our ability to audit during the fiscal year. A data review was performed during the fiscal year as a result of serious deficiencies in the accuracy of the loan balances identified in our prior-year audit report.<sup>4</sup> However, adjustments to correct the loan data were being made as of the end of our fieldwork. 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

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<sup>4</sup> OIG Audit Report 2015-DP-0004, Loan Accounting System, issued December 9, 2014

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**Independent Auditor's Report**

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balance sheet as of September 30, 2016, related to EHLP. The total loan principal issued under this program was \$246 million; however, we were unable to determine whether the current balance recognized on the consolidated balance sheet of \$103.2 million was an accurate net realizable value of the portfolio.

*Significant unreconciled subledger to general ledger differences.* During the fiscal year, HUD initiated a subledger review and identified material differences between its subledgers and general ledger accounts. As of September 30, 2016, its subledger review was ongoing, and there was an unreconciled balance of \$29.4 billion. These differences remained unresolved mainly because HUD could not identify and locate sufficient documentation to support material United States Standard General Ledger (USSGL) accounts. The reconciling differences were material and pervasive and impacted several USSGL accounts and financial statement line items. A total of \$27.9 billion represented differences in unpaid obligation balances. The remaining \$1.5 billion difference impacted the PIH prepayments (advances), liability for nonentity assets not reported on its statement of custodial activity (other liabilities), loan guarantee liability, and account receivable balances reported on HUD's consolidated balance sheet. While progress had been made in the resolution of differences since September 30, 2016, differences remained that, combined, were material to the financial statements. Due to HUD's inability to support the balances recorded in the USSGL with sufficient, adequate documentation, we were unable to rely on the balances presented in HUD's consolidated balance sheet and the combined statement of budgetary resources.

**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, 2016 and 2015 (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***Reissued Fiscal Year 2016 and 2015 Consolidated Financial Statements*

In our audit opinion,<sup>5</sup> issued November 15, 2016, one basis for our disclaimer was that HUD was unable to provide final consolidated financial statements and accompanying notes in a timeframe that would allow us to obtain sufficient, appropriate evidence to determine whether they were free from material misstatement. After we issued our disclaimer of opinion, we continued our review of HUD's financial statement presentation and notes and identified material pervasive errors throughout 19 of HUD's 31 notes<sup>6</sup> with an absolute value totaling \$278.5 billion and an error in the classification between budgetary and nonbudgetary credit program financing

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<sup>5</sup> OIG Audit Report 2017-FO-0004, Independent Auditor's Report

<sup>6</sup> During HUD's reissuance of its consolidated financial statements, it determined to remove a note that was not required per OMB Circular A-136 and GAAP. Therefore, there are 30 notes in HUD's reissued consolidated financial statements.

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**Independent Auditor's Report**

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accounts on HUD's statement of budgetary resources with an absolute value totaling \$557 million. In early December 2016, we brought these errors to the attention of HUD management, and HUD determined that reissuance was necessary. Therefore, HUD reissued its fiscal years 2016 and 2015 (restated) consolidated financial statements.

Through its correction process, HUD identified additional note errors and found an error in its presentation of FHA's fiscal year 2015 restatement. FHA's restatement included a \$1.4 billion adjustment to its cumulative results of operations beginning balance on the statement of changes in net position. HUD made this adjustment to its consolidated statement of changes in net position but presented the change in the beginning balance, not as a correction of error,<sup>7</sup> as reported correctly by FHA. In total, the absolute values of corrections to HUD's notes and principle financial statements were approximately \$516.4 billion and \$3.4 billion, respectively. The notes that were impacted by the corrections were Note 1-Entity and Mission; Note 2-Summary of Significant Accounting Policies; Note 3-Entity and Non-Entity Assets; Note 4-Fund Balance With the U.S Treasury; Note 6-Investments; Note 7-Accounts Receivable (Net); Note 8-Direct Loans and Loan Guarantees, Non-Federal Borrowers; Note 12-Other Assets; Note 13-Liabilities Covered and Not Covered by Budgetary; Note 14-Debt; Note 16-MBS [mortgage-backed securities] Liability; Note 17-Other Liabilities; Note 18-Financial Instruments with Off-Balance Sheet Risk; Note 20-Funds from Dedicated Collections; Note 24-Net Costs of HUD's Cross-Cutting Programs; Note 26-Commitments Under HUD's Grant, Subsidy, and Loan Programs; Note 27-Appportionment Categories of Obligations Incurred; Note 28-Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government; Note 29-Reconciliation of Net Cost of Operations to Budget; and Note 30-Restatement of the Department's Fiscal Year 2015 Financial Statements. Additional detail regarding the errors identified and corrected is further disclosed in note 30 of HUD's consolidated financial statements.

We attributed these errors to pervasive weaknesses in all elements of HUD OCFO internal controls: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. These weaknesses are further explained in the material weakness, Weak Internal Controls Over Financial Reporting Led to Errors and Delays in the Preparation of Financial Statements and Notes, described further in this audit report. This material weakness updated the financial reporting material weakness we reported in our fiscal year 2016 internal control audit report.<sup>8</sup>

As a result of what is described above, we are withdrawing our previously issued independent auditor's report, dated November 15, 2016, and replacing it with this report, which removes the basis for disclaimer regarding our inability to review the final consolidated financial statements due to management-imposed delays in completing the statements. However, while we audited

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<sup>7</sup> The beginning balance, as adjusted, was not impacted (beginning balance + correction of error = beginning balance, as adjusted on the statement of net position).

<sup>8</sup> OIG Audit Report 2017-FO-0003, Additional Details To Supplement Our Independent Auditor's Report, issued November 15, 2016, material weakness, Weak Internal Controls Over Financial Reporting Led to Errors and Delays in the Preparation of Financial Statements and Notes

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**Independent Auditor's Report**

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the reissued consolidated financial statements and notes, our previous audit opinion of a disclaimer of opinion remains unchanged due to other material matters identified in our audit, which continue to support our disclaimer of opinion.

*Restatement of Fiscal Year 2015 Financial Statements*

At the time of issuance of this auditor's report and as discussed in note 30 to the financial statements, the 2015 financial statements have been restated for the correction of errors related to (1) Ginnie Mae's improper budgetary closing process and (2) FHA's improper use of the raw data used to establish FHA's maintenance and operating expense rate management assumption. Our opinion was not modified with respect to these matters.

However, there were other material misstatements in the fiscal year 2016 financial statements in which no adjustments had been made. Specifically, (1) regarding the use of the FIFO method to liquidate obligations under CPD's formula grant programs, no adjustments had been made because the specific amounts of misstatements and their related effects were unknown and (2) regarding advanced funds held by grantees for IHBG grantees, which totaled as much as \$260 million as of June 30, 2016, an amount could not be reasonably determined as of September 30, 2016, because HUD could not provide the information needed to quantify the amount. These amounts were not included in the financial statements due to HUD's disagreement regarding the presentation of these advances. Additional details on these items can be found in note 30 to the financial statements.

*Prior-Period Financial Statements*

In our report, dated November 18, 2015, we reported that FHA's financial statements for fiscal years 2015 and 2014, respectively, fairly presented the financial position of FHA's financial statements as of September 30, 2015 and 2014, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with GAAP. However, in fiscal year 2016, new information concerning material errors affecting the 2015 and 2014 FHA financial statements were identified. For this reason, the opinion expressed in FHA's 2015 and 2014 audited financial statements was no longer appropriate because the financial statements as published at that time contained material misstatements. Accordingly, our opinion on FHA's audited financial statements for 2015 and 2014 is withdrawn because the statements can no longer be relied upon and is replaced by the auditor's report on the restated financial statements. As a result, the basis for disclaimer expressed on HUD's consolidated 2015 and 2014 audited financial statements is expanded to include the material errors that affected those financial statements, which are further described in note 30.

*FHA's Loan Guarantee Liability*

FHA's loan guarantee liability 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, 2016, could change depending on which economic outcome

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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. Our opinion was 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 assurance on the information.

In its fiscal year 2016 AFR, 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***

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.

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**Report on Internal Control**

Additional details on our findings regarding HUD's, FHA's, and Ginnie Mae's internal controls are summarized below and were provided in separate audit reports to HUD management.<sup>9</sup> 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.

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 eleven material weaknesses and seven significant deficiencies.

**Material Weaknesses**

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. We noted that the following deficiencies met the definition of a material weakness.

**Weak Internal Controls Over Financial Reporting Led to Errors and Delays in the Preparation of Financial Statements and Notes**

Internal controls over HUD's financial reporting process were weak, causing HUD to be unable to provide yearend financial statements and accompanying notes in a timeframe that would allow for sufficient OIG audit review by the required date of November 15, 2016. After the issuance of HUD's fiscal years 2016 and 2015 consolidated financial statements in its AFR, we identified pervasive material errors in the financial statements and notes totaling \$557 million and \$278.5 billion, respectively. We also identified \$19.5 billion in changes that were made to the financial statements provided for audit and the financial statements published in HUD's AFR, which were not communicated to us. Additionally, Ginnie Mae closed material accounts prematurely, causing material misstatements. Finally, HUD performed 2,868 journal vouchers to adjust transactional data in its general ledger, primarily due to data quality issues.

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<sup>9</sup> Audit Report 2017-FO-0003, Additional Details To Supplement Our Fiscal Years 2016 and 2015 (Restated) U.S. Department of Housing and Urban Development Financial Statements, issued November 15, 2016; Audit Report 2016-FO-0002, Federal Housing Administration Fiscal Year 2016 and 2015 (Restated) Financial Statements Audit, issued November 14, 2016; Audit Report 2017-FO-0001, Audit of the Government National Mortgage Association's Fiscal Years 2016 and 2015 (Restated) Financial Statements, issued November 14, 2016

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Ineffective governance over HUD's transition to an FSSP, Treasury's Administrative Resource Center (ARC), and Ginnie Mae's budgetary accounting created an ineffective financial reporting environment that could not prevent and detect errors in a timely manner. As a result, (1) we could not audit HUD's yearend financial statements and accompanying notes by the required date, (2) HUD had to withdraw its fiscal year 2016 AFR and state that the published report could not be relied upon, (3) HUD's fiscal year 2016 third quarter financial statement notes contained unsupported balances and errors totaling \$477 million, and (4) HUD had to restate its fiscal year 2015 statement of budgetary resources due to an error with an absolute value of \$2 billion. Further, HUD's extensive reliance on manual journal vouchers increased the risk of error in its general ledger and financial statements.

*HUD Assets and Liabilities Were Misstated and Not Adequately Supported*

HUD did not properly account for, have internal controls over, or have adequate support for all of its assets and liabilities. Specifically, (1) CPD did not validate its accrued grant liabilities estimates; (2) HUD's accounting for its cash management process did not include the recognition of receivables and payables when incurred and understated its prepayment balance; (3) HUD did not recognize a prepayment for funds advanced to its IHBG grantees that were used for investment; (4) EHLPP could not be audited; (5) balances related to HUD's loan guarantee programs were not reliable; and (6) HUD did not properly account for its property, plant, and equipment. These problems occurred because of continued weaknesses in HUD's internal controls and a lack of communication between OCFO and the program offices. As a result, several financial statement line items were misstated or could not be audited as of September 30, 2016. Specifically, (1) CPD's accrued grant liabilities estimates could not be audited; (2) HUD's PIH prepayments and accounts receivable balances contained errors with an absolute value of approximately \$476.2 million and \$201.2 million, respectively, and accounts payable were understated by an unknown amount; (3) HUD's expenses on its statement of net costs were overstated by \$293.2 million; (4) loans receivable balances for EHLPP could not be audited and were potentially misstated; (5) balances related to HUD's loan guarantee programs were misstated by unknown amounts; and (6) HUD's \$297 million balance for property, plant, and equipment was not supported.

*Significant Reconciliations Were Not Completed in a Timely Manner*

Material differences between subsidiary ledgers and the general ledger were not resolved, and sufficient evidence to support financial statement line items was not maintained. Further, OCFO did not complete required cash reconciliations or intragovernmental reconciliations in a timely manner. In fiscal year 2016, HUD began using an FSSP for financial reporting but failed to define (1) roles and responsibilities between HUD and the FSSP and (2) policies and procedures for completing key reconciliations of material financial statement line items. HUD's policies and procedures were not effective. The lack of these internal controls increased the risk of a material misstatement occurring in the financial statements and the potential for material misstatements to be undetected by management.

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

CPD's formula grant program accounting continued to depart from GAAP because of its use of the FIFO method<sup>10</sup> for committing and disbursing obligations. Since 2013, we have reported that the information system used, the Integrated Disbursement Information System (IDIS) Online, a grants management system, was not designed to comply with Federal financial management system requirements. Further, HUD's plan to eliminate FIFO from IDIS Online was applied only 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 USSGL attribute resulted in additional misstatements. Although FIFO has been removed from fiscal year 2015 and forward grants, modifications to IDIS are necessary for the system to comply with FFMIA and USSGL transaction records. The inability of IDIS Online to provide an audit trail of all financial events affected by the FIFO method prevented the financial effects of FIFO on HUD's consolidated financial statements from being quantified. 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's Financial Management System Weaknesses Continued in 2016**

HUD's financial system weaknesses remained a material weakness in fiscal year 2016 due to the combined impact of many deficiencies and limitations. While HUD took steps to modernize its financial management system through the transition of key financial management functions to an FSSP in 2016, it encountered significant challenges after implementation that had not been resolved as of September 30, 2016. HUD's inability to modernize its legacy financial systems and the lack of an integrated financial management system resulted in a continued reliance on different, legacy financial systems with various limitations. Program offices compensated for system limitations by using less reliable manual processes to meet financial management needs. These 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 2016, for the third consecutive year, Ginnie Mae could not bring its material asset balances related to its nonpooled loan assets into an auditable state. Therefore, we were unable to audit the \$4.2 billion (net of allowance) in nonpooled loan assets reported in Ginnie Mae's

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<sup>10</sup> 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 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 Financial Audit Manual, 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 are the first funds committed and disbursed, regardless of the source year in which grant funds were committed for the activity.

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financial statements as of September 30, 2016. These assets related to (1) claims receivable, net (\$709 million); (2) mortgage loans held for investment, net (\$3.47 billion); (3) accrued interest receivable, net (\$19 million); and (4) acquired property, net (\$41 million). This condition occurred because Ginnie Mae lacked financial management systems capable of handling its loan-level transaction accounting requirements. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence. As a result, we determined that our audit scope was insufficient to express an opinion on Ginnie Mae's \$4.2 billion in nonpooled loan assets as of September 30, 2016.

*Ginnie Mae's Internal Controls Over Financial Reporting Continued To Have Weaknesses*

In fiscal year 2015, we reported that Ginnie Mae's internal controls over financial reporting were not effective. This condition continued, and some new issues were identified in fiscal year 2016. These material weaknesses in internal controls were issues related to the (1) improper accounting for FHA's reimbursable costs and accrued interest earned on nonpooled loans; (2) accounting for cash in transit; (3) revenue accrual accounting; and (4) several other accounting issues, such as advances, fixed assets, and financial statement note disclosures. The first three issues were repeat findings from prior years, and the last one was new in fiscal year 2016. These conditions occurred because of Ginnie Mae's failure to ensure that (1) adequate monitoring and oversight of its accounting and reporting functions were in place and operating effectively and (2) accounting policies and procedures were developed, finalized, and appropriately implemented. As a result, the risk that material misstatements in Ginnie Mae's financial statements would not be prevented or detected increased.

*The Allowance for Loan Loss Account Balances Were Unreliable*

In fiscal year 2016, we identified accounting issues related to Ginnie Mae's allowance for loan loss accounts. Specifically, we noted that Ginnie Mae improperly (1) accounted for certain nonpooled loan accounting transactions in its allowance for loan loss accounts and (2) booked a provision for loan loss against a nonexisting asset account. Factors that contributed to these issues included (1) the delayed implementation of accounting policies and procedures related to the allowance accounts and (2) the lack of financial management systems capable of handling loan-level transactions. Due to a combination of all of these accounting issues, we determined the balance of the allowance for loan loss accounts reported in Ginnie Mae's financial statements to be unreliable.

*HUD's and Ginnie Mae's Financial Management Governance Was Ineffective<sup>11</sup>*

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.

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<sup>11</sup> This was classified as a material weakness, based on the findings on financial management governance reported in Audit Report 2017-FO-0003, Additional Details To Supplement Our Fiscal Years 2016 and 2015 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, and Audit Report 2017-FO-0001, Audit of the Government National Mortgage Association's Fiscal Years 2016 and 2015 (Restated) Financial Statements.

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In fiscal year 2016, Ginnie Mae's executive management began to address the financial management governance problems cited in our fiscal years 2015 and 2014 audit reports. While significant progress was made this year, more work is needed to fully address the issues cited in our report. Specifically, these problems included issues in (1) keeping Ginnie Mae OCFO's operations fully functional; (2) ensuring that emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner; (3) establishing adequate and appropriate accounting policies and procedures and accounting systems; and (4) implementing an effective entitywide governance of the models used to generate accounting estimates for financial reporting. Some of these conditions continued because the implementation of the corrective action plans took longer than anticipated. This issue again contributed to Ginnie Mae's inability to produce auditable financial statements for the third consecutive fiscal year.

HUD's financial management governance remained ineffective during 2016. HUD's transition to an FSSP for financial management services was punctuated by operational issues that were made worse by a lack of mature financial management governance practices. Additionally, as we have reported in prior-year audits, HUD did not have reliable financial information for reporting and continued using 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. As a result, there were multiple deficiencies in HUD's internal controls over financial reporting, resulting in misstatements on the financial statements and noncompliance with laws and regulations.

*Cash Flow Modeling Errors Were Not Detected*

In fiscal years 2014 and 2015, FHA home equity conversion mortgage net loans receivable and liability for loan guarantee were not reported in accordance with GAAP. Specifically, FHA did not estimate its property maintenance and operating management assumption expense rate based on actual historical payments. This condition occurred because FHA failed to isolate the accrued expenses in its input data in modeling its maintenance and operating expense rate management assumption. Additionally, FHA failed to adequately review significant changes observed in its maintenance and operating expense input data until 2016. This failure caused an overstatement of FHA's loan guaranty liability and an understatement of net loans receivable and related foreclosed property line items in fiscal years 2014 and 2015. According to FHA, the overstatement of the liability account and understatement of the asset account were \$833 million and \$540 million, respectively, in fiscal year 2015, and the overstatement of the liability account and understatement of the asset account were \$830 million and \$542 million, respectively, in fiscal year 2014.

*FHA's Controls Over Financial Reporting Related to Budgetary Resources Had Weaknesses*

In fiscal year 2016, we identified financial reporting control deficiencies related to FHA's monitoring of its budgetary resources. Specifically, we found that errors were not prevented or detected in a timely manner. These errors were related to the (1) discrepancies identified between proprietary and budgetary accounts and (2) system-generated accounting report used for financial reporting. Additionally, FHA's monitoring of its unliquidated obligation balances was not effective. We attributed these conditions to FHA's ineffective monitoring and processing controls. As a

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result, errors with an absolute amount totaling \$680.2 million were not prevented or detected in a timely manner. Finally, FHA missed the opportunity to recapture \$276.5 million in invalid obligations.

**Significant Deficiencies**

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. We determined that the following deficiencies met the definition of a significant deficiency.

*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) funds control plans were out of date or did not reflect the controls and procedures in place with the transition to an FSSP; (3) program codes were not included in funds control plans and funds control documentation; 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 the current year, 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.

*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. Specifically, some program offices did not complete their obligation reviews in a timely manner, and we discovered \$204.4 million in invalid obligations not previously identified by HUD. We discovered another \$93.4 million in inactive obligations, indicating potentially additional invalid obligations. We also discovered \$34.6 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, 2016. We attributed these deficiencies to ineffective monitoring efforts and the inability to promptly process contract closeouts. Lastly, we noted that, as of September 30, 2016, HUD had not implemented prior-year recommendations to deobligate \$100.5 million in funds. As a result, HUD's unpaid obligation balances on the statement of budgetary resources were potentially overstated by \$432.9 million.

*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 2016, we audited application controls over the New Core Interface Solution, which exchanges data between the financial systems at ARC (Oracle Financials) and

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HUD. We found that some access controls within the New Core Interface Solution were not effective and some of the application security documentation was inaccurate. These weaknesses occurred because of limited resources to perform the required tasks. As a result, some contractors had inappropriate access to sensitive budget and general ledger financial transactions. Further, inaccurate security documentation could lead to inappropriate decisions. In addition, although HUD had taken action to address information system control weaknesses reported in prior years, several of those weaknesses remained. Without adequate general and application controls, there was no assurance that financial management applications and the data within them were adequately protected.

*Ginnie Mae Did Not Provide Adequate Oversight To Ensure Compliance With Federal Regulations and Guidance*

Ginnie Mae did not provide adequate oversight of its pool processing agent for the Integrated Pool Management System (IPMS) to ensure that adequate controls over business processes complied with Federal regulations and guidance. Specifically, (1) IPMS does not have adequate controls that automatically track overrides in the system, (2) IPMS does not have automated controls to prevent a pool processor from making changes to the master data without prior approval, and (3) Ginnie Mae lacked policies and procedures for data management. These conditions occurred because Ginnie Mae did not have policies for monitoring overrides and IPMS does not sufficiently track the use of overrides or generate a report that captures changes. As a result, Ginnie Mae's data were susceptible to an increased risk of improper use of authority, which could cause financial harm to Ginnie Mae by attaching its guarantee to mortgage-backed securities.

*FHA's Controls Related to Claims Had Weaknesses*

In fiscal year 2016, we found that (1) the designation of two A43C (Claims) system edits, which are used in processing claims, was inappropriate and (2) FHA continued to have a significant delay in billing noncompliant lenders for partial claims for which the promissory note was not provided within 60 days. The system edit issue occurred because FHA lacked periodic monitoring to ensure that the designation of the error codes was appropriate. The lack of alignment between FHA's policy and the regulatory requirements and persistent delays in initiating the collection process for noncompliant mortgages contributed to FHA's not claiming amounts due in a timely manner. The system edit issue creates a significant vulnerability in FHA's systems application controls, and its risk of improper payments is increased because FHA relied heavily on system edits to ensure that hundreds of thousands of single-family claim requests worth more than \$15 billion in fiscal year 2016 were processed correctly. Additionally, delays in implementing the collection process for noncompliant mortgagees with unsupported partial claims caused unsupported partial claims to remain in the loans receivable inventory longer, which is neither a good cash management practice nor a good strategy to help improve the health of the Mutual Mortgage Insurance fund.

*Weaknesses in FHA's Controls Over Model Governance*

FHA had not fully implemented an effective model risk management governance framework. Specifically, it had not finalized or implemented policies and procedures relating to (1) model documentation, (2) model assumption sensitivity analysis testing, and (3) data management and validation. This condition occurred because FHA had not made establishing a model governance

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framework a priority. FHA's failure to fully implement a control mechanism, such as the model risk management governance framework, increased the risk of inconsistencies and errors in financial reporting occurring without being detected or prevented.

*Weaknesses Were Identified in Selected FHA Information Technology Systems*

Our review of the general and application controls over FHA's Single Family Premium Collection System – Periodic (SFPCS-P) and Single Family Acquired Asset Management System (SAMS) found (1) weaknesses in SFPCS-P, which included the system's being incorrectly classified as a low-impact system instead of a moderate-impact system; (2) that software products used by SFPCS-P were outdated; (3) that the interface reconciliation from HUD's Single Family Insurance System (SFIS) to SFPCS-P was not sufficiently performed; (4) that SFPCS-P had not participated in HUD's disaster recovery exercise for more than 4 years; (5) that segregation of duties for SFPCS-P developers was not effectively implemented; and (6) that SFPCS-P security documents contained inaccurate information. Additionally, we found (1) weaknesses in SAMS, which included that the interface reconciliations from SFIS to SAMS were not sufficiently performed and (2) least privilege and segregation of duties requirements were not fully implemented for SAMS users.

We completed an additional review of the general and application controls over SFIS and the Claims system and determined that the information system control weaknesses previously identified in SFIS and Claims were being addressed. However, we found (1) weaknesses in Claims, which included inconsistencies in error code, and (2) that the configuration information and the history of system changes were not retained for more than 5 years. Further, we found (1) weaknesses in both SFIS and Claims systems, which included that application and user access controls were not effectively implemented or adequately managed, and (2) that management did not adequately implement effective application configuration management. We also found that HUD Application Release Tracking System documents for FHA applications were not processed and maintained properly. These conditions occurred because some application controls were not sufficient. As a result, the appropriate confidentiality, integrity, and availability of critical information may have been negatively impacted. In addition, the information used to provide input to the FHA financial statements could have been 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 five instances of noncompliance that are required to be reported in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, or OMB Bulletin No. 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.

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**HUD's Financial Management Systems Did Not Comply With the Federal Financial Management Improvement Act**

In fiscal year 2016, we noted a number of instances of FFMIA noncompliance<sup>12</sup> within HUD's financial management system. HUD's continued noncompliance was due to New Core implementation challenges and a reliance on a number of legacy financial systems.

**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 the current recapture policies continued to result in HUD's noncompliance with HOME Statute requirements. As a result, HUD continued to incorrectly permit 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. Allowing grantees to disburse funds from commitments made outside the 24-month statutory period may have caused HUD to incur improper payments.

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

Since the implementation of its cash management policies in fiscal year 2013, PIH has made significant progress toward compliance with Treasury Financial Manual rules on cash management.<sup>13</sup> However, despite considerable efforts by HUD's Office of Housing Voucher Programs, public housing agencies (PHA) maintained Federal cash in excess of their immediate disbursement need for extended periods. Specifically, Moving To Work program PHAs held between \$432.4 million and \$466.5 million for the majority of the fiscal year and even after offsets performed in August and September 2016, held \$212 million in excess of their immediate disbursement needs. Further, PHAs accumulated \$168.3 million from January to June 2016 and most likely accumulated additional excess funds from July through September, none of which had been offset as of September 30, 2016. These conditions occurred because HUD lacked an automated system and real-time expense data needed to fully implement its cash management policies. Since PHAs maintained these funds in excess of immediate disbursement needs for extended periods and were unable to quickly offset the funds against future disbursements, HUD

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<sup>12</sup> Compliance with section 803(a) elements of FFMIA include (1) system requirements, (2) accounting standards, and (3) USSGL at the transaction level.

<sup>13</sup> Before fiscal year 2013, HUD provided housing assistance payments to its PHAs that far exceeded their need and did not have a process in place to offset excess funding. To address this problem, PIH implemented the following cash management policies: (1) determine future disbursement based on previous need, (2) perform quarterly cash reconciliations and offset excess funding as it is identified, and (3) offset amounts that accumulated before the implementation of these new processes.

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did not comply with Treasury's cash management regulations<sup>14</sup> or 2 CFR (Code of Federal Regulations) Part 200,<sup>15</sup> increasing the risk of funds being susceptible to fraud, waste, and abuse.

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

Our Improper Payments Elimination and Recovery Act (IPERA) audit<sup>16</sup> found that HUD did not comply with IPERA in fiscal year 2015 because it did not conduct its annual risk assessment in accordance with OMB guidance or meet its annual improper payment reduction target. Specifically, HUD did not assess all low-risk programs on a 3-year cycle or consider all nine required risk factors, making the review incomplete and noncompliant with section 3(a)(3)(B) of IPERA. HUD also failed to meet or exceed the annual improper payment reduction targets for its high-priority program, Rental Housing Assistance Programs (RHAP), causing noncompliance with section 3(a)(3)(E) of IPERA. This is the third year in a row that HUD did not comply with IPERA. Additionally, we found that information published in the AFR did not meet the reporting requirements of OMB Circular A-136, significant improper payments in HUD's RHAP continued, and HUD's improper payment estimate and methodology for RHAP continued to have deficiencies during fiscal year 2015.

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

In fiscal year 2016, Ginnie Mae's noncompliance with the Debt Collection Improvement Act (DCIA) of 1996 continued. Specifically, as reported in fiscal year 2015, Ginnie Mae had not remediated its practice of ensuring that all debt collection tools allowed by law had been considered before deciding to discharge certain uninsured mortgage debts owed to Ginnie Mae. This condition occurred because Ginnie Mae's management continued to take the position 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 tens of millions of dollars in debts related to losses on its mortgage-backed securities program.

**Results of the Audit of FHA's Financial Statements**

We performed a separate audit of FHA's fiscal years 2016 and 2015 (restated) financial statements. Our report on FHA's financial statements<sup>17</sup> includes a qualified opinion on FHA's

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<sup>14</sup> Treasury Financial Manual, Vol. 1, Part 4A, Section 2045.10, Cash Advances Establishing Procedure for Cash Advances, section 3, states, "It is the responsibility of grantor agencies to monitor the cash management practices of their recipient organizations to ensure that Federal cash is not maintained by them in excess of immediate disbursing needs. Agencies must establish systems and procedures to assure that balances are maintained commensurate with immediate disbursing needs, excess balances are promptly returned to the Treasury; and advance funding arrangements with recipient organizations unwilling or unable to comply are terminated."

<sup>15</sup> Regulations at 2 CFR 200.305 state, "For non-Federal entities other than States, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity." The regulations further state, "Advance payments to a non-Federal entity must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project."

<sup>16</sup> Audit Report 2016-FO-0005, Compliance With the Improper Payments Elimination and Recovery Act, issued May 13, 2016

<sup>17</sup> Audit Report 2017-FO-0002, Audit of Federal Housing Administration Fiscal Years 2016 and 2015 (Restated) Financial Statements Audit, issued November 14, 2016, was incorporated into this report.

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financial statements, along with discussion of two material weaknesses and 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 2016 and 2015 (restated) financial statements. Our report on Ginnie Mae's financial statements<sup>18</sup> includes a disclaimer of opinion on these financial statements, along with discussion of four 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.

Our review of the reissued fiscal years 2016 and 2015 consolidated financial statements entailed reviewing the revised consolidated financial statements to (1) validate that appropriate revisions were made to the financial statements and notes to correct all errors that were identified and (2) confirm that the financial statements and notes are presented in conformity with OMB Circular A-136 and United States GAAP.

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 AFR, we performed limited testing procedures as required by the American Institute of Certified Public Accountants Clarified Statements on Auditing Standards, 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.

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<sup>18</sup> Audit Report 2017-FO-0001, Audit of the Government National Mortgage Association's Fiscal Years 2016 and 2015 (Restated) Financial Statements, issued November 14, 2016, was incorporated into this report.

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**Independent Auditor's Report**

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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**

We reviewed management's response to the reissued draft independent auditor's report, which can be found in its entirety in appendix A. We noted that HUD is generally in agreement with our report. HUD states that it does not fully agree with our assessment of the issues, conclusions, or resulting recommendations; however, it does not provide specific points of disagreement. Further, HUD appears to agree with the basis of our report because it agrees that "there needed to be greater internal controls and stronger oversight." While we generally agree with most of HUD's comments, we do not agree with the following.

In regard to the FSSP implementation, HUD states, "The successful transition puts HUD in a place to make significant strides toward strong financial management and data-driven decisions." However, we reported that the implementation failed to meet expectations. The audit report<sup>19</sup> stated, "A year after the transition, HUD had inaccurate data resulting from the conversions and continued to execute 97 percent of programmatic transactions in its legacy applications. In addition, HUD did not decommission all of the applications it wanted to, including its core financial system, nor did it achieve the planned cost savings." Further, the lack of planning for this transition compromised HUD's financial reporting and made it unable to provide financial statements in time for audit, and the statements it did provide contained pervasive material errors. Instead of being a "successful transition" and making "significant strides toward strong financial management" as stated in the comments, the new financial reporting process is more complex, which makes it increasingly more difficult to incorporate late financial reporting changes from its component entities.

HUD states that the "presentation of the financial information was inaccurate" and describes the errors in its financial statements and notes as "inconsistencies." Since the financial information reported was not correct, these statements are misleading because they imply that the information reported was correct but was merely presented inconsistently. Further, HUD states, "Overall, the combined adjustments to the consolidated financial statements resulted in a net adjustment of \$3 million, but no changes in HUD's financial position or impact to our programs." HUD management is downplaying the severity of the condition and impact of the errors identified, which were significant enough to cause it to recall its published AFR and reissue its fiscal year 2016 consolidated financial statements and notes. While the errors identified may not have changed HUD's financial position, as HUD states at the bottom of its financial statements, "The accompanying notes are an integral part of these statements." These notes contained errors of \$516.4 billion.

While we have audited HUD's reissued statements, we have not fully evaluated any of the new process improvements HUD discussed in its response. We look forward to evaluating these processes as part of our fiscal year 2017 audit.

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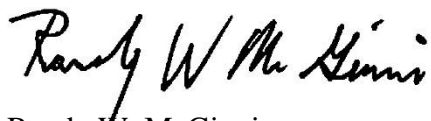
<sup>19</sup> Audit report 2017-DP-0001, New Core Project: Shared Service Implementation Failed To Meet Expectations, issued February 1, 2017

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Independent Auditor's Report

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



Randy W. McGinnis  
Assistant Inspector General for Audit

March 1, 2017

## Results of Audit

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### Material Weakness: Weak Internal Controls Over Financial Reporting Led to Errors and Delays in the Preparation of Financial Statements and Notes<sup>20</sup>

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Before the issuance of HUD's 2016 and 2015 (restated) consolidated financial statements, we reviewed what was submitted to us for audit and noted pervasive material errors in the financial statements and accompanying notes totaling \$557 million and \$278.5 billion, respectively.<sup>21</sup> We also identified differences of \$19.5 billion in amounts presented in three note disclosures between what was submitted to us for audit and what was published in HUD's AFR. We found that the errors in the statements and notes and discrepancies between what was provided for audit and what was published occurred due to extensive weaknesses in HUD's internal controls over financial reporting. As a result, HUD withdrew its AFR to correct the material errors and notify users that the fiscal years 2016 and 2015 consolidated financial statements could not be relied upon.

#### Subsequent Review of HUD's Fiscal Years 2016 and 2015 (Restated) Consolidated Financial Statements

Our subsequent review of HUD's fiscal years 2016 and 2015 (restated) consolidated financial statements found an extensive number of material errors. Specifically, we found errors in (1) HUD's notes to the financial statements and (2) the statement of budgetary resources. We also identified discrepancies between the final financial statements submitted to us for review and the financial statements presented and published in HUD's AFR.

*Errors in financial statement note disclosures.* We found that 19 of 31 financial statement notes (61 percent) contained errors with an approximate absolute value totaling \$278.5 billion. Of the \$278.5 billion in errors, \$159.4 billion in errors was due primarily to (1) incorrect data entry, (2) omission of restated balances, or (3) incorrect data provided by HUD's component entities (FHA and Ginnie Mae). The remaining \$119.1 billion in errors was due to inappropriate rounding adjustments. We found several instances in which rounding was performed to the nearest billion and hundred billion,

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<sup>20</sup> This updates the material weakness, Weak Internal Controls Over Financial Reporting Led to Errors and Delays in the Preparation of Financial Statements and Notes, reported in OIG audit report 2017-FO-0003. All other material weaknesses and significant deficiencies found during this audit are contained in OIG audit report 2017-FO-0003. See the Background and Objectives section for more information.

<sup>21</sup> HUD's fiscal years 2016 and 2015 (restated) consolidated financial statements were not provided in time for audit. Refer to the Background and Objectives section and the Emphasis of Matter paragraph in our independent auditor's report.

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**Independent Auditor's Report**

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while OMB Circular A-136 requires the highest level of rounding to be at the nearest million. This practice caused amounts to not agree with supporting files or underlying Ginnie Mae and FHA information. Some of the errors identified flowed through to other note line items or note columns and caused errors in the totals presented. The absolute value of these additional errors was not included in our total.

*Errors in the consolidated statement of budgetary resources.* We identified errors in the split between budgetary and nonbudgetary columns on HUD's statement of budgetary resources with an absolute value totaling \$557 million.

*Discrepancies in consolidated financial statements presented in AFR.* We identified differences in amounts presented between what was submitted to us on November 10, 2016, and certified as final consolidated financial statements and what was published in HUD's AFR in the following three note disclosures: Note 20-Funds from Dedicated Collections; Note 26-Commitments Under HUD's Grant, Subsidy, and Loan Programs; and Note 14-Debt. The total absolute value of the differences was \$19.5 billion. While two of these changes corrected errors in the original submission to us, the other change was for inappropriate rounding. OCFO did not inform us of these changes after it submitted final financial statements for our review. By submitting to us a final version of the consolidated financial statements for audit that was different from the version presented in its AFR, HUD OCFO misrepresented that we had audited its published consolidated financial statements. This misrepresentation may have led the reader to believe that we had audited the three changed notes, when we had not.

We communicated these errors to HUD management in early December 2016 and advised it to review its fiscal years 2016 and 2015 consolidated financial statements to determine whether it agreed that they contained material misstatements and would need to be revised and reissued.

### **Extensive Weaknesses in HUD's Internal Controls Over Financial Reporting**

The errors described above occurred because HUD OCFO failed to design and implement an adequate system of internal controls over financial reporting necessary to mitigate the challenges and risks in its complex financial reporting process. These challenges and risks were exacerbated with the transition of HUD's legacy general ledger application to an enterprise resource management application housed in an FSSP. This move replaced known processes with poor or undefined and untested processes. The transition also increased the workload on HUD's financial reporting division, and to remedy the issue, HUD's management outsourced some of its roles to staff and contractors, which were unfamiliar with HUD's financial reporting process and did not receive adequate training. HUD's management was more focused on completing the transition to an FSSP on schedule than adequately setting defined requirements and testing systems to ensure appropriate internal controls over financial reporting.

Specifically, we noted weaknesses in each element of internal controls: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

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**Independent Auditor's Report**

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- **Information and communication:** HUD OCFO management did not fully understand how the FHA and Ginnie Mae restatements would impact the notes. Information was not clearly communicated internally within OCFO or between HUD and its component entities (FHA and Ginnie Mae) to explain the full impact of restatements or changes that occurred in the presentation of the statements from the prior year to the current year. As a result, information was incorporated into HUD's final financial statements incorrectly.
- **Control activities and monitoring:** HUD's financial reporting process did not provide enough time for a thorough review by staff that had adequate experience preparing and reviewing HUD's financial statements and notes. Late in the fiscal year, HUD management decided to allocate additional resources to the financial reporting process and assigned contractors to work on key elements of the financial statements and notes. However, the contractors were not familiar with HUD's financial information or its financial reporting process and did not have access to necessary financial systems. Due to this fundamental lack of understanding, the contractors transferred information from the supporting files to the notes incorrectly, which went undetected by HUD management due to inadequate monitoring and review of the process.
- **Control activities, risk assessment, and monitoring:** The consolidation of FHA and Ginnie Mae information into HUD's consolidated financial statements is inherently risky because it involves several complex manual steps. Yet there were no controls in place to mitigate this risk. As a result, information was incorporated into HUD's final financial statements incorrectly, which went undetected by HUD management.
- **Risk assessment and control activities:** The addition of an FSSP greatly complicated HUD's already complex reporting process. HUD decided not to test the new process until the third quarter, allowing errors or problems with the new process to go unidentified for more than 9 months of the fiscal year before attempting to address them. This delay did not allow sufficient time to resolve problems and errors identified for yearend reporting.
- **Control environment, control activities, and information and communication:** HUD OCFO management appeared not to understand the note preparation process or the level of expertise and training required to prepare and review HUD's notes due to a lack of policies and procedures.

As a result of these serious internal control weaknesses, HUD published final consolidated financial statements in its AFR that contained pervasive material errors. Therefore, users of HUD's financial statements could not rely upon them, and HUD had to recall its fiscal year 2016 AFR.

HUD management revised its fiscal years 2016 and 2015 consolidated financial statements to (1) correct the errors that we identified, (2) correct other balances that were impacted by the errors, and (3) correct other errors identified by OCFO during its review. The revised statements were provided to us for audit, and we audited them in their entirety to determine whether they were consolidated and presented in accordance with OMB Circular A-136 and GAAP. We found that all of the errors we identified had been corrected. We also noted additional changes made by OCFO and determined that they were properly supported.

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**Independent Auditor's Report**

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**Conclusion**

We identified material, pervasive errors in HUD's fiscal years 2016 and 2015 (restated) consolidated financial statements published in its AFR and communicated those errors to HUD management. HUD concurred and withdrew and reissued its consolidated financial statements to address the errors we identified and other needed corrections. These errors occurred because of pervasive weaknesses in OCFO's internal controls over financial reporting, primarily attributed to the transition of its general ledger system to an FSSP without adequate requirements for gathering and testing of the financial reporting process. Our analysis of the fiscal years 2016 and 2015 consolidated financial statements determined that this failure resulted in (1) more than \$278.5 billion in misstatements in the notes to the financial statements, (2) a \$557 million error in HUD's statement of budgetary resources, and (3) \$19.5 billion in line item amounts presented in HUD's AFR that differed from those that were presented for audit. Most importantly, HUD had to recall its fiscal year 2016 AFR because of the material misstatements contained in the consolidated financial statements and state that the published report should not be relied on.

HUD was able to make revisions to correct the errors identified and make other corrections that were later identified by OCFO. OCFO reissued its financial statements, which included corrections totaling \$516.4 billion to its notes and \$3.4 billion to its financial statements. We reissued our audit opinion in our independent auditor's report upon completion of our audit of HUD's reissued fiscal years 2016 and 2015 consolidated financial statements. While HUD had corrected the material errors and reissued its statements, our opinion remained unchanged from a disclaimer of opinion due to other material matters identified during the previous audit of HUD's fiscal years 2016 and 2015 consolidated financial statements, which are further discussed in our independent auditor's report and OIG audit report 2017-FO-0003.

**Recommendations<sup>22</sup>**

We recommend that the Acting Chief Financial Officer

- 1A. Evaluate the current content of HUD's financial statement note disclosures to identify outdated or irrelevant information that may not be needed, while maintaining compliance with OMB Circular A-136 and presenting the reader with the information necessary to understand HUD's financial statements.
- 1B. Work with FHA and Ginnie Mae to reevaluate the note consolidation process to determine changes that can be made to the process to ensure compliance with financial reporting requirements.
- 1C. Reassess HUD's current consolidated financial statement and notes review process to ensure that (1) all reviewers have sufficient financial reporting experience; (2) it includes steps to verify that the notes match HUD's financial statements, are sufficiently supported, and accurately include FHA and Ginnie Mae information; and

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<sup>22</sup> The recommendations listed here are in addition to recommendations made in OIG Audit Report 2017-FO-0003, Additional Details To Supplement Our Fiscal Years 2016 and 2015 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit.

**Independent Auditor's Report**

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(3) the review can be completed within the required timeframe needed to allow for audit.

- 1D. Develop a plan to ensure that restatements to HUD's consolidated financial statements are properly reflected in all notes impacted by the restatement.

## Independent Auditor's Report

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Appendixes


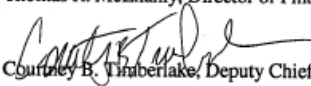
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Appendix A

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## Auditee Comments to Reissued Independent Auditor's Report

	<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b> WASHINGTON, DC 20410-3000
CHIEF FINANCIAL OFFICER	FEB 24 2017
MEMORANDUM FOR:	Thomas R. McEnanly, Director of Financial Audits Division, GAH
FROM:	 Courtney B. Timberlake, Deputy Chief Financial Officer, F
SUBJECT:	Response to OIG Draft Audit Report on Fiscal Years 2016 and 2015 (Restated) Re-issued Consolidated Financial Statements (Reissued)

Thank you for the opportunity to review and comment on the subject report. We have worked diligently to correct and re-issue the financial statements. In this process, we focused on improvements to address the sources of our challenges by putting in place a stronger governance structure and additional expertise, with more robust internal and monitoring controls, quality control reviews, certification of component and consolidated work products, greater communication, and more in-depth management reviews throughout the process.

After release of the consolidated financial statements on November 15, 2016, OIG continued its audit and identified material inconsistencies in the financial information. This resulted in the re-issuance of the 2016 Agency Financial Report and the re-audit of the financial statements and notes. The inconsistencies in the financial statements and notes had compounding consequences, which inflated the absolute value of errors, as a given error would flow through different AFR documents. Overall, the combined adjustments to the consolidated financial statements resulted in a net adjustment of \$3 million, but no change in HUD's financial position or impact to our programs. In other words, while the presentation of the financial information was inaccurate, the correction of these inaccuracies did not represent a change in cash balances, any improper payments, or misallocation of HUD resources.

During fiscal 2016, the Department underwent a major change with the implementation of a federal shared service provider (FSSP). The successful transition puts HUD in a place to make significant strides toward strong financial management and data-driven decisions. However, the implementation required complex integration with our legacy systems, which support our program functions. Typical with any financial operations transition, implementing and realizing the benefits takes time and patience as we learn how to perform our functions with new tools. Transition expanded our understanding, brought control weaknesses to light, highlighted the need for stronger mitigation plans, and tested our communications. Implementation provides us the opportunity to improve the way we perform, to continue applying what we have learned, and adjust and refine our financial operations and reporting processes. This will allow us to more fully realize the benefits of a FSSP solution and strengthen financial management across the Department.

The re-issuance of the 2016 AFR stemmed from multiple circumstances. First, the timetable for shared service implementation and ongoing operations impacted staff planning and

Independent Auditor's Report

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training including adaptation of our complex reporting process. Second, last-minute material changes at the component level were not fully incorporated throughout the consolidated financial statement package. Third, knowledge transfer and training on the reporting process within HUD was hindered by key staff retirements and departures in the Accounting Office. Lastly, our year-end risk mitigation planning did not sufficiently account for the multiple risks and complexity of our operations.

We had implemented additional internal controls over the financial statement preparation process and brought in additional resources for the November issuance. However, the fast-shifting conditions imposed substantial limitations on our ability to respond and adjust to the changing circumstances despite the additional resources. Last-minute material changes that cascaded through various documents at both the component and the consolidated level greatly compressed our preparation schedule, resulting in a truncated timetable to prepare and review the final materials and for the OIG to complete its audit.

In summary, while we do not fully agree with OIG's assessment of the issues, conclusions, or resulting recommendations, we agree that there needed to be greater internal controls and stronger oversight, and we incorporated several changes into the reissuance process as a result. Further, we will apply the knowledge gained through the re-issuance process to further refine our financial statement preparation and review process, grow our in-house expertise, and continue to establish stronger controls. Our remediation plan is underway to address our long-standing material weaknesses. We have begun by prioritizing the findings and strategizing our approaches for addressing the overarching issues underpinning audit findings through corrective action plans that ultimately resolve not only material weaknesses and historical issues, and also institute lasting financial management improvements across HUD. We look forward to a productive and fruitful year as we address the varied and complex issues raised by OIG.

## Independent Auditor's Report

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Appendix B

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## Schedule of Questioned Costs and Funds To Be Put to Better Use

Audit report number	Unsupported 1/	Funds to be put to better use 2/
2017-FO-0001		\$248,016,624
2017-FO-0002	\$55,350,830	276,567,940
2017-FO-0003		500,689,142
<b>Totals</b>	<b>55,350,830</b>	<b>1,025,273,706</b>

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.

## Schedule of Spending

## Schedule of Spending

U.S. Department of Housing and Urban Development  
Schedule of Spending  
For the Year Ended September 30, 2016  
(Dollars in Millions)

FY 2016	FHA Programs	GNMA Programs	CFO Programs	HUD Total
<b>What Money is Available to Spend?</b>				
Total Resources	112,056	20,082	63,851	195,989
Less: Amount Available but not Agreed to be Spent	(5,644)	(196)	(12,084)	(17,924)
Less: Amount Not Available to be Spent	(48,525)	(16,053)	(3,312)	(67,890)
<b>Total Amounts Agreed to be Spent</b>	<b>57,887</b>	<b>3,833</b>	<b>48,455</b>	<b>110,175</b>

**How was the Money Spent?****Category A Programs**

10 Personnel Compensation and Benefits			845	845
20 Contractual Services and Supplies			65	65
30 Acquisition of Assets			1	1
40 Grants and Fixed Assets			2	2
Loans and Guarantees				
Financial Assistance Direct Payments				
99 Other				-

**Category B Programs**

10 Personnel Compensation and Benefits	-	23	293	316
20 Contractual Services and Supplies	692	-	662	1,354
30 Acquisition of Assets	329	-	36	365
40 Grants and Fixed Assets	22,785	-	11,325	34,110
Loans and Guarantees	33,430	-	183	33,613
Financial Assistance Direct Payments	-	-	35,043	35,043
99 Other	-	3,853	-	3,853
<b>Total Spending</b>	<b>57,236</b>	<b>3,876</b>	<b>48,455</b>	<b>109,567</b>
Amount Remaining to be Spent	651	(43)	-	608
<b>Total Amounts Agreed to be Spent</b>	<b>57,887</b>	<b>3,833</b>	<b>48,455</b>	<b>110,175</b>

**Where Did the Money Go To?**

For Profit Organizations	22,780	598	26,987	50,365
Non Profit Organizations	-		1	1
Government Organizations	35,107	3,212	1,688	40,007
PHA Administered Programs	-		19,754	19,754
Individuals	-	23	24	47
Other Organizations	-	-	1	1
<b>Total Amounts Agreed to be Spent</b>	<b>57,887</b>	<b>3,833</b>	<b>48,455</b>	<b>110,175</b>

## Schedule of Spending

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

FY 2015 (Restated)	FHA Programs	GNMA Programs	CFO Programs	HUD Total
<b>What Money is Available to Spend?</b>				
Total Resources	115,562	19,838	63,695	199,095
Less: Amount Available but not Agreed to be Spent	(3,565)	(995)	(13,033)	(17,593)
Less: Amount Not Available to be Spent	(47,154)	(13,037)	(2,092)	(62,283)
<b>Total Amounts Agreed to be Spent</b>	<b>64,843</b>	<b>5,806</b>	<b>48,570</b>	<b>119,219</b>

**How was the Money Spent?**Category A Programs

10 Personnel Compensation and Benefits			984	984
20 Contractual Services and Supplies				-
30 Acquisition of Assets				-
40 Grants and Fixed Assets				-
99 Other				-

Category B Programs

10 Personnel Compensation and Benefits	319	22	573	914
20 Contractual Services and Supplies	385		906	1,291
30 Acquisition of Assets	63,474		3	63,477
40 Grants and Fixed Assets			46,104	46,104
99 Other		5,713	-	5,713
Total Spending	64,178	5,735	48,570	118,483
Amount Remaining to be Spent	665	71	-	736

<b>Total Amounts Agreed to be Spent</b>	<b>64,843</b>	<b>5,806</b>	<b>48,570</b>	<b>119,219</b>
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**Where Did the Money Go To?**

For Profit Organizations	24,366	1,588	27,508	53,462
Non Profit Organizations	-	-	-	-
Government Organizations	40,477	4,196	429	45,102
PHA Administered Programs	-		19,392	19,392
Other	-	22	1,241	1,263

<b>Total Amounts Agreed to be Spent</b>	<b>64,843</b>	<b>5,806</b>	<b>48,570</b>	<b>119,219</b>
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**HUD User Fees**

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## **HUD User Fees**

### **HUD Biennial User Fee Review:**

The Department has strengthened the review and governance regarding user fee policies and funding both as a result of requirements under the A-25 and A-11 circulars from the Office of Management and Budget, and as provided for in HUD's User Fee Handbook 1830.6 REV-1 issued May 7, 2012. The Department's review also recognizes and conforms to the findings of HUD's Office of Inspector General audit of HUD's user fee practices and policies.

The Department in Fiscal Year 2016 met the requirement for a biannual review of user fee budget policy and specifically required review in the FY 2017 Budget Call instructions issued by the CFO Office of Budget to HUD's program offices. The user fee review was included in all phases of budget formulation including budget instructions; budget formulation policy hearings; Congressional Justification (CJ) presentation and explanation; and, in budget discussions with the Appropriations Committees.

### **HUD Fiscal Year 2017 User Fees:**

Manufactured Housing Standards program is requested at \$11.5 million and as stated on page 29-1 of the Congressional Justification, "...[is] comprised exclusively of appropriated offsetting fee collections. The fee was increased September 12<sup>th</sup>, 2014, from \$39 per transportable section to \$100 per transportable section to fully capture the costs of the program. The budget also proposes "...to shift the implementation of future fee modifications, approved in appropriations acts, to notice with comment, rather than full rulemaking ... will allow HUD to operate more nimbly and responsively to a dynamic industry." (CJ p29-8).

Fair Housing and Equal Opportunity program National Fair Housing Training Academy fees. The FHEO operates a training academy funded at \$1.5 million in Fiscal Year 2016. This effort "...provides consistent training nationwide on fair housing and conciliation techniques for investigators from the Fair Housing Assistance Program, HUD and other fair housing organizations," (CJ p. 33-3). The cost of the Academy is offset to a modest degree by training fees paid by participants that range between \$250 and \$1800. The fee is not set at a higher reimbursement level reflecting both limitations on FHAP agency training funds and a conscious effort to encourage strong participation.

The Government National Mortgage Association (Ginnie Mae) programs within HUD charge user fees to recover actual costs under the Commitment and Multiclass Fee activity of Ginnie Mae. The fees collected are limited in available use to Salary and Expenses per Congressional Appropriation Action. In Fiscal Year 2016 and 2017 the S and E actual and requested amount for each year was \$23 million and total user fees were \$118 million and \$101 million respectively. The usage of the user fees is limited by the amount appropriated for S and E purposes.



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

October 17, 2016

*Memorandum*

TO: Julian Castro  
Secretary, S

FROM:   
David A. Montoya  
Inspector General, G

SUBJECT: Management and Performance Challenges for Fiscal Year 2017 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 2017 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 (Ginnie Mae) 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 financial institutions that have delegated authority to issue FHA-insured mortgages, 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 ten key management and performance challenges facing HUD:

**Office of Inspector General's Report on Management and Performance Challenges**

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1. Human capital management and financial management governance,
2. Financial management systems,
3. Digital Accountability and Transparency Act compliance,
4. Weaknesses in information technology security control,
5. Single-family programs,
6. Community planning and development programs,
7. Public and assisted housing program administration,
8. Administering programs directed toward victims of natural disasters,
9. Departmental enforcement, and
10. Operational and financial reporting challenges affecting Ginnie Mae.

Attachment

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## Introduction and Approach

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### Introduction

The U.S. Department of Housing and Urban Development's (HUD or Department) 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 (Ginnie Mae) 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 financial institutions that have delegated authority to issue FHA-insured mortgages, cities that manage HUD's Community Development Block Grant (CDBG) 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, which has evolved substantially over the years.

### Approach

HUD's Office of Inspector General (OIG) is one of the original 12 Offices of Inspector General established by the Inspector General Act of 1978. While part of HUD, OIG provides independent oversight of HUD's programs and operations. Planning OIG's audits, evaluations, and investigations is a continuing process to focus resources on areas of greatest priority and benefit to the taxpayer and HUD. The broad goal for OIG is to help HUD resolve its major management challenges while maximizing results and providing responsive work.

The process is dynamic in order to address requests and other changes throughout the year. OIG identifies audits, evaluations, and investigations through discussions with program officials, the public, and Congress; assessments of previous audits, evaluations, and investigations; and reviewing proposed legislation, regulations, and other HUD issuances. It also conducts audits, evaluations, and investigations that HUD and Congress request, as well as those identified from OIG's hotline. We work with departmental managers to recommend best practices and actions that help address the management and performance challenges through our audits, evaluations, and investigations.

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## Human Capital Management and Financial Management Governance

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For many years, one of HUD's 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. Several studies have been completed on HUD's use of human capital by the U.S. Government Accountability Office (GAO) that point to a lack of human capital accountability and insufficient strategic management as pervasive problems at HUD. To some extent, these human capital challenges have contributed to HUD's inability to maintain an effective financial management governance structure, which we have reported on for the last 3 years and which contributed to our issuing disclaimers of opinion as part of our annual financial statement audits of HUD's financial statements.

### Human Capital Studies

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 the Office of Personnel Management (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, will be 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 missions.

In August 2016, GAO issued a report examining HUD's efforts to (1) meet requirements and implement key practices for management functions, including financial, human capital, acquisition, and information technology (IT) management, and (2) oversee and evaluate programs. GAO found that HUD had made progress in developing new human capital plans and mostly followed key principles and practices for strategic workforce planning, succession planning, and training planning. However, HUD has struggled to maintain current plans as required by OPM regulations. For example, HUD's previous strategic workforce plan expired in 2009, and HUD did not complete the next plan until 2015. HUD has been unable to maintain current plans in part because it lacks a process to help ensure that it reviews and updates the plans before existing plans expire. Regularly assessing and updating these plans would help ensure that HUD has a strategic vision for managing its workforce and addressing human capital challenges.

### Financial Management Governance of HUD

HUD's significant management challenge continued in fiscal year 2016 as it struggled to establish and implement effective financial management governance as required by the Federal Managers' Financial Integrity Act of 1982 and the Chief Financial Officers Act of 1990. In our fiscal years 2015 and 2014 financial statement audit report, we issued a disclaimer of opinion

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due to unresolved audit matters. In addition, in our report on internal control, we reported nine material weaknesses, eight significant deficiencies in internal controls, and six instances of noncompliance with applicable laws and regulations. One of the material weaknesses directly addressed the shortcomings in HUD's financial management governance, and several of the other material weaknesses and significant deficiencies had causes that were attributed in part to weaknesses in HUD's financial management governance structure.

**Senior Management Council**

A National Academy of Public Administration (NAPA) study<sup>1</sup> supported the longstanding OIG recommendation that HUD establish a Chief Financial Officer (CFO) council to enhance its financial governance structure. While HUD had historically resisted recommendations to create a senior management council, the updated Office of Management and Budget (OMB) Circular No. A-123 has changed the establishment of a senior management council from a best practice to a requirement. HUD has indicated that plans for the structure of an enterprisewide oversight group are nearing completion. This is an important step toward addressing HUD's significant financial management governance weaknesses.

**Transition to a Federal Shared Services Provider for Financial Management Services and a Policy and Procedure Framework**

The NAPA study team also identified challenges in a number of areas and recommended that HUD take action to address concerns related to HUD's impending transition to a Federal shared services provider (FSSP) for financial management services. OIG followed up with HUD management to follow HUD's progress in addressing study recommendations and found that HUD had not formally evaluated NAPA recommendations and did not have an adequate tracking mechanism in place for recommendations or planned actions. During 2016, GAO and OIG reported on a number of issues related to HUD's transition to an FSSP for financial management services. Both GAO and OIG have attributed the cause of many of these issues to weaknesses in governance.

The governance weaknesses that HUD experienced during its transition to an FSSP for financial management services were due in part to persistent financial management challenges that included outdated or incomplete policies and procedures and a lack of adequate information and communication among key groups. Program office accounting policies and procedures have at times been developed without adequate Office of the Chief Financial Officer (OCFO) input due to broad delegation to program office personnel. HUD also lacks documented policies to ensure the quality and consistency of program evaluations. To improve the continuity of accounting policies and procedures in a changing environment, policies and procedures should be centrally located and easily accessible to staff. The lack of a policy framework has hindered and will continue to hinder efforts to adapt to changes in a timely manner.

**Information and Communication**

HUD's information and communication among departments and offices has been a consistent challenge. For example, HUD's current financial management structure relies on the delegation of several key financial management functions to HUD's program offices, including review and

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<sup>1</sup> Department of Housing and Urban Development, Office of Chief Financial Officer, Organizational Assessment, March 19, 2015, [http://napawash.org/images/reports/2015/HUD\\_OCFO\\_Study\\_Final\\_Report.pdf](http://napawash.org/images/reports/2015/HUD_OCFO_Study_Final_Report.pdf)

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approval of vouchers, reviews of unliquidated obligations, and various budgetary accounting functions. However, we have found that program-related issues, concerns, and decisions cannot be made without adequate consultation with subject-matter experts, including OCFO, and appropriate consideration of accounting standards. We have attributed the root cause of significant deficiencies and material weaknesses identified in our audits to inadequate consideration of key accounting and financial rules and regulations. For example, we have attributed the material weaknesses cited in our financial statement audit reports related to the Office of Community Planning and Development's (CPD) budgetary accounting for grants and the Office of Public and Indian Housing's (PIH) net restricted asset process to inadequate collaboration with OCFO.

While HUD has taken initial steps to address these issues, substantial work remains. HUD's initial remediation efforts have included memorandums of understanding between OCFO and program offices to improve collaboration and a quarterly management review process chaired by the Deputy Secretary. As noted above, to comply with the updated OMB Circular No. A-123, HUD will also need to establish a senior management council and undertake additional governance efforts.

**Enterprise Risk Management**

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 OMB's updated Circular No. A-123 and GAO's Standards for Internal Control in the Federal Government<sup>2</sup> (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 with a greater focus on operational risks and controls. To effectively implement an enterprise risk management framework, HUD will need to identify operational risks and controls and address the financial management governance challenges identified above.

**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<sup>3</sup> and a potential Antideficiency Act (ADA) violation involving two IPA assignees.<sup>4</sup> In February 2015, 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 IPA assignments. The Inspector General's testimony provided examples of serious

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<sup>2</sup> Audit Report GAO-14-704G, Standards for Internal Control in the Federal Government, September 2014

<sup>3</sup> 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

<sup>4</sup> Memorandum number 2014-FW-0801, Potential Antideficiency Act Violations Intergovernmental Personnel Act Agreements, May 30, 2014

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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.

Due to deficiencies identified in the two prior IPA assignments, OIG initiated an audit of HUD's implementation and oversight of the IPA mobility program.<sup>5</sup> We found that HUD failed to ensure that its IPA agreements met the purpose of the Act and were complete and properly reviewed and executed. Also, HUD did not properly manage IPA assignees once they began working at HUD or properly outprocess them when they departed. We are continuing to work with the Department to reach management decisions to resolve all of the recommendations from report 2016-FW-0001. As of July 2016, HUD had issued Handbook 750.1 on its revised policy regarding assignment agreements under the IPA. The policy had been in draft form since 2014.

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.

***Summary of OIG Work***

We continue to monitor the status of progress made in establishing an effective human capital management program at HUD. In addition, we continue to report on the need for improved financial governance. We also reported on an inherent conflict-of-interest situation and overpayments<sup>6</sup> and a potential ADA violation involving two IPA assignees.<sup>7</sup> Inspector General Montoya testified before the House Oversight and Investigations Subcommittee regarding one of our IPA assignments. Our investigative activities revealed the hiring of convicted criminals into key housing positions.

***Looking Ahead***

We will continue monitoring the status of progress made in establishing an effective human capital management program, evaluating HUD's progress in improving financial management governance, and monitoring the resolution of our work regarding IPA agreements. In 2016, the number of material weaknesses, significant deficiencies, and instances of noncompliance is likely to remain elevated, and the 2016 financial statement audit opinion is unlikely to change due to the continuing impact of these issues. There remains room for significant improvement in financial management governance.

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<sup>5</sup> Audit Report 2016-FW-0001, HUD Did Not Effectively Negotiate, Execute, or Manage Its Agreements Under the Intergovernmental Personnel Act, March 30, 2016

<sup>6</sup> Memorandum number 2015-FW-0801, Intergovernmental Personnel Act Appointment Created an Inherent Conflict of Interest in the Office of Public and Indian Housing, January 20, 2015

<sup>7</sup> Memorandum number 2014-FW-0801, Potential Antideficiency Act Violations Intergovernmental Personnel Act Agreements, May 30, 2014

## Financial Management Systems

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Annually since 1991, OIG has reported on the lack of an integrated financial management system, including the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems. 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. This attempt to use a commercial shared service provider to start a new financial management system failed after more than \$35 million was spent on the project. Our review determined that OCFO did not properly plan and manage its implementation of the project.

### New Core Project

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). Through its New Core Project, HUD was the first cabinet-level agency to transition some of its core accounting functions to an FSSP. The transfer of its financial management to an FSSP was widely publicized.

We have completed three audits of HUD's implementation of the New Core Project. In the first audit, published in June 2015,<sup>8</sup> 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. If HUD was not successful in this implementation, it could reflect negatively on OMB's mandate to use FSSPs. The weaknesses identified in this report related to requirements and schedule and risk management areas that are significant to the project plan. We concluded that the effectiveness with which HUD manages them was critical to the project's success.

Our second audit, published in September 2015,<sup>9</sup> found that HUD's implementation of phase 1, release 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' financial system. As a result, processing continued for more than 6 months with unresolved errors, leaving HUD's general ledger and BFS' financial system 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 in our initial review of the phase 1, release 3,

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<sup>8</sup> Audit Report 2015-DP-0006, Weaknesses in the New Core Project Were Not Adequately Addressed, June 12, 2015

<sup>9</sup> Audit Report 2015-DP-0007, New Core Release 1 of Phase 1 Implementation Was Not Completely Successful, September 3, 2015

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implementation. Although HUD had taken action to mitigate some of the problems that occurred with release 1 and address some of the issues we highlighted, we were concerned that HUD was moving too fast with its implementation plans and would repeat these weaknesses.

Our third audit, published in September 2016,<sup>10</sup> found that HUD had unresolved data conversion errors and inaccurate funds management reports and lacked a fully functional data reconciliation process following the implementation of phase 1, release 3, of the New Core Project on October 1, 2015. In addition, the New Core Interface Solution's performance was not monitored, tracked, or measured, and controls over processing errors within Oracle Financials were routinely bypassed. These conditions occurred because HUD rushed the implementation of the release. Specifically, HUD did not move the implementation date when issues were identified during system testing to allow time to resolve the issues, development of the custom reports was not far enough along to allow full system testing, development of the reconciliation tool could not be completed before the scheduled implementation date, and time did not permit the establishment of performance metrics. As a result, in June 2016, unresolved data conversion errors were estimated at an absolute value of more than \$9 billion, HUD's funds management reports contained inaccurate data, and the newly completed status of funds reconciliation report indicated that there was an absolute value of \$4.5 billion in differences between the HUD Centralized Accounting and Processing System and Oracle Financials.

The New Core Project program charter identified 14 financial management systems capabilities that would have to be delivered with the program to meet its financial management needs, replace the Department's legacy systems, and achieve the expected benefits. HUD accomplished 4 of the 14 items with releases 1, 2, and 3 of the New Core Project. This included transitioning the following functions: travel and relocation, time and attendance, core accounting, and procurement. Since 1991, OIG has reported on system limitations and deficiencies within HUD's legacy financial management systems and the Department's lack of an integrated financial management system. In fiscal year 2015, the issue was a material weakness. Program offices have compensated for the system limitations by using manual processes to meet financial management needs.

These system issues and limitations have inhibited HUD's ability to produce reliable, useful, and timely financial information. Complete and reliable financial information is critical to HUD's ability to accurately report on the results of its operations to both internal and external stakeholders. The implementation of release 3 did not alleviate these issues, as confirmed by GAO in a report issued in July 2016.<sup>11</sup> For fiscal year 2015, 97 percent of the Department's budget was allocated to HUD's program areas (that is, public and Indian housing and community planning and development). Following the implementation of release 3, HUD's core program functions were still being controlled and processed through HUD's legacy applications. In April of 2016, after spending \$96.3 million, HUD ended the New Core Project with the closeout of the release 3 implementation. HUD decided that it would continue to use BFS's systems and services for the capabilities that had already been delivered but would not transition to shared services as a

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<sup>10</sup> Audit Report 2016-DP-0004, HUD Rushed the Implementation of Phase 1, Release 3, of the New Core Project, September 20, 2016

<sup>11</sup> Report GAO-16-656, Financial Management Systems – HUD Needs to Address Management and Governance Weaknesses That Jeopardize Its Modernization Efforts, July 2016

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means of achieving the remaining New Core Project capabilities. HUD did not transfer all of the functionality that was originally planned and in some cases, simply shifted the uncompleted segments of the New Core Project to new projects. Additional time and funding will be needed to complete these projects. HUD has not fulfilled its plan to move to an FSSP in order to implement financial management systems capabilities that would have been delivered with the New Core Project to meet its financial management needs, replace the Department's legacy systems, and achieve the expected benefits.

**Outdated Information Technology Systems**

Overall, funding constraints diminished HUD's ability to integrate updated application systems and replace and deactivate legacy systems. Limited progress has been made in modernizing applications and enhancing capabilities to replace 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 challenging 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, high operation and maintenance costs, and increased susceptibility to security breaches. 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. As a result, HUD's financial systems continue to be at risk of compromise.

HUD's voucher and project-based Section 8 and public housing programs accounted for 78 percent of HUD's 2016 enacted discretionary budget authority of \$47.2 billion. Also, HUD's FHA program has insured more than 33.5 million mortgages valued at more than \$3.8 trillion since 1980. These four program areas alone have 20 major information systems supporting the management of those programs, and those systems contain in excess of 300 million records on program recipients – with data fields that include Social Security numbers; birth dates; address history; income; financial; dependent; and in those cases in which disability and medical status is considered, health-related data. In short, the management information systems supporting these four critically important HUD programs contain personally identifiable information for all American citizens who received HUD-sponsored housing assistance, lived in public housing, and obtained an FHA-insured mortgage, including such information on all dependents within those households.

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 relating 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

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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.

***Summary of OIG Work***

Annually since 1991, OIG has reported on the lack of an integrated financial management system, including the need to enhance FHA's management controls over its portfolio of integrated insurance and financial systems. We have completed three audits 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 of the New Core Project were not adequately addressed. 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. Our third review, published in September 2016, found that HUD had unresolved data conversion errors and inaccurate funds management reports and lacked a fully functional data reconciliation process following the implementation of phase 1, release 3, of the New Core Project on October 1, 2015. In addition, the New Core Interface Solution's performance was not monitored, tracked, or measured, and controls over processing errors in Oracle Financials were routinely bypassed.

***Looking Ahead***

OIG will continue evaluating HUD's activities related to the implementation of the New Core Project and integrating its financial management systems.

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**Digital Accountability and Transparency Act Compliance**

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One of the Department's major emerging management challenges is compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act).<sup>12</sup> In our August 2016 DATA Act readiness review, we found that HUD was not on track to meet the DATA Act's requirements.<sup>13</sup> The DATA Act builds on agency transparency reporting requirements established by the Federal Funding Accountability and Transparency Act of 2006 (FFATA) and has an implementation date of May 2017. HUD's efforts to comply with the DATA Act have been hindered by management turnover and indecision, resource limitations, and disparate IT systems that reside on different platforms with dissimilar data elements.

***DATA Act Leadership Turnover and Delayed Decisions***

HUD's DATA Act team has been hindered by management turnover and indecision. HUD has had three different senior accountable officials in a 6-month span, and the conclusion that the DATA Act applied to FHA and Ginnie Mae was not made until approximately May 2016. These

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<sup>12</sup> Digital Accountability and Transparency Act of 2014, Pub. L. No. 113-101

<sup>13</sup> 2016-FO-0802, Independent Attestation Review: U.S. Department of Housing and Urban Development, DATA Act Implementation Efforts, dated August 26, 2015

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conditions have delayed implementation efforts and precluded the reasonable expectation that the deadline would be met. While HUD has taken steps to implement the DATA Act, the lack of a constant senior accountable official prevents adequate oversight of the project and workgroups, which would ensure implementation by the statutory date.

**Compliance Milestones and Human Resource Limitations**

In addition to management turnover and the delays related to the FHA and Ginnie Mae components, key HUD milestones have been delayed. Specifically, HUD had not completed its inventory of data elements or the mapping of agency data to the DATA Act schema as of July 15, 2016. To assist agencies with implementation, OMB and Treasury issued a playbook with eight key steps to help agencies fulfill the requirements of the DATA Act, and OMB issued a memorandum detailing key guidance.<sup>14</sup> HUD's project plan dates for milestones, including completing an agency data element inventory or mapping agency data to DATA Act schema, significantly exceeded previous Treasury and OMB guidance, and HUD's project plan dates may not have been sufficiently reviewed and approved by OMB and Treasury.<sup>15</sup> HUD submitted updated implementation plans to OMB and Treasury in August 2016.

Competing departmental priorities like HUD's transition to a shared service provider for financial management services have worsened existing resource limitations. Human capital resources are limited compared to the level of effort required to modify systems and perform the required data inventory and mapping. While Treasury may provide resources to supplement HUD's resources and support HUD's compliance efforts, substantial challenges remain.

**Information System Weaknesses and Data Quality Issues**

HUD has experienced challenges with DATA Act (and FFATA) implementation due to the Department's reliance on many financial systems with differing technologies and data elements. To provide quality spending data, agencies will be required to make available financial obligation and outlay data and award-level data based on agency financial systems. As we have previously reported in our annual financial statement audit, HUD's legacy systems have hindered efficient and effective financial reporting. As the DATA Act requires the use of agency financial systems, many of the issues reported in the financial systems management challenge (see page 6) also apply.

In addition, HUD has been unable to resolve data quality issues that have impeded the complete and accurate reporting of departmental contract, grant, loan, and other financial assistance awards in USAspending.gov.

**Summary of OIG Work**

While the statutory date for final implementation of the DATA Act is May 2017, we have issued one of two planned preimplementation attestation reports that are designed to determine whether HUD is on track to meet the implementation deadline. In August 2016, we issued a review attestation report on HUD's efforts to comply with OMB and Treasury DATA Act Playbook steps 1-4. While HUD's assertions reasonably represented the status of departmentwide compliance efforts, we reported that HUD was not on track to provide complete, departmentwide

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<sup>14</sup> <https://www.whitehouse.gov/sites/default/files/omb/memoranda/2015/m-15-12.pdf>

<sup>15</sup> GAO-16-698, DATA Act Implementation Plans, <http://gao.gov/assets/680/678765.pdf>

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reporting by the May 2017 deadline. Additionally, we provided recommendations to the Department to address compliance impediments.

**Looking Ahead**

We will continue to perform preimplementation work as HUD works to implement the DATA Act, and we plan to issue our first statutorily required report during fiscal year 2017.

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**Weaknesses in Information Technology Security Controls**

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HUD conducts hundreds of thousands of transactions with the American public daily and is responsible for safeguarding hundreds of millions of records containing the personal information of private individuals. However, HUD continues to face both long- and short-term challenges as it strives to modernize its legacy systems, adequately secure its IT infrastructure, and properly protect sensitive data. HUD has not adequately planned for its future IT and IT security needs. One of two primary HUD infrastructure services contracts was recently reawarded using a longterm sole-source contract, while the second has been in a period of transition since fiscal year 2014, creating risk for HUD. 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. More than 400 HUD IT products are running on unsupported platforms, increasing the risk of unknown and unpatchable vulnerabilities. Legacy systems are difficult or unable to migrate to cloud technology, further complicating HUD'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. HUD filled several key positions, including the CIO, chief information security officer, and chief technology officer. However, we are concerned that turnover in IT leadership roles, including that of the enterprise architect and the conclusion of the CIO's tenure at the end of calendar year 2016, will deflate HUD's momentum. Major HUD initiatives have been negatively impacted by recent turnover in key positions and loss of technical expertise.

HUD has begun key initiatives, such as the development of several long-term plans, including an enterprise architecture roadmap, aimed in part to guide modernization efforts; a Cybersecurity Framework to address IT security program deficiencies; and a recently implemented enterprise incident handling program to improve security incident detection capabilities. However, notable change and implementation of these initiatives are not anticipated to be fully realized until fiscal year 2017 and beyond. Successful implementation of these plans will be directly dependent upon HUD's ability to instill accountability, implement performance measures, and obtain adequate technical expertise and resources. In the process of outsourcing infrastructure and application maintenance and support, HUD has divested itself of much of its own technical expertise and continues to face significant staffing challenges. For example, an organizational chart provided to OIG during its fiscal year 2016 Federal Information Security Modernization Act (FISMA) evaluation showed that 16 of the 36 key IT managerial and supervisory positions

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stationed at HUD headquarters were either vacant (11) or filled by temporary “acting” personnel (5) during fiscal year 2016. This condition significantly challenges HUD’s ability to manage and perform vendor oversight of its technology infrastructure and conduct technical assessments. It has also resulted in HUD’s extensive dependence on decentralized IT contracts throughout the HUD IT environment.

Our annual evaluation of HUD’s IT security program for fiscal year 2015, as mandated by FISMA, revealed some IT security improvements, but extensive noncompliance with Federal IT guidance continues. As shown in OIG’s fiscal year 2015 FISMA report, HUD has extensive deficiencies in 5 of the 10 program areas on which OIG reports to OMB, compared to 9 of 10 in fiscal year 2014. HUD is showing some progress in remediating these deficiencies; however, it has 45 open FISMA evaluation recommendations spanning several years that have been open from 300 to 800 days. These recommendations need to be addressed to rectify longstanding security weaknesses. Further, the privacy program has an additional 21 open recommendations for the fiscal years 2013 through 2015 evaluation period.

To ensure improvement in the above areas and reduce vulnerabilities to the IT security environment, all HUD program offices will need to collaborate effectively and establish ownership and oversight of IT security controls. HUD’s fiscal year 2016 IT funding level has decreased 16.3 percent from fiscal year 2015, which continues to impact agency modernization and IT security efforts. With the constrained budgets, HUD will be challenged to fund the operation of current systems while also initiating projects to upgrade legacy applications and improve security.

Further, our evaluations have revealed a lack of enterprise risk management, which directly affects HUD’s ability to manage all IT risks using a holistic framework and hinders HUD’s IT modernization efforts. HUD’s Office of the Chief Information Officer (OCIO) had begun addressing this weakness by developing an IT Risk Management Office, but unless HUD develops an enterprisewide risk management program with one management approach, it will not be able to appropriately prioritize all IT risks.

***Summary of OIG Work***

OIG’s work has been focused on assessing mandated requirements and other IT evaluations to assist HUD in identifying IT risks and vulnerabilities in addition to prioritizing efforts to improve the cybersecurity posture and IT infrastructure and secure HUD data. Many areas and deficiencies remain to be reviewed and assessed to independently identify and provide recommendations for improving the cybersecurity posture.

***Looking Ahead***

We will continue to evaluate HUD’s IT infrastructure, policy, and processes, while also continuing to provide oversight on the progress of HUD’s IT security program, modernization efforts, and ability to implement IT security long-term plans. We will do this through mandated assessments and targeted evaluations, while instilling a collaborative environment with HUD.

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## Single-Family Programs

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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

Before fiscal year 2015, FHA's fund had been below its legislatively mandated 2 percent capital ratio for the past 6 years. However, beginning in fiscal year 2015, the fund met its threshold target capital ratio once again.<sup>16</sup> According to the 2015 actuarial study, the fund had an economic value of \$23.8 billion. Based on the 2015 projections, the fund is expected to maintain a capital ratio above the threshold limit and will gradually build reserves over time if the forecasted trend continues. 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.

The Department must 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 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 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 more than \$14.6 billion in damages and penalties in the last 5 fiscal years.

For the FHA-insured loans, results in the last 5 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 \$4.9 billion for alleged violations of the False Claims Act; the Financial Institutions Reform, Recovery, and Enforcement Act; and the Program Fraud Civil Remedies Act. Nearly \$3.2 billion of the \$4.9 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.

### Monitoring Lenders and FHA 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

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<sup>16</sup> Our calculation of the capital ratio was based the information we obtained from FHA's final actuarial report, published in November 2015, and using the amortized insurance-in-force as the denominator.

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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. Two years ago, 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,<sup>17</sup> we 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 on 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.

FHA program regulations at 24 CFR (Code of Federal Regulations) Part 203 do not establish a maximum period for filing a claim, and they do not place limitations on holding costs when servicers do not meet all foreclosure and conveyance deadlines. In addition, HUD reviews only a small percentage of claims to ensure that servicers meet required deadlines. In July 2015, HUD submitted a proposed rule for public comment in the Federal Register (FR-5742) to establish a maximum period for servicers to file a claim for insurance benefits and curtail servicers' claims for property preservation and administrative costs occurring after the date on which the servicer should have filed a claim. HUD proposed to allow servicers 12 months from the expiration of the reasonable diligence timeline to convey the property. HUD stated that the proposed rule would improve its ability to protect the FHA insurance fund. However, the proposed rule was not finalized because mortgage servicers expressed concern that such changes were not realistic, citing unavoidable delays in the foreclosure process. HUD needs to continue to pursue changes to FHA program regulations and work with industry leaders to reissue proposed changes to adequately protect the fund from unnecessary and unreasonable costs incurred when servicers do not convey properties in a timely manner. Further, in its 2015 actuarial report, HUD projected that it may incur future losses because of servicers' delayed foreclosures and conveyances. HUD reported concern that delayed foreclosures limited its ability to identify current and future risks to the FHA insurance fund.

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<sup>17</sup> 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

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Based on an audit report issued in October 2016<sup>18</sup> covering FHA's monitoring and payment of conveyance claims, we found that HUD paid claims for nearly 239,000 properties that servicers did not foreclose upon or convey on time. Servicers missed their foreclosure and conveyance deadlines and did not report the self-curtailment date of their debenture interest. As a result, HUD paid at least \$2.23 billion in unreasonable and unnecessary costs. Without regulatory authority, HUD has few options to compel servicers to convey and file a claim. Program regulations allow HUD to disallow mortgage interest when a servicer misses a foreclosure deadline, but HUD has no further recourse to protect itself from paying holding costs incurred after servicers have missed conveyance deadlines. Therefore, if a servicer missed its deadline to initiate foreclosure, it forfeited its mortgage interest and had no further financial or regulatory incentives to meet its remaining deadlines.

Further, in another audit,<sup>19</sup> we found that HUD did not always collect on partial claims due upon termination of the related FHA-insured mortgages. HUD failed to collect an estimated \$21.5 million in FHA partial claims that became due last fiscal year. HUD's contract with its national loan servicing contractor lacked a performance requirement measuring partial claims collection. In addition, HUD's monitoring reviews of the contractor did not improve the contractor's performance in collecting partial claims. HUD should require the contractor to identify all partial claims that were due and payable, prepare the paperwork needed for debt collection, and transfer the claims to the Financial Operations Center. The Financial Operations Center should collect the \$21.5 million in uncollected partial claims from fiscal year 2015 from the borrowers, or if it is not possible to collect from the borrowers due to lender error, it should collect those funds from the lender. HUD also needs to strengthen contract and monitoring review procedures to ensure that partial claims are properly collected.

**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. We have conducted two audits<sup>20</sup> of FHA's Home Affordable Modification Program (HAMP). HAMP allows homeowners to modify their FHA-insured mortgages to reduce monthly mortgage payments and avoid foreclosure. The program allows the use of a partial claim of up to 30 percent of the unpaid principal balance as of the date of default, combined with a loan modification. One audit found 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 contractors did not produce timely quality postclaim review reports and

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<sup>18</sup> Audit report 2017-KC-0001, FHA Paid Claims for Properties That Servicers Did Not Foreclose Upon or Convey on Time, October 14, 2016

<sup>19</sup> Audit report 2016-KC-0001, HUD Did Not Collect an Estimated 1,361 Partial Claims Upon Termination of Their Related FHA-Insured Mortgages, August, 17, 2016

<sup>20</sup> Audit Report 2015-LA-0003, HUD Did Not Have Effective Controls or Clear Guidance in Place for the FHAHAMP 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

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failed to adequately monitor FHA-HAMP. As a result, FHA overpaid at least \$177 million in partial claims due to servicer miscalculations. Management decisions have been reached for recommendations with varying target closeout dates. The other audit found that HUD's claim payment system did not always identify ineligible FHA-HAMP partial claims. The system allowed payment of (1) more than one claim with a previous modification or FHA-HAMP option in a 24-month period, (2) duplicate claims, (3) partial claims in excess of 30 percent of the unpaid principal balance at the time of default, and (4) non-HAMP partial claims after HUD discontinued this claim type. This condition occurred because HUD did not design and implement sufficient claim payment system controls. As a result, HUD spent approximately \$22.5 million on potentially ineligible claims.

**Departmental Clearance Process**

Departmental clearance is a necessary and important process to ensure required 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 intraoffice agreement, (2) execute a form HUD-22, (3) launch the 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, we have 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. We have noted that HUD failed to follow departmental clearance protocols for FHA programs, policies, and operations by not (1) ensuring that key officials reviewed directives before issuance and (2) following required departmental clearance procedures when issuing directives or Paperwork Reduction Act documents. These actions were contrary to the directives policies in Handbook 000.2, REV-3, HUD Directives System. Below are examples of policies that were not properly vetted through the clearance protocols.

- **Loan Quality Assessment Methodology (defect taxonomy)** – This methodology discusses significant policy and procedural guidance related to FHA's lender monitoring process and enforcement of FHA loan origination defects. HUD posted this document on its Drafting Table Web site on September 16, 2014, before completing a limited clearance process on May 1, 2015. Posting in draft form for public comment will indicate to the public that, although in draft, the policy and legal positions in the draft form are accurate and reflect the direction that the Department is interested in pursuing. However, the public cannot be assured that draft directives will be pursued unless the draft is approved through departmental clearance. The defect taxonomy remains in draft with no implementation date set.
- **Addendum to Uniform Residential Loan Application (form HUD-92900-A)** – This document was used for establishing the eligibility of proposed mortgage transactions for

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FHA's insurance endorsement. It revised a previously cleared Paperwork Reduction Act document; therefore, departmental clearance was required. Clearance was also required because this document removed certification language that could potentially impact FHA's enforcement efforts. A controversial memorandum issued from Edward Golding, HUD's Principal Deputy Assistant Secretary for Housing, and a U.S. Department of Justice responsive press release highlighted the significance of the document changes.

Excerpt from FHA posting, March 15, 2016

In this final loan-level certification, FHA is clearly identifying what lenders will be held accountable for only those mistakes that would have altered the decision to approve the loan. This important move makes it very clear that minor mistakes that do not affect the decision to approve a loan are not the focus of our compliance efforts.

Excerpt from U.S. Department of Justice press release, March 15, 2016

The department will continue these enforcement efforts by using the False Claims Act, and will continue to be guided by the language of the act that prohibits the submission of knowing and material false claims. In the FHA context, this means that no lender will face False Claims Act enforcement based on an unknowing mistake or an immaterial requirement. But, at the same time, the department will not hesitate to bring an action where a lender – or any other individual or entity who would defraud the federal taxpayer – submits false statements and claims at the expense of the federal fisc.

HUD posted the document on its public Drafting Table Web site on May 1, 2015; however, it did not complete the departmental clearance process until August 11, 2015. In addition, the 60-day Federal Register notice relating to this document was improperly issued before it went through departmental clearance. The Federal Register notice was issued on May 15, 2015.

### **Downpayment Assistance and Premium Pricing**

Through the course of three audits,<sup>21</sup> we learned about and continue to be concerned with a funding arrangement for downpayment assistance to FHA borrowers, which we believe violates the National Housing Act regarding prohibited sources for downpayment assistance. Specifically, we learned that NOVA and LoanDepot had entered into triparty agreements among the FHA lender, a housing finance agency (HFA), and U.S. Bank, a Ginnie Mae issuer. These agreements were part of a program in which the HFA would provide downpayment assistance in a grant or loan to the borrower. The FHA lender would provide the primary financing to the borrower in the form of an FHA-insured loan. Upon origination, the FHA loan would be sold to U.S. Bank, which would securitize the mortgage loan through Ginnie Mae security and service

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<sup>21</sup> 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

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the mortgage. Although not parties to the FHA loan, the HFA and U.S. Bank required the FHA lender to inflate the interest rate on the loan. The HFA providing the downpayment assistance and U.S. Bank had previously determined what interest rate above the market interest rate would be necessary on the FHA loan to net a premium payment from the investor when the loan was securitized. The HFA, U.S. Bank, and the FHA lender agreed that the premium payment would reimburse the HFA for the downpayment and pay other program-related fees. The increased rate was up to 1.5 percent above the market rate for FHA loans (for example, 4.5 percent for HFA downpayment assistance versus 3 percent for nonassisted FHA loans). The HFA, U.S. Bank, and the FHA lender also agreed to charge the borrower additional securitization, administration, and tax fees as part of the origination totaling \$300-\$600, which would not have otherwise been paid on the lower interest rate mortgage. We determined that U.S. Bank had similar agreements with FHA lenders and HFAs around the country.

Since the issuance of the first and later similar audits, we have attempted to resolve the findings and recommendations with the Department to no avail. HUD has failed to recognize disturbing parallels to the seller-funded downpayment assistance arrangements practiced from the late 1990s to 2008, which caused wide-scale problems for the program that continue to be felt today. On May 25, 2016, the Department issued its decision regarding our disagreement over the HFA's downpayment assistance and premium pricing in the NOVA audit. The decision relied heavily on a HUD, Office of General Counsel, legal opinion that did not review the specific details or funding structure of borrower-financed downpayment assistance programs. Instead, the legal opinion was meant to opine on HFAs as permissible sources of downpayment assistance since they are government entities. We strongly disagree with this position because downpayment assistance provided or reimbursed indirectly by a party that benefits financially from the transaction is prohibited under statute and negatively affects the borrower.

HUD's actions enabled questionable downpayment assistance programs. HUD's requirements, guidelines, and interpretations on downpayment assistance from government entities allow for increased risk to the FHA Single Family Mortgage Insurance program and have enabled the creation and growth of questionable borrower-financed downpayment assistance programs. Current requirements and guidelines provide little oversight and give HFAs broad access to the FHA program that other entities do not have. For example, a comparison of Handbook 4155.1 provisions in effect at the time of the OIG audits to the provisions in Handbook 4000.1 reveals major changes in policy. Handbook 4000.1 was modified to strictly define premium pricing and eliminated the prohibition on premium pricing as a source of funds for the borrower's minimum required investment that was in Handbook 4155.1.

***Summary of OIG Work***

Audits conducted over the last 5 fiscal years related to FHA-insured loans have shown that a high percentage of loans reviewed should not have been insured because of significant deficiencies in the underwriting. OIG has noted HUD's financial exposure when paying claims on loans that were not qualified for insurance. Based on the results of an August 2014 audit, OIG determined that HUD did not always bill lenders for FHA single-family loans that had an enforceable indemnification agreement and a loss to HUD. In addition, OIG conducted two

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audits<sup>22</sup> of FHA-HAMP. One audit determined that HUD did not have an effective postclaim review function and did not have clear program guidance for the FHA-HAMP partial claim option. The second audit reported that HUD's claim payment system did not always identify ineligible FHA-HAMP partial claims. OIG's audit of delayed conveyances<sup>23</sup> found that HUD paid claims for an estimated 239,000 properties that servicers did not foreclose upon or convey on time because it did not have adequate controls in place to ensure that servicers complied with Federal regulations. As a participant in the departmental clearance process, OIG noted that FHA did not always follow required departmental clearance procedures when issuing directives. In addition, with the update to the consolidated Handbook 4000.1, FHA made changes regarding premium pricing during the course of several OIG audits, which continues to raise concerns for OIG. Further, OIG issued three audit reports<sup>24</sup> on lenders' allowance of ineligible downpayment assistance, highlighting HFAs' use of a premium pricing structure that does not comply with FHA requirements and negatively impacts borrowers.

**Looking Ahead**

We continue to take steps to help preserve the FHA 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; while continuing to monitor the FHA program.

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**Community Planning and Development Programs**

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**Integrated Disbursement and Information System**

Due to HUD's continued use of the FIFO (first-in, first-out) method as an accounting methodology for appropriated funds<sup>25</sup> for committing and disbursing obligations for community planning and development formula grant programs for fiscal year 2014 and earlier grants, which does not comply with accounting standards, resulted in a material misstatement of HUD's financial statements. HUD's plan to eliminate FIFO from its Integrated Disbursement and Information System (IDIS) Online was applied to fiscal year 2015 and future grants and not to grants for fiscal years 2014 and earlier. Since 2013, we have also reported that IDIS Online, a

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<sup>22</sup> Audit Report 2015-LA-0003, HUD Did Not Have Effective Controls or Clear Guidance in Place for the FHAHAMP 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

<sup>23</sup> Audit Report 2017-KC-0001, FHA Paid Claims for Properties That Servicers Did Not Foreclose Upon or Convey on Time, October 14, 2016

<sup>24</sup> 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

<sup>25</sup> 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.

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grants management system, was not designed to comply with Federal financial management system requirements and support the U.S. Standard General Ledger at the transaction level. We continue to 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 on HUD's financial statements in fiscal year 2013 and the disclaimer audit opinion issued in fiscal years 2014 and 2015, respectively. Therefore, lack of retroactive implementation will have implications on future years' financial statement audit opinions until the impact is assessed to be immaterial. Due to funding problems, completion of the elimination plan will be delayed until May 2017. 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).

**Grant Accounting**

In fiscal year 2016, HUD's inability to provide data to monitor compliance with the HOME Investment Partnership Act (HOME statute) requirements for committing and spending funds will 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<sup>26</sup> for determining compliance with section 218(g) of the HOME statute, which requires that any uncommitted funds be reallocated or recaptured after the expiration of the 24-month commitment deadline. After a continuous impasse with HUD, OIG contacted GAO in 2011 and requested a formal legal opinion on this matter. In July 2013, GAO issued its legal opinion, affirming OIG's position and citing HUD for noncompliance. In its decision, GAO 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 retroactively. 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.

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

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<sup>26</sup> 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.

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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). HUD opened an ADA investigation in response to our memorandum with a target completion date of September 1, 2016, which was later revised to October 24, 2016.

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 through 2016, at least 15 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 Community Development Block Grant 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

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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 2016 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 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.

**OIG-CPD Collaboration**

Recently, OIG and HUD CPD began a joint collaboration to assist grantees and subgrantees in the areas in which OIG reported that grantees and subgrantees were most vulnerable. The work group determined that assistance should be provided in the following areas:

- Procurement and contracting,
- Subrecipient oversight,
- Conflicts of interest,
- Internal controls,
- Documentation and reporting, and
- Financial management.

In addition, the Inspector General coauthored a joint letter with Harriet Tregoning, Principal Assistant Secretary, CPD, to State and local governments communicating our collaborative effort to encourage efficient operations and effective accountability for the best use of limited resources. The work group began meeting to develop a series of “integrity bulletins” aimed at providing the grantees and subgrantees with information to help safeguard program funds and ensure that communities get the full benefit of awarded funding. The bulletins on procurement and contracting, conflicts of interest, and subrecipient monitoring and oversight have been sent to grantees and subgrantees during fiscal year 2016, and the work group continues to draft the

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remaining bulletins. In addition, the published bulletins are posted on our Web site at [www.hudoig.gov/fraud-prevention](http://www.hudoig.gov/fraud-prevention).

***Summary of OIG Work***

OIG took exception to HUD's 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. HUD's use of the FIFO methodology contributed to the qualified audit opinion and consecutive disclaimers of audit opinion issued on HUD's financial statements in fiscal years 2013, 2014, and 2015, respectively.

In fiscal years 2014 through 2016, at least 15 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. We have concerns regarding the capacity of subgrantees receiving funding from HUD programs, including grantees receiving CDBG-DR funds.

Audits conducted by OIG for the period 2012 through 2016 identified serious deficiencies in the administration of the Section 108 loan program that affected the effectiveness of the program. Further, HUD lacked assurance that funds were adequately accounted for, safeguarded, and used for authorized purposes and in accordance with HUD requirements.

In an effort to assist grantees and subgrantees in the areas in which OIG audit reports determined the grantees and subgrantees were most vulnerable, HUD OIG has issued several integrity bulletins aimed at providing the grantees and subgrantees with information to help safeguard program funds and ensure that communities get the full benefit of awarded funding. OIG will continue to work with Harriet Tregoning, Principal Deputy Assistant Secretary, CPD, to encourage efficient operations and effective accountability for the best use of limited resources.

***Looking Ahead***

We will continue to monitor these issues and conduct audits as appropriate, related to HUD's community planning and development activities. We are working with HUD through the management decision process to resolve the FIFO methodology and cumulative method recommendations.

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**Public and Assisted Housing Program Administration**

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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. 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 3,300 PHAs provide affordable housing for 1.1 million households through the low-rent operating subsidy public housing program and for 2.2

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million households through the Housing Choice Voucher program. Multifamily project owners assist more than 1.2 million households. The following challenges highlight the various issues faced by the Department:

- Monitoring the Housing Choice Voucher program,
- Central office cost centers,
- Cash management requirements,
- Monitoring Moving to Work (MTW) agencies,
- Overincome families in public housing,
- Environmental review requirements,
- The Indian Home Loan Guarantee program,
- Monitoring small and very small housing agencies, and
- The physical condition of Housing Choice Voucher program units.

**Monitoring the Housing Choice Voucher Program**

HUD has a challenge in monitoring the Housing Choice Voucher program. The program is electronically monitored through PHAs' self-assessments and other self-reported information collected in PIH's systems. Based on recent audits and HUD's onsite confirmatory reviews, the self-assessments are not always accurate, and the reliability of the information contained in PIH systems is questionable. Due to its limited funding for new systems development and staffing constraints, PIH employs a risk-based approach to monitoring using its Utilization Tool and National Risk Assessment Tool. 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**

PIH has a challenge in balancing its responsibility to protect HUD funds and streamlining activities to provide relief for PHAs. PHAs using a fee-for-service model pay a central office cost center for certain costs rather than allocating overhead costs. This practice impacts Housing Choice Voucher, Public Housing Operating Fund, and Public Housing Capital Fund program funds. Once paid to the central office cost center, the funds are defederalized and are no longer required to be spent on these programs. Ensuring that only the funds that are needed are transferred to the central office cost center will allow more funds to be used directly for the programs. HUD will develop rulemaking to ensure that Housing Choice Voucher, Public Housing Operating Fund, and Public Housing Capital Fund program funds are not defederalized when paid to the central office cost center. This measure will ensure that excess fees paid into the account will remain available to the program. HUD has also agreed to establish a process to regularly assess the reasonableness of the asset management fees. However, we continue to be concerned that we have not received justification regarding the need for an asset management fee.

Our 2014 report<sup>27</sup> 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

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<sup>27</sup> 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

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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.

**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 traditional PHA funds had been transitioned back to HUD, but HUD faced an additional challenge of quantifying and transitioning excess funds from its MTW program PHAs. This process was complex and time consuming because the composition of these balances included funding from other HUD programs and was not being tracked separately by HUD or the PHAs. During fiscal years 2015 and 2016, PIH worked with MTW PHAs to determine their accumulated balances. Through PIH's confirmation and validation process, MTW PHAs reported holding \$466.5 million and \$425.6 million, as of September 30, 2015, and March 31, 2016, respectively. However, several PHAs reported that the amount they confirmed should not be transitioned for a variety of reasons, such as that the PHA used the accumulations as collateral, owed funds to other programs under the MTW program, or had upcoming commitments before the planned August transition. HUD evaluated each reason provided by the PHA to determine the proper amount available for transition and had transitioned \$218 million back to HUD as of September 1, 2016. We are in the process of evaluating the amount transitioned to determine whether it is adequate to satisfy 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. It also increases the risk of error and fraud 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 was elevated to the Deputy Secretary for a decision on March 31, 2015. We are still awaiting a response.

**Monitoring MTW 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 20 years since the demonstration program began, HUD has not reported on whether the program is meeting its objectives. HUD is experiencing challenges in developing programwide performance indicators that will not inhibit the participants' abilities to creatively impact the program. In 2013, HUD management developed new metrics to help measure program performance and stated that new contracts would allow it to better evaluate each agency's performance. According to HUD, it has extensively engaged with the 39 MTW

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PHAs to extend their agreements through 2028. In December 2015, the 2016 Consolidated Appropriations Act authorized HUD to expand the program to include an additional 100 participants over 7 years without knowing whether participating agencies are reducing costs to gain increased housing choices and incentives for families to work. 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.

**Overincome Families in Public Housing**

HUD is challenged in addressing families having excessive income being allowed to continue to reside in public housing units, since HUD regulations require families to meet eligibility income limits only when they are admitted to the public housing program. Neither public law nor regulations limited the length of time that families could continue to reside in public housing regardless of their income. In December 2004, HUD issued a final rule giving PHAs discretion to establish and implement policies that would require families with incomes above the eligibility income limits to find housing in the unassisted market. Our 2015 audit found 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.

As result of our work and after much public and congressional concern, legislation passed unanimously in both the U.S. House and Senate to address the issue, and the legislation was signed into law by President Obama in July 2016. The legislation requires PHAs to either evict overincome families after 2 consecutive years of exceeding the applicable income limitation or raise their rent to the applicable fair market rent for a unit in the same market area of the same size or the amount of the monthly subsidy of operating funds and capital funds used for the unit. It also requires PHAs to submit an annual report that specifies the number of families residing in public housing that had incomes exceeding the applicable income limitation and the number of families on the PHA's waiting lists for admission to public housing. HUD's Office of General Counsel is developing a plan for implementation that will include the creation of regulations through public involvement in the rulemaking process.

**Environmental Review Requirements**

HUD has a duty to ensure that its projects are free of environmental hazards. As a result of recent OIG reports,<sup>28</sup> 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.

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<sup>28</sup> 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 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

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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 has also implemented an internal process within HEROS to track findings, which will allow the program areas to focus training on recurring issues. 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 OIG-endorsed models within HUD.

While HUD has made improvements, it faces several challenges, including a 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, inadequate environmental reviews may contribute to 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.

**The 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<sup>29</sup> detailing 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. We found that HUD did not identify underwriting deficiencies in 3,845 guaranteed loans totaling more than \$705 million. 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. This lack of oversight and high incidence of poorly underwritten loans has the potential to negatively impact the financial standing of Native American communities. HUD agrees that new or revised policies for its program would allow it to better track and monitor the loan guarantees. PIH is working to find an automated solution.

**Monitoring 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 in 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,<sup>30</sup> we found 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. HUD uses a

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<sup>29</sup> Audit Report 2015-LA-0002, HUD Did Not Provide Adequate Oversight of the Section 184 Indian Home Loan Guarantee Program, July 6, 2015

<sup>30</sup> Audit Report 2015-FW-0802, Very Small and Small Public Housing Agencies Reviewed Had Common Violations of Requirements, September 16, 2015

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national risk-based approach to identify PHAs that may have governance issues to provide direct support. In addition, 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/fraudprevention](http://www.hudoig.gov/fraudprevention). 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 PHAs 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.

**The Physical Condition of Housing Choice Voucher Program Units**

In response to a 2008 audit report,<sup>31</sup> 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 more than 30,000 voucher units. However, it needs resources to continue developing the new protocol and related software for its comprehensive monitoring system. A demonstration program has been developed to implement the revised protocol. Meanwhile, we continue to identify PHAs with inspection programs, which do not ensure that voucher program units comply with standards.

Our 2008 audit report found that HUD did not have adequate controls to ensure that its Section 8 housing stock was in material compliance with housing quality standards. This condition occurred because HUD had not fully implemented its Section 8 Management Assessment Program. As a result, it could not ensure that the primary mission of the Section 8 program, paying rental subsidies so that eligible families can afford decent, safe, and sanitary housing, was met. In addition, HUD's lack of knowledge regarding the condition of its Section 8 housing stock resulted in inflated performance ratings for PHAs administering the program. As a result, HUD routinely rated some agencies as being high performers when a significant percentage of the units they administered were in material noncompliance with housing quality standards. We also continue to audit the physical condition of Housing Choice Voucher program units.

**Summary of OIG Work**

In recent audit reports, we demonstrated that PIH continues to face challenges in (1) monitoring the Housing Choice Voucher program, (2) balancing its responsibility to protect HUD funds and streamlining activities to provide relief for PHAs, (3) fully implementing cash management

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<sup>31</sup> Audit Report 2008-AT-0003, HUD Lacked Adequate Controls Over the Physical Condition of Section 8 Voucher Program Housing Stock, May 14, 2008

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requirements, (4) developing programwide performance indicators that will not inhibit the MTW participants' abilities to creatively impact the program, (5) addressing families having excessive income being allowed to continue to reside in public housing units, (6) ensuring that PHA projects are free of environmental hazards, (7) providing adequate oversight of the Section 184 program, (8) monitoring small and very small PHAs, and (9) ensuring that its Section 8 housing stock was in material compliance with housing quality standards.

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 and will continue to work with Lourdes M. Castro Ramirez, Principal Deputy Assistant Secretary, PIH, to encourage efficient operations and effective accountability for the best use of limited resources.

**Looking Ahead**

We will continue to work with and monitor HUD's actions to address challenges in these areas. We will continue to audit PHAs to identify other areas of concern that may arise.

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**Administering Programs Directed Toward Victims of Natural Disasters**

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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 longterm 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:

- Ensuring that expenditures are eligible and supported,
- Certifying that grantees are following Federal procurement regulations,
- Conducting consistent and sufficient monitoring efforts on disaster grants, and
- Keeping up with communities in the recovery process.

**Ensuring That Expenditures Are Eligible and Supported**

The Department faces significant challenges in monitoring disaster program funds provided to various States, cities, and local governments under its authority. This challenge is particularly pressing for HUD because of the limited resources to directly perform oversight, the broad

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nature of HUD projects, the length of time needed to complete some of these projects, the ability of the Department to waive certain HUD program requirements, and the lack of understanding of disaster assistance grants by the recipients. HUD must ensure that the grantees complete their projects in a timely manner and use the funds for their intended purposes. Since HUD disaster assistance may fund a variety of recovery activities, HUD can help communities and neighborhoods that otherwise might not recover due to limited resources. However, oversight of these projects is made more difficult due to the diverse nature of HUD projects and the fact that some construction projects may take between 5 and 10 years to complete. HUD must be diligent in its oversight to ensure that grantees have identified project timelines and are keeping up with them. HUD also must ensure that grantee goals are being met and that expectations are achieved.

OIG has completed 23 audits and 1 evaluation as well as investigation-related actions relating to CDBG-DR funding for Hurricane Sandy and other eligible events occurring in calendar years 2011, 2012, and 2013. We have identified \$3.8 million in ineligible costs, \$482 million in unsupported costs, and \$5.2 billion in funds put to better use. There are a number of other audits and evaluations as well as investigative work, which are currently underway. Before Hurricane Sandy, OIG had extensive audit and investigative experience with HUD's CDBG-DR program, most notably with grants relating to recovery after Hurricane Katrina and the terrorist attacks of September 11, 2001. While over the years, HUD has gained more experience and has made progress in assisting communities recovering from disasters, it continues to face challenges in administering these grants.

HUD faces a significant management challenge to ensure that funds disbursed for disaster recovery programs are used for eligible and supported items. We have highlighted three audit reports that illustrate these challenges for HUD in administering disaster recovery programs.

- In our review of New York State's Small Business Grants and Loans program,<sup>32</sup> we determined that State officials did not establish adequate controls to ensure that CDBGDR funds were disbursed for eligible costs. As a result, the State disbursed \$272,459 in CDBG-DR funds for ineligible costs and \$152,703 for unsupported costs. In addition, State officials did not adequately ensure that \$300,000 was disbursed to eligible businesses and that ineligible costs could be promptly recaptured.
- In our review of Luzerne County's Disaster Recovery grant program,<sup>33</sup> we determined that County officials did not ensure that subrecipients followed procurement requirements and lacked documentation to support funds disbursed for a building rehabilitation project. As a result, HUD and County officials did not have assurance that \$227,243 disbursed for contracts related to street improvements and flood drainage facilities was spent for costs that were fair and reasonable and that \$109,423 disbursed for a building rehabilitation project was used in accordance with HUD and Federal requirements.

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<sup>32</sup> Audit Report 2016-NY-1006, New York State Did Not Always Disburse Community Development Block Grant Disaster Recovery Funds in Accordance With Federal and State Regulations, March 29, 2016

<sup>33</sup> Audit Report 2016-PH-1004, Luzerne County, PA, Did Not Always Use Disaster Funds in Accordance With HUD and Federal Requirements, June 18, 2016

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- In our review of Rhode Island's Disaster Recovery grant program,<sup>34</sup> we found that State officials generally obligated and disbursed Sandy funds in a timely manner in accordance with HUD rules and regulations. However, State officials obligated \$127,750 for one project without performing an adequate duplication of benefits analysis and cost analysis before procuring rehabilitation services.

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.

**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, so long as the procurements conform to applicable Federal law and standards. In our recent audit of the State of New Jersey's CDBG-DR Superstorm Sandy Housing Incentive Program,<sup>35</sup> auditors found that the State did not prepare an independent cost estimate and cost analysis before receiving bids or proposals and awarding the contract. These conditions occurred because the State did not have adequate controls in place to administer its contract and monitor contract performance. Further, it was not fully aware of applicable Federal procurement and cost principle requirements. As a result, HUD did not have assurance that the \$43.1 million disbursed under the contract was for costs that were reasonable and necessary.

Our audits of disaster programs found CDBG procurement violations and other contracting problems. For example, in a recent internal audit of HUD's controls over its certifications of State disaster recovery grantee procurement processes,<sup>36</sup> we found that HUD did not always provide accurate and supported certifications of State disaster grantee procurement processes. Specifically, HUD (1) allowed conflicting information on its certification checklists, (2) did not ensure that required supporting documentation was included with the certification checklists, and (3) did not adequately evaluate the supporting documentation submitted by the grantees. As a result, HUD did not have assurance that State grantees had sufficient procurement processes in place, and the Secretary's certifications did not meet the intent of the Disaster Relief Appropriations Act of 2013.

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<sup>34</sup> Audit Report 2016-BO-1001, The State of Rhode Island Generally Administered Its Community Development Block Grant Disaster Recovery Assistance Grant in Accordance With Federal Regulations, March 09, 2016

<sup>35</sup> Audit Report 2016-PH-1009, State of NJ's CDBG DR "Superstorm Sandy Housing Incentive Program," September 30, 2016

<sup>36</sup> Audit Report 2016-PH-0005, HUD Certifications of Disaster Procurement Processes, September 29, 2016

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**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 2015 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 followup on monitoring findings was not performed consistently or in a timely manner. As reported in prior years, HUD faces difficulties in timely report issuance and monitoring of disaster program funds because of limited resources to perform the oversight and an aggressive monitoring schedule for Hurricane Sandy grantees. The inconsistent nature of the disaster recovery programs and HUD's intense workload continued to surpass its efforts to mitigate its challenges and conduct its work in a timely manner. 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. Untimely resolution of grantee performance and financial management issues increase the programs' susceptibility to instances of fraud, waste, abuse, and mismanagement of funds.

**Challenges in Administering Disaster Programs**

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 \$36 billion in obligations and \$33 billion in disbursements. 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, compliance with procurement requirements, and timely oversight efforts.

**Summary of OIG Work**

Our audit reports exposed the challenges for HUD in administering disaster recovery programs. They highlighted CDBG procurement violations and other contracting problems. Also, the reports illustrated grantee control problems with ineligible and unsupported cost items. As reported in prior years, HUD faces difficulties in timely report issuance and monitoring of disaster program funds because of limited resources to perform the oversight and an aggressive monitoring schedule for Hurricane Sandy grantees.

**Looking Ahead**

We will continue our audit, investigative, and evaluation work regarding HUD's disaster recovery activities, including (1) the timely expenditure of funds, (2) compliance with procurement requirements, and (3) timely oversight efforts.

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**Departmental Enforcement**

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A common thread underlying several of the issues discussed earlier is the lack of a cohesive departmental approach to monitoring, risk management, and follow-through for OIG findings

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and recommendations. In an evaluation<sup>37</sup> we conducted on the effectiveness of the Departmental Enforcement Center (DEC), we found that the Department does not have an enterprise risk management approach to monitoring. Its monitoring is, for the most part, contained in each program office, and the approaches and results differ greatly.

While there were some successes, a much greater task lies ahead. DEC, working with the Office of Multifamily Housing Programs and the Real Estate Assessment Center, had improved housing physical conditions and financial management of troubled multifamily properties. Although some other program offices had taken steps toward risk-based enforcement, they had not taken full advantage of the benefits demonstrated when programs allow DEC to assess compliance and enforce program requirements. DEC proved that it can remedy poor performance and noncompliance when programs are willing to participate in enforcing program requirements.

DEC was established in part to overcome a built-in conflict of roles. The HUD management reform plan stated that program offices had a conflicting role in getting funds to and spent by participants versus holding them accountable when fraud or mismanagement of the funds occurs. However, memorandums of understanding between DEC and the program offices, for the most part, limit DEC's ability to monitor, report, and take action to end noncompliance. While the Office of General Counsel disagreed with much of our report, it is working with the program offices to strengthen the memorandums of understanding. However, we emphasize that new agreements need to give DEC clear and increased enforcement authority for it to be effective as a separate entity.

***Summary of OIG Work***

We conducted an evaluation of the effectiveness of DEC and found that the Department does not have an enterprise risk management approach to monitoring. Its monitoring is, for the most part, contained in each program office, and the approaches and results differ greatly.

***Looking Ahead***

We will continue to evaluate the Department's approach to monitoring, risk management, and follow-through for OIG findings and recommendations.

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**Operational and Financial Reporting Challenges Affecting Ginnie Mae**

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Managing counterparty risks and strengthening Ginnie Mae's financial management accountability have been and continue to be the major challenges affecting Ginnie Mae in fiscal year 2016 and in the coming years. Key factors that contributed to these challenges include the

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<sup>37</sup> Evaluation Report 2015-OE-0004, Comprehensive Strategy Needed To Address HUD Acquisition Challenges, February 2, 2016

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rise of nonbanks, lack of resources, inadequate financial systems, and lack of a fully functioning financial management governance framework.

**Managing Counterparty Risks**

Ginnie Mae mortgage-backed securities (MBS) are the only securities to carry the full faith and credit guaranty of the United States Government. If an issuer fails to make the required passthrough payment of principal and interest to MBS investors, Ginnie Mae is required to assume responsibility for it. In the aftermath of the 2008 financial crisis, a number of regulated banks have retreated from securitizing mortgages, and in this vacuum, the ranks of nonbank institutions have increased. As of today, 7 of 10 Ginnie Mae issuers are nonbanks. Unlike regulated banks, these entities lack a primary prudential regulator to ensure their safety and soundness. Also, these entities are not as well capitalized as regulated banks. Thus, Ginnie Mae has to mitigate these risks with greater oversight and resources dedicated to nonbank compliance, resources Ginnie Mae does not have. In the near term, these changes have strained both its operating and financial resources.

Historically, Ginnie Mae issuer defaults have been infrequent, involving small- to medium-size issuers. However, major unanticipated nonbank issuer defaults, like Taylor, Bean & Whitaker Mortgage Corporation in 2009, have led to a multi-billion-dollar rise in Ginnie Mae's mortgage servicing as well as its repurchase of billions of dollars in defaulted loans to meet its guarantee to the MBS investors. In 2016, Ginnie Mae was exposed to a 5-year, \$7.5 million mortgage fraud scheme executed by a small long-term issuer. The issuer exploited a flaw in the issuer buyout program by defaulting loans it serviced, buying the delinquent loans out of the pool, and resecuritizing them.

**Financial Reporting Challenges**

Although Ginnie Mae has made progress in financial management governance issues in fiscal year 2016, there remain significant issues that warrant the attention of Ginnie Mae's stakeholders.

For the third year in a row, our annual financial statement audit of Ginnie Mae received a disclaimer of opinion due to its nonpooled loans assets (NPA) being unauditable. This year, Ginnie Mae acknowledged that the NPA balances are not supportable and not in accordance with generally accepted accounting principles. Ginnie Mae has reengaged its financial reporting and audit readiness contractor to assist in the development of its loan-level accounting system and related infrastructure.

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 have issues with staffing. Some personnel were hired in 2016 on a rolling basis. Of the 17 positions identified during the fiscal year, 7 were still unfilled as of mid-August. 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 vital to the country's larger financial health that Ginnie Mae be able to significantly increase staffing and benefit from a pay structure that will allow it to

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attract and hire individuals with the needed skills, knowledge, and abilities to manage a \$1.6 trillion program.

In fiscal year 2016, Ginnie Mae revamped a majority of its existing accounting policies and procedures, which have not been updated for many years, to comply with changes in generally accepted accounting principles among other things. Ginnie Mae has not finalized all of its accounting policies, and the accounting procedures are still in process. Currently, 5 of the 20 policies have been finalized. The remaining guidelines are in various stages of development. Therefore, the underlying accounting problems that are preventing Ginnie Mae from obtaining a clean audit opinion will continue until the accounting policies and procedures have been finalized and fully implemented and Ginnie Mae is appropriately staffed with the needed skills to manage its accounting requirements.

***Summary of OIG Work***

We 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.

***Looking Ahead***

Ginnie Mae will continue to face challenges in this dynamic environment due to the shift in its business model. Ginnie Mae and HUD have yet to adequately respond to this new concept and properly mitigate these risks by implementing a sound infrastructure and control environment. Ginnie Mae has stated that it would require a significant investment in technology, infrastructure, and people spanning multiple years to make its significant financial assets auditable. HUD and Ginnie Mae need to engage with Congress to lay out priorities, accelerate needed human capital and infrastructure improvements, and mitigate risks faced by the entity.

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**Conclusion**

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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. We remain committed to working collaboratively with HUD and will continue to strive to provide best practices and reasonable recommendations that support HUD's mission and responsibilities.

# Management's 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 to successfully accomplish these goals.

As an example, in 2016, HUD and the OIG worked together to begin producing a series of Integrity Bulletins to address issues with which HUD formula grantees struggle most frequently, including: Procurement and Contracting, Subrecipient Oversight, Conflicts of Interest, Internal Controls, Documentation and Reporting, and Financial Management. These bulletins provide information that will be used by the Continuum of Care (CoC) Program, funded through Community Planning and Development grants, to help safeguard CoC Program funds and ensure that communities receive the full benefit of the funding that has been awarded to them.

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. Specifically, we are focused on four areas of operational improvement: accountability, increased transparency interagency collaboration, and a greater commitment to measuring outcomes.

These efforts will go a long way in making HUD more efficient and effective, and help to ensure the progress made this year continues to reap increasingly beneficial results. The entire HUD team is committed to tackling these challenges head on. Working collaboratively with OIG, HUD will continue to identify and implement solutions that will help to ensure that each of the issues identified in the Management and Performance Challenges is adequately addressed.

## 1. Human Capital Management and Financial Management Governance

### *Human Capital Studies*

HUD's Strategic Workforce Plan for 2015 – 2018 was submitted to and accepted by the Office of Personnel Management in 2015. A copy was also submitted to GAO and they closed their recommendation concerning the cited audit finding. The Office of the Chief Human Capital Officer (OCHCO) has established an office that developed a methodology to strengthen HUD's capabilities to proactively identify its workforce requirements, talent and position risks and vulnerabilities, and to inform development and implementation of mitigating strategies. OCHCO staff have collaborated across functional lines and with the Department of Treasury to automate the methodology. Pilot programs were conducted with three Mission-Critical Occupations (MCOs) in FY 2016 and phased deployment will continue with other MCOs, high-risk positions, and program offices in FY 2017. The methodology is a repeatable process and

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monitoring will be cyclical. These initiatives are ongoing, to inform long-term workforce planning needs and preclude a recurrence of the lapse that occurred in OCHCO from 2009 until the new plan was finalized.

***Financial Management Governance of HUD***

HUD continues to work toward establishing a sound, resilient financial governance structure that is flexible enough to adapt to the agency's changing landscape, complex program structure, and culture. In September 2016, HUD took another significant step forward by establishing the Financial Management (FM) Council, a sub-council under the Executive Operations Council chaired by the Deputy Secretary.

Building on the progress made in prior years with the data-driven Quarterly Management Reviews (QMRs), the FM Council will help to prioritize and govern financial issues across the Department, including internal control requirements, audit resolution and improvements, and cross-cutting financial opportunities. This effort will be accomplished through improved accountability and effectiveness of HUD mission-support operations and policy, sound risk management and internal control practices Department-wide, and other financial management topics to the HUD financial community.

Chaired by the Deputy Chief Financial Officer, the FM Council will provide leadership and due diligence to promote effective financial and operational management oversight and stewardship of HUD resources to protect against fraud, waste, and abuse. Additionally, the Council will ensure the Department's financial management, financial systems, asset management, risk management, and internal control goals and expectations are clear and timely communicated.

The Department believes the QMRs, and the adoption of the new FM Council, satisfy the recommendations by the National Academy of Public Administrators (NAPA) and the Office of Inspector General.

***HUD's Use of Intergovernmental Personnel Act Assignments***

OCHCO, in coordination with OGC, is currently managing and tracking IPAs across the Department, and is actively working to further improve and streamline the process. The revision of the HUD Policy was started in 2014, prior to the OIG audit. As reported by OIG, last year HUD issued the Handbook 750.1, which governs IPA assignments and which included OIG recommendations.

**2. Financial Management Systems**

New Core was a multi-phase multi-release program that successfully modernized HUD's financial management, procurement, and administrative systems by partnering with the Department of Treasury Administrative Resource Center (ARC), a Federal shared service provider. The New Core program aligned with OMB M-13-08, Improving Financial Systems through Shared Services, which directs agencies to use a shared service approach when

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modernizing their systems and recommends a phased approach for implementation. The New Core program successfully delivered the following four capabilities: Phase 1, Release 1 Travel and Relocation; Release 2 Time and Attendance; and Release 3 for Financial Management and Procurement. The Release 3 migration of financial management and procurement capabilities enabled the Department to improve HUD's financial management stewardship and programmatic systems integration.

The successful completion of this implementation provided the foundation on which the Department can achieve greater accuracy, timeliness, and transparency in financial management. New Core benefits include adopting standard federal accounting and financial management processes; strengthening HUD's internal controls and funds control processes (such as integrating HUD's procurement and accounting systems and improved payroll reporting); reducing risk of legacy system failure; and resolving known financial compliance issues. HUD further benefits by minimizing future modernization and upgrade costs by sharing costs with ARC's other Federal agency customers.

Any transformation of this size and complexity has inherent risks and challenges. However, New Core implemented a rigorous project management structure to manage these risks and challenges. Leadership from HUD, OMB, and Treasury were engaged in the New Core implementation throughout the duration of the project. HUD, in coordination with Treasury, implemented strong program management discipline – including risk management, schedule management, and change management. Effective governance was in place throughout the migration, including governance gates before each release. As a result, on October 1, 2015, the Department became the first Cabinet-level agency to move its core financial management systems to a Federal Shared Service Provider.

The HUD and ARC partnership represents a significant milestone in improving financial management and serves as the foundation for greater delivery of shared services across the government. As evidence, HUD was recognized as the pioneering agency for the lessons learned for the Migration Modernization Management (M3) Playbook developed by the GSA, Unified Shared Services Management team.

In late April 2016, the Department completed close-out activities for the New Core Program. For the remaining capabilities initially intended for future phases and releases of the New Core program, a number of them, including an enterprise data warehouse, grant and loan accounting, and Public and Indian Housing Section 8 Accounting will be included within the Voucher Management System/HUDCAPS Decommissioning and Enterprise Data Warehouse (EDW) initiatives.

In summary, the New Core program moved the Department closer to its goal of a modernized, disciplined financial environment that efficiently and effectively supports HUD's program mission goals and identified many valuable lessons learned for future shared services migrations.

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The Department also agrees with the OIG that funding constraints diminish HUD's ability to integrate application systems and retire legacy systems. Legacy IT systems continue to pose a risk to HUD programs and customers.

**3. Digital Accountability and Transparency Act Compliance**

HUD is on track to report funding and obligation data by the May 2017 reporting deadline as interpreted by the agency for Federal Funding Accountability and Transparency Act (FFATA) and DATA Act reporting requirements. Previously HUD components, Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA), were excluded, but will now timely report limited data as directed by OMB.

The DATA Act team continues to monitor evolving reporting requirements HUD must meet to comply with FFATA and the amended sections of FFATA that pertain to DATA Act implementation; as they relate to current fiscal year appropriations and obligations, as well as reconciling previous fiscal year data. Reporting requirements and guidance for DATA Act are ever changing in an agile implementation environment, for which HUD continues to adapt and adjust. Identifying required data elements and cleaning historical data assists agencies achieve greater transparency, which is the intent of the DATA Act. HUD is at the forefront of implementing this highly visible endeavor with data the agency has never transparently presented through USAspending.

The management of legacy data identified as required for FFATA and amended DATA Act sections has challenges that are not unique to HUD; they affect all governmental agencies. Cleanup and other legacy data management activities are being executed to support data quality, integrity and standards. As legacy data issues are identified, HUD is developing mitigation plans to reduce or eliminate the likelihood of new data inheriting characteristics from legacy business processes.

**4. Weaknesses in Information Technology Security Control**

Under the leadership of HUD's Chief Information Officer, the Department has taken significant steps to improve its IT infrastructure, management, and security. In March 2015, HUD deployed a digital investment planning and control tool to improve the Department's ability to identify and track the performance of its IT investments. The Department developed an IT Incident Response Policy and Plan in July 2016. Currently the Office of the Chief Information Officer (OCIO) is implementing the Incident Response Plan. Its capabilities will measure the agency's incident response effectiveness. Additionally, OCIO strengthened management oversight processes for all IT modernization efforts, which are now subject to evidence-based accountability reviews. These reviews will now enable the OCIO to monitor performance, establish thresholds for triggering remedial action, and evaluate the results of modernization efforts.

The HUD Chief Information Security Officer (CISO) has proactively identified deficiencies and implemented solutions to ensure that HUD's enterprise is secure and also compliant with FISMA

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and NIST requirements. As part of an ongoing effort to improve HUD's Security Program, the CISO published guidance to address several critical areas including: Information Security Continuous Monitoring (April 2014), Cyber Security Requirements for Cloud Migration (March 2015), and a revision of the IT Security Policy Handbook (March 2016). Additionally, the CISO has initiated several programs and projects to address HUD's overall security posture including: a cybersecurity framework project, participation in DHS' National Cybersecurity Assessment and Technical Services Cyber Hygiene Assessment, government-wide Cybersecurity Sprint goal accomplishment, and implementation of OCIO's security assessments. These steps will ensure that HUD's enterprise is not only compliant with federally mandated requirements, but is also conducting its mission securely.

In FY 2016, OCIO continued to ensure that HUD's IT security program promoted the confidentiality, integrity, and availability of information. HUD's OIG recognized HUD for having a "20% overall increase in meeting FISMA performance metrics" and by achieving two additional FISMA requirements in the OIG's report. Additionally, HUD met the EOP overall cyber performance metric for three consecutive quarters since Q1 FY 2016.

In addition to these noted improvements, HUD will continue to work to resolve the outstanding 45 FISMA recommendations in FY 2017. The implementation of the Cybersecurity Framework will help HUD to better understand, manage, and reduce its cybersecurity risks. It will assist in determining which activities are most important to assure critical operations and service delivery. In turn it will help HUD to prioritize investments and maximize the impact of each dollar spent on cybersecurity. The implementation of the DHS Continuous Diagnostic and Mitigation (CDM) will provide the Department with the ability to proactively identify and mitigate vulnerabilities, and monitor the effectiveness of the implemented and planned incident response policy, plans, and procedures. The implementation of the Cybersecurity IV&V, Audit Readiness, and Penetration Testing Program will provide additional oversight and assessment on the effectiveness of the implemented and planned incident response capabilities and address the remaining FISMA recommendations.

Furthermore, through its IT capital planning process, HUD is identifying and pursuing a multi-year modernization project including the development of plans to decommission legacy systems and new and modern functionality to include migration to cloud-based infrastructure and/or shared services. Although funding uncertainty may impact the timing and pace of modernization efforts, HUD is prioritizing projects that will provide significant reduction in its legacy systems' risk and improvement to its overall security posture.

## **5. Single-family Programs**

### ***Monitoring Lenders and FHA Claims***

HUD disagrees with the OIG's characterization of the Office of Housing's (Housing or FHA) resolve to protect the FHA insurance fund as concerning. Housing goes to great lengths to ensure it appropriately guards against risk to the fund and takes action where it finds non-

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compliance. In several instances, it appears that Housing's disagreements with the OIG over the proper application of its program requirements has led OIG to the erroneous conclusion that Housing is hesitant to take enforcement actions against lenders. Housing enforces actively its requirements, but will not hold lenders accountable for actions that are not required or not inconsistent with Housing's policy interpretations. Housing objects to any attempt to revise policy through enforcement actions as would be the case if it were to pursue certain actions requested by the OIG. Housing remains fully committed to meeting both of its statutory missions – to facilitate access to credit and to protect the Mutual Mortgage Insurance Fund.

***Collection on Indemnification Agreements***

Housing disagrees with the OIG's statement that there is continued disagreement over institution of an appropriate collection process for Accelerated Claims Dispositions and Claims without Conveyance of Title. Prior to these audit recommendations being referred to the Deputy Secretary, the Office of Housing issued a Management Decision describing the indemnification agreement and collections process. There is an agreement between the Office of Finance & Budget and Single Family that collection for Accelerated Claims Disposition or Claims Without Conveyance of Title is appropriate.

***Delayed Claims Filing***

Housing agrees with the OIG's statement that the existing regulations at 24 CFR Part 203 do not provide for a maximum period for filing a claim. As noted, Housing had already begun the rulemaking process to make changes to 24 CFR 203 in 2015, but Housing disagrees with OIG's characterization that the rule was not finalized because of the servicers' response. While it is true that a portion of the proposed rule was withdrawn for further consideration, actions to move the remainder of the proposed rule to final had to be suspended in light of other demands on Housing relative to Access to Credit key objectives. Housing plans to revisit rule changes for 24 CFR 203 early in FY 2017, including maximum timeframes for filing of insurance claims and disallowance of expenses incurred beyond established timeframes. Housing plans to develop a strategic technology plan to ensure that HUD has systems in place that can ensure compliance with timeframes specified to loan servicers, as well as the recommendation for better controls to identify noncompliance with 24 CFR 203.

Additionally, Housing disagrees with the assertion that, aside from the curtailment of debenture interest, "it has no further recourse to protect itself from paying holding costs incurred after servicers have missed conveyance deadlines." HUD's current regulations at Part 203 provide that Housing will only reimburse reasonable expenses for protection and preservation of the property, which would allow Housing to question extended holding costs other than taxes and insurance, and Housing retains the right to take administrative action through the Mortgagee Review Board against lenders for failing to comply with FHA's requirements.

Finally, Housing has concerns about the magnitude of financial loss attributed to the long time lags for servicer foreclosure and conveyance actions. Housing's Office of Risk Management and

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Regulatory Affairs performed an independent analysis on single family claims data to evaluate the \$2.09 billion holding costs identified in the draft audit report. The Office of Risk has concerns with the OIG's cost analysis. Housing requested that the OIG review these concerns and reconsider the estimated costs of untimely foreclosures and conveyances prior to issuing a final audit report. Given the uncertainty of the modeling assumptions, Housing urged the OIG not to assign a particular dollar value to the estimated costs unless those costs can be definitively documented.

***Loss Mitigation***

Housing disagrees with the OIG's statement that "FHA has difficulty ensuring that its program guidance is clearly written for effective implementation." Housing has undertaken significant efforts to streamline and consolidate its single family policy into a single Handbook, 4000.1, which is written in clear and concise language and has significantly reduced the uncertainty surrounding FHA's requirements.

Additionally, during the partial claims audit period, Housing informed the OIG of their process to address the unsatisfactory level of performance of the loan servicing contractor. The contractor is required to perform the collection of partial claims. In addition, Housing expressed challenges they face with the acquisition strategy for FHA's loan servicing contract. Prior to the issuance of the final audit report, Housing provided the OIG with documentation and an overview of the oversight process for the loan servicing contractor. Housing will submit a Management Decision to address the audit recommendations by November 29, 2016.

Finally, Housing addressed most of the HAMP audit recommendations by publishing Mortgage Letter 2016-14 on August 24, 2016 and a FAQ for FHA-HAMP on July 11, 2016. Housing will complete the final actions by December 15, 2016.

***Departmental Clearance Process***

During the OIG's audit, the Office of Housing and Office of General Counsel (OGC) received several inquiries from the OIG relating to the directives clearance process. Housing and OGC responded to the OIG's questions with documentation back in May 2016.

Housing disagrees with the OIG's characterization of Housing's actions and adherence to the clearance process requirements. Housing's compliance with the requirements for clearance is not undercut because the OIG disagrees with the Department's policies associated with the clearance process.

***Downpayment Assistance and Premium Pricing***

Housing does not agree with the OIG's characterization of the nature of government-sponsored downpayment assistance programs. After elevation to the Deputy Secretary, a determination was made that several of the OIG's assertions were not supported. Specifically, the Deputy Secretary found the legal position of the Department and the policies of FHA with respect to governmental downpayment assistance in place at the time of the audit were not violated by the lender, nor

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were FHA's premium pricing and gift policies violated by the lender based on the facts that OIG presented. The Deputy Secretary did agree with the OIG's recommendation that FHA review and, where appropriate, update its guidance, including any internal control checklists, to include FHA rules and regulations governing downpayment assistance, premium interest rates and allowable fees, consistent with the Deputy Secretary's memorandum. The Deputy Secretary directed Housing to review, prospectively, its policies in concert with Ginnie Mae, regarding the funding of governmental downpayment assistance programs, to evaluate the risk of loans that include downpayment assistance and determine whether steps can be taken to mitigate risk and ensure the risks are within FHA's risk tolerance. Nevertheless, the OIG continues to press positions that have already been decided against.

Housing finds no correlation between HFA-sponsored downpayment assistance programs and the seller-funded downpayment assistance programs that were outlawed several years ago. Those programs were based on an inflation of the sales price on the subject home, in order to yield a supposed downpayment to the borrower. This mechanism was not only disingenuous; it increased the borrowing limit on the FHA-insured mortgage beyond the market value of the home, thereby increasing risk both to the borrower and to the MMI Fund. There is no such inflation of the home price in HFA-sponsored downpayment assistance programs.

Housing finds no empirical data that government-sponsored downpayment assistance programs add a level of risk to the MMI Fund such that it cannot be controlled with monitoring and ongoing risk management. The "seriously delinquent" rate on government-sponsored downpayment assistance loans is about 6.1%, as opposed to about 4.95% on the overall FHA-insured loan portfolio. This data demonstrates that the overwhelming majority of borrowers provided downpayment assistance through these programs are successful homebuyers, and that this segment of the portfolio contributes to the positive value of the insurance fund. Housing maintains its support of government sponsored downpayment assistance programs and will continue to work with OIG staff to address the IG's concerns.

## **6. Community Planning and Development 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." GAO indicated that HUD should measure compliance with section 218(g) by examining the grant year allocation against which each commitment is assigned by IDIS rather than measuring compliance on a cumulative basis. Based on the GAO decision and in consultation with OMB, HUD decided to make this change prospectively, since any change of this nature would require that HUD make system and reporting improvements, update HOME program regulations through the rulemaking process, and issue related guidance to HOME participating jurisdictions, all of which take significant time and resources.

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In addition, based on OIG's referral, OCFO opened an investigation to determine the impact of FIFO accounting for CPD formula block grant programs and the cumulative method for commitments for the HOME program on HUD's risk of an ADA violation. During informal consultations with GAO regarding this investigation, GAO staff specifically referred OCFO to GAO guidance regarding when a prospective-only implementation approach is appropriate. Based on this guidance, as HUD explained in its October 31, 2016, report on this issue, attempting to review past transactions and retroactively correct alleged errors is not only impossible to perform in any financially supportable manner, but would result in serious programmatic repercussions, unfairly penalize HOME participating jurisdictions that fully complied with program regulations, and create a high risk of program litigation. Accordingly, a prospective-only implementation of this regulatory change to grant-specific accounting and tracking of the cumulative method is the legally appropriate approach.

***Section 108 Loan Guarantee Program***

As we noted last year, since the document does not identify the audits that are cited as a basis for the issues raised, we cannot comment on the accuracy of the data used or verify the timeline given for one of cases cited. However, many of the issues are very similar to recent audit findings for Puerto Rico borrowers; if this report relies disproportionately on audits of recipients in a jurisdiction that has experienced much higher levels of fiscal distress than the rest of the country, inferences drawn about the entire program are unrepresentative. Further, CPD has provided technical assistance to specific borrowers where challenges in carrying out projects have been provided and has conducted training to all actual and potential recipients to improve project design and underwriting.

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 to the public (e.g., in response to comments on proposed regulations) that CDBG funds may have to be used if there is a shortfall in expected repayment sources. 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.

HUD OGC affirms that the Section 108 statute permits the use of CDBG funds to repay the guaranteed loan. There is no statutory requirement that the grantees have to re-loan the guaranteed loan proceeds in order to generate a repayment stream. Failure of the entity (undertaking the Section 108 activities) to make timely payment to HUD's Section 108 borrower does not mean the activities are not successful.

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**7. Public and Assisted Housing Program Administration***Monitoring the Housing Choice Voucher Program*

PIH has continued to improve its monitoring of the Housing Choice Voucher Program. The risk-based monitoring approach has proven viable and effective both in targeting the highest-risk entities, recovery of resources, and limiting efforts for agencies where compliance has been demonstrated and programs are running effectively. HUD's HCV Quality Assurance Division (QAD) is working with the MTW office to create monitoring review protocols, which apply the risk-based methodology to the 39 original MTW agencies. QAD is also expanding the traditional definition of "highest risk" to include smaller PHAs and PHAs in remote/less populated areas.

*Central Office Cost Centers*

PIH has developed strategies to address concerns raised by the OIG that will allow PHAs to maintain its fee for service asset management model. PIH is in the process of reviewing the different types of allowed fees for reasonableness, including the asset management fee. PIH will update and release new fee schedules and fee guidance base on the analysis. Related to de-federalization, PIH seeks to minimize the impact of the new guidance on a PHA's ability to develop low income housing solutions, improve its current housing stock, and to provide necessary tenant services. To that end, PIH is in the process of holding outreach sessions with PHAs and other interested parties to more fully understand the impact of de-federalization on PHAs' operations. As of November, three (3) outreach sessions have been conducted, with a fourth and final session planned for early December. These sessions have allowed PIH to begin formulating the necessary policy changes to address the OIG concerns. Once initial outreach is completed and the policy developed, PIH will begin updating the necessary regulations, notices, handbooks and other guidance. PIH anticipates that revised guidance will be issued in late 2017.

*Cash Management Requirements*

PIH has made significant progress implementing procedures to reduce the amount of excess funds accumulating in PHAs' net restricted asset accounts in accordance with Treasury's cash management requirements. Since 2012, PIH has reduced the amount of PHA's net restricted assets for PHAs from \$1.234 billion in September 2012 (excluding MTW PHAs) to \$419 million as of September 2016 (including MTW PHAs balances). PIH anticipates that the combined balances for both MTW and traditional PHAs will be below \$300 million by the end of calendar year 2016.

In FY 2016, PIH achieved full implementation of Treasury's cash management requirements by incorporating the 39 MTW agencies into the cash reconciliation procedures used for traditional PHAs, and transitioning \$218 million of MTW unspent balances to the HUD-held reserve. PIH implemented a cash reconciliation tool, consistent with the cash reconciliation tool used for traditional PHAs, to monitor the MTW PHAs unspent balances. Accordingly, PIH submitted a

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request for closure of OIG's Recommendation 2015-FO-0002-2F: Establish procedures to track and monitor MTW accumulations to ensure that PHAs do not hold excess funds in advance of their immediate disbursement need. PIH continues to perform timely cash reconciliations on all PHAs to minimize the level of program reserves that are held by the PHAs in the restricted net position (RNP) accounts.

PIH acknowledges the challenges OIG has included in the report; however, PIH questions the following statement in the report:

OIG states: "We are evaluating the amount transitioned to determine whether it is adequate to satisfy cash management requirements."

OIG's adequate level of reserves threshold continues to be unknown to PIH; therefore, PIH continues to question OIG's definite standpoint on what an adequate threshold would be, which at this point is open to interpretation. OIG has not disclosed its standpoint on this topic, rather continuing to change the angle and scope of the recommendation. PIH recommends/requests that OIG evaluate and report on PIH's timely efforts in implementing the MTW PHA's cash management tools, and the notable and larger impact of safeguarding HAP unspent balances under HUD's protection by re-establishing HUD-held reserves.

***Monitoring Moving to Work (MTW) Agencies***

OIG states, "*HUD is experiencing challenges in developing program wide performance indicators that will not inhibit the participants' abilities to creatively impact the program. In 2013, HUD management developed new metrics to help measure program performance and stated that new contracts would allow it to better evaluate each agency's performance.*"

In 2013, HUD management developed Standard Metrics to help measure MTW activities. In light of the FY 2016 Appropriations Act, HUD is now looking at new ways to evaluate overall program and agency performance. The Department hoped to strengthen its ability to evaluate each agency's performance in the updated Standard MTW Agreement, and spent 2014-2015 negotiating the terms of the updated Standard MTW Agreement with the MTW PHAs. The FY2016 Appropriations Act, passed in December 2015, required the Department to extend the existing Standard MTW Agreement with each MTW agency "as is."

Furthermore, HUD disagrees with this statement, "HUD could benefit from a formalized process for terminating participants from the demonstration program for failure to comply with their agreement". Section VIII of the Standard Agreement for Moving to Work Agencies delineates a very detailed, formal process for determining compliance with the MTW agreement and the process for declaring a default and, if necessary, terminating the MTW agreement.

***Overincome Families in Public Housing***

As OIG noted in its audit report, 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 has previously stated it agrees with this

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approach and has considered options with a priority on not impeding a family's progress towards self-sufficiency. As OIG notes, the Housing Opportunities through Modernization Act (HOTMA), enacted in July 2016, sets forth a policy for terminating families that are over-income for a period of 2 years or for charging those families a market rent. HUD is presently working to develop the implementation plan for this provision of HOTMA.

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.

Please note that affordable housing is provided by more than 3,800 PHAs, not 3,300 PHAs, as is reported on page 23.

***Environmental Review Requirements***

HUD is diligently working to ensure that its projects are free of environmental hazards. To this end, HUD established a new memorandum of understanding between program offices to better define Departmental roles and responsibilities and authorities as well as ongoing training, monitoring, and governance related to environmental compliance. HUD agrees with OIG that improvements have been made including better training to both staff and grantees. Additional improvements include further leveraging of HUD's environmental review online system (HEROS), which will enhance automation and reporting, and establishing an executive council for environmental issues, which will help to elevate and prioritize environmental issues. The first meeting is scheduled to take place in FY 2017 Q1.

***The Indian Home Loan Guarantee Program***

Prior to the Inspector General audit of the Section 184 Loan Guarantee Program, the Office of Loan Guarantee (OLG) was taking action to increase program controls by entering into a Memorandum of Understanding with FHA to manage the disposition of REO properties on fee simple land. To address control, oversight and enforcement issues identified by the audit, OLG has also implemented standard operating procedures and developed new policies. In addition, HUD's general ledger, which includes accounting functions for OLG, is managed under a shared services arrangement with Treasury's Administrative Resource Center, Bureau of Fiscal Services effective October 1, 2015. The shared service environment provides daily transaction reconciliation capabilities. OLG is also conducting a comprehensive review of its policies and procedures for the Indian Housing Loan Guarantee Program (Section 184). New and revised policies and procedures will be issued as a result of the review. In addition, OLG will also refine its internal file review policies and procedures that provide clear direction for its Direct Guarantee lenders. To enhance monitoring, OLG receive monthly loan servicing data in a format that enables HUD to perform data analytics to track and predict loan performance. In an

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effort to automate it heavily paper based processes, HUD engaged an 8(a) firm (qualified under the Small Business Administration's Business Development Program) to develop an agile loan processing, tracking and monitoring system. At the end of FY17, we anticipate beginning our new automated processes.

*Monitoring Small and Very Small Housing Agencies*

PIH is keenly aware of the challenges that small and very small PHAs are faced with. In the past, OIG audited several small PHAs at PIH's request after PIH observed material concerns. As OIG notes, 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. Lead the Way is a tool that benefits all PHAs regardless of size. PIH continues to consider other approaches to provide technical assistance and guidance to PHAs. We look forward to a continued partnership with the IG and HUD's Departmental Enforcement Center to assist with additional oversight and outreach.

Please note that HUD is actually responsible for monitoring more than 3,800 PHAs, not the 3,000 PHAs as reported on page 27.

*The Physical Condition of Housing Choice Voucher Program Units*

PIH agrees that comprehensive monitoring of the physical condition of Housing Choice Voucher program units is necessary to ensure that over 2 million low-income families reside in safe, habitable housing. PIH also agrees with OIG that the resources made available to support this project are disproportionate to the scope of the work and the size of the program, leading to schedule delays during FY 2016, which if unresolved will continue to limit opportunities for more rapid adoption in FY 2017. Despite these limitations, significant progress has been made in developing a new physical inspection protocol. A demonstration program has been implemented, a draft standard published, and an initial IT system developed. PIH has specifically designed this protocol to produce objective, consistent and accurate inspection results nationwide. With sufficient resources encompassing personnel, non-personnel, and information technology, PIH would be able to execute plans that would accelerate the implementation of this comprehensive physical condition oversight program thereby providing much needed insight into all PHAs. Such a program would also directly support the transition to a revised Section 8 Management Assessment Program (SEMAP) driven by programmatic data and not PHA self-certification, which would further enhance HUD's oversight abilities. While closely related, revising the entirety of SEMAP also requires additional resources, separate from those required for physical inspection oversight.

**8. Administering Programs Directed Toward Victims of Natural Disasters**

The Department agrees that the addition of each supplemental Community Development Block Grant disaster recovery (CDBG-DR) appropriation increases the Department's grants

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management responsibilities. HUD has also increased its grants oversight efforts to address this challenge, including:

- increased technical assistance for CDBG-DR grants,
- increased monitoring on-site,
- publication of disaster recovery toolkits to expedite program launch,
- hiring of additional staff to manage additional grantees receiving funding pursuant to Public Law 113-2, and
- additional procurement guidance and review.

In 2016, the Department launched a webinar series to help CDBG-DR grantees and other CDBG-DR recipients improve their understanding of core CDBG-DR requirements, including duplication of benefits and Disaster Recovery Grant Reporting (DRGR) system. The training was accompanied by two on-site training deliveries for CDBG-DR grantees in Fiscal Year 2016 and four on-site DRGR trainings.

Congress appropriated additional CDBG-DR funding in HUD's FY 2016 appropriations (\$300 million) and the FY 2017 continuing resolution (\$500 million). These appropriations have been used to address flooding events that occurred in South Carolina and Texas in 2015 and Louisiana, Texas and West Virginia in 2016. Based on previous recovery experience, the Department will impose expenditure period requirements that shall not exceed six years. This additional policy effort is a recognition of the type and level of disasters that occurred balanced with historic performance data among CDBG-DR grantees.

In addition to these appropriations, the Department is still heavily focused on administering CDBG funds following Hurricane Sandy. Public Law 113-2 establishes a two-year CDBG-DR expenditure requirement and allows the Department (with approval from the Office of Management and Budget) to grant a waiver of that expenditure deadline. Due to the long-term nature of recovery activities, OMB authorized the Department to provide waivers for up to \$7.4 billion in grantee programs and projects, within certain parameters. Waivers will be limited to four categories of activities, including administration, economic development and tourism, infrastructure and public improvements, and housing. The Department's March 5, 2013, Federal Register Notice advised grantees to submit written requests for waivers, including the rationale for the waiver, and further described this process in its November 18, 2013, Notice in a section on "Timely Expenditure of Funds." As described in this Notice, grantee letters "must detail the compelling legal, policy, or operational challenges for any such waiver, and must also identify the date by when the specified portion of funds will be expended." The Department also indicated that such waivers will be published in the Federal Register. (All CDBG-DR waivers must be published in the Federal Register). HUD has received approval to grant two-year expenditure waivers and published the guidance on submission of waiver requests in December 2014. To date, HUD has granted waivers of the two-year expenditure deadline to a

**Management's Response to the OIG Report on Management and Performance Challenges**

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handful of CDBG-DR grantees, but the Department anticipates the majority of the requests will occur in early 2017 as the obligation deadline approaches. To prepare for such requests and ensure compliance with extended timelines for expenditure deadline waivers, the Department has implemented system improvements to ensure it has a method of tracking individual expenditure deadlines in its DRGR system.

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

The Department implemented changes to clarify procurement requirements for grantees under Public Law 113-2. As noted, OIG and the Department disagree concerning the interpretation of HUD's procurement requirements published in the March 5, 2013. OIG has audited multiple CDBG-DR grantees and identified procurement as a major compliance concern. Additionally, the OIG's recent review of HUD's progress to certify the procurement proficiency of Public Law 113-2 grantees resulted in OIG making several recommendations concerning the procurement process. While the Deputy Secretary is considering an audit referral related to the interpretation of procurement requirements under the March 5, 2013, for final disposition, HUD has enhanced its review of procurement requirements for the final allocation of \$1 billion in CDBG-DR funding from Public Law 113-2 for the National Disaster Resilience (NDR) Competition. In response to preliminary feedback from OIG concerning procurement certifications, the Department indicated it would review all of the CDBG-NDR grantees with additional scrutiny and not solely rely on the review by grant management staff. The Department is also developing a technical assistance product for grantees that will provide guidance on procurement. The Department is also considering actions regarding OIG's concerns related to those grantees whose procurement certifications have already been completed.

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

**9. Departmental Enforcement**

The Memorandums of Agreement cannot convey programmatic responsibility "to monitor, report and take action to end noncompliance." Programmatic responsibility remains the sole responsibility of the program area. The protocols do, however, allow DEC to assist the program

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areas in accomplishing their responsibilities. In addition, changes to the protocols provide that any disagreements between the DEC and the program area with findings or recommendations could be elevated to the General Counsel and Assistant Secretary and ultimately to the Deputy Secretary.

**10. Operational and Financial Reporting Challenges Affecting Ginnie Mae*****Managing Counterparty Risks***

HUD generally agrees with OIG's report. Ginnie Mae appreciates the acknowledgement that improvements have been made and will continue to further strengthen its financial management and reporting. It is important to note that Ginnie Mae was not the target of the fraud committed by this Issuer and did not bear any losses associated with this event. However, investors in Ginnie Mae securities, while receiving all of their principal investment, may have experienced an opportunity loss resulting from the return of their principal prematurely and the foregoing of interest income. Additionally, the security holders may have potentially experienced a partial loss of yield on the premium paid above par for the security.

## Summary of Financial Statement Audit and Management Assurances

## Summary of Financial Statement Audit and Management Assurances

For FY 2016, 11 material weaknesses were identified by the Office of Inspector General in HUD's Consolidated Financial Statement Audit Report. Table one provides a summary of financial audit findings with regard to the audit opinion. The first table is a summary of the results of the independent audit of HUD's consolidated financial statements, as well as information reported by HUD's auditors in connection with the FY 2015 Financial Statement Audit. Table two is a summary of HUD's FMFIA management assurances.

**Table 1**

### Summary of Financial Statement Audit

<b>Audit Opinion</b>	<b>Modified (Disclaimer)</b>				
Restatement	Yes				
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
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	1	0
Non-GAAP Accounting for PIH Assets and Liabilities	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 (Renamed to Allowance for Loan Loss Account Balances Were Unreliable)	1	0	0	0	1

## Summary of Financial Statement Audit and Management Assurances

Audit Opinion	Modified (Disclaimer)				
Restatement	Yes				
Ginnie Mae's Budgetary Accounting Data Not Auditable	1	0	1	0	0
Inadequate Controls Increased the Risk of Financial Reporting Errors	0	1	0	0	1
HUD Assets and Liabilities Were Misstated and Not Adequately Supported	0	1	0	0	1
Completion of Significant Reconciliations Were Not Completed Timely	0	1	0	0	1
Cash Flow Modeling Errors Were Not Detected	0	1	0	0	1
FHA's Controls Over Financial Reporting Related to Budgetary Resources Had Weaknesses	0	1	0	0	1
<b>Total Material Weaknesses</b>	<b>9</b>	<b>5</b>	<b>2</b>	<b>1</b>	<b>11</b>

Table 2

## Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	No Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Departmental Financial Management Systems Weaknesses	1	0	0	0	0	1
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	1	0	0
Non-GAAP Accounting for PIH Assets and Liabilities	1	0	1	0	0	0
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

## Summary of Financial Statement Audit and Management Assurances

Financial Management Governance – (HUD & Ginnie Mae)	1	0	0	0	0	1
Ginnie Mae's Mortgage-Back Security Liability for Loss Not Reliable (Renamed to Allowance for Loan Loss Account Balances Were Unreliable)	1	0	0	0	0	1
Ginnie Mae's Budgetary Accounting Data Not Auditable	1	0	1	0	0	0
Inadequate Controls Increased the Risk of Financial Reporting Errors	0	1	0	0	0	1
HUD Assets and Liabilities Were Misstated and Not Adequately Supported	0	1	0	0	0	1
Completion of Significant Reconciliations Were Not Completed Timely	0	1	0	0	0	1
Cash Flow Modeling Errors Were Not Detected	0	1	0	0	0	1
FHA's Controls Over Financial Reporting Related to Budgetary Resources Had Weaknesses	0	1	0	0	0	1
<b>Total Material Weaknesses</b>	<b>9</b>	<b>5</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>11</b>
<b>Effectiveness of Internal Control over Operations (FMFIA § 2)</b>						
Statement of Assurance	Unmodified					
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Conformance with Federal Financial Management System Requirements (FMFIA § 4)</b>						
Statement of Assurance	Federal Systems conform except for the below non-conformances					
<b>Material Weaknesses</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
Departmental Financial Management Systems Weaknesses	1	0	0	0	0	1
<b>Total Material Weaknesses</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>

## Summary of Financial Statement Audit and Management Assurances

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
FIRMS	1	0	0	0	0	1
HPS	1	0	0	0	0	1
SPS	1	0	0	0	0	1
IDIS	1	0	0	0	0	1
GFAS	1	0	0	0	0	1
NCIS	0	1	0	0	0	1
<b>Total non-conformances</b>	<b>5</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6</b>
<b>Compliance with Section 803(a) of Federal Financial Management Improvement Act (FFMIA)</b>						
			Agency		Auditor	
1. Federal Financial Management System Requirements			Lack of compliance noted		Lack of compliance noted	
2. Applicable Federal Accounting Standards			Lack of compliance noted		Lack of compliance noted	
3. USSGL at Transaction Level			Lack of compliance noted		Lack of compliance noted	

## Analysis of Systems, Controls and Legal Compliance

### Material Weaknesses Summary by Category

#### *Leveraging Functional Capabilities and Ensuring Data Integrity*

In fiscal year 2016, HUD began using a Shared Service Provider (SSP), Treasury's Administrative Resource Center. While HUD has experienced important operational benefits as the result of transitioning to a shared service environment, HUD also experienced typical data migration and reporting challenges related to the transition. In preparation for the FY16 Financial Statement audit, HUD took the initiative to present the OIG with known data migration challenges. These data challenges were self-identified, demonstrating how effectively departmental new internal controls were and are working in the new operating environment. While not all issues were addressed by year-end, a plan is being developed and executed to resolve the remaining items. In the coming months, HUD will also be evaluating reconciliation business models to refine our processes to strengthen quality, timeliness, and accountability controls for other key accounts.

#### *Assessments and Application of Accounting Standards*

The Community Planning and Development (CPD) office continued to experience the impact of first-in first-out (FIFO) method for commit and disburse funds on four formula grant programs. HUD's 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 previously indicated, a sufficient audit trail does not exist within the grant system to unravel the financial events affected by FIFO, quantify the financial effects on HUD's consolidated financial statements, and retroactively undo the past grant awards.

HUD also did not properly account for, have internal controls over, or have adequate support for all of its assets and liabilities. Specifically, (1) CPD did not validate their accrued grant liabilities

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**Summary of Financial Statement Audit and Management Assurances**

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estimates, (2) HUD's accounting for its cash management process did not include the recognition of receivables and payables when incurred and understated its prepayment balance, (3) HUD did not recognize a prepayment for funds advanced to its Indian Housing Block Grant (IHBG) grantees used for investment, (4) the Emergency Homeowners' Loan Program (EHLPP) could not be audited, (5) balances related to HUD's loan guarantee programs were not reliable, and (6) HUD did not properly account for its property, plant, and equipment. These instances are attributed primarily to internal controls weaknesses. HUD has put in place strong governance, financial controls, and quality control reviews of components and consolidated statements this past year, and we will continue to further fine-tune our processes and update of policies and procedures on various fronts to instill a disciplined approach in continuous monitoring, timely corrective actions, and management reviews along with measurable outcomes.

***Financial Information Systems***

HUD's financial system weaknesses remained a material weakness due to the aggregate impact of numerous deficiencies and limitations. While HUD took steps to modernize its financial management system through the transition of key financial management functions to a SSP in 2016, the Department encountered significant challenges post-implementation that had not been resolved as of September 30, 2016. HUD's inability to modernize its other legacy financial systems and the lack of an integrated financial management system resulted in a continued reliance on disparate, legacy financial systems with various limitations. Program offices compensated for system limitations by using manual processes to meet financial management needs; however, these system issues and limitations hampered HUD's ability to produce reliable, useful, and timely financial information.

***Governance and Human Capital***

Program level internal control weaknesses that impacted financial reporting were due in part to a lack of financial management governance. Specifically, noted financial management governance problems included issues in (1) keeping Ginnie Mae OCFO's operations fully functional; (2) ensuring that emerging risks affecting its financial management operations were identified, analyzed, and responded to appropriately and in a timely manner; (3) establishing adequate and appropriate accounting policies and procedures and accounting systems; and (4) implementing an effective entity wide governance of the models which are used to generate accounting estimates for financial reporting.

While the weaknesses in HUD's financial management governance structure hampered effective oversight of financial management activities, the Department continues to make significant progress in strengthening its governance structure. In 2016, key positions and staffing vacancies were filled; accounting policies and procedures were issued; and a contract was awarded to assist in resolving complex material weaknesses, enhance financial operations, and address emerging requirements.

***Ginnie Mae***

A combination of various internal control weaknesses in financial reporting and continued financial management governance issues contributed to deficiencies in the financial reporting process; allowed departures from GAAP in recording loans losses, reimbursable costs, budgetary and other accounts; and contributed to untimely documentation for non-pooled loans, loan losses,

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**Summary of Financial Statement Audit and Management Assurances**

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budgetary accounts, and restated accounts. This resulted in four material weaknesses, of which three are described below and one is included within the overall governance weakness.

The first material weakness relates to non-GAAP accounting treatment of select 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. In fiscal year 2016, Ginnie Mae was unable to bring its material asset balances related to its non-pooled loan assets into an auditable state. This condition occurred because Ginnie Mae lacked financial management systems that were capable of handling Ginnie Mae's loan level transaction accounting requirements.

The next material weakness relates to internal control weaknesses over financial reporting. These weaknesses related to the (1) improper accounting for FHA's reimbursable costs and accrued interest earned on non-pooled loans, (2) accounting for cash in transit (3) revenue accrual accounting, and (4) other accounting issues such as advances, fixed assets and financial statement note disclosures.

The final material weakness relates to Ginnie Mae's allowance for loan loss accounts. Specifically, Ginnie Mae improperly accounted for certain non-pooled loan accounting transactions in its allowance for loan loss accounts; and booked a provision for loan loss against a non-existing asset account. Factors that contributed to these issues include the delayed implementation of accounting policies and procedures related to the allowance accounts; and the lack of financial management systems capable of handling loan level transactions.

Ginnie Mae is currently investing significant resources in transforming its financial management organization. This includes improvements in its policies, procedures, governance structure, technology, and levels of staffing. This financial management transformation effort should result in the resolution of the identified material weaknesses.

***Federal Housing Administration (FHA)***

In fiscal year 2016, the OIG identified two new material weaknesses pertaining to FHA: (1) Cash flow modeling errors; and (2) Controls over financial reporting related to budgetary resources. Specifically, the OIG found that FHA needs to improve controls over its cash flow modeling processes, and that errors were not prevented or detected in a timely manner resulting in financial reporting control deficiencies related to FHA's monitoring of its budgetary resources.

**Financial Management Systems, Framework, and System Strategies**

HUD's current financial systems environment is comprised of a mix of legacy and modernized technologies. These systems are operated and maintained by the Department and external entities.

The implementation the New Core Program initiative succeeded in migrating HUD's financial and administrative systems and services to a shared service environment. As a result, HUD experienced important operational benefits ranging from significant changes in the Department's management culture to how HUD identifies and manages risks and issues, accomplished through a more advanced internal control environment. In late April 2016, the Department completed close-out activities for the New Core Program; and will continue to evaluate its needs for other financial management capabilities.

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**Summary of Financial Statement Audit and Management Assurances**

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## **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.

### **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 ADA that occurred during FYs 2001 – 2004, 2006, 2007, and 2009 – 2013. One new potential ADA violation was determined to not be an ADA violation, and the Department's OIG was notified of this decision on October 31, 2016.

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**

In 1982, Congress enacted the Prompt Payment Act, 5 CFR Part 1315, to require Federal agencies to pay their bills on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date. HUD complies with the Act by executing processes and procedures through its shared service provider, ARC. Management monitors the effectiveness of those processes and procedures by performing a monthly analysis of prompt payment results to capture trends and/or patterns and corrective measures are implemented as necessary to maintain compliance. Prompt Payment Act reports are submitted to the OMB and the Treasury in accordance with established guidelines.

### **Single Audit Act**

The Single Audit Act (amended in 1996) (31 U.S.C. 7501-7507) and 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, *Final Guidance* provide audit requirements for ensuring that Federal agencies expend these grants funds properly. All non-Federal entities that expend \$750,000 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, 2 CFR Part 200, the OMB Circular Compliance Supplement and

**Summary of Financial Statement Audit and Management Assurances**

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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

All HUD data reported in accordance with the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) is based on FY 2015 data, with the exception the Federal Housing Administration (FHA).

### Risk Assessment – FHA

#### *Methodology*

FHA conducted their risk assessment using data from May 1, 2015 through April 30, 2016. FHA utilized a Risk Assessment Survey which contains tabulations, rankings, and summaries of questions about policies and procedures used to identify, measure, and prevent errors in the administration of the disbursement programs including risk factors in OMB Circular A-123, Appendix C. FHA conducted comprehensive Management Interview Questionnaires, a thorough review of OIG and GAO audit reports, lender compliance, and underwriting reviews. In addition, FHA performed random sampling of data, review of disbursement files and recovery methods.

The Risk Assessment Survey was designed to capture information on quantitative and qualitative risk factors. Quantitative risk factors include, but are not limited to, transaction dollar exposure and volume, complexity of systems and procedures, potential for financial loss [due to error and fraud, incomplete information, operational disruption, personnel factors (such as experience, staffing, and employee turnover)], and control over external activities. Qualitative risk factors include segregation of duties/responsibilities, assuring integrity and security of the disbursement systems, written documentations, effectiveness of internal controls, recovery planning and process complexity. Complexity factors include extent of automation, complexity of calculations, nature of disbursement systems and processes, number of disbursement systems, dependency on third parties (e.g. contractors), and applicable laws and regulations.

The comprehensive Management Interview Questionnaires includes responses from program management based on their skill and experience, as well as understanding of risk factors and other risk related issues in the disbursement programs.

FHA reviewed risk measurement criteria in combination with the key risk variables to calculate the weighted risk and then to determine the level of risk as low, medium, and high for each disbursement program. FHA determined the level of risk (low, medium, and high) based on the mean and standard deviation of risk factors. The level of risk for programs was calculated by comparing the weighted average risk value with criteria developed for low, medium, and high.

**IPIA (as amended by IPERA and IPERIA)**

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FHA created a Risk Matrix based on Risk Assessment Surveys, Management Interview Questionnaires, Internal Control reviews, and disbursement data analysis to assess the overall risk.

*Programs Assessed*

FHA performed improper payment risk assessments for the following programs: Single Family Insurance Claims (SF Claims); Multifamily Insurance Claims (MF Claims); Distributive Shares and Premium Refunds System (DSRS Claims); Single Family Acquired Asset Management System (SAMS Claims); Title I Claims (T1 Claims); Home Equity Conversion Mortgage (HECM Claims); HECM Notes Disbursements (HECM Notes); FHA Subsidiary Ledger (FHASL); and Distributive Shares and Premium Refunds System (DSRS Claims).

*Results*

Based on the results of the FY 2016 Risk Assessment, only the SF Claims program reached FHA's high-risk threshold to indicate the program is susceptible to significant improper payment risk.

HUD plans to report estimates of improper payments for the programs after HUD has identified an error measurement methodology and statistical approach. Preliminarily, HUD anticipates reporting pilot rates and amounts for the newly identified risk-susceptible programs in FY 2018.

**Risk Assessment - Other HUD Programs***Methodology*

HUD's risk assessment methodology involves several activities, including: determining the population and scope of HUD programs to be assessed; performing research; executing interviews and collecting data; and reviewing each program's risk assessment matrix to identify those programs with either gross annual improper payments in the program exceeding both (1) 1.5 percent of program outlays and \$10,000,000 of all program or activity payments made during the fiscal year reported, or (2) \$100,000,000 (regardless of the improper payment percentage of total program outlays). Risk assessments utilized payment data one year in arrears (i.e., FY 2015 payment data was used as input for FY 2016 risk assessments).

The OCFO defines a "program" as a "funded activity". HUD's funded activities include programs that disbursed FY 2015 and prior year funding. To implement IPERA, in FY 2012, OCFO reviewed each program to gain an understanding of program operations and fund control activities. The results of the funded activities review indicated any program with outlays less than \$40 million would not be susceptible to having an improper payment error rate of 25 percent (i.e., 25 percent of \$40 million = \$10 million). As a result, 87 programs met HUD's \$40 million threshold in FY 2012. The 87 programs were subsequently placed on a three-year risk assessment review cycle.

**IPIA (as amended by IPERA and IPERIA)**

In FY 2015, the OIG noted the three-year risk assessment review cycle excluded several low risk programs from the improper payment assessment process. As a result, OCFO contracted with an independent accounting firm in late August 2016 to update the risk assessment methodology, including the three-year risk assessment cycle. Therefore, the IPERIA Risk Assessment methodology for FY 2016 remained generally unchanged from FY 2015, with the exception of requesting documentation to support the program offices' risk assessments. The remaining programs will be assessed with the establishment of a new risk assessment rotation and risk assessment methodology in FY 2017.

OCFO identified 20 programs, or funded activities, to undergo improper payment risk assessments in FY 2016. Eleven programs had not been assessed since 2013, one program was requested to be included the FY 2016 risk assessment process by the OIG, and two programs are assessed annually (as required by OMB). The remaining six programs relate to Payments to Federal Employees made by departments responsible for administering the programs selected for an improper payment risk assessment. The programs and the selection criteria are listed below:

Office	Program	Selection Criteria
<b>CPD</b>	HOME Investments Program	OIG requested
	Entitlement Grants	Assessed Annually
	Non-Entitlement Grants	Assessed Annually
	Renewal of Expiring Section 8 Mod Rehab SRO	Last assessed in 2013
	Neighborhood Stabilization – Abandoned and Foreclosed Homes	Last assessed in 2013
	Shelter Plus Care Renewals	Last assessed in 2013
	Sustainable Communities Initiative	Last assessed in 2013
	Payments to Federal Employees	Payments to Federal Employees

## IPIA (as amended by IPERA and IPERIA)

Office	Program	Selection Criteria
<b>FHEO</b>	Fair Housing Initiatives Programs	Last assessed in 2013
	Payments to Federal Employees	Payments to Federal Employees
<b>OLHCHH</b>	Lead Hazard Reduction	Last assessed in 2013
	Lead Hazard Technical Studies	Last assessed in 2013
	Payments to Federal Employees	Payments to Federal Employees
<b>PD&amp;R</b>	Research and Technology	Last assessed in 2013
	Payments to Federal Employees	Payments to Federal Employees
<b>GNMA</b>	Program Account	Last assessed in 2013
	Payments to Federal Employees	Payments to Federal Employees
<b>HSNG</b>	Housing Counseling	Last assessed in 2013
	Emergency Homeowners Loan Program (EHLPP) Direct Loan Financing	Last assessed in 2013
	Payments to Federal Employees	Not yet assessed

HUD assessed 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. HUD's risk factors were determined by aligning the nine risk factors from Office of Management and Budget (OMB) Memorandum M-15-02 'Requirements for Effective Estimation and Remediation of Improper Payments' to HUD's program operations and fund control activities.

**IPIA (as amended by IPERA and IPERIA)**

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OCFO conducted meetings with each program to discuss the improper payment assessment, OMB's nine risk factors, and the types of documentation to support OMB's risk factors. OCFO also reviewed Fund Control documents, policies and procedures, training materials (e.g., for HUD employees and grantees), external and internal audit/management reports for each program, and other documentation provided by program stakeholders. OCFO determined an overall risk score for each program based on the results of the meetings and program documentation provided.

***Results***

Based on the results of the FY 2016 risk assessment, the CPD Entitlement Grants Program and HOME Investments Program reached HUD's threshold to indicate the programs are susceptible to significant improper payment risk. OCFO plans to report estimates of improper payments for the programs after OCFO has identified an error measurement methodology and statistical approach. Preliminarily, HUD anticipates reporting pilot rates and amounts for the newly identified risk-susceptible programs in FY 2018.

HUD's high-priority programs [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 for FY 2016.

**Sampling and Estimation****Methodology*****Rental Housing Assistance Programs (RHAP)***

HUD provides housing subsidies to multifamily project owners and Public Housing Authorities (PHAs) to administer housing assistance to low-income households. The Office of Public and Indian Housing (PIH) and the Office of Housing provide funding for rental subsidy through the Public Housing, the PHA-administered Section 8 Voucher and Moderate Rehabilitation programs, and the Owner-administered Section 8 project-based programs. These programs are administered by more than 4,000 intermediary agencies and provide affordable housing for approximately 4.97 million households (i.e., 1.1 million through Public Housing, 2.2 million through PHA-administered Section 8 programs, and 1.6 million through project-based programs). The programs are collectively identified as RHAP.

As a high priority program under IPERIA and the guidance of OMB, HUD is required to have a statistically valid estimate of improper payments made in RHAP. HUD contracted to conduct a collection of studies referred to as the Improper Payment for Quality Control for Rental Subsidy Determination Study (The Improper Payment Study) to support HUD's continued dedication to reducing the amount of annual improper payments and to comply with the reporting and administrative requirements under IPERIA. The main error types examined by HUD include

**IPIA (as amended by IPERA and IPERIA)**

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Program Administrator Income and Rent Determination, Intentional Tenant Misreporting of Income, and Program Administrator Billings for Assistance Payments.

To examine the errors associated with these three error types, the contractor conducted four separate studies. As a whole, these studies identify the cause and amount of rental assistance improper payments in HUD housing programs in FY 2015. The Quality Control for Rental Assistance Subsidy Determinations (HUDQC) Study examined the error type Program Administrator Income and Rent Determination via the program administrator's failure to correctly determine eligibility; and to calculate income and apply all income exclusions and deductions. The Income Match Study examined Intentional Tenant Misreporting of Income via the tenant's failure to disclose all employment income, unemployment compensation and Social Security benefit income. The Office of Housing and Public and Indian Housing Billing Studies examined Program Administrator Billings for Assistance Payments for assistance payments and incorrect billing and payment of subsidies. The findings from these four studies provide the total sum of improper payments associated with the programs covered by the study with a 95 percent confidence interval.

*Changes from the Prior Year*

HUD has been working closely with its OIG on prior year OIG recommendations. As a part of this effort, HUD was able to close an OIG recommendation to perform an updated Billing Study. HUD had Billing Studies done for the Multifamily Housing (MFH) and Public and Indian Housing (PIH) RHAP components, Office of Housing and Public and Indian Housing Billing Studies.

*HUDQC Study*

The first study, the HUD Quality Control for Rental Assistance Subsidy Determinations (HUDQC) Study, provides national estimates of the extent, severity, costs, and sources of rent errors in tenant subsidies for the largest housing programs administered by MFH and PIH. These programs account for nearly all of HUD's current housing assistance outlays administered by MFH and PIH, as well as the majority of units assisted by HUD. This study was designed to measure the extent of administrator income and rent determination error by housing providers. It does not involve an audit of individual PHAs or projects, nor does it monitor the implementation of housing programs. Its singular focus is to identify households for which an error was made in the calculation of the amount of the household's rent and to provide nationally representative findings related to those errors.

The errors evaluated in this study affect the rent contributions that tenants should have been charged. The findings presented in this report are derived from data collected from December 2015 through May 2016 for actions taken by PHA and project staff during FY 2015 (October 2014 through September 2015).

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HUD administers its rental housing assistance programs through third-party program administrators, including PHAs, public and private project owners, and contracted management agents. In the programs examined, eligible tenants are generally required to pay 30 percent of their adjusted income toward shelter costs (i.e., contract rent plus utilities), with HUD providing the balance of the rental payment. New program applicants are required to provide information on household characteristics, income, assets, and expenses, and this the amount of rent they need to pay. In most instances, current tenants must certify this information annually and, in some circumstances, they must recertify the information when there are significant changes in the household's income or composition. Applicant or tenant failure to correctly report income may result in HUD's over- or underpayment of housing assistance. The failure of the responsible program administrator to correctly interview the tenant or process and calculate the tenant's rental assistance may also result in an improper payment.

In 2000, HUD established a baseline error measurement to cover the three major types of rental housing assistance payment errors: (1) program administrator income and rent determination error, (2) intentional tenant misreporting of income (the Income Match Study), and (3) errors in program administrator billings for assistance payments (the HUDQC billing studies). Fourteen studies have been conducted to identify program administrator income and rent determination error. In addition to the 2000 study, studies were conducted in FY 2003 through FY 2015. The study referenced in this report covers FY 2015 and updates the FY 2014 measurement of errors in program administrator income and rent determinations. Separate reports will be provided for the other studies conducted in FY 2015.

For the purposes of this study, "error" is defined as any rent calculation or eligibility determination that differs from what would have occurred if the PHA or other program administrator had followed all HUD income certification and rent calculation requirements during the initial certification or annual recertification conducted in FY 2015. When appropriate, study findings are compared with findings from the previous studies.

Reduction in the rent error associated with the programs included in this study does not mean there will be an overall savings in the costs associated with administering these programs. Given the large number of eligible households on waiting lists, if a household leaves the program because it is no longer eligible for a subsidy, another household will take its place, and the replacement household may be entitled to a smaller or a larger subsidy than the household that left the program. Therefore, the most direct benefit of identifying households with rent error is ensuring that the households eligible for the program are receiving the correct subsidy, rather than reducing the funds needed to administer the programs. The most appropriate use of this study is as a tool for strengthening HUD's procedures for ensuring administrative compliance with regulations. The implementation of the recommendations presented in this report may require greater resources in order to provide HUD, PHAs, and owners with the written policy guidelines, training, standardized forms, and ongoing monitoring needed to ensure program

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compliance. The HUDQC Study assists the agency's objective of providing the right subsidies to the right families to sustain and support quality rental assistance programs for communities.

Using the Code of Federal Regulations and official HUD handbooks and notices, the contractor consolidated all HUD rules relevant to the determination of rent into a set of HUD requirements. The contractor invited program experts to participate in establishing and reviewing the standards used in this study.

A nationally representative sample of 583 projects in the United States and Puerto Rico was selected for this study. These projects were selected from the universe of the three program types covered by the study: Public Housing; PHA-administered Section 8 (Vouchers and Moderate Rehabilitation); and Owner-administered Section 8, Section 202 Project Rental Assistance Contract (PRAC), Section 811 PRAC, and Section 202/162 Project Assistance Contract. A random sample of four households was selected for most projects, but more households were selected from unusually large projects. The final study data set includes responses from 2,400 households.

Certain programs were excluded from the study because their eligibility and rent calculation rules differed from the standards, including the Owner-administered Rental Assistance Payment (RAP), Rental Supplement Program (SUP), and Below Market Interest Rate (BMIR) programs. Since the FY 2012 study, Moving to Work (MTW) agencies have been included in the sampling frame and the HUDQC Study sample. Owner-administered Rental Assistance Demonstration properties were excluded from the FY 2015 sample. Universe files requested from HUD either excluded out-of-scope projects, or the projects were identified by HUD for easy removal.

Updated population counts per program were calculated based on the assisted housing universe files provided by HUD in June 2015 to compile weights for the study. The same population totals per program, provided by HUD in the FY 2005 statement of work, were used from FY 2006 through FY 2010. Starting in FY 2011, the population totals were updated based on the FY 2012 HUDQC sample universe to better reflect the current population. The same population totals were used from FY 2012 to FY 2014, and were then updated for the FY 2015 study. In general, when the population totals are adjusted, the changes seen in total gross dollar error may be due to a change in the assisted housing population, not necessarily an increase in average dollar error. When comparing dollar error between years in which the population size has been adjusted, it is appropriate to compare average dollar error, as it is not affected by changes in population size.

The data collection effort included creating and automating more than 30 data collection instruments, contacting and obtaining information from PHA/Owner staff, hiring and training 73 field interviewers, and selecting the project and household sample. Field interviewers obtained data from tenant files and interviewed tenants using computer-assisted personal interviewing software developed for this study. The automated data collection process included built-in consistency and edit checks that prompted interviewers to probe inconsistent and anomalous

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responses. Collected data were electronically transferred daily to contractor headquarters for review. Requested third-party verifications related to income, assets, and expenses were also processed at contractor's office in Rockville, MD.

A quality control (QC) rent was calculated for each household in the sample, using the information reported by the 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 little effect on program-wide subsidy errors.

*Income Match Study*

The second study, the Income Match Study, examined differences between income data from the National Directory of New Hires (NDNH), the Social Security Administration (SSA), and income data from the HUDQC study collected during field collection. The purpose the study was to identify the rental housing assistance payment errors associated with intentional tenant misreporting of income. The match was conducted for all in adult household members the FY 2015 HUDQC Study through their Social Security numbers with NDNH and all household members, regardless of age, with SSA data files provided by HUD.

This report includes the results of the income match for the Public Housing, PHA-administered Section 8 Voucher, and Section 8 Moderate Rehabilitation programs; the Housing-administered Section 8, Section 202, and Section 811 Project Rental Assistance Contracts (PRAC); and Section 202/162 Project Assistance Contracts (PAC) programs. On the basis of the income match between adult household members in the FY 2015 HUDQC Study, the NDNH data, and the SSA data, this report identifies sources of earned income, unemployment compensation, and Social Security benefits that were not found during the HUDQC field data collection process.

The NDNH data contained quarterly information on the source and amount of nearly all legally reportable sources of earned income and unemployment compensation benefits. These data excluded sole proprietors without any employees. For each source of earned or unemployment compensation income identified through NDNH, a determination was made regarding whether the source was new or whether the source was previously identified during the HUDQC field data collection process. Each case was thoroughly analyzed to avoid the double counting of income. For cases in which a potential new source of income was identified, third-party verification data were gathered and used to confirm either the tenant's monthly employment income or the monthly unemployment compensation benefits. Confirmed new sources of income were added to the HUDQC files and tenant rent was recalculated to estimate the impact of the unreported income on HUD subsidies. The inclusion of the SSA benefit income is new for FY 2015, and this data is presented to show the overall effect the SSA data has on the subsidy cost estimates.

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For study years FY 2005 through FY 2010, the same population counts were used to create the weights. The population totals were updated to more accurately reflect the current population beginning in FY 2011. Since FY 2012, Moving to Work households were included in the frame, resulting in an increase in the population totals.<sup>8</sup> Comparing overall and program type subsidy cost estimates as a result of unreported earned income and unemployment compensation only from FY 2014 with FY 2015, only the subsidy cost estimate for PHA-administered Section 8 and Moderate Rehabilitation programs showed a statistically significant change. Because the Income Match Study estimates are reliant on a small number of cases in error, they can fluctuate greatly from year to year.

*Office of Housing Billing Study*

The third study, The HUD Office of Housing Billing Study provides national estimates of billing errors made in the Multifamily programs that include Owner Administered Section 8, Section 202 PAC and PRAC, and Section 811 PRAC programs. The errors evaluated in this study affect the subsidy paid to owners of Multifamily properties. The findings presented in this report are derived from data collected from April 2016 through June 2016 for subsidies paid to owners for FY 2015. The findings are based on the amount billed by owners and subsidy payments made to the owners.

HUD identified seven risks to be addressed: the tenant rent contribution does not match the tenant rent amount on the form HUD-50059; the unit rent allowed under contract is not used to calculate the tenant rent and subsidy; the utility reimbursement payment is not, or is incorrectly, reimbursed to the tenants for tenant-paid utilities in excess of their tenant rent contribution; the number of units billed exceeds the number authorized under contract and/or the tenant assistance payment amount requested on the voucher does not match the assistance payment amount on the form HUD-50059; tenant assistance payment adjustments for move-ins, move-outs, rent changes, corrections, etc., are not adjusted properly in the billing voucher; and the project voucher payment made by HUD does not match the amount deposited into the project's operating bank account. All risks are addressed by the study.

Using the Code of Federal Regulations and official HUD handbooks and notices, the contractor consolidated all HUD rules relevant to the determination of billing and operating subsidy calculation errors. The contractor also invited program experts to participate in establishing and reviewing the standards used in this study. A nationally representative sample of 150 Multifamily properties in the United States and Puerto Rico was selected for this study. These projects were selected from the universe of the projects to have the least overlap with the HUDQC Study. A random sample of 10 units was selected for each project. The final study data set included data from 1,500 units.

The data collection effort included creating and automating data collection instruments, contacting and obtaining information from owners, and hiring and training 37 field data collectors. Field data collectors obtained data from tenant files and project records using

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computer-assisted software developed for this study. The automated data collection process included built-in checks that prompted data collectors to request documents to reconcile discrepancies. Collected data were electronically transferred daily to the contractor's headquarters for review.

To calculate error in the Multifamily Billing Study, the study compared the quality control value that the contractor determined based on the document used to support the actual amounts, against the actual value that was reported by projects to HUD. Compared items that resulted in subsidy billing error include tenant Housing Assistance Payment (HAP) requested amounts, Utility Reimbursement amounts, and project HAP deposited amounts. Discrepancies were aggregated to the project-level. Negative and positive discrepancies from each project were aggregated and weighted to provide the national estimates of net and gross error. A discrepancy of \$1 or less was determined not to be in error.

***PIH Billing Study***

The fourth and final study, the HUD PIH Billing Study, provides national estimates of errors in subsidy payments made to PHAs for the PHA-administered Section 8 and Public Housing programs. This study was designed to measure the extent of PHA administrator error in the calculation of subsidies provided to PHAs. It does not involve an audit of individual PHAs, nor does it monitor the implementation of housing programs. The errors evaluated by the contractor in this study affect the subsidy paid to a PHA for Section 8 Housing Choice Voucher and Moderate Rehabilitation households and operating subsidy calculations for Public Housing programs.

HUD identified three risks to be addressed for PHA-administered Section 8 programs, although the third risk only applied to the Moderate Rehabilitation program: HUD is paying on units that are not leased or do not exist; PHAs are paying incorrect subsidies to landlords that cannot be traced to subsidy calculation determinations and then over-billing HUD in the PHA-administered Section 8 programs; and tenant contributions are improperly stated or do not tie to accounting records for Public Housing and Moderate Rehabilitation programs.

For the Public Housing program, three risks were addressed: HUD is subsidizing units that are not eligible for funding; tenant contributions are improperly stated or do not tie to accounting records; and miscellaneous payments are overstated.

Using the Code of Federal Regulations and official HUD handbooks and notices, the contractor consolidated all HUD rules relevant to the determination of billing and operating subsidy calculation errors. The contractor invited program experts to participate in establishing and reviewing the standards used in this study.

A nationally representative sample of 79 PHA-administered Section 8 projects and 95 Public Housing projects in the United States and Puerto Rico was selected for this study. A random sample of 10 households (PHA-administered Section 8) or units (Public Housing) was selected

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for most projects, but more households were selected from unusually large projects. The final study data set included 850 PHA-administered Section 8 households and 950 Public Housing units. Certain Moving to Work programs were excluded from the study because their subsidy calculations were based on alternate funding formulas.

The data collection effort included creating and automating data collection instruments, contacting and obtaining information from PHAs, hiring and training 37 field interviewers, and collecting field data. Field interviewers obtained data from tenant files and project records using computer-assisted software developed for this study. The automated data collection process included built-in checks that prompted interviewers to request documents to reconcile discrepancies. Data were electronically transferred daily to the contractor's headquarters for review.

A quality control amount was determined for each data element, using the information reported by the PHA. A discrepancy of \$1 or less between the actual and quality control data elements was not counted as an error.

***Disaster Relief Appropriations Act (DRAA-Sandy)***

Disaster Relief Appropriations Act, 2013 (P.L.113-2) (DRAA-Sandy) provides that all programs and activities funded under the act are susceptible to significant improper payments for purposes of IPERIA. Agencies receiving funds under P.L. 113-2 must develop a protocol to calculate and report an improper payment estimate for appropriated funds.

OMB guidance on the development of an improper payment protocol for P.L. 113-2 funds notes that "to implement improper payment measurements in the most cost-effective manner, agencies will have several options when conducting its improper payments testing for Sandy-related programs." Funds appropriated under DRAA-Sandy are administered by HUD's Office of Community Planning and Development (CPD). Due to the nature of the funds, HUD has obtained an approval from OMB to use an alternative estimation approach for the funds rather than a statistically-valid methodology with a 95% confidence interval.

***DRAA-Sandy Community Development Block Grant (CDBG-DR) Funds***

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.

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. While a risk-

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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 implemented 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). CDBG-DR exhibits in the CPD Grantee Monitoring Handbook were amended 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.

Information gathered in monitoring review exhibits was transferred into a separate worksheet titled “Grantee Level Template,” to capture improper payments identified as part of each on-site monitoring review.

The frequency and total amount of grantee-level improper payments identified throughout the year was rolled-up as calculated through the attached worksheet titled “Fiscal Year Estimate Template.” Funding that grantees received was 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 pursuant to P.L. 113-2.

DRSI performed 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 structured these reviews based on areas of high risk and previous monitoring conclusions. Prior to each visit, DRSI developed a strategy memo for each visit which outlined grantee projects and activities—and particular components or aspects of these projects or activities—that it had targeted for review.

For each monitoring review, a determination was made whether a grantee had 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 used 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 was 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 used 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 added the improper payment expenditure estimates for each of the three highest risk grantees together and divided that number by the total amount of funds drawn by those grantees during the fiscal year.

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*Estimation of Charge Card Payments*

DRAA-Sandy Charge card payments were only made for travel. For the travel payments, HUD obtained a statistically valid estimate of improper travel payments using its shared service provider, the Department of Treasury's Administrative Resource Center (ARC), who made the travel payments.

*Estimation of Federal Employee Payments*

For payments to Federal employees under the Act, HUD examined payments to all employees that were paid using funds appropriated under the Act. HUD ran a report showing each payment to the employees. CPD examined one example of each unique payment amount to each employee to see if it was proper.

*Total Improper Payments*

To obtain the total improper payment made in each fiscal year, HUD reported the gross improper payments from each of the three types: grant, charge card, and Federal employee payments. HUD then summed the three types to report a total gross improper payment amount for funds under the Act. The improper payment rate was calculated using the formula's prescribed by OMB for Table 1 in the Improper Payments Reporting section that follows.

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## Improper Payments Reporting

Improper Payment Reduction Outlook																	
(\$ in millions)																	
Program	PY Outlays	PY IP %	PY IP \$	CY Outlays	CY IP %	CY IP \$	CY Over-payment \$	CY Under-payment \$	CY + 1 Est. Outlays <sup>1</sup>	CY + 1 Est. IP %	CY + 1 Est. IP \$ <sup>2</sup>	CY + 2 Est. Outlays <sup>1</sup>	CY + 2 Est. IP %	CY + 2 Est. IP \$ <sup>2</sup>	CY + 3 Est. Outlays <sup>1</sup>	CY + 3 Est. IP %	CY + 3 Est. IP \$ <sup>2</sup>
RHAP	32,001.12	4.01 %	1,281.79	32,741.33	5.20%	1,701.89	1,235.00	466.89	32,741.33	5.10%	1,669.15	32,741.33	5.00%	1,636.41	32,741.33	4.90%	1,603.67
CPD/DRAA	1,642.00	1.15%	18.81	1,982.00	0.38%	7.53	7.53	0.00	1,725.00	0.80%	13.80	1,500.00	0.50%	7.50	1,300.00	0.50%	6.50
Total	33,643.12	3.87	1,300.60	34,723.33	4.92%	1,709.42	1,242.53	466.89	34,466.33	4.88%	1,682.95	34,241.33	4.80%	1,643.91	34,041.33	4.73%	1,610.17

<sup>1</sup> To maintain historical precedent, the CY +1, +2, and +3 outlays are assumed to remain constant at CY levels.

2 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).

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**Supplemental Measures**

As RHAP is a high-priority program, HUD has established supplemental measures for reducing improper payments in the program. Supplemental Measures are measured and reported quarterly on the OMB improper payments website [PaymentAccuracy.gov](http://PaymentAccuracy.gov).

Since two different program offices, MFH and PIH, are responsible for different parts of RHAP, each office has their own supplemental measures as follows:

Office	Supplemental Measure	Baseline	Target	Actual	Frequency
<b>MFH</b>	Deceased Single Member Households	460	376	564	Quarterly
	Enterprise Income Verification Access Rate	96.8%	95%	97%	Quarterly
	Enterprise Income Verification Usage Rate	93.7%	93%	93%	Quarterly
	Failed Identity Verification Rate	22,092	18,500	18,909	Quarterly
<b>PIH</b>	Deceased Single Member Households	1,160	900	1229	Quarterly
	Enterprise Income Verification Access Rate	99%	99%	98%	Quarterly
	Enterprise Income Verification Usage Rate	96%	97%	94%	Quarterly
	Failed Identity Verification Rate	18,401	21,161	24,217	Quarterly
	Income Discrepancy Rate	18,499	17,500	19,487	Quarterly
	Public and Indian Housing Information Center Reporting Rate	99%	99%	99%	Quarterly

**MFH**

*Deceased Single Member Households* – measures the number of deceased single member households within an owner’s or management agent’s jurisdiction. The measure will provide owners and management agents the data to conduct research and eliminate subsidy payments that should not be made on these households.

As of September 30, 2015, the number of properties that reflected payments to deceased single member households was 564. The FYE 2015 target goal was 376. MFH did not meet this target. The Supplemental Measure is a dynamic number and can fluctuate dramatically based on the number of deaths that occur in a given month. HUD and contract administrator staff will continue to proactively monitor deceased single member households.

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*Enterprise Income Verification Access Rate* – measures an owner’s or management agent’s ability to access HUD’s EIV system to verify the employment and income of existing tenants. As the access rate increases, the ability for owners or management agents to use EIV increases.

As of September 30, 2015, the percentage of properties that had access to EIV was 97 percent. The FYE 2015 target goal was 95 percent. MFH expects to maintain a goal of 95 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. With each of these transactions, the new owner or management agent is provided up to 90 days to obtain and begin using EIV. This timeframe is necessary to maintain compliance with the Privacy Act.

*Enterprise Income Verification Usage Rate* – measures an owner’s or management agent’s use of HUD’s EIV system to verify the employment and income of existing tenants. 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, 2015, the percentage of properties that had used EIV was 92.6 percent. The FYE 2015 target goal was 93.0 percent. With this supplemental measure, MFH expects the actual usage rate to fluctuate above and below the goals for the same reasons as stated in Enterprise Income Verification Access Rate: due to the flexibilities for MFH owners and management agents in their ability to sell and purchase their properties within the MFH portfolio. With each of these transactions, the new owner or management agent is provided up to 90 days to obtain and begin using EIV. This timeframe is necessary to maintain compliance with the Privacy Act.

*Failed Identity Verification Rate* – measures the number of tenants that have failed identity verifications (such as invalid name, date of birth or social security number) that are reported by owners or management agents on behalf of program beneficiaries. If a tenant fails the identity verification process, income and employment data for the tenant will not appear in the EIV system.

This supplemental measure consists of two types of identity verification errors. The first type of error is 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). The second type of error is 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.

As of September 30, 2015, the number of properties that had failed identity verifications was 18,909. The FYE 2015 target goal was 18,500. In January 2013, MFH staff implemented quarterly reviews that would identify owner/administrators who have unresolved failed identity verifications. This review process has improved the overall identification of unreported and

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under-reported income by ultimately capturing income data on tenants that have not been previously matched to the NDNH database.

***PIH***

*Deceased Single Member Households* – provides PHAs with data to initiate research and elimination of subsidy payments made on behalf of ineligible program beneficiaries. 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 an improper payment has occurred.

As of September 30, 2015, the number of properties that reflected payments to deceased single member households was 1,229. The FYE 2015 target goal was 900. PIH did not meet this goal. The Supplemental Measure is a dynamic number and can fluctuate dramatically based on the number of deaths that occur in a given month.

*Enterprise Income Verification Access Rate* – measures PHA's ability to access HUD's EIV system to verify the employment and income of existing tenants. As the access rate increases, the ability for owners or management agents to use EIV increases.

As of September 30, 2015, the percentage of properties that had access to EIV was 98 percent. The FYE 2015 target goal was 99 percent. PIH did not meet the goal due to a number of PHAs that had access to EIV but did not use EIV as required.

*Enterprise Income Verification Usage Rate* – measures a PHA's use of HUD's EIV system to verify the employment and income of existing tenants. 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, 2015, the percentage of properties that had used EIV was 94 percent. The FYE 2015 target goal was 97 percent. PIH did not meet the target due to not all PHA's using EIV as required. EIV has re-engineered the EIV process and will begin working more aggressively with PHAs, OCFO and HUD field offices involving each of the EIV areas of deficiencies and tracking the PHA actions in resolving identified deficiencies.

*Failed Identity Verification Rate* – measures the number of tenants that have failed identity verifications (such as invalid name, date of birth or social security number) that are reported by owners or management agents on behalf of program beneficiaries. If a tenant fails the identity verification process, income and employment data for the tenant will not appear in the EIV system.

This supplemental measure consists of two types of identity verification errors. The first type of error is 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 SSN). The second type of error is 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 PHA's research and

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correct failed identity verifications, their ability to detect unreported and underreported income will increase and improper payments will decrease.

As of September 30, 2015, the number of properties that had failed identity verifications was 24,217. The FYE 2015 target goal was 21,161. PIH did not meet the target due to failed identity results from both tenant (incorrect SSN, DOB or surname) errors and PHA data entry errors on form HUD-50058.

*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 six months old. A new Income Validation Tool (IVT) has been developed that will eventually replace the current and faulty income verification report. The IVT is being tested in a pilot demonstration and the new EIV process will also undergo pilot testing beginning in January 2017

As of September 30, 2015, the number of instances of tenant under reporting income was 19,487. The FYE 2015 target goal was 17,500. PIH did not meet the target because tenant under-reporting on income increased and is difficult for PHAs to verify due, in part, to inaccuracies in the EIV income verification report that the OIG found to contain a high percentage of false positives and because the data reported via HHS/NDNH can be up to six months old.

*Public and Indian Housing Information Center (PIC) 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 PIC via completed form HUD-50058, 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.

As of September 30, 2015, the percentage of properties that had reported information to PIC was 99 percent. The FYE 2015 target goal was 99 percent. PIH meet the goal due to most PHAs reporting on PIC.

### **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

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payments in CPD/DRAA funds is administrative or process errors made by a 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					7.53	0.00	
	Other Party:			1235.00	466.89			
			Public Housing	98.86	84.43			
		Program Administrator Income and Rent Determination error	PHA-administered Section 8 (Vouchers & Moderate Rehabilitation)	287.45	113.33			
			Owner Administered Section 8 <sup>1</sup>	113.03	50.73			
		Intentional Tenant Misreporting of Income	Public Housing	155.84				
			PHA-administered Section 8 (Vouchers & Moderate Rehabilitation)	243.24				
			Owner Administered Section 8 <sup>1</sup>	145.37				
		Program Administrator Billings for Assistance Payments	Public Housing	35.68	33.47			
			PHA-administered Section 8 (Vouchers & Moderate Rehabilitation)	21.48	48.30			
			Owner Administered Section 8 <sup>1</sup>	134.06	136.64			
Medical Necessity								
Insufficient Documentation to Determine					X		X	
Other Reason (a) (explain)								
Other Reason (b) (explain)								
Total				1235.00	466.89	7.53	0.00	

<sup>1</sup> 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 Contract (PAC).

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**Improper Payment Corrective Actions**

RHAP is the only HUD program with improper payments exceeding the statutory thresholds according to OMB Circular A-123, Appendix C. The root cause of improper payments in RHAP are Administrative or Process Errors Made by a Party Other Than a Federal, State, or Local Agency. To address this root cause, HUD utilizes the EIV system for PHAs and MFH owners and managing agents to determine rent subsidies, verify tenant income, reduce administrative errors, and determine improper payments. The EIV system consists of a series of reports, based on regulatory compliance, that are used to bear out tenant eligibility and subsidy. The EIV reports are supplemented via information received through data sharing agreements with the Department of Health and Human Services (National Directory of New Hires wage & unemployment income) and the Social Security Administration (benefit income). Errors that result from Tenant underreporting or misreporting of income are found by obtaining and adequately verifying annual income and benefit information in making rental housing subsidy determinations. This is an ongoing effort.

The implementation of corrective actions is carried out by the Supplemental Measures, including expanded use of the EIV system. The Supplemental Measures enable HUD to reduce the error rate for the root cause of improper payments in RHAP. HUD's plans to reduce the improper payment rate in RHAP are further discussed in the Supplemental Measures section.

As RHAP is a high-priority program, HUD has specifically tailored its corrective actions to better reflect the unique processes, procedures, and risks involved. This is accomplished by focusing on the determination of tenant eligibility, subsidy amount, and the parties that are involved in making the eligibility and subsidy determination. The determination nexus is where the EIV system works to determine rent subsidies, verify tenant income, reduce administrative errors, and determine improper payments.

RHAP is taking actions to recover improper payments, as required by a high-priority program. When unreported and/or under-reported income is discovered, HUD, PHAs, and MFH program 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 and/or other contracts that may be active.

Also as a high-priority program, RHAP is taking several steps to prevent future improper payments. In an effort to reduce improper payments caused by tenants not meeting employment or income criteria, is making EIV available to more PHAs and MFH owners and management agents and making them use the system.

HUD also plans to develop an integrated Subsidy Reporting System (iSERS) that will provide HUD management with the ability to collect and analyze the root cause of 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

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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 2017.

**Internal Control Over Payments****Table 3**

<b>Status of Internal Controls</b>		
<b>Internal Control Standard</b>	<b>RHAP - PIH</b>	<b>RHAP - MFH</b>
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 which encompasses the information for the RHAP program reporting under the requirements of the Internal Control Over Payments section.

**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 AFR.

The Secretary designated the CFO as the lead official for overseeing HUD actions to address improper payment issues and bring HUD into compliance with IPERIA requirements. All HUD employees are provided ethics training as part of their orientation shortly after arriving at HUD. Furthermore, all employees who file a public or confidential financial disclosure report are required to certify that they have attended, or viewed on HUD@work a "live" ethics briefing each calendar year.

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

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CFO remains committed to its partnership with the Principal Deputy Assistant Secretaries for PIH and MFH related to ensuring IPERIA compliance for their programs.

By providing a cultural framework for managing risk, both PIH and MFH, respectively, are utilizing systems by engaging key stakeholders in the risk management process. PIH is using one of the industry's most highly recognized frameworks as the basis for its practice—Enterprise Risk Management—Integrated Framework (ERM) developed by the Committee of Sponsoring Organizations of the Treadway Commission. PIH's ERM program identifies and responds to the operational, compliance, financial reporting, and strategic risks from four areas, (1) public housing agency risks at the agency and property level, (2) PIH program and support office risks, and (3) strategic risks to all of PIH. MFH has a draft specification document for an iSERS that will provide HUD management with the ability to collect and analyze errors, i.e., root causes, for their impacts to Project-Based Section 8 subsidy payments and funding.

**Risk Assessment**

HUD conducts an annual qualitative risk assessment of program activities on a three-year cycle. Any assessed programs that are determined to not be a high risk of significant improper payments are reassessed on the next 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. The quarterly risk assessment is part of PIH's overall ERM approach to managing risks associated with its programs. In addition, PIH uses a risk-based approach to target resources to ensure high risk PHAs receive adequate oversight. MFH's iSERS 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.

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.

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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.

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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 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 IPERIA requirements and any supplemental implementation guidance. OCFO implemented the IPIA requirements and continues to address improper payment issues under 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.

The Principal Deputy Assistant Secretary and the General Deputy Assistant Secretary of Housing have identified program offices that are responsible for ensuring compliance with improper payment issues as described under IPERIA. The Office of Multifamily Housing, which is led by a Deputy Assistant Secretary, oversees owner-administered Project-based Assistance Programs and provides guidance on compliance to property owners and management agencies who provide housing to eligible participants of a covered program. The Real Estate Assessment Center (REAC), which is also managed by a Senior Executive, employs auditors and other technical staff to work with program office staff utilizes the EIV system to track improper payment issues. This two pronged approach helps to identify improper payments and address issues with compliance.

The Principal Deputy Assistant Secretary and the General Deputy Assistant Secretary of PIH have identified two program offices that are responsible for ensuring compliance with improper payment issues as described under IPERIA. The Office of Public Housing and Voucher Programs which is led by a Deputy Assistant Secretary, oversees the Section 8 Tenant and Project Based Voucher Programs and provides guidance on compliance to public housing agencies (PHAs) that issue subsidies. REAC, which is also managed by a Senior Executive, employs auditors and other technical staff to review Part B compliance on audits of PHAs and utilizes the EIV system to track improper payment issues. This two pronged approach helps to identify improper payments and address issues with compliance.

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HUD managers and accountable officers who have been delegated IPERIA responsibility are held accountable for meeting improper payment reduction targets as well as establishing and maintaining sufficient internal controls that effectively prevents improper payments from being made and promptly detects and recaptures any improper payments that are made. They are held accountable on an ongoing basis by incorporating IPERIA requirements into their performance measures, including quarterly Supplemental Measure reports.

**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 was one of HUD's top initiatives implementing 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 migrated key financial and administrative systems and processes to a Federal Shared Service Provider (FSSP), the Department of the Treasury's 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 worked closely with the OIG, OMB, and GAO as this program was implemented in a series of releases. As a result of implementation, RHAP payments processed through HUD's legacy systems, including the Program Accounting System (PAS), the electronic Line of Credit Control System (eLOCCS), and the HUD Central Accounting Program System (HUDCAPS), are now interfaced into the new shared service financial system of record, Oracle.

**Barriers**

The barriers to reducing 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.

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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 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

#### *S&E, Travel, and Training*

Program Identifier	Program	Allotment Holder	Appropriation Account
S&E	Payments to Federal Employees	ADMN, CFBI, CFO, CHCO, CIO, CIR, CPD, CPO, DEEO, FHEO, FPM, GNMA, HEAR, HSNG, LBPA, OCHCO, ODOC, ODS, OFHE, OGC, OPA, OSDB, PDR, PIH, SDEP, SECY, SFPM, SPEC, SPM	86 - 0189, 86 - 0332, 86 - 0334, 86 - 0335, 86 - 0337, 86 - 0338, 86 - 0339, 86 - 0340, 86 - 0341, 86 X 4586
Travel	Payments to Federal Employees	ADMN, CFBI, CFO, CHCO, CIO, CIR, CPD, CPO, DEEO, FEMA, FHEO, GNMA, HEAR, HSNG, LBPA, OGC, OIG, OPA, OSDB, PDR, PIH, SDEP, SECY, SFPM, SPM	86 - 0143, 86 - 0162, 86 - 0189, 86 - 0332, 86 - 0334, 86 - 0335, 86 - 0337, 86 - 0338, 86 - 0339, 86 - 0340, 86 - 0341, 86 X 0186, 86 X 0235, 86 X 0304, 86 X 0313
Training	Training Enrollments	ADMN, CFBI, CFO, CHCO, CIO, CIR, CPD, CPO, DEEO, FHEO, GNMA, HEAR, HSNG, LBPA, OGC, OIG, PDR, PIH, SECY, SFPM, SPM	86 - 0143, 86 - 0162, 86 - 0189, 86 - 0332, 86 - 0334, 86 - 0335, 86 - 0337, 86 - 0338, 86 - 0339, 86 - 0340, 86 - 0341, 86 X 0186

One of the Office of the Chief Human Capital Officer's (OCHCO) enterprise-wide responsibilities is to examine all payments to all employees. On a bi-weekly basis, OCHCO runs a bi-weekly payroll report by using ARC Oracle Financial System. 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 example, OCHCO will collaborate with OCFO in Headquarters and the

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Bureau of Fiscal Services (BFS) to run all the necessary reports from webTA, ARC's Oracle Financial System, 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 BFS, OCHCO Government Technical Representatives (GTRs) will review and process invoices, verifying invoice submissions against the pricing schedule, ARC's Oracle financial system and invoice log prior to approval. The GTRs and OCPO contracting office 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/IAA financial and deliverables schedule to the amount being invoiced. Whereas most OCHCO contracts/IAs are fixed price, the GTR will still confirm this against the pricing schedule. Once confirmed, the GTR will provide approval through the ARC Invoice Processing Platform (IPP) to authorize vendor payments for services exceeding \$3,500. For federal agency Intra-Governmental Payments and Collections (IPACs), the GTR will review ARC's Oracle financial Inter-Agency Agreement (IAA) files, then validate the payment by completing the template provided by ARC. 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 for overpayments. OCHCO's Budget Division conducts periodic audits of their invoices to prevent duplicate payments of the same invoices. As it applies to payables, ARC's Oracle financial system has a feature that prevents entering the same invoice twice with the same supplier name unless dates are different. Administrative processing and systems capabilities/efficiencies enables a series of cross-checks and verifications that prevents or significantly reduces potential overpayments that did not exist before, or were subject to human error. 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/IAs 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.

***Condition***

No improper payments were identified in FY 2015. Therefore, no condition that leads to improper payments exists.

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*CPD - DRAA-Sandy*

Program Identifier	Program	Allotment Holder	Appropriation Account
Disaster - CPD	DISASTER ASSISTANCE	CPD	86 - 0162
Disaster - KDTVH	DHAP KATRINA TRANS VOUCHER HAP	CPD	86 X 0302
CDBG - CPD	HURRICANE IKE, OTHER DIS	CPD	86 - 0162

CPD's improper payment estimation process for the DRAA-Sandy funds incorporates a payment recapture audit plan. For any improper payments noted during the review of payments, CPD initiates collection procedures immediately.

OMB guidance on the development of an improper payment protocol for P.L. 113-2 funds notes that "to implement improper payment measurements in the most cost-effective manner, agencies will have several options when conducting its improper payments testing for Sandy-related programs." Funds appropriated under DRAA-Sandy are administered by HUD's Office of Community Planning and Development (CPD). Due to the nature of the funds, HUD has obtained an approval from OMB to use an alternative estimation approach for the funds rather than a statistically-valid methodology with a 95% confidence interval.

*DRAA-Sandy Community Development Block Grant (CDBG-DR) 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 Disaster Relief Special Issues (DRSI) Division implemented 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). CDBG-DR exhibits in the CPD Grantee Monitoring Handbook were amended 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.

Information gathered in monitoring review exhibits was transferred into a separate worksheet titled "Grantee Level Template," to capture improper payments identified as part of each on-site monitoring review.

The frequency and total amount of grantee-level improper payments identified throughout the year was rolled-up as calculated through the attached worksheet titled "Fiscal Year Estimate Template." Funding that grantees received was 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.

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DRSI performed 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 structured these reviews based on areas of high risk and previous monitoring conclusions. Prior to each visit, DRSI developed a strategy memo for each visit which outlined grantee projects and activities—and particular components or aspects of these projects or activities—that it had targeted for review.

As part of each review, HUD staff used 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 was 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 used 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 added the improper payment expenditure estimates for each of the three highest risk grantees together and divided that number by the total amount of funds drawn by those grantees during the fiscal year.

*Estimation of Charge Card Payments*

DRAA-Sandy Charge card payments were only made for travel. For the travel payments, HUD obtained a statistically valid estimate of improper travel payments using its shared service provider, ARC, who made the travel payments.

*Estimation of Federal Employee Payments*

For payments to Federal employees under the Act, HUD examined payments to all employees that were paid using funds appropriated under the Act. HUD ran a report showing each payment to the employees. CPD examined one example of each unique payment amount to each employee to see if it was proper.

*Total Improper Payments*

To obtain the total improper payment made in each fiscal year, HUD reported the gross improper payments from each of the three types: grant, charge card, and Federal employee payments. HUD then summed the three types to report a total gross improper payment amount for funds under the Act. The improper payment rate was calculated using the formula's prescribed by OMB for Table 1 in the Improper Payments Reporting section that follows.

*Condition*

The condition that led to improper payments that were identified and recovered was the general nature of the appropriations. 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

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rules through which payments can be judged as proper or improper. This is the basis for which OMB approved the alternative estimation approach utilized for this program. This condition is being resolved via on-site monitoring reviews of the highest risk grantees.

*Office of Policy Development and Research (PD&R)*

Program Identifier	Program	Allotment Holder	Appropriation Account
R&T	Research & Technology	PDR	86 - 0108
Transformation Initiative - PDR	Transformation Initiative	PDR	86 - 0402
CDBG - PDR	HBCU PROGRAM	PDR	86 - 0162

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, Treasury's Do Not Pay portal is also checked 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 COTR. Before approving the drawdown, the COTR compares the work plan to progress reports and project outputs; reviews the SF-425, financial status report; compares the amount of project drawdowns relative to project completion; assesses 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, as stated above 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.

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*Condition*

No improper payments were identified in FY 2015. Therefore, no condition that leads to improper payments exists.

*Office of Healthy Home and Lead Hazard Control (OLHCHH)*

Program Identifier	Program	Allotment Holder	Appropriation Account
Lead Hazard - OS	OTHER SERVICES	OHHLHC	86 - 0174
Lead Hazard - LHB	LEAD HAZARD REDUCT	OHHLHC	86 - 0174
Lead Hazard - LHD	LEAD HAZ DEMONSTRATION	OHHLHC	86 - 0174
Lead Hazard - HH	LEAD HAZ HEALTHY HOMES INT	OHHLHC	86 - 0174

The 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 GTRs, for grants, or GTMs and the COSs, 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 to submit, once each fiscal year, 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 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), i.e., the Federal Acquisition Regulations, title 2 of the CFR, i.e., Grants and Agreements, 24 CFR 84, 24 CFR 85, and policy (e.g., 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:

**IPIA (as amended by IPERA and IPERIA)**

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The requested amount is called in (by phone) by the grantee to the Line of Credit Control System (LOCCS). The grantee then forwards to the GTR: form HUD-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 returned funds on the form 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 reimbursement 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 form HUD-27053 must match data in LOCCS System and all totals must be the same. Under remote monitoring a GTR performs these extra 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 risk analysis is completed and/or high risk is determined for each grantee.

If an improper payment was identified, the GTR or COS, as applicable, would provide the funds recipient with documentation of the determination of the improper payment, the regulatory, grant-specific, and/or contractual basis for recovering the improper payment, 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 improper payment, the matter would be referred to the Office of General Counsel for action.

The OLHCHH currently has no outstanding non-collectable improper payments. 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. If the recovery occurred after the obligation authority period ended, the Office would return the funds to the Treasury.

## IPIA (as amended by IPERA and IPERIA)

*Condition*

The condition that lead to the identified and recaptured improper payments was incorrect documentation submitted by grantees and accepted by GTRs, GTMs, and COSs. This was corrected by providing training to GTRs, GTMs, and COSs.

*Office of Housing – FHA*

Program Identifier	Program	Allotment Holder	Appropriation Account
N/A	SF Claims	HSNG - FHA	86X4587, 86X4077, 86X4070, 86X4072, 86X4353
N/A	SF Property	HSNG - FHA	86X4587, 86X4077, 86X4070, 86X4072, 86X4353
N/A	SF Premium Refunds	HSNG - FHA	86X4587, 86X4077, 86X4070, 86X4072, 86X4353
N/A	SF Notes	HSNG - FHA	86X4587, 86X4077, 86X4070, 86X4072, 86X4353
N/A	HECM Claims	HSNG - FHA	86X4587, 86X4077
N/A	HECM Notes	HSNG - FHA	86X4587, 86X4077
N/A	T1 Claims	HSNG - FHA	86X4077, 86X4072
N/A	MF Claims	HSNG - FHA	86X4077, 86X4072
N/A	MF Notes	HSNG - FHA	86X4077, 86X4072
N/A	MF Property	HSNG - FHA	86X4077, 86X4072
N/A	MF Premium Refunds	HSNG - FHA	86X4077, 86X4072
N/A	SAMS	HSNG - FHA	86X4587, 86X4077, 86X4072, 86X4070
N/A	DSRS	HSNG - FHA	86X4587, 86X4077, 86X4072, 86X4070

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.

**IPIA (as amended by IPERA and IPERIA)**

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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 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 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 improper payments 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.

**IPIA (as amended by IPERA and IPERIA)**

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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 two 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, 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.

## IPIA (as amended by IPERA and IPERIA)

*Condition*

The condition that lead to the identified and recaptured improper payments was a lack of compliance with underwriting requirements. This was corrected by taking steps to strengthen controls over the underwriting process to verify that SF Claim are accurate and supported. To improve the recovery auditing of SF Claims, FHA has increased staff, procured a new contractor for the Post Claims reviews, has clarified guidance regarding the responsibilities of Post Claims Reviews, and constituted a review team to accompany new contractor to ensure oversight. In addition, joint reviews were conducted by both the Office of Finance and Budget and Single Family Housing, specifically the Quality Assurance Division (QAD) and National Service Center.

### Programs Excluded from the Payment Recapture Audit Program where HUD has Determined It Would Not Be Cost-Effective

OMB was notified October 2016 that it would not be cost effective to conduct a payment recapture audit program for the following programs.

*RHAP*

Program Identifier	Program	Allotment Holder	Appropriation Account
RHAP	Housing Certificate Program Section 8 - Sect 8 Mod Rehab SRO Renew Res	HSNG - MFH	86 X 0319
RHAP	Housing Certificate Program Section 8 - Contract Renewals	HSNG - MFH	86 X 0319
RHAP	Housing Certificate Program Section 8 - Contract Renewals (ACAH)	HSNG - MFH	86 X 0319
RHAP	Housing Certificate Program Section 8 - FSS Coord Vouchers	HSNG - MFH	86 X 0319
RHAP	Housing Certificate Program Section 8 - Hsg Cert Fund - Other	HSNG - MFH	86 X 0319
RHAP	Housing Certificate Program Section 8 - Hsg Cert Fund - Other (New Construction)	HSNG - MFH	86 X 0319
RHAP	Housing Certificate Program Section 8 - Property Disposition	HSNG - MFH	86 X 0319
RHAP	Housing Certificate Program Section 8 - Sect 8 Preservation Amendments	HSNG - MFH	86 X 0319
RHAP	Housing Certificate Program Section 8 - Section 23 Conversion	HSNG - MFH	86 X 0319
RHAP	Housing Certificate Program Section 8 - Section 8 Amendments	HSNG - MFH	86 X 0319
RHAP	Housing Certificate Program Section 8 - Section 8 Amendments (ACAH)	HSNG - MFH	86 X 0319

## IPIA (as amended by IPERA and IPERIA)

Program Identifier	Program	Allotment Holder	Appropriation Account
RHAP	Housing for the Elderly - Elderly PRAC Renewal	HSNG - MFH	86 X 0320
RHAP	Housing for the Elderly - Service Coordinators/Congregate Services	HSNG - MFH	86 X 0320
RHAP	Housing for the Elderly - Support Services Demonstration	HSNG - MFH	86 X 0320
RHAP	Housing for the Elderly - Supportive Housing For The Elderly	HSNG - MFH	86 X 0320
RHAP	Housing for the Elderly - Senior Preservation Rental Assistance Contracts	HSNG - MFH	86 X 0320
RHAP	Rental Housing Assistance Program - Rental Housing Assist. Fund	HSNG - MFH	86 X 0320
RHAP	Flexible Subsidy - Flexible Subsidy	HSNG - MFH	86 X 4044
RHAP	Rental Housing Assistance Program - Amendment To State Aided RAP Contracts	HSNG - MFH	86 X 0148
RHAP	Rental Housing Assistance Program - Extension Of Expiring RAP Contracts	HSNG - MFH	86 X 0148
RHAP	Rent Supplement Program - Amendment To State Agency RS Contracts	HSNG - MFH	86 X 0129
RHAP	Rent Supplement Program - Extentions Of Expiring Contracts	HSNG - MFH	86 X 0129
RHAP	Housing for Persons with Disabilities - Project Rental Assistance Demonstration (PRAD)	HSNG - MFH	86 X 0237
RHAP	Housing for Persons with Disabilities - Disabilities PRAC Renewal	HSNG - MFH	86 X 0237
RHAP	Housing for Persons with Disabilities - Supportive Hsg Persons With Disabilities	HSNG - MFH	86 X 0237
RHAP	Project-Based Rental Assistance - Rental Assistance Demonstration Conversion	HSNG - MFH	86 X 0303
RHAP	Project-Based Rental Assistance - Contract Renewals	HSNG - MFH	86 X 0303
RHAP	Project-Based Rental Assistance - Contract Administrators	HSNG - MFH	86 X 0303
RHAP	Project-Based Rental Assistance - Section 8 Amendments	HSNG - MFH	86 X 0303
RHAP	Rent Supplement	HSNG - MFH	86 X 0129
RHAP	Housing for Special Populations	HSNG - MFH	86 X 0320
RHAP	Housing for the Elderly and Handicapped	HSNG - MFH	86 X 4115
RHAP	Housing Certificate Program Section 8 - Welfare To Work	PIH	86 X 0319

## IPIA (as amended by IPERA and IPERIA)

Program Identifier	Program	Allotment Holder	Appropriation Account
RHAP	Public Housing Operating Fund - Operating Subsidy, Financial Hardship Set-Asides, Rental Assistance Demonstration	PIH	86 - 0163
RHAP	Revitalization Of Severely Distressed Public Housing (HOPE VI) - Tenant Protection Vouchers	PIH	86 X 0218
RHAP	Choice Neighborhoods - Rental Assistance Vouchers	PIH	86 - 0349
RHAP	Housing For Persons With Disabilities & Housing For Special Populations - 5-Year Mainstream Contract Renewals	PIH	86 X 0237 & 86 X 0320
RHAP	Housing For Persons With Disabilities & Housing For Special Populations - 5-Year Mainstream Incremental Vouchers	PIH	86 X 0237 & 86 X 0320
RHAP	Housing For Persons With Disabilities & Housing For Special Populations - 5-Year Mainstream Voucher Amendments	PIH	86 X 0237 & 86 X 0320
RHAP	Tenant Based Rental Assistance - Disaster Housing Assistance Program	PIH	86 X 0302
RHAP	Fema Interagency Agreements - Disaster Housing Assistance Program	PIH	86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Section 8 Contract Renewals & Set-Asides	PIH	86 X 0319, 86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Tenant Protection Vouchers--At-Risk Households	PIH	86 X 0319, 86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Tenant Protection Vouchers--Prepayment Of Mortgage	PIH	86 X 0319, 86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Tenant Protection Vouchers--Rental Demonstration Program (RAP)	PIH	86 X 0319, 86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Tenant Protection Vouchers--Rent Supplements	PIH	86 X 0319, 86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Tenant Protection Vouchers--Opt Outs	PIH	86 X 0319, 86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Voucher Conversion	PIH	86 X 0319, 86 X 0302

## IPIA (as amended by IPERA and IPERIA)

Program Identifier	Program	Allotment Holder	Appropriation Account
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Preservation & Preservation Enhanced	PIH	86 X 0319, 86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Public Housing Relocation/Replacement	PIH	86 X 0319, 86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Family Unification Program	PIH	86 X 0319, 86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Native American Tribal Hud Veterans Affairs Supportive Housing Vouchers	PIH	86 X 0319, 86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Non-Elderly Disabled Incremental Vouchers	PIH	86 X 0319, 86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Rental Assistance Demonstration Conversions (RAD 1 And 2)	PIH	86 X 0319, 86 X 0302
RHAP	Housing Certificate Fund & Project Based Rental Assistance - Moderate Rehabilitation Contract Renewals	PIH	86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Family Self Sufficiency (Tenant-Based Rental Assistance Program)	PIH	86 X 0319, 86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Witness Protection	PIH	86 X 0319, 86 X 0302
RHAP	Housing Certificate Fund & Tenant Based Rental Assistance - Veterans Affairs Supportive Housing Vouchers	PIH	86 X 0319, 86 X 0302
RHAP	Revitalization Of Severely Distressed Public Housing (HOPE VI) & Choice Neighborhoods - HOPE VI & Choice Neighborhoods Grants	PIH	86 - 0349, 86 X 0218
RHAP	Native American Housing Block Grants - Indian Housing Block Grants	PIH	86 - 0313
RHAP	Native Hawaiian Housing Block Grants - Native Hawaiian Housing Block Grants	PIH	86 X 0235
RHAP	Indian Community Development Block Grants - Indian Community Development Block Grants	PIH	86 - 0162

## IPIA (as amended by IPERA and IPERIA)

Program Identifier	Program	Allotment Holder	Appropriation Account
RHAP	Indian Housing Loan Guarantee Program - Section 184 Program Account	PIH	86 X 0 223
RHAP	Native Hawaiian Housing Loan Guarantee Program - Section 184A Program Account	PIH	86 X 0 223
RHAP	Indian Housing Block Grant Program - Title VI Indian Federal Loan Guarantee Program Account	PIH	86 X 0313
RHAP	Indian Housing Loan Guarantee Program - Section 184 Financing Account	PIH	86 X 4104
RHAP	Native Hawaiian Housing Loan Guarantee Program - Section 184A Financing Account	PIH	86 X 4351
RHAP	Indian Housing Block Grant Program - Title VI Indian Federal Loan Guarantee Financing Account	PIH	86 X 4244
RHAP	Public Housing Capital Fund - Modernization Formula Grants	PIH	86 - 0304
RHAP	Public Housing Capital Fund - Rental Assistance Demonstration (RAD)	PIH	86 - 0304
RHAP	Public Housing Capital Fund - Emergency Disasters, Safety & Security	PIH	86 - 0304
RHAP	Severely Distressed Public Housing	PIH	86 X 0218
RHAP	VASH	PIH	86 X 0302
RHAP	VASH 2011 AWARDS	PIH	86 X 0302
RHAP	Choice Neighborhood	PIH	86 - 0349, 86 X 0218
RHAP	Family Self-Sufficiency Program	PIH	86 14 0350
RHAP	Project Based Section 8	PIH	86 X 0303

*Summary*

A Payment Recapture Audit Plan for RHAP Program is not cost-beneficial due to sampling limitations, programmatic factors that inhibit recouping identified improper payments, and current recapture activities that are performed.

*Cost-benefit breakdown*

The most recent estimated overpayments in RHAP were \$1,235,004,360. Due to the confidential nature of the methodology, the exact files could not be individually identified that lead to overpayments. Therefore, resources would need to be provided by contract labor to perform an audit of 4.97 million households (1.1 million through Public Housing, 2.2 million through PHA-administered Section 8 programs, and 1.6 million through project-based programs).

**IPIA (as amended by IPERA and IPERIA)**

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The unit costs from a similar, but smaller project in 2005 forecasted to 2016 dollars would be \$778.23 per examination. In FY 2014, a consultant provided a cost of \$2,000 each for the same examinations. Since there should be an ability to gain volume discounts, logically the cost should be lower. With the assumption of the volume discounts, the prior year cost-benefit analysis concluded a cost estimate of \$200 per examination. Adjusting the cost estimate using the Consumer Price Index by 1.2% resulted in a price per examination of \$202.40. This cost is a best-case estimate and could be higher. A better estimate of the audit costs can only be obtained through the formal contracting process. The 4.97 million examinations multiplied by \$202.40 gives total costs of \$1,005,928,000.00.

Potential benefits would be possible recoveries of the estimated \$1,235,004,360.00 of overpayments in RHAP. However, collectability of any identified improper payments is a concern. PHA estimates that a “bad debt” ratio of 33% could occur. The sizeable tenant bad debt estimate was based upon the fact that many of the tenants may no longer be receiving housing assistance when the audit is conducted and thus collection would not be cost effective. Even if the tenant was still in the program, some might not be able to repay the over-subsidy. MFH’s aspects of RHAP have similar concerns. Therefore, a 30% bad debt rate was considered. This results in expected benefits of \$864,503,052.00.

When the benefits of \$864,503,052.00 are compared to the costs of \$1,005,928,000,000.00, a payment recapture audit for RHAP is shown as not being cost-beneficial with costs exceeding benefits by \$141,424,948.00.

*Sampling limitations based on RHAP programs*RHAP activities administered by MFH

The RHAP activities administered by MFH 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”. In accordance with 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 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 overpayments would be subject to collection risk. Limitations due to tenant income would inhibit the ability of tenants to repay identified overpayments of subsidies. For HUD to conduct recovery audits, HUD would need to request additional budgetary resources for contract labor to be utilized, as discussed in the cost benefit breakdown.

**IPIA (as amended by IPERA and IPERIA)**

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RHAP activities administered by PIH

The RHAP activities managed by PIH are administered by 4,100 Public Housing Agencies (PHA) nationwide through the Housing Choice Voucher and Public Housing programs, and are the only PIH programs that have been identified as susceptible to high risk for significant improper payments. There is a large volume and disparate location of records. Currently, PIH's public housing agencies (PHAs) administer 5,300 programs and provide grant funding to Native American and Alaska Natives from among 567 Indian Tribes across 34 states.

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.

The data sources that would be used limits the cost-effectiveness of a payment recapture audit plan. The current detection of tenant underreporting of income relies on sources three or four months in arrears. For that reason, the current methodology HUD uses to estimate improper payments is performed on data one-year in arrears (i.e., for FY 2015, files were selected from FY 2014). Testing current tenants will only detect a small portion of the underreported income. Conversely, if a recovery audit tested prior years' files, more errors would be detected but the amount uncollectible (mostly due to tenant turnover) would be much greater. Therefore, the ability to recoup all of the improper payments is limited.

IPERIA permits the use of recovery auditors paid out of recovered funds. However, this source cannot be used for funds that have not expired (OMB M-15-02, Section 1.D.14). The vast majority of PIH's potential recoveries fall under this exception. Therefore, HUD would need to provide resources to perform the audits through current staff or additional appropriations.

PIH does not have sufficient internal resources to perform recovery auditing even if all of the field personnel were assigned exclusively to the task. It is estimated that if the field staff devoted 100% of their time to recovery audits, each staff could review between 800 to 900 files per year. To complete an annual recovery audit, the average field employee would have to review an average of 4,150 files per year. Therefore, even if current staff was totally assigned to recovery auditing, only a small percentage of files could be audited and thus outside resources would have to be obtained. Given these factors it would be fiscally irresponsible to use current staff to perform recovery auditing.

Tenant underreporting of income accounted for most of the improper payments. Since some of the tenants would no longer be in the program when the audit would be completed, collecting the overpayment 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 overpayments for those tenants could be collected.

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Programmatic factors also inhibit the cost-effectiveness of a payment recapture audit plan. IPERIA 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. PIH already utilizes a multi-faceted system of controls through its program requirements, IPA audits, assessments, grant closeout processes, field office monitoring, etc. which minimize HUD's overall risk for improper payments and enhance HUD's ability to recapture any improper payments identified.

***Current Recapture Activities***

RHAP programs have processes in place to offset identified improper payments. For example; in cases where an incorrect subsidy is identified, the landlord returns the improper payment to the PHA to, in turn, use the funds to house more qualified families. Alternatively, the PHA offsets the improper payment against other properties a landlord may have and the PHA uses the funds to house more families. The third possibility requires the PHA to offset the improper payment to the program from its administrative fee reserves.

***PIH- non-RHAP, HSNG- non-RHAP, and OCFO***

Program Identifier	Program	Allotment Holder	Appropriation Account
GI SRI	GI and SRI Insurance	HSNG	86 X 4072
MMI & CMHI	MMI AND CMHI - PROGRAM ACCOUNT	HSNG	86 1 0183, 864/50183
Housing Counseling	Housing Counseling	HSNG	86 - 0156
HSNG-MTTFF	MFR'D HOME ST AGEN	HSNG	86 8119
EnergyInnovation	Energy Innovation Fund	HSNG	86 - 0401
Emergency Homeowner Relief	EMERGENCY HOMEOWNERS RELIEF GR	HSNG	86 X 0407
HSG Assistance	Homeownership & Rental HSG Assistance	HSNG	86 X 0148
Disaster - FEMA DHAP*	FEMA DHAP	PIH	70 X 0702
Disaster - FEMA DHAP*	FEMA DHAP	PIH	70 X 0702
PH CapFund - PIH ARRA	Public Housing Capital Fund	PIH	86 - 0305
Housing Vouchers	Permanent Supportive Housing	PIH	86 X 0342
Transformation Initiative - PIH	Transformation Initiative	PIH	86 - 0402
HH LN Guarantees	HH LN GUARANTEES - COHORT 02	XCO - PIH	86 X 4351
Financing - IH LN Guarantees	IH LN GUARANTEES - COHORT 00	XCO - PIH	86 X 4104
Section 108(b)	SECTION 108(B) LOAN GUARANTEES - PROGRAM	XCO - PIH	86 - 0198
Emergency Home Relief	EMERGENCY HOMEOWN REL ADMN EXP	CFO	86 X 0407

**IPIA (as amended by IPERA and IPERIA)**

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\*These funds are not the Disaster Relief Appropriations Act of 2013 funds. Only Disaster Relief Appropriations Act of 2013 funds have the requirement that all programs receiving funds appropriated by that act be deemed susceptible to significant improper payments, which consequently requires the agencies responsible for these programs to estimate improper payments.

*Analysis*

None of these programs have been identified as at a high risk for improper payments. Since there is no empirical evidence, either through IPERIA risk assessments, A-123 internal control reviews, and other monitoring reviews, suggesting that significant improper payments exist within these programs and activities, it is not likely that the Federal Government would realize any benefit to payment recapture audits of these programs. 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 in the form of expected recoveries.

## IPIA (as amended by IPERA and IPERIA)

*CPD - non -DRAA-Sandy*

Program Identifier	Program	Allotment Holder	Appropriation Account
HomelessGRNT	SPC BASED	CPD	86 X 0192
App Dev	APPALACHIAN DEVELOP PROGRAM	CPD	8646 X 0200
HomelessGRNT	CONTINUUM OF CARE PROGRAM	CPD	86 X 0192
HomelessGRNT	HOMELESS ASSISTANCE	CPD	86 X 0192
HomelessGRNT	HEARTH TECHNICAL ASSISTANCE	CPD	86 X 0192
HomelessGRNT	SPC BASED RA	CPD	86 X 0192
HomelessGRNT	HOMELESS DATA ANALYSIS PROJ	CPD	86 X 0192
HomelessGRNT	NO YEAR SRO	CPD	86 X 0192
PBSec8 - CPD	Project Based Section 8 (Renewal of Expiring Sec. 8 Mod Rehab SRO)	CPD	86 X 0303
CDBG - CPD	EDI SPECIAL PROJECTS	CPD	86 - 0162
Self Help	Self Help & Asst Homeownership	CPD	86 - 0176
ARRA CD	ARRA Community Development Fund	CPD	86 - 0161
CDBG - CPD	NEIGHBORHOOD INITIAT	CPD	86 - 0162
CDBG - CPD	CDBG INSULAR AREAS	CPD	86 - 0162
CDBG - CPD	RURAL INNOVATION	CPD	86 - 0162
CDBG - CPD	NON-ENTITLEMENT GRANTS	CPD	86 - 0162
CDBG - CPD	ENTITLEMENT GRANTS	CPD	86 - 0162
CDBG - CPD	ECONOMIC DEV INITIVE	CPD	86 - 0162
Home Invest Part	HOME TECHNICAL ASSISTANCE	CPD	86 - 0205
Home Invest Part	GOVT & OTHER AUTH PURP (STATE AND LOCAL GOV'T)	CPD	86 - 0205
HomelessGRNT	EMERGENCY SOLUTIONS GRANTS	CPD	86 X 0192
HomelessGRNT	SUPPORTIVE HOUSING NEW	CPD	86 X 0192
HomelessGRNT	EMERG SHELTER GRANTS	CPD	86 X 0192
HomelessGRNT	SUPP HOUSING TRANS	CPD	86 X 0192
HomelessGRNT	HOMELESS TECHNICAL ASSISTANCE	CPD	86 X 0192
HomelessGRNT	SECTION 8 MOD REHAB MCKINNEY	CPD	86 X 0192
HOPWA	Housing Opportunities for Persons with AIDS	CPD	86 X 0308
Brownfield	Brownfield Redevelopment	CPD	86 X 0314
Surface Trans Proj	DOT SURFACE TRANSPORTATION PRO	CPD	8669X8083.1

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Program Identifier	Program	Allotment Holder	Appropriation Account
Rural Housing ED	Rural Housing and Economic Development	CPD	86 - 0324
Neighborhood Stab	TECHNICAL ASSISTANCE	CPD	86 - 0344
Neighborhood Stab	ABANDONED AND FORCLOSED HOMES	CPD	86 - 0344
Shelter Plus Care	Permanent Supportive Housing	CPD	86 X 0342
Transformation Initiative - CPD	Transformation Initiative	CPD	86 - 0402
Transformation Initiative - SHC	Transformation Initiative	SHC - CPD	86 - 0402
CDBG - SHC	REG INTEGRATED PLANNING GRNTS	SHC - CPD	86 - 0162
CDBG - SHC	SC COMM CHALLENGE GRANTS	SHC - CPD	86 - 0162

*Analysis*

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 identified, the funds are returned to the program account, unless it is beyond the period of availability and then the funds are returned to Treasury. CPD improper payment 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 to be covered, and the depth of the review. CPD's risk analysis factors are consistent with the Departmental factors outlined in the HUD Monitoring Desk Guide: Policies and Procedures for Program Oversight. CPD's financial assessment of the risk analysis includes evaluating grantee financial staff capacity, monitoring findings resulting in repayment and grant reduction, and evaluating grant amounts, grantees program income, and grantees OMB Circular A-133 audits. CPD considers the size of the grant, timeliness, timeless submission of OMB Circular 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's utilizes 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), eSNAPS, audit management systems, OMB Circular A-133 audits, findings that require repayment or grant reduction, 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.

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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 regulations 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.

For CPD, utilizing a contractor to perform payment recapture audits and recovery activities is not feasible. Previously, in 2005, HUD's OCFO contracted with Pricewaterhouse Coopers (PwC) to assist in ensuring that HUD was compliant with the Improper Payments Information Act of 2002. Please note that PwC evaluated CPD's programs improper payments and error rates using risk assessments, statistical sample testing, and detailed investigation. Ultimately, PwC found that CPD's improper payment rate was significantly below the threshold at the time. Moreover, in all cases, the actual amount of money that was recaptured was negligible compared to the size of the program. For example, according to PwC analysis, for CPD's Supportive Housing Program, PwC noted only \$89,631 out of all the total funds reviewed for improper payments.

PwC learned that once CPD allocates funds to its grantees, those funds are reallocated among several subsidiaries, many times over. For example, the State of New York received millions of dollars. In CPD's financial system, Line of Control Credit Control System (LOCCS), there are thousands of transactions related to one draw from LOCCS. It was extraordinarily complicated for PwC to follow, document, and reconcile each transaction and ultimately PwC settled on taking a "sample of a sample", which was coupled with several assumptions and disclaimers. In short, despite a laborious and intensive process, PwC found only an infinitesimal fraction of CPD payments to be actual improper payments. CPD's grant administration process is largely the same since the PwC study, thus PwC findings regarding the complexity of the transactions is still relevant. Consequently, for CPD, to invest salary and expense and/or contract dollars to recapture improper payments that are less than 1/10 of a percent of the annual appropriated amount is not a good use of CPD's limited resources.

CPD is not considering a third-party (contractor) to evaluate CPD's improper payment error rate because as discussed earlier, it is not cost effective and improper payments recaptured cannot be statutorily used to pay for payment recapture audits. All repayments must be returned to the program account or Treasury. Assuming that CPD had funds, which it does not, to contract a firm, the integrity of CPD's internal processes are as strong, and most likely, stronger than in 2005, resulting in CPD still having very low improper payment rates. In all likelihood, the contractor's fee would outweigh the benefits to the government. Internally, CPD lacks the staff to dedicate primarily to improper payments, particularly when it is duplicative of CPD's existing processes and yields no additional benefits to justify the costs (salary/FTE) involved.

Except for CPD's Entitlement Grants and HOME Investments Program, none of these programs have been identified as at a high risk for improper payments. Since there is no

**IPIA (as amended by IPERA and IPERIA)**

empirical evidence, either through IPERIA risk assessments, OMB Circular A-123 internal control reviews, and other monitoring reviews, suggesting that significant improper payments exist within these programs and activities, it is not likely that the Federal Government would realize any benefit to payment recapture audits of these programs. 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 in the form of expected recoveries.

*Office of the Chief Information Officer (OCIO)*

Program Identifier	Program	Allotment Holder	Appropriation Account
WCF	Working Capital Fund	CIO	86 X 4586
Transformation Initiative - CIO	Transformation Initiative	CIO	86 - 0402

*Summary*

OCIO uses HUD's PRISM to process all contracts and contract obligations that are paid by the CFO Accounting Center Accounts Payable Office in Ft. Worth, TX. Effective 13 Oct 2015, all contracts and contractual related obligations to contractors are now processed via ARC Prism and paid by ARC Account Payable Office. Based on the cost-benefit analysis presented below, a payment recapture audit should not be pursued for all contracts and contract obligations processed via ARC Prism. ARC's Accounts Payable Office processes payments via a 3-way match prior to payment, followed up with a monthly statistical sampling methodology for identifying improper payments. As a result, 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.

*Improper Payment Processes*

Prior to 13 Oct 2015, OCIO used the HUD Integrated Acquisition Management System (HIAMS - Prism) Invoice and Payment Tab to record all contract payments made to a contractor on all awarded contracts. Prior to recording of the information in HAIMS, OCIO used the form HUD-27045 (Invoice Approval for Contract /Purchase Order or Training Requisition) to process all invoice payments to HUD's Invoice Payment Center (Ft. Worth) as a part of our 3-way invoice matching and processing procedure. The reconciliation process included using a manual tracking spreadsheet of payments against each contract performed by the Government Technical Representative and Contracting Officer, to ensure improper payments (especially duplicative payments, overpayments, and payments sent to the incorrect recipient) did not occur. Currently, OCIO uses ARC Prism and ARC Invoice Payment Program to process all invoice payments as a part of our 3-way invoice matching and processing procedure. The monthly statistical sampling methodology is also performed as indicated above as an additional measure to ensure that improper payments do not occur.

## IPIA (as amended by IPERA and IPERIA)

*Costs*

OCIO used invoice volume and personnel hours to determine the cost of a recapture audit.

OCIO Annual Contract Volume	Average 135 Contract
Monthly Invoice Volume	135
Total Annual Invoice Volume	18225
Personnel Hour(s) per Contract per Quarter = 16	2160 per year = 1.125 FTE
Personnel Supervision/Oversight Hour(s) per Contract per Quarter = 8	1080 per year = .56 FTE
1.685 FTE X \$125,000 per year	\$210,625.00

Efficient techniques such as sophisticated software and matches can't be used to identify significant overpayments at a low cost. Labor-intensive manual reviews of paper documentation will be required. The manual process would require review of Contractor Officer Invoice Tracking Logs, COR 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. The financial situations surrounding the payments are complex. Recipients may contest the assertion of overpayments, especially if the process is not done in accordance with the payment process required by the Federal Acquisition Regulation (FAR) and related payment Laws and Acts. Litigation is anticipated if any process is used that doesn't conform to the requirements of the FAR and related payment Laws and Acts.

*Benefits*

Applicable laws such as those identified in the FAR establish specific steps for OCIO and OCPO to follow to recover any excessive payments made to a contractor for all contracts and contractual related obligations processed via ARC PRISM and paid by ARC Account Payable Office.

Overpayments are not true improper payments for all contracts and contractual related obligations processed via ARC PRISM and paid by ARC Account Payable Office that can be recovered, rather they are a failure to properly document compliance. This conclusion was determined because a 3-way invoice/payment process exists. The reconciliation process involves comparing contract amounts against invoice amounts and acceptance/inspection amounts— all 3 activities are accomplished by 3 independent people.

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Finally, none of these programs have been identified as at a high risk for improper payments. Since there is no empirical evidence, either through IPERIA risk assessments, A-123 internal control reviews, and other monitoring reviews, suggesting that significant improper payments exist within these programs and activities, it is not likely that the Federal Government would realize any benefit to payment recapture audits of these programs.

***Cost-Benefit Summary***

OCIO Annual Contract Volume	Average 135 Contract
Monthly Invoice Volume	135
Total Annual Invoice Volume	18225
Personnel Hour(s) per Contract per Quarter = 16	2160 per year = 1.125 FTE
Personnel Supervision/Oversight Hour(s) per Contract per Quarter = 8	1080 per year = .56 FTE
1.685 FTE X \$125,000 per year	\$210,625.00

Costs	(Total Cost of Payment Recapture Audit)	\$210,625.00
Benefits	(Anticipated Recovered Over-Payments)	\$0.00
Net Benefit (Cost)		\$210,625.00

The financial costs of executing a payment recapture audit would outweigh the estimated return on investment for all contracts and contractual related obligations processed via ARC Prism and paid by ARC Account Payable Office.

***Office of Fair Housing and Equal Opportunity (FHEO)***

Program Identifier	Program	Allotment Holder	Appropriation Account
Fair Housing	FAIR HOUSING ASSISTANCE PROG	FHEO	86 - 0144
Fair Housing	FAIR HOUSING INITIATIVE PROG	FHEO	86 - 0144

***Analysis***

FHEO asserts that its programs and activities fall within the criteria that a payment recapture plan for our programs and activities would not be cost effective.

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. Every case submitted for reimbursement is reviewed. 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 the entire grant not being used and not overpayments.

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The Fair Housing Initiatives Program (FHIP), like FHAP, operates under cooperative agreements. FHIP grants are competitive and once a grantee is selected the amount of the grant is negotiated and payments are for specific services or tangible deliverables. Payments are approved by GTR/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 the entire grant not being used 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.

With a few exceptions, FHEO procurements, other than the NFHTA are less than \$1 million and are almost always fixed price. GTRs/GTMs monitor contracts and payments are only approved after receipt of contract deliverables and payments are based on previously negotiated fixed price contract terms.

The risk that FHEO would make an improper payment as opposed to requiring repayment based on non-compliance is low. FHIP underwent an IPERIA and an OMB Circular A-123 review in 2013 and an OIG audit in 2012. The FHAP underwent an OMB Circular A-123 review in 2014. No issues regarding improper payments were found during any of the reviews and audits conducted on those programs. Consequently, these FHEO programs and activities fit the criteria of "Low-Risk Program" as described in Part I, Section A.10 of OMB Circular A-123 Appendix C. Therefore, the cost to purchase or develop software, an electronic database or engage in litigation to recover any potential overpayment would far exceed any recovery.

***Government National Mortgage Association (GNMA)***

Program Identifier	Program	Allotment Holder	Appropriation Account
Program Expenses	Financing	GNMA	86 - 4240
Program Expenses	Liquidating	GNMA	86 - 4238
Program Expenses	Capital Reserve	GNMA	86 - 0238
Program Expenses	Program (Mandatory, No-Year)	GNMA	86 - 0186

***Analysis***

Ginnie Mae incurs Program expenses that exceed the \$1 million threshold required by IPERIA for any payment recapture audit. The Program expenses include Mortgage Back Securities (MBS) program expenses, administrative expenses, and fixed asset amortization.

Ginnie Mae program expenses are spent on contractors. As a result, our improper payment recapture has been focused on improper payments to Ginnie Mae contractors.

For 2011, 2012, and 2013, Ginnie Mae incurred expenses for the contractor assessment review (CAR). The final CAR reports indicated either no questionable costs or no specific improper payment amounts. For reviews with questionable costs, it would require the COR or GTR to

## IPIA (as amended by IPERA and IPERIA)

perform extensive research to determine whether there was an improper payment and, if yes, the exact amount. Because the efforts needed and uncertainties present, Ginnie Mae did not receive any benefits from CAR. Ginnie Mae incurred costs of \$939,197 in 2011, \$1,338,488 in 2012, and \$634,351 in 2013 but did not receive any benefits from the improper payments review.

As a result, Ginnie Mae does not believe a payment recapture audit is the best option to pursue at this time. None of these programs have been identified as at a high risk for improper payments. Since there is no empirical evidence, either through IPERIA risk assessments, OMB Circular A-123 internal control reviews, and other monitoring reviews, suggesting that significant improper payments exist within these programs and activities, it is not likely that the Federal Government would realize any benefit to payment recapture audits of these programs. 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 in the form of expected recoveries.

Table 4

Improper Payment Recaptures with and without Audit Programs															
(\$ in millions)															
Overpayments Recaptured through Payment Recapture Audits													Overpayments Recaptured outside of Payment Recapture Audits		
	Grants					Other					Total				
Program	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	7.89	0.98	12%	5%	10%						7.89		0.98	500.96	12.74
OLHCHH	0.01	0.01	100%	85%	85%						0.01		0.01	1.08	0.00
FHA Single Family Claims						36.00	34.00	94.44%	80.56%	77.19%	36.00		34.00	25.43	0.51
General Counsel														522.67	798.02
Housing														1,546.67	4.50
PIH														49.26	34.95
Total	7.90	0.99	12.53%			36.00	34.00	94.44%			43.90		34.99	2,646.07	850.71

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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	0.98	Grants				0.98			
OLHCHH	0.01	Grants						0.01	
FHA Single Family Claims	34.00	Other				34.00			
<b>TOTAL</b>	<b>34.99</b>					<b>34.98</b>		<b>0.01</b>	

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	0.98			
OLHCHH	Grant	0.00	0.00	0.00	0.00
FHA Single Family Claims	Other	7.00	13.00	56.00	0.00
<b>TOTAL</b>		<b>7.98</b>	<b>13.00</b>	<b>56.00</b>	<b>0.00</b>

## Additional Comments

HUD has been working closely with its OIG on prior year IPERIA recommendations. To date, HUD has reached agreed-upon management decisions on 14 of the 16 of the recommendations from the 2014 and 2015 IPERIA audits and has reached agreed-upon management decisions on all 2016 recommendations.

One of the prior year OIG recommendations that HUD was able to close was to perform an updated Billing Study. As noted in the RHAP improper payment estimation methodology, HUD had Billing Studies done for the MFH and PIH RHAP components. With the updated Billing Studies, HUD reported a higher dollar amount of improper payments with the result of an increase in its improper payment rate.

Finally, HUD has on-boarded a new IPERIA contractor. With the new contractor, HUD is revamping its IPERIA process with the goal of being fully compliant with IPERIA.

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## 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						
(\$ in millions) <sup>†</sup>						
	Number (#) of payments reviewed for improper payments	Dollars (\$) of payments reviewed for improper payments	Number (#) of payments stopped	Dollars (\$) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars (\$)† of potential improper payments reviewed and determined accurate
Review with IPERIA specified databases	884,875	\$65,870	0	0	1	\$111.00 <sup>†</sup>
Reviews with databases not listed in IPERIA	-	-	-	-	-	-

<sup>†</sup> (\$ in millions) except in last column at right of table where the single potential improper payment is expressed in whole dollars. To be clear, the amount of the single potential improper payment is one hundred and eleven dollars.

The table in this subsection represents the DNP activities for FY 2016. During this period, payments disbursed by HUD were submitted to the scrutiny of pre-payment post-payment verifications facilitated by the DNP Initiative against the available databases listed in IPERIA. Of these 884,875 payments, totaling \$65,870 million, one potential improper payment was identified. The one Death Master File (DMF) match for \$111<sup>†</sup> was researched by the program office and determined to be valid as it was a payment refund to a mortgage title company on

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behalf of the deceased borrower. The check was issued in the name of the borrower, but was in C/O the title company. Subsequently, the check ended up being canceled. The program office adjudicated the payment in the DNP portal as proper, but canceled. Going forward, the program office will have these types of payments to a business, be made out to the company with their TIN, with a memo entry with the borrower's name.

The effectiveness of the DNP post payment review of data, coupled with program specific pre-payment monitoring and screening of payments to prevent payments to ineligible parties, has resulted in an observed ineligible party payment rate that rounds to zero. Management will continue to emphasize review and monitoring of established internal controls in an effort to prevent any future improper payments. HUD continues to have discussions with Treasury to determine the most beneficial way to monitor its programs through the DNP Initiative, whether through continuous monitoring or batch matching. However, continued use of DNP will not reduce improper payments in the HUD programs that report an improper payment rate due to the root cause of the improper payments in these programs. The root cause of improper payments in the Rental Housing Assistance Program (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/ Disaster Relief Appropriations Act (DRAA) funds is administrative or process errors made by state or local agency.

**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, the following examples of HUD's DNP efforts are provided:

- 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.

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- During the 2016 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 the Excluded Parties List System (EPLS), annually and semi-annually, to determine if a payment or award is being 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 multiple searches to be performed in multiple data sources at once through the DNP portal.
- The Credit Alert Interactive Voice Response System (CAIVRS) is a federal interagency database that contains delinquent debt information from: The Departments of Housing and Urban Development; Agriculture, Education; Veterans Affairs; and the Small Business Administration; along with lien judgment information from the Department of Justice. Housing uses the CAIVRS system to track indebtedness and to determine if the applicant is eligible for FHA insured financing. Borrowers that are flagged in CAIVRS are reviewed by Housing to determine if the borrower has an actual indebtedness to the Federal Government. If the borrower is delinquent on mortgage payments, that does not constitute an indebtedness to the federal government, it is an indebtedness to the lender and does not preclude the applicant from being eligible for FHA insured financing. In those cases, Housing will suppress the flag and allow the lender to move forward with the application.

**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 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, the HUD Primary Local Security Administrator reviews 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 Portal. The program office representatives then coordinate the

**IPIA (as amended by IPERA and IPERIA) Reporting Details**

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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 (FAPIS) to extensively verify the eligibility of HUD's payment recipients. HUD intends to continue to maintain DNP Liaisons in each program office and to increase the program offices' utilization of the resources on the DNP portal. HUD is seeking to 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 CPD and Public and Indian Housing. A Computer Matching Agreement (CMA) for the Do Not Pay System was developed with Treasury and was jointly signed by PIH, Housing, and CPD leadership. Under the CMA, Treasury will provide HUD with batch-matching results to support the Department's efforts in identifying, preventing, or recouping improper payments as part of its pre-payment/pre-award screening processes. Additionally, the CMA outlines procedures for correcting data to promote accuracy in Treasury's DNP system. The CMA was signed by all HUD principals in July 2016 and has been sent to Treasury for signature by Do Not Pay officials. Additionally, HUD has an internal policy and devoted resources to reinforce its commitment to eliminating improper payments to ineligible parties throughout the Department.

## Freeze the Footprint

## Freeze the Footprint

Since FY 2013, HUD reduced space at field offices and headquarters satellite locations, and closed sixteen small field offices that provided services duplicative to services available in the same state at a larger HUD office. These actions resulted in a reduction of 181,170 usable square feet and an annual estimated rent cost avoidance of more than \$4.5 million.

Many of the locations that HUD occupies were designed to accommodate staffing levels far greater than the current level of staffing. Consequently, the Department faces a significant challenge in space reduction. HUD has initiated discussions with the General Services Administration to develop strategies to relinquish excess space in a marketable fashion to continue to remove unneeded space from HUD's inventory.

HUD does not own or direct lease any of its locations.

Freeze the Footprint Baseline Comparison			
	FY2012 Baseline	2015 (CY-1)	Change (FY2012 Baseline-2015 (CY))
Square Footage	3,291,636	3,110,466	(181,170)

Reporting of O&M Costs – Owned and Direct Lease Buildings			
	FY2012 Reported Cost	2015 (CY-1)	Change (FY2012 Baseline-2015 (CY-1))
Operation and Maintenance Costs (\$ in millions)	N/A	N/A	N/A

## Civil Monetary Penalty Adjustment for Inflation

## 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)	February 19, 2013	June 15, 2016	\$10,781
Ethical violations by HUD employees	42 U.S.C. 3537a(c) HUD Reform Act	February 6, 2007	June 15, 2016	\$18,936
Violations by applicants for assistance	42 U.S.C. 3545	March 8, 2007	June 15, 2016	\$18,936
FHA Mortgagee and Lender violations	12 U.S.C. 1735f-14	February 19, 2013	June 15, 2016	\$9,468 \$1,893,610/year <sup>1</sup>
Other participants in FHA Programs	12 U.S.C. 1735f-14	February 19, 2013	June 15, 2016	\$9,468 \$1,893,610/year <sup>1</sup>
Lenders, holders of Indian Loan Guarantees	12 U.S.C. 1715z-13a	February 19, 2013	June 15, 2016	\$9,468 \$1,893,610/year <sup>1</sup>
Violation by mortgagor of multifamily property	12 U.S.C. 1735f-15	February 19, 2013	June 15, 2016	\$47,340
GNMA issuers and custodians	12 U.S.C. 1723i(b)	February 19, 2013	June 15, 2016	\$9,468 \$1,893,610/year <sup>1</sup>
Submission of False Information – Title I Dealers/Brokers	National Housing Act (12 U.S.C. 1703(b)(7))	February 19, 2013	June 15, 2016	\$9,468 \$1,893,610/year <sup>1</sup>

<sup>1</sup> 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	February 19, 2013	June 15, 2016	\$36,794
Fair Housing Act discriminatory housing practices (no prior instances)	42 U.S.C. 3612(g)	March 8, 2007	June 15, 2016	\$19,787
Multiple Fair Housing Act discriminatory housing practices (one prior instance in a five-year period)	42 U.S.C. 3612(g)	February 19, 2013	June 15, 2016	\$49,467
Multiple Fair Housing Act discriminatory housing practices (two or more prior instances in a seven-year period)	42 U.S.C. 3612(g)	February 19, 2013	June 15, 2016	\$98,935
Violation of the National Manufactured Housing Construction and Safety Standards Act	42 U.S.C. 5410 et seq.	March 8, 2007	June 15, 2016	\$2,750 \$3,437,500/year <sup>2</sup>
Failure to disclose lead- based paint hazards	Residential Lead-Based Paint Hazard Reduction Act of 1992, section 1018 (42 U.S.C. 4852d)	June 19, 2014	June 15, 2016	\$16,773

<sup>2</sup> 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

## 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, 2015, through September 30, 2016. 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 2016 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 878 approved management decisions and successfully implemented 765 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, 2016. This inventory was successfully addressed and the Department resolved 234 recommendations in this category, which was a reduction of 52.8 percent.

#### Summary of Management Decisions On Audit Recommendations

Opening Inventory Requiring Decisions <sup>1</sup>	550
New Audit Recommendations Requiring Decisions	864
Management Decisions Made <sup>2</sup>	(878)
Audit Recommendations Still Requiring Decisions <sup>3</sup>	536
Recommendations Beyond Statutory Resolution Period <sup>2</sup>	67

<sup>1</sup> This figure was adjusted to reflect a retroactive entry.

<sup>2</sup> Management decisions were made on a total of 878 recommendations (168 audits of which 86 had final management decisions). Of these, 517 recommendations were in the opening inventory.

<sup>3</sup> This reporting period ended with 536 recommendations without management decisions. Of these, 67 recommendations are over 6 months old.

#### Summary of Recommendations With Management Decisions And No Final Action

Opening Inventory – Final Actions Pending	1583
Management Decisions Made During Report Period	878
Sub-Total Final Actions Pending	2461
Final Actions Taken <sup>1</sup>	(765)
Audit Recommendations Reopened During Period (Without Final Actions)	0
Total Audit Recommendations Still Requiring Final Actions <sup>2</sup>	1696

<sup>1</sup> Final Action was taken on a total of 765 recommendations (246 audits of which 117 had final actions taken, thus closing the audits). The number of recommendations where a management decision and final action were concurrent was 242 in 114 audits.

<sup>2</sup> Of the 236 audits remaining, 44.07 percent or 104 are under repayment plans.

## Secretary's Audit Resolution Report to Congress

*Management Report on Final Action On Audits With Disallowed Costs*

<b>Audit Reports</b>	<b>Number of Audit Reports</b>	<b>Questioned Costs</b>
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period <sup>1</sup> .	314	3,357,948,290
B. Audit Reports on which management decisions were made during the period.	111	1,734,001,163
C. Total audit reports pending final action during period (total of A and B)	425	5,091,949,453
D. Audit Reports on which final action was taken during the period		
1. Recoveries <sup>2</sup>	64 <sup>1</sup>	862,239,135
(a) Collections and offsets	55	857,579,415
(b) Property	0	0
(c) Other	17	4,659,720
2. Write-offs	42	792,301,873
3. Total of 1 and 2 <sup>3</sup>	76 <sup>2</sup>	1,654,886,008
E. Audit Reports needing final action at the end of the period (subtract D3 from C) <sup>4</sup>	347 <sup>3</sup>	3,404,385,756
F. Open recommendations with disallowed costs <sup>5</sup>	[776]	[3,190,852,459]

*[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.]*

<sup>1</sup> This figure was adjusted to reflect an error from our now retired legacy system.

<sup>2</sup> Audit Reports are duplicated in D.1.(a), D.1.(b) and D.1.(c); thus the total is reduced by 8.

<sup>3</sup> Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 30.

<sup>3</sup> Litigation, legislation, or investigation is pending for 51 audit reports with costs totaling \$179,941,107.

<sup>4</sup> Figures in brackets represent data at the recommendation level as compared to the audit level as described in E.

## Secretary's Audit Resolution Report to Congress

***Management Report on Final Action On Audits With Recommendations That Funds Be Put To Better Use***

<b>Audit Reports</b>	<b>Number of Audit Reports</b>	<b>Funds to be put to Better Use</b>
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period <sup>1</sup> .	186	7,224,417,406
B. Audit Reports on which management decisions were made during the period.	47	1,977,272,662
C. Total audit reports pending final action during period (total of A and B)	233	9,201,690,068
D. Audit Reports on which final action was taken during the period		
1. Value of Audit Reports implemented (completed)	37	1,274,018,127
2. Value of Audit Reports that management concluded should not or could not be implemented	10	113,534,980
3. Total of 1 and 2 <sup>2</sup>	42	1,387,553,107
E. Audit Reports needing final action at the end of the period (subtract D3 from C) <sup>3</sup>	191	7,814,136,961
F. Open recommendations with funds put to better use <sup>4</sup>	[176]	[4,008,817,998]

*[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.]*

<sup>1</sup> This figures has been adjusted to reflect a retroactive data entry

<sup>2</sup> Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 5.

<sup>3</sup> Litigation, legislation, or investigation is pending for 28 audit reports with costs totaling \$104,914,188.

<sup>4</sup> Figures in brackets represent data at the recommendation level as compared to the audit level as described in E.

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**Appendix A: Glossary of Acronyms**

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## 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	Capital Needs Assessment

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**Appendix A: Glossary of Acronyms**


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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
ED	U.S. Department of Education
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

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**Appendix A: Glossary of Acronyms**


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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
FAFSA	Free Application for Federal Student Aid
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
FSA	Federal Student Aid

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**Appendix A: Glossary of Acronyms**


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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
GLR	Campaign for Grade Level Reading
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
HMIS	Homeless Management Information Systems
HOME	HOME Investment Partnerships Program
HOPE VI	Program for Revitalization of Severely Distressed Public Housing

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**Appendix A: Glossary of Acronyms**


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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
HUD-VASH	HUD-VA Supportive Housing
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
LGBTQ	Lesbian/Gay/Bisexual/Transgender/Queer

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**Appendix A: Glossary of Acronyms**


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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
MOU	Memorandum of Understanding
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
NCWIT	National Center for Women and Technology
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

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**Appendix A: Glossary of Acronyms**


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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
PACE	Property Assessed Clean Energy
PBRA	Project-Based Rental Assistance
PBRD	Payroll, Benefits, and Retirement Division

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**Appendix A: Glossary of Acronyms**


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PBV	Project-Based Vouchers
PD&R	Office of Policy Development and Research
PFS	Pay for Success
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

**Appendix A: Glossary of Acronyms**

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REMIC	Real Estate Mortgage Investment Conduits
Rent Supp	Rental Supplement
RHAP	Rental Housing Assistance Programs
RHEI	Road Home Elevation Incentive
RHYMIS	Runaway and Homeless Youth Management Information Systems
RIF	Rural Innovation Fund
RLF	Revolving Loan Fund
RMF	Risk Management Framework
RSSI	Required Supplementary Stewardship Information
SAM	System for Award Management
SAFMR	Small Area Fair Market Rent
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
STEM	Science, Technology, Engineering, and Math
TA	Technical Assistance

**Appendix A: Glossary of Acronyms**

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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
UPCS-V	Uniform Physical Condition Standards for Voucher Programs
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
VMS	Voucher Management System
WebTA	HUD's Time and Attendance System

## Appendix B: Table of Websites

## 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](#)

[Lead Disclosure Rule for pre-1978 homes](#)

### 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](#)

[Home Affordability Estimator Calculator](#)

[Loan Affordability Estimator Calculator](#)

### 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](#)

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#### Featured Initiatives



PERFORMANCE.GOV



MAKING HOME AFFORDABLE.GOV

DATA.GOV

USA SPENDING.GOV

**Appendix B: Table of Websites**

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[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 2015 Annual Performance Report & FY 2017 Annual Performance Plan](#)

[HUD Webcasts](#)

[Online Library](#)

[Performance.gov](#)

[HUDUser.gov](#)

If you have any questions or comments, please call

Courtney B. Timberlake  
Deputy Chief Financial Officer  
at 202-708-1946.

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

U.S. Department of Housing and Urban Development  
451 7<sup>th</sup> St. SW, Room 3126  
Washington, DC 20410  
Attention: Courtney B. Timberlake  
Deputy Chief Financial Officer

Or by e-mail to  
[AgencyFinancialReport@HUD.gov](mailto:AgencyFinancialReport@HUD.gov)

To view the report on the internet, go to the following website:  
<http://portal.hud.gov/hudportal/documents/huddoc?id=afr2016.pdf>

**This Report is Available on the Web at:**  
**<http://portal.hud.gov/hudportal/documents/huddoc?id=afr2016.pdf>**



**U.S. Department of Housing and Urban Development**