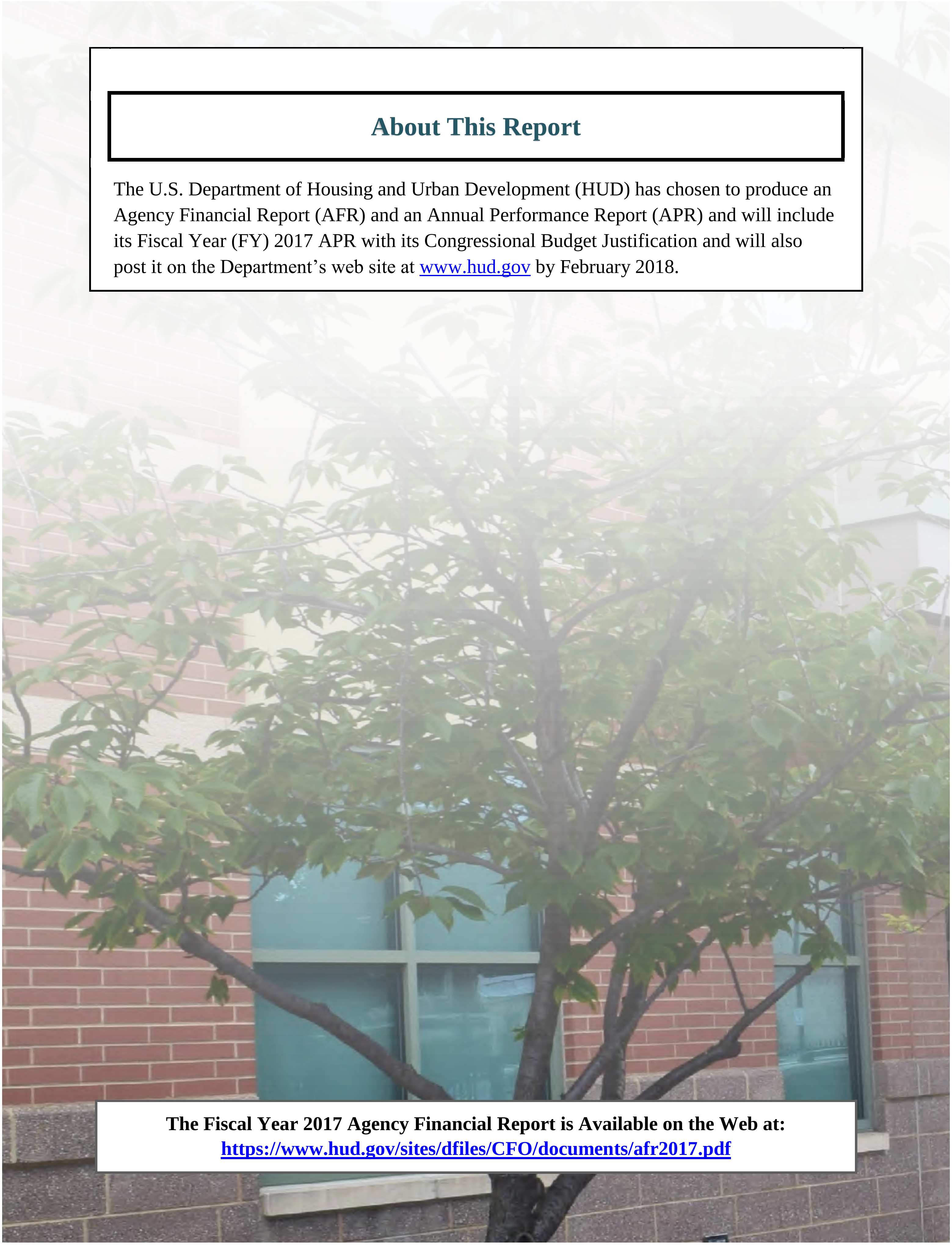
U.S. Department of Housing and Urban Development

Agency Financial Report

Fiscal Year 2017

About This Report

The U.S. Department of Housing and Urban Development (HUD) has chosen to produce an Agency Financial Report (AFR) and an Annual Performance Report (APR) and will include its Fiscal Year (FY) 2017 APR with its Congressional Budget Justification and will also post it on the Department's web site at www.hud.gov by February 2018.



The Fiscal Year 2017 Agency Financial Report is Available on the Web at:
https://www.hud.gov/sites/dfiles/CFO/documents/afr2017.pdf

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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

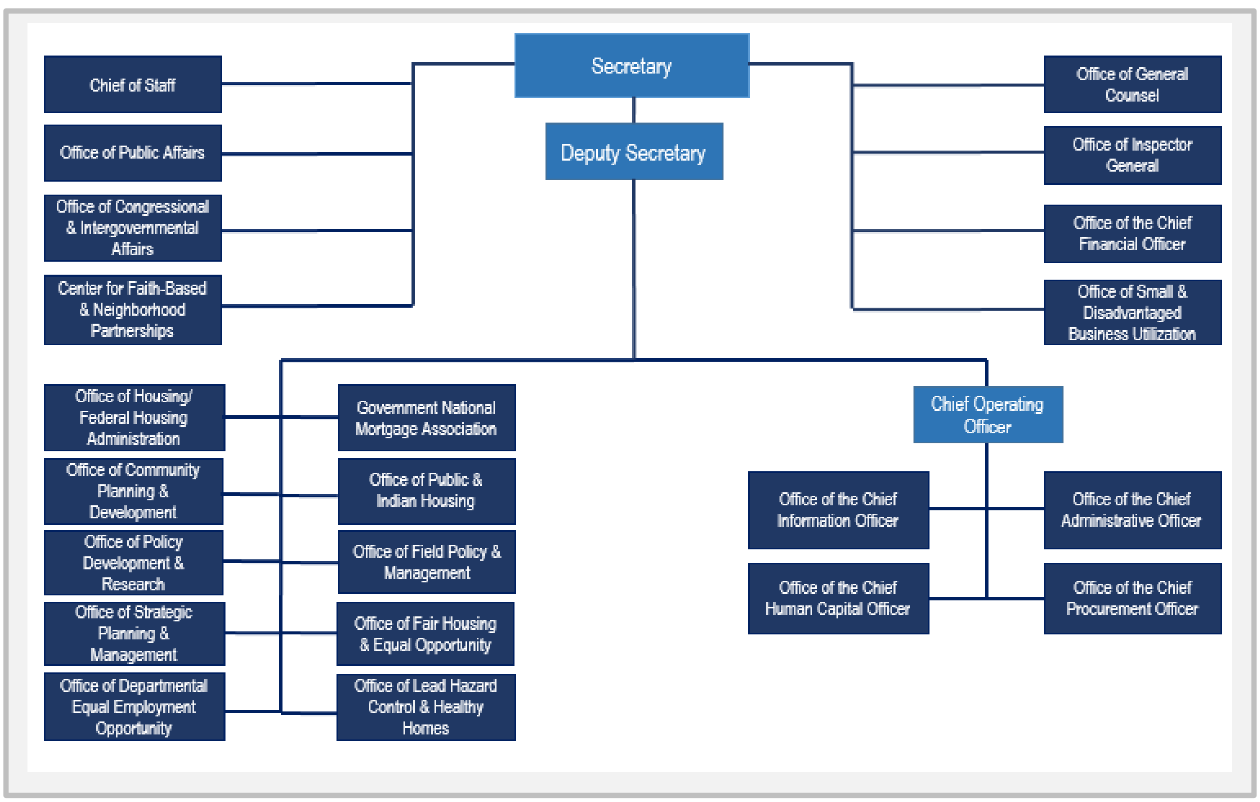
Mission, Organization, and Major Program Activities

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



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 four primary business areas:

- Community Development Block Grant (CDBG)
- HOME Investment Partnerships Program (HOME)
- Office of Special Needs Assistance Programs (SNAPS)
- Housing Opportunities for Persons with AIDS (HOPWA)

Office of Fair Housing and Equal Opportunity (FHEO)

Administers and enforces the Fair Housing Act and other civil rights laws, both by investigation of suspected violations and by partnering with state and local governments as well as non-profit grantees to enforce federal fair housing laws and substantially equivalent state and local 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 compliance with civil rights requirements.

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.

The Ginnie Mae Guaranty 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)

Makes homes safer and healthier, especially for children and other vulnerable populations in low-income households, by controlling lead-based paint hazards, particularly in privately-owned and low-income housing, and leading the Nation in addressing other housing-related health hazards that threaten vulnerable residents.

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 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 7th, 2017, PIH's workforce totaled 1,387 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 Programs
- Native American Programs (ONAP)

Strategic Goals & Agency Priority Goals

The Department of Housing and Urban Development (HUD) Strategic Plan for Fiscal Year (FY) 2014-2018 defined agency strategic goals and objectives with over 100 output or outcome measures of success, as revised by targets established in the Department's FY 2018 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 Agency Financial Report focuses on the agency priority goals and HUD's progress toward key measures through these areas. Note that the agency priority goals do not reflect the full scope of the agency's strategic goals and mission. HUD is currently developing the Strategic Plan for FY 2018-2022, which will lay out new strategic goals and APGs.

HUD's FY 2014 – 2018 Strategic Framework

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

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

Highlighted items denote Agency Priority Goal areas.

HUD's APGs, a subset of the Strategic Plan's measures of success, include targets to be achieved over a two-year performance period. APGs[1] typically reflect the top implementation-focused, performance improvement priorities of agency leadership and the Administration at the time, and therefore do not reflect the full scope of the agency mission.

A summary of HUD's partial FY 2017 APG performance can be found below. For a complete review of HUD's FY 2017 performance, please see the *FY 2017 Annual Performance Report* (APR), which is scheduled to be published in February 2018. Current and past APRs can be accessed online at https://www.hud.gov/program_offices/spm/appr.

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

Between October 1, 2015 and September 30, 2017, HUD aimed to preserve and expand affordable rental housing through its rental housing programs to serve an additional 160,149 households[2] over an FY 2015 baseline of 5,547,521 households.[3] At the end of FY 2016, HUD exceeded its first-year target to serve an additional 70,562 households by 7,861 for an FY 2016 cumulative total of 5,625,944 households served. As of quarter two of FY 2017, HUD is on target to achieve its second-year goal of serving an additional 81,726 households.

FY 2016-2017 Agency Priority Goal: End Homelessness

On November 17, 2016, HUD released the 2016 Point-in-Time (PIT) count, which found that 549,928 persons experienced homelessness on a single night in 2016, a decline of 14 percent since the 2010 launch of Opening Doors. Homelessness has continued to fall across all groups, including one-year reductions of 17 percent among veterans, 7 percent among individuals experiencing chronic homelessness, and 5 percent among families since the 2015 PIT count.

Progress towards ending the number of Veterans experiencing homelessness is measured by the annual PIT count, a count of homeless persons on a single night in January each year. Each January count corresponds to the impact of the previous fiscal year's activities and is released in the Annual Homeless Assessment Report (AHAR) in the fall following each count. The FY 2016 actual will be measured in the January 2017 PIT count and released in the 2017 AHAR and in HUD's FY 2017 APR in early 2018.

[1] Unless otherwise noted, performance data for FY 2017 is through the third fiscal quarter (Q3).
[2] Targets and baselines have been modified as more accurate FY 2015 data has become available since HUD's last performance reports.
[3] Targets and baselines have been modified as more accurate FY 2015 data has become available since HUD's last performance reports.

Key Indicator: Number of households served through HUD rental assistance

Households in Occupied Rental Units Receiving Assistance by Program (Numbers are Cumulative)	FY 2015 Actual Baseline	FY 2016 Actual	FY 2017 Actual (thru Q2)[4]	FY 2017 Annual Target
Multifamily Assisted Housing Programs[5]	1,333,596	1,352,480	1,414,762	1,378,217
Other Multifamily Subsidies	89,920	82,391	72,174	78,391
Insured Tax Exempt or Low-Income Housing Tax Credit	203,168	236,825	305,548	276,497
TOTAL Housing Programs	**1,626,684**	**1,671,696**	**1,792484**	**1,733,105**
Tenant-Based Rental Assistance (HCV)	2,212,545	2,254,613	2,278,351	2,279,613
Rental Assistance Demonstration (RAD) units moved to Tenant-Based Rental Assistance (TBRA)	21,968	32,750	47,697	55,852
Public Housing	1,065,241	1,038,002	1,019,673	992,379
Public and Indian Housing (PIH) Mod Rehab	20,502	20,109	20,109	39,822
Mainstream Vouchers	14,007	14,348	13,897	14,348
Native American Housing (ONAP)	12,751	12,978	13,268	13,328
TOTAL Public and Indian Housing	**3,347,014**	**3,372,800**	**3,392,995**	**3,395,342**
HOME Rental	282,100	281,435	282,778	265,000
McKinney/Continuums of Care (CoC)	138,177	140,115	140,115	146,465
Tax Credit Assistance Program[6]	59,580	59,580	59,580	59,580
Community Development Block Grants – Disaster Recovery	45,778	53,728	64,207	62,132
Housing Opportunities for Persons Living with AIDS (HOPWA)	25,660	24,164	22,835	23,714
Neighborhood Stabilization Program[7] (NSP)	21,544	21,544	21,544	21,544
HOME TBRA[8]	984	882	1,048	788
TOTAL Community Planning and Development	**573,823**	**581,448**	**592,107**	**579,223**
HUD TOTAL	**5,547,521**	**5,625,944**	**5,777,586**	**5,707,670**

[4] Each program office is working to validate the final two quarters of FY 2017 data. A full closeout of FY 2017 program data will be published in the *FY 2017 Annual Performance Report* in February 2018.
[5] 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).
[6] Program is no longer active. Historic units contribute to the yearly cumulative total, however there are no cumulative targets.
[7] *ibid.*
[8] This is not cumulative data. Only Q4 data is reported.

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

In 2017, HUD and Department of Education (ED) joined forces with the Campaign for Grade Level Reading, the National Book Foundation, and the Urban Libraries Council to transform the nation's Public Housing Authorities (PHAs) into book-rich environments. The Book-Rich Environment (BRE) Initiative brings diverse, high quality books and other literacy tools into the hands of children and families living in HUD-assisted housing to improve literacy outcomes and ensure all young people, regardless of background, have the tools they need to reach their full potential. The 36 communities participating in BRE all hosted events in partnership with the local library between June and August 2017 to launch the BRE initiative and to distribute the donated books. The National Book Foundation secured the donation of 270,000 new books for these communities, as well as the full cost of shipping and handling.

In December 2016, Project SOAR (Students + Opportunities + Achievements = Results) grants were awarded to nine PHAs to support education navigators to help public housing youth aged 15-20 and their families complete Free Application for Federal Student Aid (FAFSA) applications, as well as to assist with financial literacy and college readiness, post-secondary program applications and post-acceptance assistance. The implementation of Project SOAR is made possible through partnership with ED's Financial Student Aid office, which provided in-person training and ongoing technical assistance to each of the nine grantees.

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

HUD 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 reported nearly 600,000 green or healthy units. Between October 1, 2015 and September 30, 2017, HUD aimed 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.

As of the third quarter of FY 2017, total of 140,293 energy efficient and healthy units were reported for the two-year reporting period, against the FY 2016-17 target of 160,000 units. These totals include the following programs:

	FY 2014 Actual Units	FY 2015 Actual Units	FY 2014 & 2015 Actual Units	FY 2016 Actual Units	FY 2017 Actual Units (Q3)[9]	FY 2016 & 2017 Actual Units (Q3)[10]	FY 2016 & 2017 Target Units
PIH	30,285	27,793	58,078	25,876	13,608	39,484	41,697
CPD	7,923	8,748	16,671	8,708	4,314	13,022	15,202
Housing	18,711	26,309	45,020	29,207	25,327	54,534	64,336
Lead Safe and Healthy Homes[11]	21,570	18,601	40,171	20,072	13,181	33,253	33,000
Stretch Units[12]	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	5,765
Total	**78,489**	**81,451**	**159,940**	**83,863**	**56,430**	**140,293**	**160,000**

Additional programs report annually-only and will be available in December of 2017, including Office of Community Planning and Development's (CPD) Community Development Block Grant -Disaster Recovery and Public and Indian Housing's (PIH) Energy Performance Contracts. Based upon the historic performance of these programs and the outstanding quarter of data remaining, HUD anticipates meeting its two-year target of 160,000 units.

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.

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

HUD has committed to narrowing the digital divide by connecting 50 percent of PIH households in ConnectHome pilot communities to at-home high-speed Internet by September 30, 2017. ConnectHome creates a platform for community leaders, local governments, nonprofit organizations, and private industry to join together to produce locally-tailored solutions for

[9] Year-end data will be available in the *FY 2017 Annual Performance Report.*
[10] ibid.
[11] Lead Safe and Healthy Homes units include Office of Lead Hazard Control and Healthy Homes units and CPD funded Lead Safe Housing Rule units.
[12] 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.

narrowing the digital divide. Through these stakeholders' specific commitments to provide no-cost or low-cost broadband access, devices, and digital literacy training, ConnectHome extends affordable access to low-income families. Since launching in 2015, the ConnectHome initiative has made great strides increasing access to high-speed Internet in its 28 pilot communities. In May of 2017, ConnectHome expanded nationally in partnership with EveryoneOn to launch ConnectHomeUSA which will bring on an additional 100 communities by 2020. As of August 2017, approximately 71,546 public housing households in these pilot communities have been connected to high-speed Internet service, over 20,000 of those directly through ConnectHome, representing 49% of households in the pilot community developments.

Forward Looking Information

Numerous external factors shape HUD's operating environment. Understanding their influence is essential for mitigating risk and achieving performance objectives. These external factors include funding levels, economic conditions, unemployment rates, financial markets, tax codes, and other federal, state and local conditions. HUD's new *2018–2022 Strategic Plan* responds to these factors by reimagining the way HUD works. The plan's reforms include careful use of evidence, employee empowerment, clear communication, and enhanced controls that are all crucial to more efficient and effective mission delivery.

Constrained federal funding levels affected most HUD programs during FY 2017 and are likely to continue in the foreseeable future. Financial constraints increase demand by Public Housing Authorities (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 2017, the unemployment rate had improved to 4.4 percent, down from 4.9 percent a year earlier, and the employment-to-population ratio increased slightly.[1] Such employment gains should facilitate further gains in household incomes, building on the 4.5 percent increase in 2015 median income to $59,039 in 2016.[2] 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 2017, purchases of new single-family homes were up 9 percent and of existing homes were up 2 percent from a year earlier. With the increasing demand, prices of owner-occupied homes as measured by the Case-Shiller index had increased by 5.7 percent as of June 2017 compared with the previous year. The turmoil in the mortgage market has substantially ended. At the end of FY 2017, rates of mortgage delinquency, foreclosure starts, and foreclosure completions showed little change from previous year rates. Student loan debt poses a significant constraint on homebuying by younger adults. Other factors restraining sales include more stringent bank lending standards, a relatively low sales inventory, and weakening ownership affordability driven by the house price increases and slightly higher interest rates. For these reasons, sales to first-time buyers accounted for 33 percent of all sales transactions in the second quarter of 2017, remaining significantly below the historic norm of 40 percent. [3]

[1] Values as of August. Bureau of Labor Statistics. "Employment Situation Summary Table A. Household data, seasonally adjusted," August 2017. http://www.bls.gov/news.release/empsit.a.htm
[2] U.S. Census Bureau. 2017. Table HINC-01, "Selected Characteristics of Households by Total Money Income." https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-hinc/hinc-01.html.
[3] HUD PD&R. 2017. "National Housing Market Summary, 2nd Quarter, 2017." https://www.huduser.gov/portal/ushmc/quarterly_commentary.html.

Housing construction in mid-2017 remained at the same annual pace of 1.2 million housing starts that was observed the previous year. 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, housing markets remain tight. The number of multifamily starts declined 16 percent, although the rental vacancy rate of 7.3 percent in June 2017 had eased only 0.6 points from the record low of the previous year.[4] Multifamily housing starts represented 28 percent of total starts in June 2017, remaining above the long-run average of 24 percent of housing starts.[5]

HUD's rental affordability index shows that rent increases continue to outpace 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 from 140.1 percent at the beginning of 2001 to 118.0 in the second quarter of 2016 and 112.6 in the second quarter of 2017. The latter value implies that the median renter has only 12.6 percent more income than the minimum necessary to qualify, at 30 percent of income, for the median-priced unit.

Very low-income renters are disproportionately burdened by a supply gap in affordable housing. In 2015, only 62.0 affordable rental units were available per 100 very low income renters, down from 65.2 in 2013.[6] 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.

Under the *National Disaster Recovery Framework* developed since Hurricane Katrina, HUD has a major role in helping implement disaster recovery. 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. Severe hurricanes such as Harvey, Irma, and Maria that made landfall late in FY 2017 cause damage that can significantly change housing and employment markets on a regional basis for months or years.

HUD is continuing to integrate evidence and research in operations and policy, consistent with multiple governmental initiatives, and as embodied in the *2018–2022 Strategic Plan*. Major components of this effort include the Office of Policy Development and Research's (PD&R's) demonstration and evaluation program, which is guided by a learning agenda, *HUD Research Roadmap: 2017 Update*; increased collaboration with external partners to address cross-cutting policy issues through research; the leveraging of HUD's data infrastructure by linking

[4] Census Bureau. Historical Table 1. "Quarterly Rental Vacancy Rates: 1956 to Present."
[5] HUD PD&R. 2017. "National Housing Market Summary, 2nd Quarter, 2017."
[6] HUD PD&R. 2017. *Worst Case Housing Needs: 2017 Report to Congress.*

administrative data with surveys and other external data sources; and the continuing integration of evidence into business operations.

Analysis of Financial Condition and Results

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

The principal financial statements have been prepared from the Department's accounting records in order to report the financial position and results of HUD's operations, pursuant to the requirements of 31 United States Code (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 the Office of Management and Budget (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)

	2017	Restated 2016
Total Assets	$161.8	$149.5
Total Liabilities	$57.0	$37.2
Net Position	$104.8	$112.3
FHA Insurance-In-Force	$1,381.2	$1,318.0
Ginnie Mae Mortgage-Backed Securities Guarantees	$1,884.2	$1,728.1
Other HUD Program Commitments	$39.6	$35.1

Restatement of FY 2016 Financial Statements

During fiscal year 2017, the Department identified errors in the fiscal year 2016 financial statements and notes caused by mathematical mistakes, mistakes in the application of accounting principles, and oversight of facts that existed when the statements were originally prepared. Although the errors are generally not material at the consolidated level, some errors were material at the stand-alone component level (Ginnie Mae and Federal Housing Administration).

The errors caused assets, liabilities, cumulative results of operation, and budgetary resources to be understated, and net cost to be overstated. These errors have been corrected at the component level, resulting in restated consolidated financial statements for fiscal year 2016, which flow-through to the beginning balances of the fiscal year 2017 consolidated financial statements.

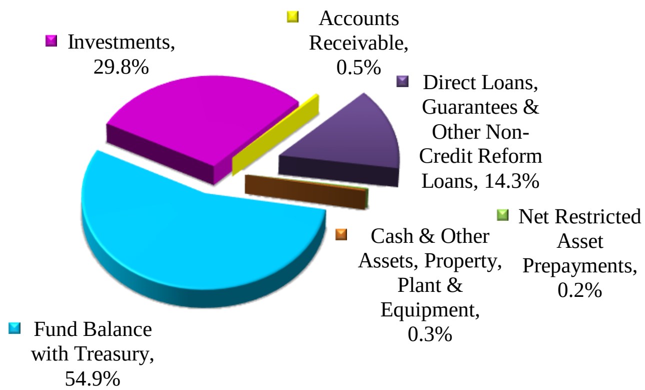
Note 24, in the Notes to the Financial Statements in Section 2, provides further details.

Analysis of Financial Position

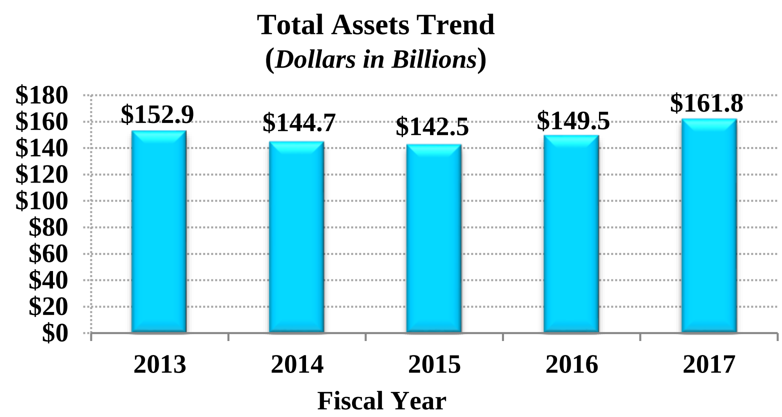
Assets – Major Accounts

Total Assets for FY 2017, as reported in the Consolidated Balance Sheet, are displayed in the graph on the next page. Total Assets of $161.8 billion are comprised of Fund Balance with Treasury of $88.8 billion (54.9 percent), Investments of $48.2 billion, Accounts Receivable of $0.7 billion, Direct Loans & Loan Guarantees of $20.2 billion, Other Non-Credit Reform Loans of $2.9 billion, Net Restricted Asset Prepayments of $0.3 billion, and Cash & Other Monetary Assets, Other Assets and Property, Plant & Equipment of $0.5 billion at September 30, 2017.

Composition of HUD Assets - FY17



Total Assets increased $12.3 billion (8.2 percent) from $149.5 billion at September 30, 2016. The net increase was due to an increase of $15.6 billion (21.4 percent) in Fund Balance with Treasury, an increase of $0.8 billion (4.0 percent) in Direct Loans & Loan Guarantees, an increase of $0.1 billion (4.0 percent) in Other Non-Credit Reform Loans, being offset by a decrease of $4.2 billion (8.1 percent) in Investments. The chart on the next page shows Total Assets for FY 2017 and the four preceding years. The changes and trends affecting Total Assets are discussed in the subsequent paragraphs.



Fund Balance with Treasury of $88.8 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. Fund Balance with Treasury increased $15.6 billion due primarily to an increase of $8.3 billion for FHA, $1.0 billion for Ginnie Mae, $7.0 billion for Community Development Block Grants (CDBG), $0.2 billion for Homeless, $0.2 for Public and Indian Housing (PIH), $0.2 billion for All Other, offset by a decrease of $0.7 billion in Section 8, $0.2 billion for the HOME Investment Partnerships Program (HOME), $0.3 billion for Housing for the Elderly and Disabled, and $0.1 billion for various miscellaneous programs. The FHA increase is due primarily to a change of $5.6 billion in Mutual Mortgage Insurance Fund (MMI) and Cooperative Management Housing Insurance Fund (CMHI) investments in U.S. Treasury securities, and an increase of $3.7 billion in Budgetary Collections, offset by $1.0 billion for other FHA programs. Ginnie Mae's fund balance increased due to positive cash flows from operations, primarily driven by offsetting collections, for example, overnight investments interest, Mortgage Backed Security (MBS) guaranty fees, etc. The CDBG program fund balance increased primarily due to a Disaster Appropriation of $7.4 billion in FY 2017.

Investments of $48.2 billion consist primarily of investments by FHA's MMI/CMHI and by Ginnie Mae, in non-marketable, intra-governmental, Treasury securities (i.e., investments not sold in public markets). FHA's investments decreased by $5.5 billion primarily because of a decrease in MMI/CMHI investment par value in U.S Treasury securities in FY 2017. The investment in U.S Treasury securities decreased due to less money available in the Capital Reserve Fund for investments due to the Upward Re-estimate in the MMI fund exceeded downward re-estimate. Ginnie Mae's investments increased by $1.3 billion. Ginnie Mae's increase is due to negative subsidy and downward re-estimate collection from the financing fund, resulted in higher cash balance in the Capital Reserve Fund to invest in overnight US Treasury securities. Ginnie Mae received approval to start investing the balance in the capital reserve into US Treasury securities in FY 2015.

Accounts Receivable of $0.7 billion primarily consists of claims to cash from the public, state and local authorities for bond refunding, Ginnie Mae premiums, FHA insurance premiums, and Section 8 year-end settlements.

Direct Loan and Loan Guarantees of $20.2 billion are attributed to FHA credit program receivables and 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 $1.1 billion (6.1 percent) is due primarily to an increase in Post-1991 Guarantees in the MMI/CMHI funds for both the SF Forward and Home Equity Conversion Mortgage (HECM) programs. The programs increased by $0.6 billion and $0.9 billion, respectively. The two were offset by decreases in the General Insurance and Special Risk Insurance (GI/SRI) fund totaling $1.0 billion. In addition, FHA had an increase in Post-1991 Federal Financing Bank (FFB) Direct Loans in the GI/SRI fund for $0.6 billion.

Other Non-Credit Reform Loans of $2.9 billion consists of Mortgage Loans Held for Investment, Ginnie Mae Advances Against Defaulted Mortgage-Backed Security Pools, Properties Held for Sale, Short Sale Claims Receivable, and Foreclosed Property.

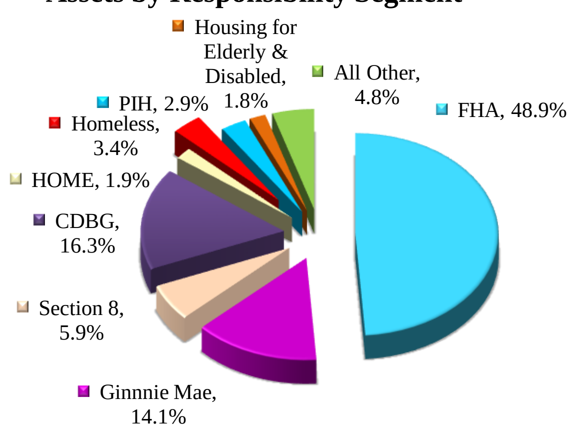
PIH Prepayments of $0.3 billion are the Department's estimates of Restricted Net Position (RNP) balances maintained by Public Housing Authorities under the Housing Choice Vouchers Program. RNP balances represent cash reserves used by Public Housing Authorities (PHAs) to cover program expenses reported by these entities as a result of recent funding shortfalls faced by the Department and additional advances to PHAs participating in the Moving to Work Program.

Other Assets (Cash & Other Monetary Assets, Other Intragovernmental Assets, and Property, Plant & Equipment) of $0.5 billion comprises primarily of internal use software, furniture and fixtures, and other assets.

Assets – Major Programs

The chart below presents Total Assets for FY 2017 by major responsibility segment or program.

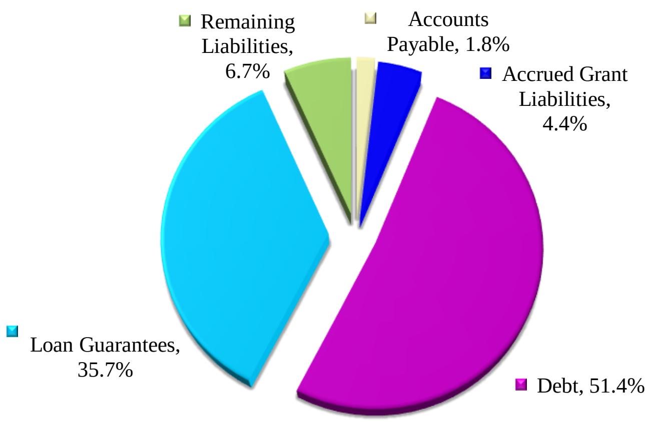
Assets by Responsibility Segment



Liabilities – Major Accounts

Total Liabilities for FY 2017, as reported in the Consolidated Balance Sheets, are displayed in the chart below.

Composition of HUD Liabilities



Total Liabilities of $57.0 billion consist of Intragovernmental Debt in the amount of $29.3 billion (51.4 percent), Loan Guarantees amounting to $20.3 billion (35.7 percent), Accounts Payable of $1.0 billion (1.8 percent), Accrued Grant Liabilities of $2.5 billion (4.4 percent), $3.8 billion of Remaining Liabilities, and $0.1 billion of other miscellaneous liabilities at September 30, 2017.

Total Liabilities increased by $19.7 billion from FY 2016 to FY 2017, due primarily to an increase of $22.4 billion of Loan Guarantees and an increase of $0.3 billion in Loss Reserves, offset by a decrease of $1.7 billion of Intragovernmental Debt, a decrease of $0.2 billion of Accrued Grant Liabilities, and a decrease of $1.1 billion in Remaining Liabilities.

The chart on the next page presents Total Liabilities for FY 2017 and the four preceding years. A discussion of the changes and trends impacting Total Liabilities is presented in the subsequent paragraphs.

The Loan Guarantees liability consist 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 $22.4 billion increase from FY 2016 to FY 2017 in Loan Guaranty Liability is primarily due to a $21.4 billion increase in FHA's Single Family Forward Loan LLG due to recent Upward MMI and GI/SRI HECM re-estimate for cohorts 2006, 2007 and 2008. The Liability for HECM loans increased by $16.7 billion from $9.9 billion in FY 2016 to $26.5 billion in FY 2017 due to a decrease in the assumptions of HECM portfolio performance. Single Family Forward LLG increased by $6.0 billion offset by a decrease of $1.1 billion in LLG for Multifamily/Healthcare in FY 2017.

Debt includes primarily Intragovernmental Debt of $29.3 billion. The Intragovernmental Debt is primarily the result of FHA's principal debt with the Treasury. FHA's $1.7 billion (5.6 percent) decrease in borrowing was primarily due to an Upward Re-estimate for GI/SRI totaling $2.4 billion, which was offset by an increase in our FFB Borrowings totaling $0.6 billion.

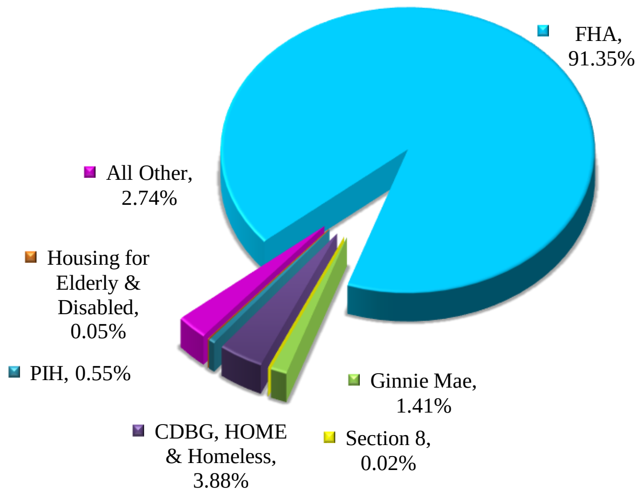
Accounts Payable consist primarily of pending grants payments.

Remaining Liabilities of $3.8 billion consist of Other Intragovernmental Liabilities, Federal Employee and Veteran Benefits, Loss Reserves, and Other Liabilities. The $3.8 billion primarily consist of $2.3 billion for FHA, $0.7 for Ginnie Mae, $0.8 for All Others. FHA decreased by $1.3 billion, which consist of a $1.1 billion decrease in Other Intragovernmental Liabilities and a $0.2 billion decrease in Other Liabilities with the Public. FHA's decrease in Other Intragovernmental Liabilities was due primarily to a decrease in the Receipt Account Liability downward re-estimate. FHA's decrease in Other Liabilities with the Public was due primarily to a $0.1 billion decrease in premiums collected on unendorsed cases and a $0.1 billion decrease in miscellaneous liabilities. Ginnie Mae's Loss Reserves increased by $0.3 billion. Ginnie Mae identified modeling errors associated with the Allowance for Loan and Lease Losses (ALLL) for impaired loans. As a result, Ginnie Mae implemented an updated methodology for its accounting for Allowance for Loan Losses and Allowance for Accrued Interest to be in accordance with the loan impairment guidance by the FASB under ASC 310. As part of the above process, certain revisions were made to the revenue recognition practice applied to fees in connection with REMIC. Ginnie Mae restated its FY 2016 statements to reflect this impact of the updated methodology. For further details, see Note 24, in the Notes to the Financial Statements in Section 2 of the Agency Financial Report.

Liabilities – Major Programs

The chart below presents Total Liabilities for FY 2017 by responsibility segment.

Liabilities by Responsibility Segment



Changes in Net Position

Changes in Unexpended Appropriations, Net Cost of Operations, and Financing Sources combine to determine the Net Position at the end of the year. The elements are further discussed below. Net Position as reported in the Consolidated Statement of Changes in Net Position reflects a decrease of $7.5 billion (6.6 percent) from the prior fiscal year. The net decrease in Net Position is primarily attributable to a $6.2 billion increase in Unexpended Appropriations and $13.7 billion decrease in Cumulative Results of Operations.

The combined effect of HUD's Net Cost of Operations and Financing Sources resulted in a decrease in Net Results of Operations of $36.2 billion during FY 2017. Net Cost of Operations increased by 38.4 billion from the prior year and Total Financing Sources increased by $2.2 billion. Note 24 in Section 2 of the AFR discusses Ginnie Mae's Restatements that impacted HUD's overall Net Position.

The chart below presents HUD's Net Change in Cumulative Results of Operations for FY 2017 and the four preceding years.

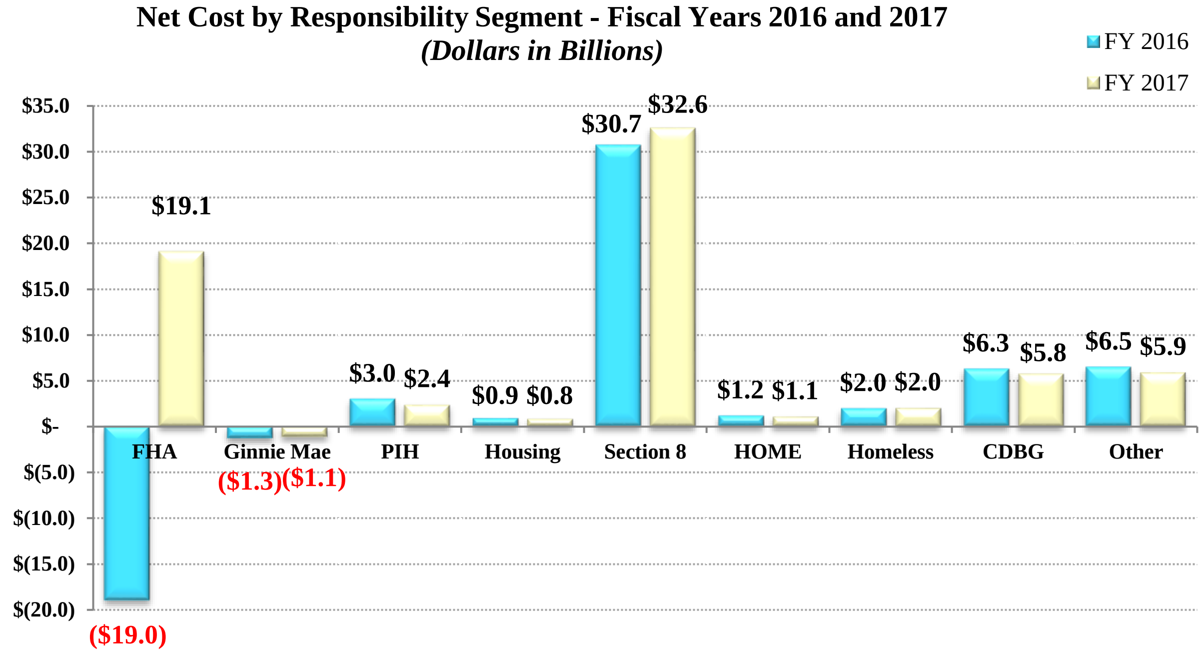
Net Change in Cumulative Results of Operations
(*Dollars in Billions*)

Unexpended Appropriations: The increase of $6.2 billion (13.3 percent) from $46.9 billion in FY 2016 to $53.1 billion is due primarily to a Disaster Appropriation of $7.4 billion for CDBG, offset by additional expenditures of $0.8 billion for Section 8 Rental Assistance program, $0.1 billion in Home, and $0.3 billion in the Housing for the Elderly and Disabled programs.

Financing Sources: As shown in HUD's Statement of Changes in Net Position, HUD's financing sources for FY 2017 totaled $54.9 billion. This amount is comprised primarily of $55.4 billion in Appropriations Used, offset by approximately $0.5 billion in other financing sources.

Net Cost of Operations: As reported in the Consolidated Statement of Net Cost, Net Cost of Operations amounts to $68.6 billion for FY 2017, resulting in a $38.4 billion increase from the prior fiscal year. Net Cost of Operations consists of total costs, including direct program and administrative costs, offset by program exchange revenues.

The chart on the next page presents HUD's Total Net Cost for FY 2016 and FY 2017 by responsibility segment.



As shown in the chart, Gross Cost of Operations was primarily a result of spending of $32.6 billion, (47.5 percent) of Net Cost, in support of the Section 8 program (administered jointly by the Housing, Community Planning and Development, and PIH programs). The current fiscal year change in Net Cost for the Section 8 programs was $1.9 billion (6.0 percent) more than the prior fiscal year.

FHA's Net Cost increased by $38.1 billion, from $(19.0) billion in the prior fiscal year, due primarily to an increase in gross costs which was due to changes in the re-estimate, subsidy and interest expenses. The Multi-Family and Healthcare programs experienced decreases in their overall re-estimate, subsidy, and interest expenses in both the GI/MMI funds. In contrast, the single-Family and HECM programs experienced increases in their overall re-estimate and interest expenses in both the GI/MMI funds.

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.

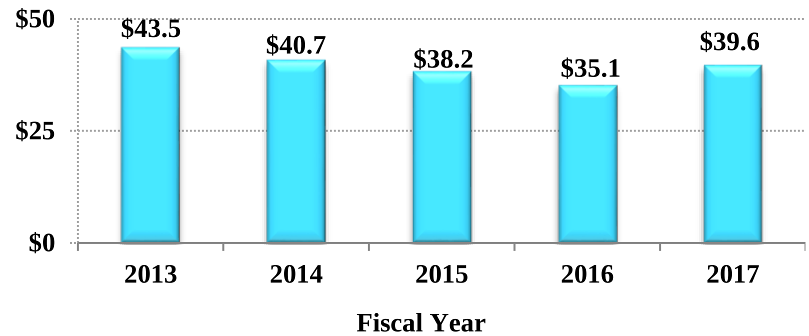
Contractual and Administrative Commitments

HUD's Contractual Commitments of $39.6 billion in FY 2017 represent HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs.

Administrative Commitments (reservations) of $3.7 billion relate to specific projects, for which funds will be provided upon execution of the related contract.

The chart below presents HUD's Contractual Commitments for FY 2017 and the four preceding years.

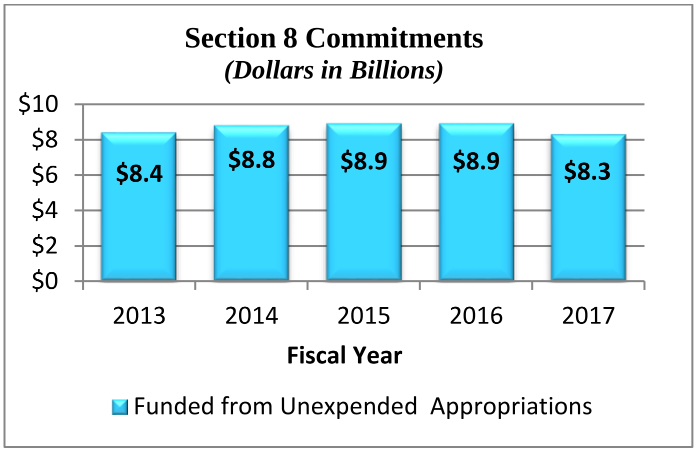
Commitments Under HUD's Grants, Subsidy, and Loan Programs
(*Dollars in Billions*)



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 $0.4 billion (0.9 percent) during FY 2017. The change is primarily attributable to a decrease of $0.7 billion in Section 8 commitments, $0.2 billion in CDBG, $0.1 billion in HOME, $0.4 billion in Sections 202, 235 & 236 and $0.2 billion in All Other Commitments, offset by an increase of $0.6 billion in FHA's commitments and $0.2 billion in Ginnie Mae, $0.2 billion Homeless Assistance, and $0.2 billion in PIH.

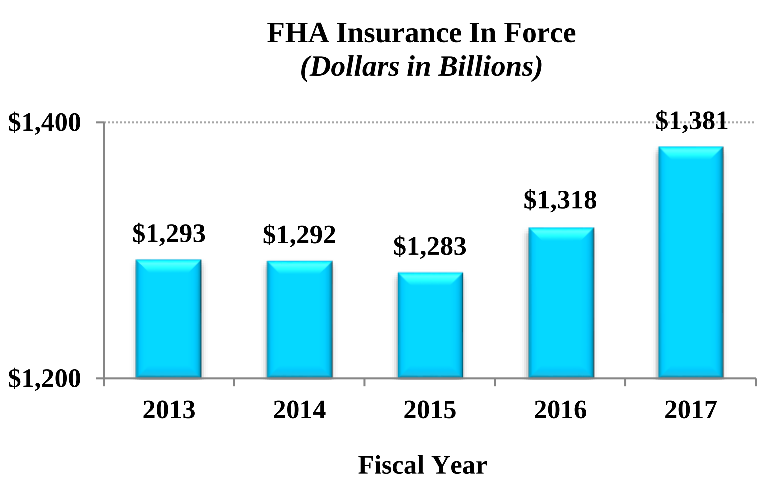
The chart on the next page presents HUD's Section 8 Contractual Commitments for FY 2017 and the four preceding years.



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.

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, and reverse mortgages, also referred to as HECM. The chart below presents FHA's Insurance-In-Force (including the Outstanding Balance of HECM loans), of $1,381.2 billion for FY 2017, and the four preceding years. This is an increase of $63.2 billion (4.8 percent) from the FY 2016 FHA Insurance-In-Force of $1,318.0 billion. The HECM insurance in force includes balances drawn by the mortgagee; interest accrued on the balances drawn, service charges, and mortgage insurance premiums.



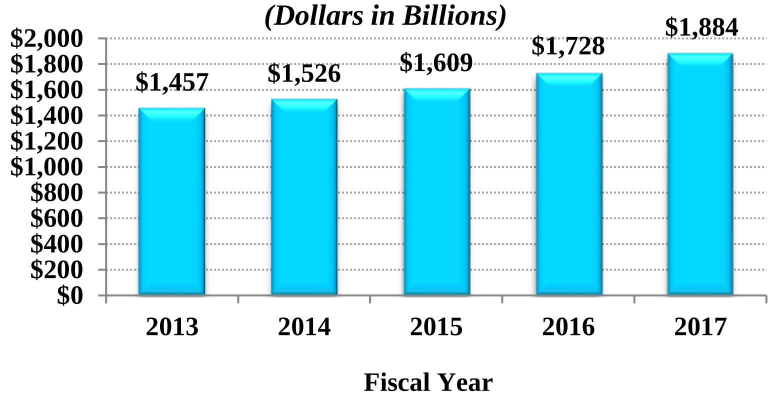
Ginnie Mae Guarantees

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of MBS and commitments to guarantee. The securities are backed by pools of mortgage loans insured by FHA, PIH and Rural Housing Service, and guaranteed by Veterans Affairs. 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, 2017 and 2016, were approximately $1,884.2 billion and $1,728.1 billion, respectively. In the event of default, the underlying mortgages serve as primary collateral, and FHA, USDA, VA and PIH insurance or guarantee indemnifies Ginnie Mae for most losses.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guarantee MBS. The commitment ends when the MBS are issued or when the commitment period expires. While Ginnie Mae's risks related to outstanding commitments are much less than outstanding securities due in 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, 2017 and 2016 were $120.9 billion and $95.6 billion, respectively.

The chart below presents Ginnie Mae MBS for FY 2017 and the four preceding years.

Ginnie Mae Mortgage-Backed Securities Outstanding
(Dollars in Billions)



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 2017 and 2016, Ginnie Mae issued a total of $88.4 billion and $102.5 billion, respectively, in its multi-class securities program. The estimated outstanding balance of multiclass securities in the total MBS securities balance at September 30, 2017 and 2016 were $466.6 billion and $473.2 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's MBS pools that have uniform coupons and original terms to maturity into a single certificate.

Further details of the Financial Statements and Notes contained in this report can be found in the Agency Financial Report (AFR) under Section 2 (Financial Information).

Management Assurances

2017 ANNUAL ASSURANCE STATEMENT

The Department of Housing and Urban Development's management is responsible for managing risks and maintaining effective internal controls and financial management systems that meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). HUD conducted its annual assessment of risk and internal controls in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control.*

Based on the results of the assessment and assurances provided by program principal staff, HUD cannot provide a reasonable statement of assurance that its internal control over operations (Section 2) were operating effectively as of September 30, 2017. Nine material weaknesses related to the design and operation of HUD's internal controls were reported by the OIG during its FY 2017 financial statement audit.

The Department conducted a limited assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular No. A-123. Due to nine known material weaknesses related to financial reporting, the Department is unable to provide assurance that internal controls over financial reporting were operating effectively as of June 30, 2017, and updated through September 30, 2017.

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 transaction level. The Department is unable to provide assurance that its financial management systems (Section 4) comply with FFMIA as of September 30, 2017, due to financial management system weaknesses and system non-conformances with FFMIA. Additional details related to the material weaknesses and systems non-conformances are further discussed in the Other Information Section.

Ben Carson November 15, 2017
Secretary

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 generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget, 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, 2017, and 2016, 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, 2017, and 2016. 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, 2017, and 2016.

The **Combined Statement of Budgetary Resources**, which presents the budgetary resources available to HUD during FY 2017 and 2016, the status of these resources at September 30, 2017, and 2016, and the outlay of budgetary resources for the years ended September 30, 2017, and 2016.

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 Sheets
As of September 30, 2017 and 2016
(Dollars in Millions)

	2017	2016 (Restated)
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 88,824	$ 73,198
Short-Term Investments (Note 5)	17,276	15,954
Long-Term Investments Held to Maturity (Note 5)	30,841	36,398
Accounts Receivable, Net (Note 6)	-	1
Other Intragovernmental Assets (Note 11)	20	43
Total Intragovernmental Assets	136,961	125,594
Cash and Other Monetary Assets (Note 4)	81	$ 113
Investments (Note 5)	44	31
Accounts Receivable, Net (Note 6)	726	666
Direct Loan and Loan Guarantees, Net (Note 7)	20,249	19,476
Other Non-Credit Reform Loans (Note 8)	2,940	2,825
General Property, Plant, and Equipment, Net (Note 9)	413	381
PIH Prepayments (Note 10)	337	380
Total Assets	$ 161,751	$ 149,466
Liabilities:		
Intragovernmental:		
Accounts Payable (Note 12)	$ 26	$ 24
Debt (Note 13)	29,269	31,002
Other Intragovernmental Liabilities (Note 15)	2,061	3,024
Total Intragovernmental Liabilities	31,356	34,050
Accounts Payable (Note 12)	1,000	$ 986
Accrued Grant Liabilities (Note 12)	2,503	2,663
Loan Guarantee Liability (Note 7)	20,334	(2,057)
Debt Held by the Public (Note 13)	3	8
Federal Employee and Veteran Benefits (Note 14)	65	64
Loss Reserves (Note 16)	268	2
Other Liabilities (Note 15)	1,431	1,500
Total Liabilities	$ 56,960	$ 37,216
Commitments and Contingencies (Note 16)	192	$ 55
Net Position:		
Unexpended Appropriations - Funds from Dedicated Collections (Consolidated Totals) (Note 17)	$ (467)	$ (343)
Unexpended Appropriations - All Other Funds (Consolidated Totals)	53,630	47,258
Cumulative Results of Operations - Funds from Dedicated Collections (Consolidated Totals) (Note 17)	23,850	22,730
Cumulative Results of Operations - All Other Funds (Consolidated Totals)	27,778	42,605
Total Net Position - Funds from Dedicated Collections (Consolidated Totals)	**23,383**	**22,387**
Total Net Position - All Other Funds (Consolidated Totals)	**81,408**	**89,863**
Total Net Position	**104,791**	**112,250**
Total Liabilities and Net Position	**$ 161,751**	**$ 149,466**

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 Years Ended September 30, 2017 and 2016
(Dollars in Millions)

	2017	2016 (Restated)
COSTS		
Federal Housing Administration (FHA)		
Gross Costs (Note 18)	$ 20,856	$ (17,758)
Less: Earned Revenue	(1,753)	(1,218)
Net Program Costs	$ 19,103	$ (18,976)
Government National Mortgage Association (GNMA)		
Gross Costs (Note 18)	$ 581	$ 283
Less: Earned Revenue	(1,691)	(1,609)
Net Program Costs	$ (1,110)	$ (1,326)
Section 8 Rental Assistance		
Gross Costs (Note 18)	$ 32,600	$ 30,743
Less: Earned Revenue	-	-
Net Program Costs	$ 32,600	$ 30,743
Public and Indian Housing Loans and Grants (PIH)		
Gross Costs (Note 18)	$ 2,389	$ 2,995
Less: Earned Revenue	-	-
Net Program Costs	$ 2,389	$ 2,995
Homeless Assistance Grants		
Gross Costs (Note 18)	$ 2,033	$ 1,957
Less: Earned Revenue	(1)	5
Net Program Costs	$ 2,032	$ 1,962
Housing for the Elderly and Disabled		
Gross Costs (Note 18)	$ 935	$ 974
Less: Earned Revenue	(92)	(109)
Net Program Costs	$ 843	$ 865
Community Development Block Grants (CDBG)		
Gross Costs (Note 18)	$ 5,764	$ 6,286
Less: Earned Revenue	-	-
Net Program Costs	$ 5,764	$ 6,286
HOME		
Gross Costs (Note 18)	$ 1,074	$ 1,167
Less: Earned Revenue	-	-
Net Program Costs	$ 1,074	$ 1,167
All Other		
Gross Costs (Note 18)	$ 5,765	$ 6,261
Less: Earned Revenue	(34)	(37)
Net Program Costs	$ 5,731	$ 6,224
Costs Not Assigned to Programs	185	262
Consolidated		
Gross Costs (Note 18)	$ 72,182	$ 33,170
Less: Earned Revenues	(3,571)	(2,968)
Net Cost of Operations	$ 68,611	$ 30,202

The accompanying notes are an integral part of these statements

Financial Statements

U.S. Department of Housing And Urban Development
Consolidated Statement Of Changes In Net Position
For the Years Ended September 30, 2017 and 2016
(Dollars in Millions)

	2017			2016 (Restated)		
	Funds From Dedicated Collections (Consolidated Totals)	All Other Funds (Consolidated Totals)	Consolidated Total	Funds From Dedicated Collections (Consolidated Totals)	All Other Funds (Consolidated Totals)	Consolidated Total
CUMULATIVE RESULTS FROM OPERATIONS:						
Beginning Balances	$ 22,730	$ 42,605	$ 65,335	$ 21,417	$ 20,646	$ 42,063
Adjustments:						
Corrections of Errors	-	-	-	(28)	835	807
Beginning Balance, As Adjusted	22,730	42,605	65,335	21,389	21,481	42,870
BUDGETARY FINANCING SOURCES:						
Other Adjustments	(3)	-	(3)	(1)	-	(1)
Appropriations Used	115	55,253	55,368	89	54,372	54,461
Nonexchange Revenue	3	250	253	4	201	205
Transfers In/Out Without Reimbursement	-	(2)	(2)	-	-	-
Other	-	-	-	-	-	-
OTHER FINANCING SOURCES (NONEXCHANGE):						
Transfers In/Out Without Reimbursement	-	-	-	-	-	-
Imputed Financing	2	53	55	1	158	159
Other	-	(767)	(767)	-	(2,157)	(2,157)
Total Financing Sources	117	54,787	54,904	93	52,574	52,667
Net Cost of Operations	1,003	(69,614)	(68,611)	1,248	(31,450)	(30,202)
Net Change	1,120	(14,827)	(13,707)	1,341	21,124	22,465
CUMULATIVE RESULTS OF OPERATIONS	**23,850**	**27,778**	**51,628**	**22,730**	**42,605**	**65,335**
UNEXPENDED APPROPRIATIONS:						
Beginning Balance	(343)	47,258	46,915	(321)	51,436	51,115
Adjustments:						
Corrections of Errors	-	-	-	14	(15)	(1)
Beginning Balance, As Adjusted	(343)	47,258	46,915	(307)	51,421	51,114
BUDGETARY FINANCING SOURCES:						
Appropriations Received	-	62,049	62,049	-	51,088	51,088
Appropriations Transferred In/Out	-	-	-	80	(80)	-
Other Adjustments	(9)	(424)	(433)	(27)	(799)	(826)
Appropriations Used	(115)	(55,253)	(55,368)	(89)	(54,372)	(54,461)
Total Budgetary Financing Sources	(124)	6,372	6,248	(36)	(4,163)	(4,199)
TOTAL UNEXPENDED APPROPRIATIONS	**(467)**	**53,630**	**53,163**	**(343)**	**47,258**	**46,915**
NET POSITION	**$ 23,383**	**$ 81,408**	**$ 104,791**	**$ 22,387**	**$ 89,863**	**$ 112,250**

The accompanying notes are an integral part of these statements

Financial Statements

U.S. Department Of Housing And Urban Development
Combined Statement Of Budgetary Resources
For the Years Ended September 30, 2017 and 2016
(Dollars in Millions)

	2017		2016 (Restated)	
	Budgetary	Non Budgetary Credit Reform Financing Account	Budgetary	Non Budgetary Credit Reform Financing Account
Budgetary Resources				
Unobligated Balance Brought Forward, Oct 1	$ 68,756	$ 17,078	$ 44,388	$ 35,488
Adjustment to Unobligated Balance Brought Forward, Oct 1	(7)	234	-	24
Unobligated Balance Brought Forward, Oct 1, As Adjusted	68,749	17,312	44,388	35,512
Recoveries of Unpaid Prior Year Obligations	633	87	1,039	463
Other Changes in Unobligated Balance	(3,131)	1,996	(1,089)	-
Unobligated Balance From Prior Year Budget Authority, Net	66,251	19,395	44,338	35,975
Appropriations (Discretionary and Mandatory)	62,218	-	51,256	-
Borrowing Authority (Discretionary and Mandatory)	-	8,377	-	13,078
Spending Authority From Offsetting Collections (Discretionary and Mandatory)	17,510	37,192	28,704	22,658
Total Budgetary Resources	**$ 145,979**	**$ 64,964**	**$ 124,298**	**$ 71,711**
Status of Budgetary Resources:				
New obligations and upward adjustments (total)				
Direct	$ 78,330	$ 35,052	$ 55,328	$ 51,020
Reimbursable	318	4,032	214	3,613
Subtotal	$ 78,648	$ 39,084	$ 55,542	$ 54,633
Unobligated Balance, End of Year				
Apportioned, Unexpired Accounts	7,996	6,751	12,247	5,677
Unapportioned, Unexpired Accounts	58,485	19,129	55,660	11,401
Unexpired Unobligated Balance, End of Year	**66,481**	**25,880**	**67,907**	**17,078**
Expired Unobligated Balance, End of Year	850	-	849	-
Unobligated Balance, End of Year (Total)	67,331	25,880	68,756	17,078
Total Budgetary Resources	**$ 145,979**	**$ 64,964**	**$ 124,298**	**$ 71,711**
Change in Obligated Balance				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, Oct 1	$ 36,308	$ 2,856	$ 39,326	$ 2,758
Adjustment to Unpaid Obligations, Start of Year	7	-	(1)	(24)
New Obligations and Upward Adjustments	78,648	39,084	55,542	54,633
Outlays (Gross)	(74,465)	(38,133)	(57,520)	(54,048)
Recoveries of Prior Year Unpaid Obligations	(633)	(87)	(1,039)	(463)
Unpaid Obligations, End of Year	39,865	3,720	36,308	2,856
Uncollected Payments:				
Uncollected Pymts, Fed Sources, Brought Forward, Oct 1	(41)	(51)	(18)	(56)
Change in Uncollected Pymts, Fed Sources	(12)	7	(23)	5
Uncollected Pymts, Fed Sources, End of Year	(53)	(44)	(41)	(51)
Memorandum (non-add) Entries:				
Obligated Balance, Start of Year	**$ 36,274**	**$ 2,805**	**$ 39,307**	**$ 2,678**
Obligated Balance, End of Year	**$ 39,812**	**$ 3,676**	**$ 36,267**	**$ 2,805**
Budget Authority and Outlays, Net				
Budget Authority, Gross (Discretionary and Mandatory)	$ 79,728	$ 45,569	$ 79,960	$ 35,736
Actual Offsetting Collections (Discretionary and Mandatory)	(17,623)	(47,006)	(28,826)	(31,888)
Change in Uncollected Pymts, Fed Sources (Discretionary and Mandatory)	(12)	7	(23)	5
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	12	-	28	-
Budget Authority, Net (Total) (Discretionary and Mandatory)	**$ 62,105**	**$ (1,430)**	**$ 51,139**	**$ 3,853**
Outlays, Gross (Discretionary and Mandatory)	$ 74,465	$ 38,133	$ 57,520	$ 54,048
Actual Offsetting Collections (Discretionary and Mandatory)	(17,623)	(47,006)	(28,826)	(31,888)
Outlays, Net (Total) (Discretionary and Mandatory)	56,842	(8,873)	28,694	22,160
Distributed Offsetting Receipts	(1,368)	-	(2,302)	-
Agency Outlays, Net (Discretionary and Mandatory)	**$ 55,474**	**$ (8,873)**	**$ 26,392**	**$ 22,160**

The accompanying notes are an integral part of these statements

Notes to Financial Statements

September 30, 2017

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

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 fund the formula Emergency Solutions Grant program and the competitive Continuum of Care program. Together, these programs fund the activities that comprise communities' homeless crisis response systems.

The Supportive Housing for the Elderly (Section 202) and Persons with Disabilities (Section 811) grant programs provide capital to nonprofit organizations sponsoring rental housing for the elderly and disabled. Prior to these programs being operated as grants, they were administered as 40-year loans.

The Community Development Block Grant programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, disaster recovery assistance, and improved community facilities and services.

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.

HUD also has smaller programs which provide grants, 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 maintenance costs of PHAs and TDHEs housing projects. These smaller programs are also included within the HUD consolidated revenues and financing sources reflected on the financial statements.

B. Basis of Accounting and Presentation

The accompanying principal financial statements have been prepared to report the financial position, net cost, changes in net position, and budgetary resources of HUD in accordance with the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and in conformance with the Federal Accounting Standards Advisory Board's Statements of Federal Financial Accounting Standards (SFFAS).

These financial statements include all the accounts and transactions of HUD to include FHA, Ginnie Mae, and its grant, subsidy, and loan programs. All inter-fund accounts receivable, accounts payable, transfers in, and transfers out within these programs have been eliminated.

The financial statements are presented on the accrual and budgetary basis 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. The budgetary basis of accounting recognizes the obligation of funds according to legal requirements, which in many cases occurs prior to an accrual-based transaction. The use of budgetary accounting is essential for compliance with legal requirements and controls over 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. The exception is PIH's Housing Choice Voucher and Moving to Work programs, where funds are paid on the first day of the month to basically cover rental expenses of that month.

C. Use of Estimates

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

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

To estimate the Allowance for Subsidy associated with loans receivable, related foreclosed property, and the Liability for Loan Guarantees, the Department uses cash flow model assumptions associated with the loan guarantees subject to the Federal Credit Reform Act of 1990 (FCRA) to estimate the cash flows associated with future loan performance. To make reasonable projections of future loan performance, the Department develops assumptions based on historical data, current and forecasted programs, 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 funding needs for PHAs and Indian Housing Authorities under the PIH HCV Program. Under the Department's cash management program, net position is monitored by the Department and estimated by HUD on a recurring basis.

HUD implemented a grant accrual policy and continues to refine its methodologies and the underlying assumptions to develop the estimates. Grant accruals are calculated by the various program areas on a quarterly basis and recorded in the trial balance to be included in the Financial Statements. The accruals are reversed in a later accounting period.

D. Entity and Non-Entity Assets

Assets are classified as either entity or non-entity assets. Entity assets are those that HUD has authority to use for its operations. Non-entity assets are those held by HUD but unavailable for use in its operations. Non-entity assets are offset by liabilities to third parties and have no impact on net position. HUD combines its entity and non-entity assets on the balance sheet and discloses its non-entity assets in the notes.

E. Fund Balance with U.S. Department of the Treasury (Treasury)

HUD maintains all cash accounts with Treasury. Treasury processes cash receipts and disbursements on behalf of HUD, and HUD's accounting records are reconciled with Treasury on a monthly basis. HUD has several types of funds which include General, Revolving, Trust, and other fund types such as deposit and clearing accounts.

F. Investments

HUD limits its investments, principally comprised of investments by FHA's Mutual Mortgage Insurance/Cooperative Management Housing Insurance (MMI/CMHI) Fund and 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 most cases, they are held to maturity.

G. 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), notes related to partial claims, and direct loans relating to the Federal Financing Bank Risk Share program. 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. The majority of MNAs are Home Equity Conversion Mortgage (HECM) notes. HECM loans, while not in default, are assigned to HUD when they reach 98 percent of their maximum claim amount. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

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

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

H. Credit Reform Accounting

The primary purpose of the FCRA, which became effective on October 1, 1991, is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. OMB Circular A-11, Preparation, Execution, and Submission of the Budget Part 5, titled Federal Credit Programs, defines loan guarantee as any guarantee, insurance or other pledge with respect to the payment of all or part of the principal or interest on any debt obligation of a non-Federal borrower (Issuer) to a non-Federal lender (Investor).

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 Statement of Budgetary Resources. The budgetary accounts include the program, capital reserve and liquidating accounts, whereas 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 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 fiscal year end, 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.

The capital reserve account was created to retain the MMI /CMHI negative subsidy and subsequent downward re-estimates. Specifically, the National Affordable Housing Act 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 the calculated capital ratio reflects the actual strength of the MMI fund, the resources of the capital reserve account, which are considered FHA assets, are included in the calculation of the MMI fund’s economic net worth.

The liquidating account is a budget account that records all cash flows to and from FHA resulting from pre-Credit Reform direct loans or loan guarantees. Liquidating account collections in any year are only available 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.

I. Property, Plant, and Equipment, Net

Property, Plant, and Equipment, Net (PP&E) is composed of capital assets used in providing goods or services. PP&E is stated at cost less accumulated depreciation. Acquisitions of PP&E include assets purchased or assets acquired through other means, such as through transfer in from another Federal entity, donation, devise (a will or clause of a will disposing of property), judicial process, exchange between a federal entity and a non-federal entity, and forfeiture.

J. Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by HUD without budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty that an appropriation will be enacted.

K. Borrowings

As further discussed in other notes, 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 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.

L. 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.

M. Federal Employees Compensation Act Liabilities

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from HUD for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid by the DOL but not yet reimbursed by HUD. The second component is the estimated liability for future worker's compensation as a result of past events. HUD reports both components in "Other Liabilities" on the Consolidated Balance Sheet.

N. Accrued Unfunded Leave

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.

O. 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 expenses are incurred. Accordingly, HUD recognizes grant-related revenue and related expenses as recipients perform under their contracts. HUD recognizes subsidy-related revenue and related expenses when the underlying assistance (e.g., provision of a Section 8 rental unit by a housing owner) is provided or upon disbursal of funds to PHAs.

Ginnie Mae Fees

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

Imputed Financing Sources

In certain instances, operating costs of HUD are paid out of funds appropriated to other Federal agencies. For example, the Office of Personnel Management, by law, pays certain costs of retirement programs. When costs that are identifiable to HUD and directly attributable to HUD operations are paid for by other agencies, HUD recognizes these amounts as operating expenses. In addition, HUD recognizes an imputed financing source on the Consolidated Statement of Changes in Net Position to reflect the funding of HUD operations by other Federal agencies.

P. Appropriations and Monies Received from Other HUD Programs

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

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

Q. Full Cost Reporting

SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, requires 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.

R. Retirement Plans

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 per year 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.

S. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary assets are not assets of the Federal Government.

T. Net Cost

Net cost consists of gross costs and earned revenue. Gross costs and earned revenue are classified as intragovernmental (exchange transactions between HUD and other entities within the federal government) or public (exchange transactions between HUD and nonfederal entities).

Net program costs are gross costs less revenue earned from activities. HUD determines gross cost and earned revenue by tracing amounts back to the specific program office. Administrative overhead costs of funds unassigned are allocated based on full-time employee equivalents of each program.

U. Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for amounts in financing accounts, liquidating accounts, and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources.

V. Funds from Dedicated Collections

Funds from Dedicated Collections are financed by specifically identified revenues, often supplemented by other financing sources that are originally provided to the federal government by a non-federal source, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the federal government's general revenues.

W. Allocation Transfers

HUD is a party to allocation transfers with other Federal Agencies as a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department.

A separate fund account (allocation account) is created in Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Parent federal agencies report both the proprietary and budgetary activity, but the child agency does not report any financial activity related to budget authority allocated from the parent federal agency to the child federal agency. HUD is the child for one allocation transfer, the Appalachian Regional Commission.

X. Reclassifications

FY 2017 presentation changes have been made to facilitate a greater understanding of the statements and notes. Certain prior year amounts have been reclassified to conform to the current year presentation.

For further details regarding FHA and Ginnie Mae, please refer to their FY 2017 Annual Report.

Note 2: Non-Entity Assets

Non-entity assets consist of assets that belong to other entities but are included in the HUD consolidated financial statements and are offset by various liabilities to accurately reflect the Department's net position.

HUD's non-entity assets as of September 30, 2017 and 2016, were as follows (dollars in millions):

Description	**2017**	**2016 (Restated)**
Intragovernmental		
Fund Balance with Treasury	$ 32	$ 42
Total Intragovernmental	$ 32	$ 42
Public		
Cash and Other Monetary Assets	$ 27	$ 29
Accounts Receivable, Net	275	118
Loan Receivables and Related Foreclosed Property, Net	75	104
Other Assets	-	-
Total Public	$ 377	$ 251
Total Non-Entity Assets	$ 409	$ 293
Total Entity Assets	161,342	149,173
Total Assets	**$ 161,751**	**$ 149,466**

Note 3: Fund Balance with Treasury

The U.S. Treasury performs cash management activities for all Federal agencies. The net activity represents Fund Balance with Treasury. HUD's fund balances by fund type as of September 30, 2017 and 2016, were as follows (dollars in millions):

Description		2017		2016
Fund Balances				
General Funds	$	57,787	$	51,293
Revolving Funds		30,593		21,687
Trust Funds		424		200
Other		20		18
Total	**$**	**88,824**	**$**	**73,198**
Status of Fund Balance with Treasury				
Unobligated Balance				
Available	$	14,637	$	17,813
Unavailable		31,130		16,223
Obligated Balance not yet Disbursed		43,031		39,141
Non-Budgetary FBWT		26		21
Total	**$**	**88,824**	**$**	**73,198**

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

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. Obligated and unobligated balances reported for the status of Fund Balance with Treasury do not agree with obligated and unobligated balances reported in the Combined Statement of Budgetary Resources. The budgetary balances are also supported by amounts other than Fund Balance with Treasury, such as investments, borrowings authority, and budgetary receivables. Additionally, the unobligated balances includes collections related to Ginnie Mae which are not available to HUD unless approval by Congress.

An immaterial difference exists between HUD's recorded Fund Balances with the U.S. Treasury and the U.S. Department of Treasury's records. Consistent with Treasury's guidance, the Department temporarily adjusts its records to agree with Treasury's balances at the end of the accounting period. The adjustments are reversed at the beginning of the following accounting period.

As the result of one of our new internal controls, HUD initiated a project which quickly identified weaknesses in the validation of the general ledger and sub-ledger balances. Although several historical items have been resolved, efforts were still underway on September 30, 2017, 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 4: Cash and Other Monetary Assets

Cash and other monetary assets of FHA consist of (1) escrow monies collected that are deposited in minority-owned banks, (2) deposits in transit, and (3) advances and prepayments. As of September 30, 2017, escrow monies and deposits in transit were $27 million and $14 million, respectively. As of September 30, 2016, escrow monies and deposits in transit were $29 million and $24 million, respectively.

Cash and other monetary assets of Ginnie Mae consist of cash that is received by its Master Subservicers, but has not yet been transmitted to Ginnie Mae. As of September 30, 2017 and 2016, deposits in transit were $40 million and $60 million, respectively.

Note 5: 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 income on such securities is presented on the Statement of Revenues and Expenses and Changes in Investment of U.S. Government within Other interest income.

The amortized cost and estimated market value of investments in debt securities as of September 30, 2017 and 2016, were as follows (dollars in millions):

Short-Term	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
2017	$ 17,276	$ -	$ -	$ 17,276	$ 17,276
2016	$ 15,954	$ -	$ -	$ 15,954	$ 15,954

The U.S. Government long-term securities are non-marketable intra-governmental securities. The amortized cost and estimated market value of investments in debt securities as September 30, 2017 and 2016, were as follows (dollars in millions):

Long-Term	Cost	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
2017	$ 30,744	$ 51	$ 46	$ 30,841	$ 30,747
2016 (Restated)	$ 36,311	$ 54	$ 33	$ 36,398	$ 36,385

Investments in Private-Sector Entities

Investments in private-sector entities are the result of FHA's Risk Sharing Debentures and securities investments held outside of Treasury. The securities received as part of a legal settlement were valued at $13 million as of September 30, 2017, and are considered to be short-term investments.

The following table presents financial data on FHA's investments in Risk Sharing Debentures and securities held outside Treasury as of September 30, 2017 and 2016 (dollars in millions):

	Beginning Balance	Net Acquisition	Share of Earnings or Losses	Return of Investment	Redeemed	Ending Balance
2017						
601 Program	$ -	$ -	$ -	$ -	$ -	$ -
Risk Sharing Debentures	31	13	-	-	-	44
Total	**$ 31**	**$ 13**	**$ -**	**$ -**	**$ -**	**$ 44**
2016						
601 Program	$ -	$ -	$ -	$ -	$ -	$ -
Risk Sharing Debentures	31	-	-	-	-	31
Total	**$ 31**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 31**

Note 6: Accounts Receivable, Net

The Department's accounts receivable represents FHA Practical Claims and Settlement Receivables, Ginnie Mae Fees and Interest Receivable, and Other Receivables.

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.

Other Receivables

Other Receivables represents Section 8 year-end settlements, claims to cash from the public, state and local authorities for bond refunding, Section 236 excess rental income, sustained audit findings, refunds of overpayment, FHA insurance premiums, and foreclosed property proceeds. Sustained audit costs include sustained audit findings, refunds of overpayment, settlements receivable and foreclosed property proceeds due from the public.

The following shows accounts receivable as reflected on the Balance Sheet as of September 30, 2017 and 2016 (dollars in millions):

	2017			2016 (Restated)		
Description	Gross Accounts Receivable	Allowance for Loss	Total, Net	Gross Accounts Receivable	Allowance for Loss	Total, Net
Intragovernmental	$ -	$ -	$ -	$ 1	$ -	$ 1
Public						
FHA Practical Claims and Settlement Receivables	529	(309)	220	531	(288)	243
Ginnie Mae Fees and Interest Receivables	227	(69)	158	294	(134)	160
Other Receivables	349	(1)	348	266	(3)	263
Total	**$ 1,105**	**$ (379)**	**$ 726**	**$ 1,092**	**$ (425)**	**$ 667**

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

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

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.

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.

Direct Loan Programs

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.

Prior to FY 2015, FHA's Direct Loans were a result of Purchase Money Mortgages (PMMs). The Direct loan receivables were primarily multifamily loans and are in the liquidating fund. In addition, FHA has a small amount of new PMMs that are administered by Single Family Housing. Due to the small size, there is no subsidy associated with these loans.

FHA's net direct loans receivable is not the same as the proceeds that would be anticipated from the sale of its direct loans.

FHA's technical re-estimate amounts for loan guarantee liabilities reflected in loan guarantee liability tables may have a reconciling difference due to the inclusion of the interest expense component in its Schedule of Reconciling Loan Guarantee Liability balances. 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 September 30, 2017 and 2016:

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

1. FHA
   a) MMI/CMHI Direct Loan Program
   b) GI/SRI Direct Loan Program
   c) MMI/CMHI Loan Guarantee Program
   d) GI/SRI Loan Guarantee Program
   e) H4H Loan Guarantee Program
   f) HECM 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):

	2017				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
a) MMI/CHMI Direct Loan Program	$ -	$ -	$ -	$ -	$ -
b) GI/SRI Direct Loan Program	8	13	(4)	-	17
Housing for the Elderly and Disabled	954	12	(7)	3	962
All Other					
a) CPD Revolving Fund	5	-	(5)	2	2
b) Flexible Subsidy Fund	368	53	(42)	-	379
Total	**$ 1,335**	**$ 78**	**$ (58)**	**$ 5**	**$ 1,360**

	2016				
Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
a) MMI/CHMI Direct Loan Program	$ -	$ -	$ -	$ -	$ -
b) GI/SRI Direct Loan Program	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
Total	**$ 1,585**	**$ 84**	**$ (64)**	**$ 1**	**$ 1,606**

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

Direct Loan Programs	2017 Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA					
a) MMI/CHMI Direct Loan Program	$ -	$ -	$ -	$ -	$ -
b) GI/SRI Direct Loan Program	1,193	3	36	-	1,232
All Other					
a) Green Retrofit Program	53	-	(53)	-	-
b) Emergency Homeowners' Relief /fund	18	-	(19)	-	(1)
c) EHLP Assigned Loans Receipt Account	75	-	-	-	75
Total	**$ 1,339**	**$ 3**	**$ (36)**	**$ -**	**$ 1,306**

Direct Loan Programs	2016 Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
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' Relief /fund	34	-	(35)	-	(1)
c) EHLP Assigned Loans Receipt Account	104	-	-	-	104
Total	**$ 749**	**$ 2**	**$ (64)**	**$ -**	**$ 687**

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

Direct Loan Program	Current Year	Prior Year
FHA Risk Sharing Program	$ 639	$ 452
All Other		
a) Green Retrofit Program	-	-
b) Emergency Homeowners' Relief /fund	-	-
Total	**$ 639**	**$ 452**

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

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

	2017				
Direct Loan Programs	Interest	Defaults	Fees	Other	Total
FHA Risk Sharing Program	$ (76)	$ 1	$ (18)	$ 21	$ (72)
All Other					
a) Green Retrofit Program	-	-	-	-	-
b) Emergency Homeowners' Relief /fund	-	-	-	-	-
Total	**$ (76)**	**$ 1**	**$ (18)**	**$ 21**	**$ (72)**

	2016				
Direct Loan Programs	Interest	Defaults	Fees	Other	Total
FHA Risk Sharing Program	$ (68)	$ 4	$ (9)	$ 21	$ (52)
All Other					
a) Green Retrofit Program	-	-	-	-	-
b) Emergency Homeowners' Relief /fund	-	-	-	-	-
Total	**$ (68)**	**$ 4**	**$ (9)**	**$ 21**	**$ (52)**

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

	2017			
Direct Loan Programs	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
FHA Risk Sharing Program	$ -	$ -	$ 61	$ 61
All Other				
a) Green Retrofit Program	-	-	-	-
b) Emergency Homeowners' Relief /fund	-	-	-	-
Total	**$ -**	**$ -**	**$ 61**	**$ 61**

	2016			
Direct Loan Programs	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
FHA Risk Sharing Program	$ -	$ -	$ 65	$ 65
All Other				
a) Green Retrofit Program	-	-	(13)	(13)
b) Emergency Homeowners' Relief /fund	-	-	-	-
Total	**$ -**	**$ -**	**$ 52**	**$ 52**

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

Direct Loan Programs	Current Year	Prior Year
FHA Risk Sharing Program	$ (11)	$ 13
All Other		
a) Green Retrofit Program	-	(13)
b) Emergency Homeowners' Relief /fund	-	-
Total	**$ (11)**	**$ -**

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

Budget Subsidy Rates for Direct Loans

	2017				
Direct Loan Programs	Interest	Defaults	Fees and Other Collections	Other	Total
FHA Risk Sharing Program	-13.9%	0.0%	-1.0%	3.7%	-11.2%
All Other					
a) Green Retrofit Program	41.0%	42.6%	0.0%	-1.3%	82.3%
b) Emergency Homeowners' Relief /fund	0.0%	0.0%	0.0%	97.7%	97.7%

	2016				
Direct Loan Programs	Interest	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' Relief /fund	0.0%	0.0%	0.0%	97.7%	97.7%

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

Beginning Balance, Changes, and Ending Balance	FY 2017	FY 2016 (Restated)
Beginning balance of subsidy cost allowance	$ 64	$ 85
Add: subsidy expense for direct loans disbursed during reporting years by component:		
(a) Interest rate differential costs	(76)	(68)
(b) Default costs (net of recoveries)	1	5
(c) Fees and Other Collections	(18)	(9)
(d) Other subsidy costs	21	21
Total of the above subsidy expense components	(72)	(51)
Adjustments:		
(a) Loan Modifications	-	-
(b) Fees Received	3	1
(c) Foreclosed Properties Acquired	-	-
(d) Loans written off	(15)	(15)
(e) Subsidy allowance amortization	(4)	29
(f) Other	(4)	-
Ending Balance of the subsidy cost allowance before re-estimates	(28)	49
Add or Subtract Subsidy Re-estimates by Component:		
(a) Interest Rate Re-estimate	-	-
(b) Technical Default Re-estimate	113	51
Adjustment prior years' credit subsidy re-estimates	(49)	(36)
Total of the above re-estimate components	64	15
Ending Balance of the Subsidy Cost Allowance	**$ 36**	**$ 64**

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

2017

	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$ 19	$ -	$ (4)	$ 5	$ 20
b) Multi Family	-	-	-	-	-
c) HECM	-	-	-	-	-
GI/SRI					
a) Single Family	-	-	(4)	9	5
b) Multi Family	1,615	231	(682)	-	1,164
c) HECM	3	1	(1)	(2)	1
Total	**$ 1,637**	**$ 232**	**$ (691)**	**$ 12**	**$ 1,190**

2016

	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	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)
Total	**$ 1,805**	**$ 232**	**$ (830)**	**$ 15**	**$ 1,222**

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

2017

	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$ 11,160	$ -	$ (6,133)	$ 1,437	$ 6,464
b) Multi Family	-	-	-	-	-
c) HECM	6,992	4,176	(5,052)	36	6,152
GI/SRI					
a) Single Family	416	-	(224)	35	227
b) Multi Family	645	(1)	(272)	1	373
c) HECM	3,701	1,981	(2,598)	79	3,163
H4H					
a) Single Family	5	-	(5)	1	1
All Other					
a) Indian Housing Loan Guarantee	-	-	-	13	13
b) Native Hawaiian Housing Loan Guarantee	-	-	-	-	-
Total	**$ 22,919**	**$ 6,156**	**$ (14,284)**	**$ 1,602**	**$ 16,393**

2016

	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	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)
Total	**$ 19,477**	**$ 4,185**	**$ (10,797)**	**$ 3,096**	**$ 15,961**

	2017	2016
Total Credit Program Receivables and Related Foreclosed Property, Net	$ 20,249	$ 19,476

J. Guaranteed Loans Outstanding (dollars in millions):

J1. Guaranteed Loans Outstanding (dollars in millions):

Loan Guarantee Programs	2017 Outstanding Principal Guaranteed Loans Face Value	2017 Amount of Outstanding Principal Guaranteed
FHA		
a) MMI/CMHI Funds	$ 1,273,155	$ 1,154,481
b) GI/SRI Funds	136,283	123,018
c) H4H Program	82	73
All Other	8,405	8,401
Total	**$ 1,417,925**	**$ 1,285,973**

Loan Guarantee Programs	2016 Outstanding Principal Guaranteed Loans Face Value	2016 Amount of Outstanding Principal Guaranteed
FHA		
a) MMI/CMHI Funds	$ 1,210,912	$ 1,100,636
b) GI/SRI Funds	127,629	115,226
c) H4H Program	90	82
All Other	7,862	7,857
Total	**$ 1,346,493**	**$ 1,223,801**

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

Loan Guarantee Programs	2017 Current Year Endorsements	Cumulative	
		Current Outstanding Balance	Maximum Potential Liability
FHA Programs	$ 17,691	$ 103,597	$ 147,582

Loan Guarantee Programs	2016 Current Year Endorsements	Cumulative	
		Current Outstanding Balance	Maximum Potential Liability
FHA Programs	$ 14,659	$ 104,669	$ 148,145

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

	2017			
	Outstanding Principal, Guaranteed Loans, Face Value		Amount of Outstanding Principal Guaranteed	
FHA				
a) MMI/CMHI Funds	$	250,926	$	248,307
b) GI/SRI Funds		16,884		16,807
c) H4H Program		-		-
All Other		871		871
Total	**$**	**268,681**	**$**	**265,985**

	2016 (Restated)			
	Outstanding Principal, Guaranteed Loans, Face Value		Amount of Outstanding Principal Guaranteed	
FHA				
a) MMI/CMHI Funds	$	245,551	$	242,990
b) GI/SRI Funds		12,224		12,169
c) H4H Program		-		-
All Other		980		979
Total	**$**	**258,755**	**$**	**256,138**

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

	2017					
Loans Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Esimated Future Default Claims		Liabilities for Loan Guarantees, for Post 1991 Guarantees, (Present Value)		Total Liabilities For Loan Guarantees	
FHA Programs	$	8	$	20,059	$	20,067
All Other Programs		-		267		267
Total	$	8	$	20,326	$	20,334

Loans Guarantee Programs	2016 Liabilities for Losses on Pre-1992 Guarantees, Esimated Future Default Claims	Liabilities for Loan Guarantees, for Post 1991 Guarantees, (Present Value)	Total Liabilities For Loan Guarantees
FHA Programs	$ -	$ (2,360)	$ (2,360)
All Other Programs	-	303	303
Total	$ -	$ (2,057)	$ (2,057)

L. Subsidy Expense for Post-1991 Guarantees:

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

Loans Guarantee Programs	Endorsement Amount	2017 Default Component	Fees Component	Other Component	Subsidy Amount
FHA					
a) MMI/CMHI Funds, Excluding HECM	$ 250,925	$ 6,074	$ (19,525)	$ 2,359	$ (11,092)
b) MMI/CMHI Funds, HECM	17,691	1,249	(1,308)	-	(59)
c) GI/SRI Funds	267,787	214	(890)	-	(676)
c) H4H Program	-	-	-	-	-
All Other	-	20	(12)	-	8
Total	**$ 536,403**	**$ 7,557**	**$ (21,735)**	**$ 2,359**	**$ (11,819)**

Loans Guarantee Programs	Endorsement Amount	2016 Default Component	Fees Component	Other Component	Subsidy Amount
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)
c) H4H Program	-	-	-	-	-
All Other	-	63	(13)	-	50
Total	**$ 248,677**	**$ 6,674**	**$ (18,080)**	**$ 1,791**	**$ (9,615)**

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

	2017			
Loans Guarantee Programs	**Total Modifications**	**Interest Rate Re-estimates**	**Technical Re-estimates**	**Total Re-estimates**
FHA				
a) MMI/CMHI Funds	$ -	$ -	$ 21,112	$ 21,112
b) GI/SRI Funds	-	-	3,693	3,693
All Other	-	-	(22)	(22)
Total	**$ -**	**$ -**	**$ 24,783**	**$ 24,783**

	2016			
Loans Guarantee Programs	**Total Modifications**	**Interest Rate Re-estimates**	**Technical Re-estimates**	**Total Re-estimates**
FHA				
a) MMI/CMHI Funds	$ -	$ -	$ (7,896)	$ (7,896)
b) GI/SRI Funds	-	-	(289)	(289)
All Other	-	-	(67)	(67)
Total	**$ -**	**$ -**	**$ (8,252)**	**$ (8,252)**

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

Loans Guarantee Programs	**Current Year**	**Prior Year**
FHA		
a) MMI/CMHI Funds	$ 9,961	$ (17,081)
b) GI/SRI Funds	3,017	(769)
c) H4H Program	-	-
All Other	(14)	(17)
Total	**$ 12,964**	**$ (17,867)**

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

Budget Subsidy Rates for Loan Guarantees for FY 2017 Cohorts

Loans Guarantee Programs	Default	Fees and Other Collections	Total
FHA Programs			
MMI/CMHI Funds			
Single Family - Forward	2.4%	-7.8%	-5.4%
Single Family - HECM	7.1%	-7.4%	-0.3%
Single Family - Refinancing	8.3%	-8.3%	0.0%
Multifamily - Section 213	0.0%	0.0%	0.0%
GI/SRI Funds			
Apartments - NC/SC	1.5%	-4.2%	-2.7%
Apartments - NC/SC 04/01/2016	0.0%	0.0%	0.0%
Apartments - Refinance	0.5%	-4.2%	-3.7%
Apartments Refinance - 04/01/16	0.0%	0.0%	0.0%
Healthcare			
MF - FHA Full Insurance - Health Care	2.5%	-8.4%	-5.9%
MF - Hospitals	1.1%	-6.7%	-5.6%
H4H Programs			
Single Family - Section 257 (10/1/2009 - Present)	0.0%	0.0%	0.0%
All Other Programs			
CDBG, Section 108(b)	2.6%	-2.6%	0.0%
Loan Guarantee Recovery Fund	50.0%	0.0%	50.0%
Indian Housing Loan Guarantee Fund	3.8%	-3.9%	-0.1%
Native Hawaiian Home Guarantee Loan Fund	0.7%	-1.0%	-0.3%
Title VI Indian Housing Loan Guarantee	11.2%	0.0%	11.2%

Budget Subsidy Rates for Loan Guarantees for FY 2016 Cohorts

Loans Guarantee Programs	Default	Fees and Other Collections	Total
FHA Programs			
MMI/CMHI Funds			
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%
Multifamily - Section 213	0.0%	0.0%	0.0%
GI/SRI Funds			
Apartments - NC/SC	2.4%	-5.2%	-2.8%
Apartments - NC/SC 04/01/2016	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			
MF - FHA Full Insurance - Health Care	4.0%	-7.4%	-3.4%
MF - Hospitals	3.2%	-6.5%	-3.3%
H4H Programs			
Single Family - Section 257 (10/1/2009 - Present)	0.0%	0.0%	0.0%
All Other Programs			
CDBG, Section 108(b)	0.0%	0.0%	0.0%
Loan Guarantee Recovery Fund	50.0%	0.0%	50.0%
Indian Housing Loan Guarantee Fund	0.6%	0.0%	0.6%
Native Hawaiian Home Guarantee Loan Fund	0.5%	0.0%	0.5%
Title VI Indian Housing Loan Guarantee	11.5%	0.0%	11.5%

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

Beginning Balance, Changes, and Ending Balance	**2017**	**2016**
Beginning balance of the loan guarantee liability	$ (503)	$ 15,571
Add: Subsidy Expense for guaranteed loans disbursed during reporting years by component:		
(a) Interest supplement costs	-	-
(b) Default costs (net of recoveries)	7,557	6,675
(c) Fees and Other Collections	(21,735)	(18,081)
(d) Other subsidy costs	2,359	1,791
Total of the above subsidy expense components	$ (11,819)	$ (9,615)
Adjustments:		
(a) Loan Guarantee Modifications	-	-
(b) Fees Received	14,581	14,043
(c) Interest Supplement Paid	-	-
(d) Foreclosed Properties and Loans Acquired	8,735	11,164
(e) Claims Payments to Lenders	(21,218)	(22,445)
(f) Interest Accumulation on the Liability Balance	282	(176)
(g) Other	45	814
Ending Balance of the loan guarantee liability before re-estimates	$ (9,897)	$ 9,356
Add or Subtract Subsidy Re-estimates by Component:		
(a) Interest Rate Re-estimate	-	-
(b) Technical Default Re-estimate	4,964	(3,587)
(c) Adjustment of prior years' credit subsidy re-estimates	25,817	(6,272)
Total of the above re-estimate components	30,781	(9,859)
Ending Balance of the Loan Guarantee Liability	$ 20,884	$ (503)
Adjustment for Unrealized Ginnie Mae claims from defaulted loans	$ (550)	$ (1,554)
Ending Balance of the Loan Guarantee Liability	**$ 20,334**	**$ (2,057)**

O. Administrative Expenses (dollars in millions):

Loan Guarantee Program	2017	2016
FHA	$ 534	$ 586
All Other	-	-
Total	$ 534	$ 586

Note 8: Other Non-Credit Reform Loans

The following shows HUD's Other Non-Credit Reform Loans Receivable as of September 30, 2017 and 2016 (dollars in millions):

	2017		
Description	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	$ 3,071	$ (454)	$ 2,617
Advances Against Defaulted Mortgage-Backed Security Pools, net	-	-	-
Properties Held for Sale, net	45	-	45
Foreclosed Property	309	(49)	260
Short Sale Claims Receivable	65	(47)	18
Total	**$ 3,490**	**$ (550)**	**$ 2,940**

	2016 (Restated)		
Description	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	$ 3,615	$ (1,243)	$ 2,372
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
Total	**$ 4,379**	**$ (1,554)**	**$ 2,825**

Other Non-Credit Reform Loans consist of Ginnie Mae Advances Against Defaulted Mortgage-Backed Security Pools, Mortgage Loans Held for Investment, Properties Held for Sale, Short Sale Claims Receivable, Properties Held for Sale, 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, assume the servicing rights and obligations of the issuer's entire Ginnie Mae guaranteed, pooled loan portfolio of the defaulted issuer. Ginnie Mae utilizes the Master Sub-servicers to service these portfolios. There are currently two MSSs for Single Family and one MSS for Manufactured Housing defaulted issuers. These MSSs currently service 100 percent of all non-pooled loans.

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

A. Mortgage loans are uninsured by the FHA, USDA, VA, or PIH
B. Mortgage loans were previously insured but insurance is currently denied (collectively with A, referred to as uninsured mortgage loans)

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

C. Mortgage loans are insured but are delinquent for more than 90 and 120 days based on management discretion for manufactured housing and single-family loans, respectively

At year end, 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 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 FY 2017 and FY 2016. The fair value option allows certain financial assets, such as acquired loans, to be reported at fair value (with unrealized gains and losses reported in the Statement of Revenues and Expenses). Ginnie Mae reserves the right to elect the fair value option for newly acquired loans in future periods. As the fair value option was not elected and Ginnie Mae has the ability and 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 HFI and subsequently transfers to HFS, those loans should be recognized at the lower of cost or fair value until sold.

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

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.

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 HFS balance is one of the line items for which Ginnie Mae Management is currently performing an assessment related to the recognition and measurement as compared to US GAAP requirements. Currently, Ginnie Mae does not have access to broker price opinions or other fair value data for acquired properties. A further assessment of data availability is currently being performed.

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.

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, in 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 in which Ginnie Mae believes collection is not probable, Ginnie Mae records an allowance for short sales claims receivable. The allowance for short sales claims receivable is estimated based on actual and expected recovery experience including expected recoveries from FHA, USDA, VA, and PIH. The aggregate of the short sales receivable and the allowance for short sales receivable is the amount that Ginnie Mae determines to be collectible. Ginnie Mae records a charge-off as a reduction to the allowance for loan losses when losses are confirmed through the receipt of claims in full satisfaction of a loan from an insuring agency. Management is currently assessing current and historic accounting practices for potential restatement.

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

General property, plant, and equipment consists of furniture, fixtures, equipment, and data processing software used in providing goods and services that have an estimated useful life of two or more years. Purchases of $100,000 or more are recorded as an asset and depreciated over their estimated useful life on a straight-line basis with no salvage value. Capitalized replacement and improvement costs are depreciated over the remaining useful life of the replaced or improved asset. Generally, the Department’s assets are depreciated over a four-year period, unless it can be demonstrated that the estimated useful life is significantly greater than four years.

The following shows general property, plant, and equipment as of September 30, 2017 and 2016 (dollars in millions):

Description	2017 Cost	2017 Accumulated Depreciation and Amortization	2017 Book Value	2016 Cost	2016 Accumulated Depreciation and Amortization	2016 Book Value
Equipment	$ 6	$ (2)	$ 4	$ 4	$ (3)	$ 1
Equipment - Ginnie Mae	4	(3)	1	5	-	5
Leasehold Improvements	1	-	1	-	-	-
Leasehold Improvements - Ginnie Mae	-	-	-	-	-	-
Internal Use Software	79	(71)	8	79	(68)	11
Internal Use Software - Ginnie Mae	168	(120)	48	138	(104)	34
Internal Use Software in Development	312	-	312	286	-	286
Internal Use Software in Development - Ginnie Mae	39	-	39	44	-	44
Capital Leases	-	-	-	-	-	-
Capital Leases - Ginnie Mae	1	(1)	-	-	-	-
Total	**$ 610**	**$ (197)**	**$ 413**	**$ 556**	**$ (175)**	**$ 381**

Note 10: PIH Prepayments

HUD's assets include the Department's estimates for restricted net position (RNP) balances maintained by Public Housing Authorities under the Housing Choice Voucher Program. RNP balances represent disbursements to PHAs that are in excess of their expenses. PHAs can use RNP balances to cover any valid housing assistance program (HAP) expenses. PIH has estimated RNP balances of $337 million for FY 2017, consisting of $211 million for the Housing Choice Voucher Program and $126 million for the Moving to Work Program. In FY 2016, the estimated RNP balance of $380 million consisted of $209 million for the Housing Choice Voucher Program and $171 million for the Moving to Work Program.

Note 11: Other Assets

The following shows HUD's Other Assets as of September 30, 2017 and 2016 (dollars in millions):

	2017				
Description	**FHA**	**Ginnie Mae**	**Section 8**	**All Other**	**Total**
Intragovernmental Assets:					
Other Assets	$ -	$ -	$ 3	$ 17	$ 20
Total Intragovernmental Assets	$ -	$ -	$ 3	$ 17	$ 20
Public:					
Escrow Monies Deposited at Minority-Owned Banks	$ -	$ -	$ -	$ -	$ -
Other Assets	-	-	-	-	-
Total	**$ -**	**$ -**	**$ 3**	**$ 17**	**$ 20**

	2016 (Restated)				
Description	**FHA**	**Ginnie Mae**	**Section 8**	**All Other**	**Total**
Intragovernmental Assets:					
Other Assets	$ -	$ -	$ 5	$ 38	$ 43
Total Intragovernmental Assets	$ -	$ -	$ 5	$ 38	$ 43
Public:					
Escrow Monies Deposited at Minority-Owned Banks	$ -	$ -	$ -	$ -	$ -
Other Assets	-	-	-	-	-
Total	**$ -**	**$ -**	**$ 5**	**$ 38**	**$ 43**

Intragovernmental Other Assets primarily represent the Department's Policy, Development, and Research program.

Note 12: Liabilities Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2017 and 2016 (dollars in millions):

Description	2017		2016 (Restated)	
Intragovernmental				
Other Intragovernmental Liabilities	$	364	$	236
Total Intragovernmental Liabilities	$	364	$	236
Public				
Federal Employee and Veterans' Benefits	$	65	$	64
Loss Liability		268		2
Other Liabilities		281		132
Total Public	$	614	$	198
Total Not Covered	$	978	$	434
Total Covered		55,982		36,782
Total Liabilities	**$**	**56,960**	**$**	**37,216**

HUD's other governmental liabilities principally consist of Ginnie Mae's deferred revenue, FHA's special receipt account, and the Department's payroll costs.

Note 13: Debt

Several HUD programs have the authority to borrow funds from the U.S. Treasury for program operations. Additionally, the National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. Also, PHAs and TDHEs borrowed funds from the private sector and 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, 2017 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Federal Financing Bank	$ 555	$ 632	$ 1,187
Debt to the U.S. Treasury	30,447	(2,365)	28,082
Held by the Public	8	(5)	3
Total	$ 31,010	$ (1,738)	$ 29,272
Classification of Debt:			
Intragovernmental Debt			$ 29,269
Debt held by the Public			3
Total			**$ 29,272**

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):

Description	Beginning Balance	Net Borrowings	Ending Balance
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	8	-	8
Total	$ 27,158	$ 3,852	$ 31,010
Classification of Debt:			
Intragovernmental Debt			$ 31,002
Debt held by the Public			8
Total			**$ 31,010**

Interest paid on borrowings as of September 30, 2017 and 2016 was $1,159 million and $1,221 million, respectively. The purpose of these borrowings is discussed in the following paragraphs.

Borrowings 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 1.67 percent to 7.36 percent during fiscal year 2017.

HUD's Other Programs with outstanding aggregate borrowings are the Indian Housing Loan Guarantee Program, the Native Hawaiian Housing Block Grant Program, the Emergency Homeowner's Loan Program, and the Green Retrofit Program.

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

During the 1960s to 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. All FFB borrowings had been repaid.

Starting in FY 2015, FHA began a 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 14: Federal Employee and Veterans' Benefits

HUD 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 $65 million as of September 30, 2017 and $64 million as of September 30, 2016. Future payments on this liability are to be funded by future financing sources.

Note 15: Other Liabilities

The following shows HUD's Other Liabilities as of September 30, 2017 and 2016 (dollars in millions):

	2017		
Description	**Non-Current**	**Current**	**Total**
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ -	$ 1,673	$ 1,673
Unfunded FECA Liability	14	-	14
Employer Contributions and Payroll Taxes	-	9	9
Miscellaneous Receipts Payable to Treasury	-	351	351
Advances to Federal Agencies	-	14	14
Total Intragovernmental Liabilities	$ 14	$ 2,047	$ 2,061
Other Liabilities			
FHA Other Liabilities	$ -	$ 340	$ 340
FHA Escrow Funds Related to Mortgage Notes	-	296	296
Ginnie Mae Deferred Income	437	26	463
Deferred Credits	-	2	2
Deposit Funds	-	14	14
Accrued Unfunded Annual Leave	76	-	76
Accrued Funded Payroll Benefits	-	32	32
Contingent Liability	192	-	192
Other	7	9	16
Total	**$ 726**	**$ 2,766**	**$ 3,492**

	2016 (Restated)		
Description	**Non-Current**	**Current**	**Total**
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	286	20	306
Deferred Credits	139	4	143
Deposit Funds	-	9	9
Accrued Unfunded Annual Leave	77	-	77
Accrued Funded Payroll Benefits	-	32	32
Contingent Liability	55	-	55
Other	7	17	24
Total	**$ 579**	**$ 3,945**	**$ 4,524**

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

As of September 30, 2017, FHA's Other Liabilities consisted of liabilities for premiums collected on unendorsed cases of $243 million and miscellaneous liabilities of $97 million, which included disbursements in transit and unearned premium revenue. In addition, FHA had liabilities for escrow funds related to mortgage notes totaling $296 million. As of September 30, 2016, FHA premiums collected on unendorsed cases were $345 million, miscellaneous liabilities were $198 million, and escrow funds related to mortgage notes were $311 million. Premiums collected for unendorsed cases represent liabilities associated with premiums collections for cases that have yet to be endorsed.

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

Note 16: Contingencies

Lawsuits and Other

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. Pending litigation on this case will likely take one or many years to resolve. The Union's version of compliance could cost up to $695 million, including attorney's fees if the parties do not resolve this matter, and if the Union gets all of its requested relief. In addition, on January 18, 2016, the Court issued an Opinion and Order granting the Public Housing Authorities Directors Association plaintiffs summary judgment on the question of HUD's liability. The parties will now enter the damage phase of this case. It is the plaintiff's burden to establish damages. The likelihood of loss has switched from reasonably possible to probable, but the amount of loss remains uncertain at this time although the plaintiff's complaint did seek about $137 million. The Department recorded a contingent liability in its financial statements of $192 million as of September 30, 2017 and $55 million as of September 30, 2016. 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.

The general counsel has reviewed FHA's and Ginnie Mae's claims for FY 2017 and determined that as of September 30, 2017 and 2016, the ultimate resolution of legal actions would not affect FHA's consolidated financial statements. As a result, no contingent liability has been recorded. In addition, Ginnie Mae has concluded that they have no contingent liabilities as of September 30, 2017.

As a result of the damages incurred by the recent hurricanes Harvey, Irma, and Maria, HUD expects to provide recovery and assistance funding for those areas. While immediate Department efforts have been focused on providing relief to displaced residents, HUD is continuing to assess what impact the storms will have on its financial position. As HUD assesses the status of each project and case with lenders, additional guidance may be issued and legislative relief may be sought, if necessary, to alleviate potential claims and losses against the insurance funds.

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 due to probable issuer default. At year end, Ginnie Mae recorded loss reserves of $268 million, and $2 million in FY 2016. 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 (OER) 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. OER 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: 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.

Rental Assistance Demonstration (RAD) Conversion Program

The Rental Assistance Demonstration (RAD) conversion program was created in order to give 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.

American Recovery and Reinvestment Act Programs (Recovery Act)

The Recovery Act included 17 programs at HUD which are distributed across three themes that align with the broader Recovery goals. A further discussion of HUD's accomplishments for the Recovery Act program can be found on the HUD website, specifically on the Recovery page. Previously, all programs were categorized as Funds from Dedicated Collections. In FY 2017, two programs (Working Capital Fund Recovery Act and Green Retrofit Program) were changed to Other Funds based on exclusions noted in SFFAS No. 27.

Manufactured Housing Fees Trust Fund

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

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

The following shows funds from dedicated collections as of September 30, 2017 (dollars in millions):

Balance Sheet	Ginnie Mae	Tenant Based Rental Assistance	Project Based Rental Assistance	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Other	Eliminations	Total Dedicated Collections
Fund Balance w/Treasury	$ 2,332	$ 23	$ 31	$ 11	$ 482	$ 18	$ -	$ -	$ -	$ 2,897
Cash and Other Monetary Assets	40	-	-	-	-	-	-	-	-	40
Investments	17,276	-	-	-	-	-	-	-	-	17,276
Accounts Receivable	159	-	-	4	-	-	-	-	(1)	162
Loans Receivable	-	-	-	-	379	-	-	-	-	379
Other Non-Credit Reform Loans Receivable	3,490	-	-	-	-	-	-	-	-	3,490
General Property, Plant and Equipment	88	-	-	-	-	-	-	-	-	88
Other Assets	-	-	-	-	-	-	-	-	-	-
Total Assets	**$ 23,385**	**$ 23**	**$ 31**	**$ 15**	**$ 861**	**$ 18**	**$ -**	**$ -**	**$ (1)**	**$ 24,332**
Debt - Intragovernmental	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accounts Payable - Intragovernmental	11	-	-	-	-	-	-	-	-	11
Accounts Payable - Public	52	-	-	-	-	2	-	-	-	54
Loan Guarantees	-	-	-	-	-	-	-	-	-	-
Loss Liability	268	-	-	-	-	-	-	-	-	268
Other Liabilities - Intragovernmental	-	-	-	-	-	-	-	-	-	-
Other Liabilities - Public	472	-	-	-	-	-	-	-	-	$ 472
Total Liabilities	$ 803	$ -	$ -	$ -	$ -	$ 2	$ -	$ -	$ -	$ 805
Unexpended Appropriations	$ -	$ 23	$ 31	$ -	$ (375)	$ -	$ -	$ -	$ -	$ (321)
Cumulative Results of Operations	22,582	-	-	15	1,236	16	-	-	1	23,850
Total Net Position	$ 22,582	$ 23	$ 31	$ 15	$ 861	$ 16	$ -	$ -	$ 1	$ 23,529
Total Liabilities and Net Position	**$ 23,385**	**$ 23**	**$ 31**	**$ 15**	**$ 861**	**$ 18**	**$ -**	**$ -**	**$ 1**	**$ 24,334**

Statement of Net Cost For the Period Ended	Ginnie Mae	Tenant Based Rental Assistance	Project Based Rental Assistance	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Other	Eliminations	Total Dedicated Collections
Gross Costs	$ 582	$ 73	$ 49	$ -	$ (6)	$ 8	$ -	$ -	$ (1)	$ 705
Less Earned Revenues	$ (1,691)	$ -	$ -	$ -	$ (3)	$ (14)	$ -	$ -	-	(1,708)
Net Costs	**$ (1,109)**	**$ 73**	**$ 49**	**$ -**	**$ (9)**	**$ (6)**	**$ -**	**$ -**	**$ (1)**	**$ (1,003)**

Statement of Changes in Net Position for the Period Ended	Ginnie Mae	Tenant Based Rental Assistance	Project Based Rental Assistance	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Other	Eliminations	Total Dedicated Collections
Net Position Beginning of Period	$ 21,473	$ 12	$ 18	$ 14	$ 851	$ 10	$ 9	$ -	$ -	$ 22,387
Correction of Errors	-	-	-	-	-	-	-	-	-	-
Appropriations Received	-	-	-	-	-	-	-	-	-	-
Transfers In/Out	-	84	62	-	-	-	-	-	-	146
Imputed Costs	2	-	-	-	-	-	-	-	-	2
Donations and Forfeitures of Cash & Cash Equivalents	-	-	-	-	-	-	-	-	-	-
Penalties, Fines and Administrative Fees Revenue	1	-	-	1	1	-	-	-	-	3
Other Adjustments	(3)	-	-	-	-	-	(9)	-	-	(12)
Net Cost of Operations	1,109	(73)	(49)	-	9	6	-	-	1	1,003
Change in Net Position	$ 1,109	$ 11	$ 13	$ 1	$ 10	$ 6	$ (9)	$ -	$ 1	$ 1,142
Net Position End of Period	**$ 22,582**	**$ 23**	**$ 31**	**$ 15**	**$ 861**	**$ 16**	**$ -**	**$ -**	**$ 1**	**$ 23,529**

The following shows funds from dedicated collections as of September 30, 2016 (Restated), (dollars in millions):

Balance Sheet	Ginnie Mae	Tenant Based Rental Assistance	Project Based Rental Assistance	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Other	Eliminations	Total Dedicated Collections
Fund Balance w/Treasury	$ 1,379	$ 12	$ 18	$ 9	$ 433	$ 14	$ 8	$ -	$ -	$ 1,873
Cash and Other Monetary Assets	60	-	-	-	-	-	-	-	-	60
Investments	15,954	-	-	-	-	-	-	-	-	15,954
Accounts Receivable	168	-	-	4	-	-	-	-	-	172
Loans Receivable	-	-	-	-	417	-	-	-	-	417
Other Non-Credit Reform Loans Receivable	4,379	-	-	-	-	-	-	-	-	4,379
General Property, Plant and Equipment	83	-	-	-	-	-	-	-	-	83
Other Assets	-	-	-	-	-	-	-	-	-	-
Total Assets	**$ 22,023**	**$ 12**	**$ 18**	**$ 13**	**$ 850**	**$ 14**	**$ 8**	**$ -**	**$ -**	**$ 22,938**
Debt - Intragovernmental	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Accounts Payable - Intragovernmental	-	-	-	-	-	-	-	-	-	-
Accounts Payable - Public	92	-	-	-	-	3	-	-	-	95
Loan Guarantees	-	-	-	-	-	-	-	-	-	-
Loss Liability	2	-	-	-	-	-	-	-	-	2
Other Liabilities - Intragovernmental	-	-	-	-	-	-	-	-	-	-
Other Liabilities - Public	455	-	-	-	-	-	-	-	-	455
Total Liabilities	$ 549	$ -	$ -	$ -	$ -	$ 3	$ -	$ -	$ -	$ 552
Unexpended Appropriations	$ -	$ 12	$ 18	$ (5)	$ (377)	$ -	$ 9	$ -	$ -	$ (343)
Cumulative Results of Operations	21,474	-	-	18	1,227	11	-	-	-	22,730
Total Net Position	$ 21,474	$ 12	$ 18	$ 13	$ 850	$ 11	$ 9	$ -	$ -	$ 22,387
Total Liabilities and Net Position	**$ 22,023**	**$ 12**	**$ 18**	**$ 13**	**$ 850**	**$ 14**	**$ 9**	**$ -**	**$ -**	**$ 22,939**
Statement of Net Cost For the Period Ended										
Gross Costs	$ 283	$ 33	$ 35	$ -	$ (4)	$ 15	$ 15	$ -	$ -	$ 377
Less Earned Revenues	$ (1,609)	$ -	$ -	$ -	$ (4)	$ (12)	$ -	$ -	$ -	(1,625)
Net Costs	**$ (1,326)**	**$ 33**	**$ 35**	**$ -**	**$ (8)**	**$ 3**	**$ 15**	**$ -**	**$ -**	**$ (1,248)**
Statement of Changes in Net Position for the Period Ended										
Net Position Beginning of Period	$ 20,175	$ 8	$ 9	$ 12	$ 841	$ 14	$ 54	$ -	$ -	$ 21,113
Correction of Errors	(32)	-	-	-	-	-	-	-	-	(32)
Appropriations Received	-	-	-	-	-	-	-	-	-	-
Transfers In/Out	-	37	43	-	-	-	-	-	-	80
Imputed Costs	1	-	-	-	-	-	-	-	-	1
Donations and Forfeitures of Cash & Cash Equivalents	-	-	-	-	-	-	-	-	-	-
Penalties, Fines and Administrative Fees Revenue	2	-	-	1	1	-	-	-	-	4
Other Adjustments	-	-	-	-	-	-	(28)	-	-	(28)
Net Cost of Operations	1,326	(33)	(35)	-	8	(3)	(15)	-	-	1,248
Change in Net Position	$ 1,329	$ 4	$ 8	$ 1	$ 9	$ (3)	$ (43)	$ -	$ -	$ 1,305
Net Position End of Period	**$ 21,472**	**$ 12**	**$ 17**	**$ 13**	**$ 850**	**$ 11**	**$ 11**	**$ -**	**$ -**	**$ 22,386**

Note 18: Intragovernmental Costs and Exchange Revenue

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

The following shows HUD's intragovernmental costs and exchange revenue as of September 30, 2017 and 2016 (dollars in millions):

2017

Description	Federal Housing Administration	Ginnie Mae	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for Elderly and Disabled	Community Development Block Grants (CDBG)	HOME	All Other	Consolidating
Intragovernmental Costs	$ 1,172	$ 83	$ 263	$ 16	$ 11	$ 13	$ 54	$ 4	$ 198	$ 1,814
Public Costs	19,684	498	32,337	2,373	2,022	922	5,710	1,070	5,567	70,183
Subtotal Costs	$ 20,856	$ 581	$ 32,600	$ 2,389	$ 2,033	$ 935	$ 5,764	$ 1,074	$ 5,765	$ 71,997
Unassigned Costs									$ 185	$ 185
Total Costs										$ 72,182
Intragovernmental Earned Revenue	$ (1,675)	$ (165)	$ -	$ -	$ (1)	$ -	$ -	$ -	$ (16)	$ (1,857)
Public Earned Revenue	(78)	(1,526)	-	-	-	(92)	-	-	(18)	(1,714)
Total Earned Revenue	$ (1,753)	$ (1,691)	$ -	$ -	$ (1)	$ (92)	$ -	$ -	$ (34)	$ (3,571)
Net Cost of Operations	**$ 19,103**	**$ (1,110)**	**$ 32,600**	**$ 2,389**	**$ 2,032**	**$ 843**	**$ 5,764**	**$ 1,074**	**$ 5,916**	**$ 68,611**

2016 Restated

Description	Federal Housing Administration	Ginnie Mae	Section 8 Rental Assistance	Public and Indian Housing Loans and Grants (PIH)	Homeless Assistance Grants	Housing for Elderly and Disabled	Community Development Block Grants (CDBG)	HOME	All Other	Consolidating
Intragovernmental Costs	$ 1,239	$ 5	$ 139	$ 29	$ 6	$ 17	$ 18	$ 4	$ 423	$ 1,880
Public Costs	(18,997)	278	30,604	2,966	1,951	957	6,268	1,163	5,838	31,028
Subtotal Costs	$ (17,758)	$ 283	$ 30,743	$ 2,995	$ 1,957	$ 974	$ 6,286	$ 1,167	$ 6,261	$ 32,908
Unassigned Costs									$ 262	$ 262
Total Costs										$ 33,170
Intragovernmental Earned Revenue	$ (1,151)	$ (85)	$ -	$ -	$ -	$ -	$ -	$ -	$ (20)	$ (1,256)
Public Earned Revenue	(67)	(1,524)	-	-	5	(109)	-	-	(17)	(1,712)
Total Earned Revenue	$ (1,218)	$ (1,609)	$ -	$ -	$ 5	$ (109)	$ -	$ -	$ (37)	$ (2,968)
Net Cost of Operations	**$ (18,976)**	**$ (1,326)**	**$ 30,743**	**$ 2,995**	**$ 1,962**	**$ 865**	**$ 6,286**	**$ 1,167**	**$ 6,486**	**$ 30,202**

Note 19: Net Costs of HUD's Cross-Cutting Programs

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

The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas as of September 30, 2017 (dollars in millions):

	FY 2017				
HUD's Cross-Cutting Programs	**Public and Indian Housing**	**Housing**	**Community Planning and Development**	**Other**	**Consolidated**
Section 8					
Intragovernmental Gross Costs	$ 98	$ 165	$ -	$ -	$ 263
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	98	165	-	-	263
Gross Costs with the Public	20,959	11,295	83	-	32,337
Earned Revenues	-	-	-	-	-
Net Costs with the Public	20,959	11,295	83	-	32,337
Net Program Costs	**$ 21,057**	**$ 11,460**	**$ 83**	**$ -**	**$ 32,600**
PIH					
Intragovernmental Gross Costs	$ 16	$ -	$ -	$ -	$ 16
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	16	-	-	-	16
Gross Costs with the Public	2,339	-	-	34	2,373
Earned Revenues	-	-	-	-	-
Net Costs with the Public	2,339	-	-	34	2,373
Net Program Costs	**$ 2,355**	**$ -**	**$ -**	**$ 34**	**$ 2,389**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$ -	$ -	$ 11	$ -	$ 11
Intragovernmental Earned Revenues	-	-	(1)	-	(1)
Total Intragovernmental Net Costs	-	-	10	-	10
Gross Costs with the Public	-	-	2,021	1	2,022
Earned Revenues	-	-	-	-	-
Net Costs with the Public	-	-	2,021	1	2,022
Net Program Costs	**$ -**	**$ -**	**$ 2,031**	**$ 1**	**$ 2,032**
Housing for the Elderly and Disabled					
Intragovernmental Gross Costs	$ -	$ 13	$ -	$ -	$ 13
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	-	13	-	-	13
Gross Costs with the Public	-	923	-	(1)	922
Earned Revenues	-	(3)	-	(89)	(92)
Net Costs with the Public	-	920	-	(90)	830
Net Program Costs	**$ -**	**$ 933**	**$ -**	**$ (90)**	**$ 843**
Community Development Block Grants					
Intragovernmental Gross Costs	$ -	$ -	$ 54	$ -	$ 54
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	-	-	54	-	54
Gross Costs with the Public	61	-	5,638	11	5,710
Earned Revenues	-	-	-	-	-
Net Costs with the Public	61	-	5,638	11	5,710
Net Program Costs	**$ 61**	**$ -**	**$ 5,692**	**$ 11**	**$ 5,764**
HOME					
Intragovernmental Gross Costs	$ -	$ -	$ 4	$ -	$ 4
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	-	-	4	-	4
Gross Costs with the Public	-	-	1,070	-	1,070
Earned Revenues	-	-	-	-	-
Net Costs with the Public	-	-	1,070	-	1,070
Net Program Costs	**$ -**	**$ -**	**$ 1,074**	**$ -**	**$ 1,074**
All Other					
Intragovernmental Gross Costs	$ 80	$ 87	$ 36	$ (5)	$ 198
Intragovernmental Earned Revenues	(8)	(1)	(3)	(2)	(14)
Total Intragovernmental Net Costs	72	86	33	(7)	184
Gross Costs with the Public	4,846	284	472	(35)	5,567
Earned Revenues	-	(19)	-	(1)	(20)
Net Costs with the Public	4,846	265	472	(36)	5,547
Net Program Costs	**$ 4,918**	**$ 351**	**$ 505**	**$ (43)**	**$ 5,731**
Costs Not Assigned to Programs	62	81	42	-	185
Net Program Costs (including indirect costs)	**$ 4,980**	**$ 432**	**$ 547**	**$ (43)**	**$ 5,916**

The following table shows the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas as of September 30, 2016 restated (dollars in millions):

	FY 2016 (Restated)				
HUD's Cross-Cutting Programs	**Public and Indian Housing**	**Housing**	**Community Planning and Development**	**Other**	**Consolidated**
Section 8					
Intragovernmental Gross Costs	$ 126	$ 13	$ -	$ -	$ 139
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	126	13	-	-	139
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
Net Program Costs	**$ 19,995**	**$ 10,665**	**$ 83**	**$ -**	**$ 30,743**
PIH					
Intragovernmental Gross Costs	$ 29	$ -	$ -	$ -	$ 29
Intragovernmental Earned Revenues	-	-	-	-	-
Total 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
Net Program Costs	**$ 2,986**	**$ -**	**$ -**	**$ 9**	**$ 2,995**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$ -	$ -	$ -	$ 6	$ 6
Intragovernmental Earned Revenues	-	-	-	-	-
Total 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
Net Program Costs	**$ -**	**$ -**	**$ 1,914**	**$ 48**	**$ 1,962**
Housing for the Elderly and Disabled					
Intragovernmental Gross Costs	$ -	$ 17	$ -	$ -	$ 17
Intragovernmental Earned Revenues	-	-	-	-	-
Total 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
Net Program Costs	**$ 2**	**$ 972**	**$ -**	**$ (109)**	**$ 865**
Community Development Block Grants					
Intragovernmental Gross Costs	$ -	$ -	$ 17	$ -	$ 17
Intragovernmental Earned Revenues	-	-	-	-	-
Total Intragovernmental Net Costs	-	-	17	-	17
Gross Costs with the Public	59	-	6,203	7	6,269
Earned Revenues	-	-	-	-	-
Net Costs with the Public	59	-	6,203	7	6,269
Net Program Costs	**$ 59**	**$ -**	**$ 6,220**	**$ 7**	**$ 6,286**
All Other					
Intragovernmental Gross Costs	$ 38	$ 109	$ 38	$ 238	$ 423
Intragovernmental Earned Revenues	-	-	-	(20)	(20)
Total Intragovernmental Net Costs	38	109	38	218	403
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
Net Program Costs	**$ 4,850**	**$ 323**	**$ 588**	**$ 463**	**$ 6,224**
Costs Not Assigned to Programs	89	104	69	-	262
Net Program Costs (including indirect costs)	**$ 4,939**	**$ 427**	**$ 657**	**$ 463**	**$ 6,486**

Note 20: 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 incurring 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 year 1988, HUD's subsidy programs, primarily the Section 8 program and Section 235/236 programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multiyear contracts within annual and total contract limitation ceilings. HUD then drew on 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 existed to draw on the permanent indefinite appropriations. Beginning in FY 1988, the Section 8 and 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 general, 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, 2017 (dollars in millions):

	Undelivered Orders				
Programs	**Unexpended Appropriations**	**Permanent Indefinite**	**Investment Authority**	**Offsetting Collections**	**Undelivered Orders - Obligations, Unpaid**
FHA	$ 143	$ 81	$ -	$ 2,584	$ 2,808
Ginnie Mae	-	-	-	679	679
Section 8 Rental Assistance	8,269	-	-	-	8,269
Low Rent Public Housing Loans and Grants	4,187	-	-	-	4,187
Homeless Assistance Grants	2,351	-	-	-	2,351
Housing for the Elderly and Disabled	1,388	-	-	-	1,388
Community Development Block Grants	14,755	-	-	-	14,755
HOME Partnership Investment Program	2,138	-	-	-	2,138
Section 235/236	592	-	-	-	592
All Other	2,409	-	-	-	2,409
Total	**$ 36,232**	**$ 81**	**$ -**	**$ 3,263**	**$ 39,576**

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2016 (dollars in millions):

	Undelivered Orders				
Programs	**Unexpended Appropriations**	**Permanent Indefinite**	**Investment Authority**	**Offsetting Collections**	**Undelivered Orders - Obligations, Unpaid**
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
Total	**$ 32,620**	**$ 80**	**$ -**	**$ 2,437**	**$ 35,137**

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, 2017 (dollars in millions):

	Reservations			
Programs	**Unexpended Appropriations**	**Permanent Indefinite Appropriations**	**Offsetting Collections**	**Total Reservations**
Ginnie Mae	$ -	$ -	$ 7	$ 7
Section 8 Rental Assistance	91	-	-	91
Low Rent Public Housing Loans and Grants	31	-	-	31
Homeless Assistance Grants	278	-	-	278
Housing for the Elderly and Disabled	135	-	-	135
Community Development Block Grants	2,077	-	-	2,077
HOME Partnership Investment Program	612	-	-	612
All Other	435	-	-	435
Total	**$ 3,659**	**$ -**	**$ 7**	**$ 3,666**

The following chart shows HUD's administrative commitments as of September 30, 2016 (dollars in millions):

	Reservations			
Programs	**Unexpended Appropriations**	**Permanent Indefinite Appropriations**	**Offsetting Collections**	**Total Reservations**
Ginnie Mae	$ -	$ -	$ -	$ -
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
All Other	266	-	-	266
Total	**$ 8,502**	**$ -**	**$ -**	**$ 8,502**

Note 21: 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 as of September 30, 2017 and 2016, were as follows (dollars in millions):

	Category A	Category B	Total
2017			
Direct	$ 1,040	$ 112,342	$ 113,382
Reimbursable	-	4,350	4,350
Total	**$ 1,040**	**$ 116,692**	**$ 117,732**

	Category A	Category B	Total
2016			
Direct	$ 912	$ 105,436	$ 106,348
Reimbursable	-	3,827	3,827
Total	**$ 912**	**$ 109,263**	**$ 110,175**

Note 22: Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

For FY 2016, 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 differences between Budgetary Resources reported in the Statement of Budgetary Resources and the President's Budget for FY 2016 (dollars in millions):

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Per the FY2016 Statement of Budgetary Resources (SBR)	$ 196,009	$ 110,175	$ 2,302	$ 50,854
Expired Funds in SBR not included in the President's Budget	(849)	-	-	-
Offsetting receipts not included in the President's Budget	-	-	(198)	-
Timing difference related to the recordation of Borrowing Authority	234	-	-	-
Miscellaneous Differences	(62)	(5)	(1)	(6)
Budget of the U.S. Government	**$ 195,332**	**$ 110,170**	**$ 2,103**	**$ 50,848**

Note 23: 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 for September 30, 2017 and 2016 is as follows (dollars in millions):

		2017		2016 (Restated)
Budgetary Resources Obligated				
Obligations Incurred	$	117,732	$	110,175
Spending Authority from Offsetting Collections and Recoveries		(65,240)		(62,119)
Obligations Net of Offsetting Collections	$	52,492	$	48,056
Offsetting Receipts		(1,369)		(2,302)
Net Obligations	$	51,123	$	45,754
Other Resources				
Transfers In/Out Without Reimbursement	$	(2)	$	-
Imputed Financing from Costs Absorbed by Others		55		159
FHA Other Resources		(413)		(2,064)
Net Other Resources Used to Finance Activities	$	(360)	$	(1,905)
Total Resources Used to Finance Activities	$	50,763	$	43,849
Resources Used to Finance Items Not Part of the Net Cost of Operations:				
Change in Budgetary Resources Obligated for Goods/Services/Benefits Ordered but Not Yet Provided	$	(4,346)	$	3,317
Credit Program Collections that Increase LLG or Allowances for Subsidy		441		517
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities		(52,448)		(49,156)
Resources that Fund Expenses from Prior Periods		(4,246)		(6,886)
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations		58,808		56,032
Other		731		1,352
Total Resources Used to Finance Items Not Part of Net Cost of Operations	$	(1,060)	$	5,176
Total Resources Used to Finance the Net Cost of Operations	$	49,703	$	49,025
Components of the Net Cost of Operations Not Requiring/Generating Resources in the Current Period				
Upward/Downward Re-estimates of Credit Subsidy Expense	$	30,842	$	(9,737)
Increase in Exchange Revenue Receivable from the Public		(164)		(109)
Revaluation of Assets or Liabilities		44		-
Depreciation and Amortization		23		21
Increase In Annual Leave Liability		(1)		57
Reduction of Credit Subsidy Expense from Guarantee Endorsements and Modifications		(11,857)		(9,716)
Other		21		661
Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period	$	18,908	$	(18,823)
Net Cost of Operations	**$**	**68,611**	**$**	**30,202**

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). Ginnie Mae used an alternative calculation for their non-administrative funds as follows: Spending Authority from Offsetting Collections (SBR line 1890) and Recoveries (SBR line 3042).

Note 24: Restatement of the Department’s Fiscal Year 2016 Financial Statements

During fiscal year 2017, the Department identified errors in the fiscal year 2016 financial statements and notes caused by mathematical mistakes, mistakes in the application of accounting principles, and oversight of facts that existed when the statements were originally prepared. Although, the errors are generally not material at the consolidated level, some errors were material at the stand-alone component level (Ginnie Mae and Federal Housing Administration). The errors caused assets, liabilities, cumulative results of operation, and budgetary resources to be understated, and net cost to be overstated. These errors have been corrected at the component level, resulting in restated consolidated financial statements for fiscal year 2016, which flow-through to the beginning balances of the fiscal year 2017 consolidated financial statements. HUD will work with the components to strengthen controls, review accounting principle application, and develop analytical tools.

The components had errors in their loan and guarantee modeling methodologies and calculations, mistakes in applying some commercial and federal accounting principles, and a limited number of mathematical mistakes related to data oversights. Ginnie Mae misapplied accounting principles related to loan impairment guidance, which caused inappropriate values to be considered in calculating the loan loss allowance. The loan loss allowance model has been realigned to address the accounting principles issues, but the underlining data for the model continues to have deficiencies; thus, the resulting information should not be relied upon. In addition, Ginnie Mae made changes in recognizing revenue related to fees collected for security issuances, corrected invalid balances related to accounts payable, properly reversed accrued liabilities and related expenses, and recorded deposits in transits for multiclass fees collected. Federal Housing Administration omitted a limited number of active guarantees in their endorsement calculations, did not consider a full year of data in another instance to determine outstanding loan guarantees, and used an inconsistent discount factor in the re-estimate process for one loan program, which primarily impacted Note 7. The market value for long term-securities for Federal Housing Administration primarily impacted Note 5. Separately, HUD recorded an imputed cost for a legal claim that was paid by the Treasury Judgement Fund to the incorrect program and mis-categorized two American Recovery and Reinvestment Act Programs as dedicated collections.

There were other potential material misstatements in the fiscal year 2017 financial statements and no adjustments had been made because the specific amount of the misstatements and their related effects were unknown.

The related effect of correcting these errors on the previously issued fiscal year 2016 consolidated financial statements, Notes 5, and 7 was as follows:

Balance Sheet. Total assets and total liabilities increased by $200 million and $112 million, respectively, and total net position increased by $88 million. Specifically, cash increased by $53 million, accounts receivable increased by $55 million, other non-credit reform loans increased by $145 million, other assets decreased by $53 million, accounts payable decreased by $20 million, loss reserves decreased by $1 million, other governmental liabilities increased by $133 million. Other Assets was affected by FHA's Public Escrow Monies Deposited at Minority-Owned Banks with a decrease of $29 million and Other Assets decreasing by $24 million.

Statement of Changes in Net Position. Cumulative results of operations were impacted by a decrease in net cost of operations of $112 million. This was offset by decreases in both the cumulative results of operations, beginning balance of $23 million and non-exchange revenue of $1 million. The recategorization of dedicated collections, while having a zero impact on overall net position, resulted in a $13 million decrease to Net Position for Funds from Dedicated Collections and a $13 million increase to Net Position for Other Funds.

Statement of Net Cost. Gross costs and earned revenue decreased by $149 million and $37 million, respectively, resulting in an overall decrease in net cost of operations of $112 million. The charging of imputed cost for a legal claim to the correct program, while having zero impact on the overall Net Cost, resulted in a $90 million gross costs decrease to the All Other line and a $90 million increase to the Section 8 Rental Assistance line.

Statement of Budgetary Resources. Adjustments to unobligated balance brought forward increased by $20 million, and unapportioned unexpired accounts increased by $20 million.

Note 5: Investments. The Long-Term Securities for FY 2016, the Market Value decreased by $38 million.

Note 7: Direct Loans and Loan Guarantees, Non-Federal Borrowers. The impact for the Loan Guaranteed Loans Disbursed for 2016 affected the FHA MMI/CMCHI funds for the Outstanding Principal, Guaranteed Loans, Face Value line increased by $23,710 million and for the Outstanding Principal Guaranteed amount also increased by $23,124 million.

Required Supplementary Stewardship Information

Introduction

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

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

- Community Planning and Development (CPD),
- Public and Indian Housing (PIH), and
- Office of Lead Hazard Control and Healthy Homes (OLHCHH).

Overview of HUD's Major Programs

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

- **Community Development Block Grants (CDBG)** are provided to state and local communities, which use these funds to support a wide variety of community development activities within their jurisdictions. These activities are designed to benefit low- and moderate-income persons, aid in the prevention of slums and blight, and meet other urgent community development needs. State and local communities use the funds as they deem necessary, as long as the use of these funds meet at least one of these objectives. A portion of the funds supports the acquisition, construction or rehabilitation of permanent, residential structures that qualify as occupied by and benefiting low- and moderate-income persons, while other funds help to provide employment and job training to low- and moderate-income persons.
- **Disaster Recovery Assistance (Disaster Grants/CDBG-DR)** is a CDBG program that helps state and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate, construct, or demolish physical property.

- **The HOME Investment Partnerships Program (HOME)** provides formula grants to states and localities (used often in partnership with local nonprofit groups) to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for low-income persons.
- **Homeless – Continuum of Care (CoC)** The Supportive Housing Program (SHP) was repealed and replaced by the Continuum of Care (CoC) Program effective FY 2012. The CoC is a body of stakeholders in a specific geographic area that plans and implements homeless assistance strategies (including the coordination of resources) to address the critical needs of homeless persons and facilitate their transition to jobs and independent living.
- **Emergency Solutions Grants (ESG)** provide formula funding to local units of government for homelessness prevention and to improve the number and quality of emergency and transitional shelters for homeless individuals and families.
- **Neighborhood Stabilization Program (NSP)** stabilizes communities that have suffered from foreclosures and abandonment. This includes providing technical assistance **(NSP TA)** as well as the purchase and redevelopment of foreclosed and abandoned homes and residential properties.
- **Housing Opportunities for People with HIV/AIDS (HOPWA)** provides education assistance and an array of housing subsidy assistance and supportive services to assist low-income families and individuals who are living with the challenges of HIV/AIDS and risks of homelessness.
- **Rural Innovation Fund (RIF)** offers grants throughout the nation to address distressed housing conditions and concentrated poverty. The grants promote an ‘entrepreneurial approach’ to affordable housing and economic development in rural areas by providing job training, homeownership counseling, and affordable housing to residents of rural and tribal communities.
- **Community Compass (formerly OneCPD)** provides technical assistance and capacity building to CPD grantees including onsite and remote training, workshops, and 1:1 assistance.

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

- **Indian Community Development Block Grants (ICDBG)** provide funds to Indian organizations to develop viable communities, including decent housing, a suitable living environment, and economic opportunities, principally for low and moderate-income recipients.

- The **Native Hawaiian Housing Block Grant (NHHBG)** program provides an annual block grant to the Department of Hawaiian Home Lands (DHHL) for a range of affordable housing activities to benefit low-income Native Hawaiians eligible to reside on the Hawaiian home lands. The DHHL has the authority under the NHHBG program to develop new and innovative affordable housing initiatives and programs based on local needs, including down payment and other mortgage assistance programs, transitional housing, domestic abuse shelters, and revolving loan funds.
- **Indian Housing Block Grants (IHBG)** provide funds needed to allow tribal housing organizations to maintain existing units and to begin development of new units to meet their critical long-term housing needs.
- **HOPE VI Revitalization Grants (HOPE VI)** provide support for the improvement of the living environment of public housing residents in distressed public housing units. Some investments support the acquisition, construction or rehabilitation of property owned by the PHA, state or local governments, while others help to provide education and job training to residents of the communities targeted for rehabilitation.
- **Choice Neighborhoods** grants transform distressed neighborhoods and public and assisted projects into viable and sustainable mixed-income neighborhoods by linking housing improvements with appropriate services, schools, public assets, transportation, and access to jobs.
- **The Public Housing (PH) Capital Fund** provides grants to PHAs to improve the physical conditions and to upgrade the management and operation of existing public housing.

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

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

RSSI Reporting – HUD's Major Programs

Non-Federal Physical Property

Investment in Non-Federal Physical Property: Non-Federal physical property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. These investments support HUD's strategic goals to increase the availability of decent, safe, and affordable housing and to strengthen communities. Through these investments, HUD serves to improve the quality of life and economic vitality. The table below summarizes material program investments in Non-Federal Physical Property, for fiscal years 2013 through 2017.

Investments in Non-Federal Physical Property
Fiscal Year 2013 – 2017
(Dollars in millions)

Program	2013	2014	2015	2016	2017
CPD					
CDBG	$1,129	$986	$922	$996	$992
Disaster Grants[1]	$327	$323	$400	$401	$321
HOME	$21	$24	$18	$14	$10
SHP/CoC - Homeless[2]	$1	$1	$0	$3	$2
NSP [3]	$6	$1	$1	$1	$0
RIF [4]	$3	$1	$0	$0	$0
PIH					
ICDBG [5]	$54	$56	$59	$57	$55
NHHBG	$12	$10	$9	$0	$2
IHBG [6]	$284	$254	$312	$242	$267
HOPE VI [7]	$127	$82	$57	$63	$20
Choice Neighborhoods [8]	$3	$22	$43	$70	$49
PH Capital Fund	$1,798	$1,706	$1,916	$1,830	$1,698
TOTAL	**$3,765**	**$3,466**	**$3,737**	**$3,677**	**$3,416**

Notes:

1. *Disasters are unpredictable, which causes material fluctuations. Grantees make action plan amendments which results in adjustments to DRGR. This and differences in the timeliness of reporting results in the prior years' numbers being updated.*
2. *Low dollar value was due to shrinking resources for new programs.*
3. *Program is nearing closeout, hence the reduction in disbursements between FY 2013 and FY 2014 and further reduction in FY 2017 to an amount not material to be included in the AFR.*
4. *Amount reported for FY 2015 is not material to be included in the AFR. More than 15 grantees completed their projects before FY 2015 as the grant period drew to a close. The final reporting period for the RIF program was 09/30/2015.*
5. *Amounts here are reported under the fiscal year in which they were appropriated, not necessarily the fiscal year in which they were awarded or expended.*
6. *Historical amounts were updated to reflect corrections made since the last report.*

7. *FY 2017: The decrease represents reduced LOCCS drawdown activity in Physical Property, as only 6% of the awarded HOPE VI grants had funds drawn from the eligible budget line items.*
8. *In FY 2017, an additional 5 grantees have begun to report development expenditures after being awarded a grant in 2016. Typically, there is a lag of time of 6 months to a year from the time of grant award to the time that physical development can start.*

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 2013 through 2017.

Investments in Human Capital
Fiscal Year 2013 – 2017
(Dollars in millions)

Program	2013	2014	2015	2016	2017
CPD					
CDBG	$24	$26	$25	$21	$32
Disaster Grants [1]	$284	$750	$347	$386	$251
ESG	$3	$3	$3	$3	$5
NSP TA [2]	$1	$0	$0	$0	$0
SHP/CoC - Homeless	$31	$26	$25	$16	$15
HOPWA	$1	$1	$0	$0	$0
Community Compass [3]	$21	$29	$38	$48	$54
PIH					
IHBG [4]	$1	$1	$2	$1	$8
HOPE VI	$12	$14	$5	$5	$6
Choice Neighborhoods [5]	$2	$3	$5	$12	$9
OLHCHH					
Lead Technical Assistance	$0	$1	$0	$0	$0
TOTAL	**$380**	**$854**	**$450**	**$492**	**$380**

Notes:

1. *New grantees received significant TA in FY 2016. In FY 2017, they are well established, hence the decrease. Homeownership Assistance for LMI was not to be included in the training data for current and prior years, hence the revisions to FY 2013 through FY 2016.*
2. *Program is nearing closeout, hence the reduced expenditures in FY 2014, FY 2015 and FY 2016 which are not material to be included in the AFR. All training portions of NSP are expected to end in FY 2017.*
3. *The FY 2017 expenditure increase is due to management focusing on timely utilization of older TA funding and an increase in TA staff which improved overall award management.*

4. *In FY 2017, ONAP focused on providing much more contracted technical assistance directly to tribes at their locations. Training funds were offered through a Notice of Funding Availability (NOFA) competition.*
5. *In FY 2017, an additional 5 grantees have begun to report development expenditures after being awarded a grant in 2016. Typically, there is a lag of time of 6 months to a year from the time of grant award to the time that physical development can start.*

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 2013 through 2017.

Results of Investments in Human Capital
Number of People Trained
Fiscal Year 2013 – 2017

Program	2013	2014	2015	2016	2017
CPD					
CDBG	68,236	54,350	51,808	47,805	73,922
SHP/CoC - Homeless [1]	16.5%	11.9%	N/A	N/A	N/A
HOPWA	1,595	1,415	1,064	502	956
NSP TA [2]	3,494	385	17	6	5
RIF [3]	1,048	279	397	0	0
Community Compass [4]	9,791	13,722	31,631	32,823	27,195
PIH					
NHHBG [5]	0	0	0	113	5
IHBG [6]	1,077	1,167	1,756	1,752	1,812
HOPE VI (*see table on page 7*)					
Choice Neighborhoods (*see table on page 8*)					
OLHCHH					
Lead Technical Assistance [7]	590	1,069	512	2,120	475
TOTAL	**85,831**	**72,387**	**87,185**	**85,121**	**104,370**

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, FY 2016 or FY 2017 to the prior year based on the old goal.*
2. *In FY 2014, Technical Assistance (TA) was separated from the NSP programs to capture all the resources required to produce training products. In FY 2014 and going forward, NSP will use the activity Public Services to capture the investment in human capital. This resulted in revisions to the amounts for FY 2013 through FY 2016. The program is nearing closeout, hence the reduced numbers of people trained in FY 2014 through FY 2017.*
3. *More than 15 grantees completed their projects before FY 2015 as the grant period drew to a close. The final reporting period for the RIF program was 09/30/2015. Expenditures under investments for human capital, in FY 2013 through FY 2015, were not material to be included in the AFRs.*
4. *For FY 2017, numbers trained are significantly lower due to difference in the number of completed recorded trainings between FY 2016, 15,257, and FY 2017, 3,462. The FY 2016 number erroneously included the total number of completions for all recorded trainings ever posted. The number provided for FY 2017 is for completions in FY 2017 only, for all*

recorded trainings ever posted. The FY 2016 reported number will be updated upon receipt of the revised total, analysis is underway.

5. *A lack of S&E funding prevented ONAP from offering training in FY 2013-2015. Grantee received training from HUD staff and, in FY 2016, from two contracted training providers. In FY 2017, ONAP focused on providing technical assistance directly to the grantee. Amounts invested in FY 2016 and FY 2017 were 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.*
7. *In FY 2017 the OLHCHH did not host a National Healthy Homes Conference. It did host a Program Mgrs. school, and New Grantee Orientation. There were 125 people trained at the New Grantee Orientation and 350 people trained at the Program Managers School.*

HOPE VI/Choice Neighborhoods Results of Investments in Human Capital: Since the inception of the HOPE VI program in FY 1993, the program has made significant investments in Human Capital related initiatives (i.e., education and training). The following table presents HOPE VI's key performance information for fiscal years 2013 through 2017, reported as cumulative since the program's inception.

Key Results of HOPE VI Program Activities
Fiscal Years 2013 – 2017

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

Key Results of HOPE VI Program Activities
Fiscal Years 2013 – 2017 Cont'd

HOPE VI Service	2017 Enrolled	2017 Completed	% Completed
Employment Preparation, Placement & Retention [1]	87,861	N/A	N/A
Job Skills Training Programs	35,748	18,917	53%
High School Equivalent Education	18,792	5,390	29%
Entrepreneurship Training	3,803	1,684	44%
Homeownership Counseling	17,410	7,805	45%

Notes:

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

The following table presents Choice Neighborhoods cumulative performance information for fiscal years 2014 through 2017.

Key Results of Choice Neighborhoods Program Activities
Fiscal Years 2014 – 2017

Choice Neighborhoods Service	2014[1]	2015	2016	2017
Current Total Original Assisted Residents	5,813	7,017	10,089	13,446
Current Total Original Assisted Residents in Case Management	2,900	3,063	4,882	7,596
High School Graduation Rate [2]	N/A	N/A	N/A	N/A
Number of Residents (in Case Management) Who Completed Job Training or Other Workforce Development Programs	411	867	343	119

Notes:

1. *2014 was the first year of reporting results for Choice Neighborhoods Human Capital Investments.*
2. *Program level High School Graduation Rate date is currently not available for 2014 through 2017, 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 2013 through 2017.

Investments in Research and Development
Fiscal Year 2013 – 2017
(Dollars in millions)

Program	2013	2014	2015	2016	2017
OLHCHH					
Lead Hazard Control	$2	$3	$4	$5	$6
TOTAL	**$2**	**$3**	**$4**	**$5**	**$6**

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 through FY 2016. 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 2013 – 2017
(Dollars)

Program	2013	2014	2015	2016	2017
OLHCHH					
Lead Hazard Control Per-Housing Unit Cost	$6,321	$7,755	$8,909	$9,048	$8,437
TOTAL	**$6,321**	**$7,755**	**$8,909**	**$9,048**	**$8,437**

Required Supplementary Information

U.S. Department of Housing And Urban Development
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2017
(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	Budgetary Total	Federal Housing Administration Non-Budgetary	Government National Mortgage Administration Non-Budgetary	Other Non Budgetary Credit Program Accounts	Total Non Budgetary Credit Reform Financing Account	Combined
Budgetary Resources:															
Unobligated Balance Brought Forward, Oct 1	$ 37,758	$ 16,058	$ 929	$ 108	$ 2,972	$ 636	$ 8,021	$ 265	$ 2,009	$ 68,756	$ 16,411	$ 211	$ 456	$ 17,078	$ 85,834
Adjustment to Unobligated Balance Brought Forward, Oct 1	-	-	-	-	-	-	-	-	(7)	(7)	234	-	-	234	227
Unobligated Balance Brought Forward, Oct 1, As Adjusted	**37,758**	**16,058**	**929**	**108**	**2,972**	**636**	**8,021**	**265**	**2,002**	**68,749**	**16,645**	**211**	**456**	**17,312**	**86,061**
Recoveries of Unpaid Prior Year Obligations	11	30	123	37	260	14	20	20	118	633	82	1	4	87	720
Other Changes in Unobligated Balance	(425)	(1,999)	(29)	(4)	(196)	(384)	(15)	(16)	(63)	(3,131)	-	1,996	-	1,996	(1,135)
Unobligated Balance From Prior Year Budget Authority, Net	**37,344**	**14,089**	**1,023**	**141**	**3,036**	**266**	**8,026**	**269**	**2,057**	**66,251**	**16,727**	**2,208**	**460**	**19,395**	**85,646**
Appropriations (Discretionary and Mandatory)	4,473	-	31,290	2,558	2,382	649	12,666	950	7,250	62,218	-	-	-	-	62,218
Borrowing Authority (Discretionary and Mandatory)	-	-	-	-	-	-	-	-	-	-	8,375	-	2	8,377	8,377
Spending Authority From Offsetting Collections (Discretionary and Mandatory)	13,288	3,795	-	-	-	330	-	-	97	17,510	34,665	2,471	56	37,192	54,702
Total Budgetary Resources	**$ 55,105**	**$ 17,884**	**$ 32,313**	**$ 2,699**	**$ 5,418**	**$ 1,245**	**$ 20,692**	**$ 1,219**	**$ 9,404**	**$ 145,979**	**$ 59,767**	**$ 4,679**	**$ 518**	**$ 64,964**	**$ 210,943**
Status of Budgetary Resources															
New Obligations and Upward Adjustments (Total)															
Direct	**$ 23,217**	**$ 29**	**$ 31,485**	**$ 2,500**	**$ 2,400**	**$ 686**	**$ 10,794**	**$ 575**	**$ 6,644**	**$ 78,330**	**$ 34,975**	**$ -**	**$ 77**	**$ 35,052**	**$ 113,382**
Reimbursable	**-**	**272**	**-**	**-**	**-**	**-**	**-**	**-**	**46**	**318**	**-**	**4,032**	**-**	**4,032**	**4,350**
Subtotal	$ 23,217	$ 301	$ 31,485	$ 2,500	$ 2,400	$ 686	$ 10,794	$ 575	$ 6,690	$ 78,648	$ 34,975	$ 4,032	$ 77	$ 39,084	$ 117,732
Unobligated Balances, End of Year															
Apportioned, Unexpired Accounts	69	206	553	152	2,411	214	2,086	613	1,692	7,996	6,271	398	82	6,751	14,747
Unapportioned, Unexpired Accounts	31,761	17,376	275	33	16	315	7,809	1	899	58,485	18,521	249	359	19,129	77,614
Unexpired Unobligated Balance, End of Year	**31,830**	**17,582**	**828**	**185**	**2,427**	**529**	**9,895**	**614**	**2,591**	**66,481**	**24,792**	**647**	**441**	**25,880**	**92,361**
Expired Unobligated Balance, End of Year	58	1	-	14	591	30	3	30	123	850	-	-	-	-	850
Unobligated Balance, End of Year (Total)	**31,888**	**17,583**	**828**	**199**	**3,018**	**559**	**9,898**	**644**	**2,714**	**67,331**	**24,792**	**647**	**441**	**25,880**	**93,211**
Total Budgetary Resources	**$ 55,105**	**$ 17,884**	**$ 32,313**	**$ 2,699**	**$ 5,418**	**$ 1,245**	**$ 20,692**	**$ 1,219**	**$ 9,404**	**$ 145,979**	**$ 59,767**	**$ 4,679**	**$ 518**	**$ 64,964**	**$ 210,943**
Change in Obligated Balance															
Unpaid Obligations:															
Unpaid Obligations, Brought Forward, Oct 1	$ 347	$ 342	$ 8,902	$ 4,410	$ 2,392	$ 1,641	$ 11,337	$ 2,965	$ 3,972	$ 36,308	$ 2,650	$ 201	$ 5	$ 2,856	$ 39,164
Adjustment to Unpaid Obligations, Start of Year	-	-	-	-	-	-	-	-	7	7	-	-	-	-	7
New Obligations and Upward Adjustments	23,217	301	31,485	2,500	2,400	686	10,794	575	6,690	78,648	34,975	4,032	77	39,084	117,732
Outlays (Gross)	(23,160)	(226)	(31,992)	(2,374)	(1,994)	(900)	(5,617)	(1,104)	(7,098)	(74,465)	(34,181)	(3,875)	(77)	(38,133)	(112,598)
Recoveries of Prior Year Unpaid Obligations	(11)	(30)	(123)	(37)	(260)	(14)	(20)	(20)	(118)	(633)	(82)	(1)	(4)	(87)	(720)
Unpaid Obligations, End of Year	393	387	8,272	4,499	2,538	1,413	16,494	2,416	3,453	39,865	3,362	357	1	3,720	43,585
Uncollected Payments:															
Uncollected Pymts, Fed Sources, Brought Forward, Oct 1	(35)	-	-	-	-	(1)	-	-	(5)	(41)	-	-	(51)	(51)	(92)
Change in Uncollected Pymts, Fed Sources	(13)	-	-	-	-	-	-	-	1	(12)	-	-	7	7	(5)
Uncollected Pymts, Fed Sources, End of Year	(48)	-	-	-	-	(1)	-	-	(4)	(53)	-	-	(44)	(44)	(97)
Memorandum (non-add) Entries:															
Obligated Balance, Start of Year	**$ 312**	**$ 342**	**$ 8,902**	**$ 4,410**	**$ 2,392**	**$ 1,640**	**$ 11,337**	**$ 2,965**	**$ 3,974**	**$ 36,274**	**$ 2,650**	**$ 201**	**$ (46)**	**$ 2,805**	**$ 39,079**
Obligated Balance, End of Year	**$ 345**	**$ 387**	**$ 8,272**	**$ 4,499**	**$ 2,538**	**$ 1,412**	**$ 16,494**	**$ 2,416**	**$ 3,449**	**$ 39,812**	**$ 3,362**	**$ 357**	**$ (43)**	**$ 3,676**	**$ 43,488**
														-	-
Budget Authority and Outlays, Net															
Budget Authority, Gross (Discretionary and Mandatory)	$ 17,761	$ 3,795	$ 31,290	$ 2,558	$ 2,382	$ 979	$ 12,666	$ 950	$ 7,347	$ 79,728	$ 43,040	$ 2,471	$ 58	$ 45,569	$ 125,297
Actual Offsetting Collections (Discretionary and Mandatory)	(13,275)	(3,907)	-	(1)	(1)	(330)	(1)	-	(108)	(17,623)	(44,469)	(2,472)	(65)	(47,006)	(64,629)
Change in Uncollected Pymts, Fed Sources (Discretionary and Mandatory)	(13)	-	-	-	-	-	-	-	1	(12)	-	-	7	7	(5)
Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory)	-	-	-	1	1		1	-	9	12	-	-	-	-	12
Budget Authority, Net (Total) (Discretionary and Mandatory)	**$ 4,473**	**$ (112)**	**$ 31,290**	**$ 2,558**	**$ 2,382**	**$ 649**	**$ 12,666**	**$ 950**	**$ 7,249**	**$ 62,105**	**$ (1,429)**	**$ (1)**	**$ -**	**$ (1,430)**	**$ 60,675**
Outlays, Gross (Discretionary and Mandatory)	$ 23,160	$ 226	$ 31,992	$ 2,374	$ 1,994	$ 900	$ 5,617	$ 1,104	$ 7,098	$ 74,465	$ 34,181	$ 3,875	$ 77	$ 38,133	$ 112,598
Actual Offsetting Collections (Discretionary and Mandatory)	(13,275)	(3,907)	-	(1)	(1)	(330)	(1)	-	(108)	(17,623)	(44,469)	(2,472)	(65)	(47,006)	(64,629)
Outlays, Net (Total) (Discretionary and Mandatory)	**9,885**	**(3,681)**	**31,992**	**2,373**	**1,993**	**570**	**5,616**	**1,104**	**6,990**	**56,842**	**(10,288)**	**1,403**	**12**	**(8,873)**	**47,969**
															-
Distributed Offsetting Receipts	(1,078)	-	-	-	-	-	-	-	(290)	(1,368)	-	-	-	-	(1,368)
Agency Outlays, Net (Discretionary and Mandatory)	**$ 8,807**	**$ (3,681)**	**$ 31,992**	**$ 2,373**	**$ 1,993**	**$ 570**	**$ 5,616**	**$ 1,104**	**$ 6,700**	**$ 55,474**	**$ (10,288)**	**$ 1,403**	**$ 12**	**$ (8,873)**	**$ 46,601**

The accompanying notes are an integral part of these statements

U.S. DEPARTMENT OF

HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

Independent Auditor's Report[1]

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

Report on the Financial Statements

Introduction

The Chief Financial Officers Act of 1990 requires HUD to prepare the accompanying consolidated balance sheets as of September 30, 2017 and 2016 (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 according to OMB Bulletin 17-03.

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

[1] This report is supplemented by three separate reports issued by HUD's Office of Inspector General (OIG) to provide a more detailed discussion of the internal control and compliance issues and to provide specific recommendations to HUD management. The findings have been 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 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit (audit report 2018-FO-0004, issued November 15, 2017); (2) Audit of the Federal Housing Administration Financial Statements for Fiscal Years 2017 and 2016 (Restated) (audit report 2018-FO-0003, issued November 15, 2017); and (3) Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2017 and 2016 (Restated) (audit report 2018-FO-0002, issued November 14, 2017).

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 17-03, 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, 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 2017 audit, we identified several matters for which we were unable to obtain adequate audit evidence to provide a basis of opinion on the fiscal years 2017 and 2016 (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 2017 and 2016 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 matters that we identified related to (1) improper budgetary accounting, (2) a disclaimer of opinion on the Government National Mortgage Associations' (Ginnie Mae) financial statements, (3) unvalidated grant accrual estimates, and (4) improper and unreliable accounting for assets and liabilities. Additional details are discussed below.

> *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 first-in first-out (FIFO) method[2] to disburse and commit CPD program funds, which was not in accordance with GAAP for Federal grants. This method was used to process disbursements for CPD formula programs. 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, 2017, approximately $1.5 billion in disbursements and $1.5 billion[3] in undisbursed obligations were impacted that were related to the HOME Investment Partnerships, Community Development Block Grant, Housing for Persons with AIDS, and Emergency Solutions Grant programs) 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.

As a result, 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 2014 and in prior years were materially misstated. The related amount of material misstatements for these CPD programs in the accompanying combined statement of budgetary resources 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 2017, for the fourth consecutive year, Ginnie Mae could not bring its material asset balances related to its nonpooled loan assets (NPA) into an auditable state. Therefore, we were unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of the $3.6

[2] 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.

[3] HUD determined that $2.0 billion in undisbursed obligations is susceptible to FIFO as of September 30, 2017. This differs from our calculation by approximately $428.5 million. Despite the difference in the two amounts, both entities have determined that the funds susceptible to FIFO as of September 30, 2017, are material. We attribute the variance to a different methodology and basis used for the calculation. We based our computation on the undisbursed obligations in the Program Accounting System (PAS) for all FIFO-affected PAS codes with balances in 2014 and prior years, whereas the basis for HUD's calculation was all grant numbers in the Integrated Disbursement and Information System (IDIS) with an undisbursed obligations balance on 2014 and older funds for all FIFO-affected programs.

billion (net of allowance) in NPA[4] from Ginnie Mae's defaulted issuers' portfolio, which were consolidated into HUD's fiscal years 2017 and 2016 financial statements.

Although efforts were underway to develop financial management systems that are capable of handling loan-level transaction accounting, this condition occurred because these systems were still not in place in 2017. In addition, the critical accounting policies and procedures, which dictate how the NPA and related accounts will be recorded in the financial statements, were not in place. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence to render an opinion on the NPA. As a result, we determined that our audit scope was insufficient to express an opinion on Ginnie Mae's NPA and related accounts as of September 30, 2017. This impacted the following areas reported on HUD's consolidated financial statements: (1) noncredit reform loans totaling $2.9 million, net of allowance, for the loan losses due to payment of probable claims by the Federal Housing Administration (FHA); (2) $549.5 million in elimination from FHA's loan guarantee liability; (3) $61 million in accounts receivables, and (4) note 8 to HUD's consolidated financial statements.

Additionally, Ginnie Mae continued to account for FHA reimbursable costs as an expense instead of capitalizing the costs as an asset. 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's (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 2017 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 2017 and 2016. CPD's estimated accrued grant liabilities were $2.2 billion and $2.3 billion for fiscal years 2017 and 2016, respectively. These amounts accounted for 87 percent of

[4] These assets relate to (1) claims receivable, net ($375 million); (2) mortgage loans held for investment, including accrued interest, net ($3.13 billion); and (3) acquired property, net ($45 million).

HUD's total $2.5 billion accrued grant liabilities in fiscal year 2017 and 85 percent of HUD's total $2.7 billion accrued grant liabilities in fiscal year 2016.

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) the Office of Public and Indian Housing's (PIH) prepayment balances could not be audited due to a significant change to its methodology that was not communicated until late in the fiscal year. There were no other compensating audit procedures that could be performed to obtain reasonable assurance regarding these balances.

There were significant unreconciled material differences between balances in HUD's general ledger and subledgers for HUD's loan guarantee liabilities, and HUD was unable to provide sufficient evidence to support the related financial statement line items. As of September 30, 2017, HUD was still researching $697.4 million in subsidiary ledger to general ledger differences that could not be supported. The Sections 108 and 184 loan guarantee programs had $273.3 million in unreconciled differences related to the 2015 data conversion as of September 30, 2017. There were also $22.9 million in unreconciled differences related to current-year loan guarantee activity, bringing the total amount of unreconciled differences to $296.2 million. As a result, we could not rely on HUD's non-FHA loan guarantee balances, including its loan guarantee liability ($267.3 million) and unpaid obligations ($12.4 million) reported on HUD's consolidated financial statements.

HUD's accounting for its property, plant, and equipment did not comply with Federal GAAP. Specifically, HUD (1) could not support balances related to internal use software totaling $320 million, (2) did not account for $61.5 million in leasehold improvements from capitalized projects completed in headquarters since 2009, and (3) did not adequately account for other property and equipment balances. These conditions occurred because HUD (1) did not have a reliable and integrated asset management system, (2) lacked controls to ensure communication of information regarding acquisitions between stakeholders, and (3) lacked oversight from the Office of the Chief Financial Officer (OCFO) to detect and correct deficiencies. As a result, the total HUD property, plant, and equipment balance of $323.8 million[5] could not be relied upon.

HUD's accounting for its PIH prepayments had deficiencies. First, HUD adjusted its methodology used to determine the total amount of PIH prepayments reported on its consolidated balance sheet as of September 30, 2017. The change in methodology was not communicated to us until September 27, 2017. Due to the timing of the change, we were

[5] The total property, plant, and equipment balance reported on HUD's fiscal years 2017 and 2016 consolidated financial statements was $413 million, which included property, plant, and equipment held by Ginnie Mae. The amount that we could not express an opinion on constituted 78.4 percent of the consolidated balance.

unable to perform sufficient audit procedures necessary to obtain reasonable assurance of the change and the reasonableness of the PIH prepayment balance determined as a result. The balance totaled $336.5 million as of September 30, 2017. Secondly, 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, 2017, approximately $149 million was being held in investment accounts with IHBG grantees, which represented an advance in accordance with the standards. However, HUD elected to present these as expenses on its statement of net cost once they were disbursed. The amount omitted from the financial statements as of September 30, 2017, was not readily available. However, as a result of the omission, we believe the PIH prepayment reported on HUD's consolidated balance sheet and expenses reported on HUD's consolidated statement of net cost were likely misstated as of September 30, 2017.

We identified another matter that would have required a modification to the opinion related to HUD's consolidated financial statement notes. Due to internal control deficiencies with HUD's financial reporting process, (1) HUD was unable to provide adequate supporting documentation for note 3, and (2) note 7 contained material errors identified by us. The errors identified in note 7 also impacted note 24, resulting in additional errors. Changes were made to note 7 and note 24 as a result of our identification, however we were unable to complete our review of the changes to ensure all errors were corrected. Therefore, we are unable to obtain sufficient, appropriate evidence to render an opinion on note 3 and note 7, and the related effects to note 24 of HUD's fiscal years 2017 and 2016 consolidated financial statements.

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, 2017 and 2016 (restated), and its net costs, changes in net position, and budgetary resources for the fiscal year then ended. Accordingly, we do not express an opinion on the financial statements.

Emphasis of Matter

Restatement of Fiscal Year 2016 Financial Statements

As discussed in note 24 to the financial statements, the fiscal year 2016 financial statements have been restated for the correction of errors related to (1) restatements of Ginnie Mae financial statements and (2) restatements of FHA financial statements.

As part of our fiscal year 2017 audit of Ginnie Mae, we determined that these adjustments were appropriate and had been properly applied except for one restatement related to the allowance for loan loss accounts. We cannot opine on this restatement as the allowance for loan loss account balances continues to be unreliable. Ginnie Mae has performed restatements of fiscal years 2014, 2015, and 2016 financial statements. We caution readers that the scope of our audit on those restatement adjustments was limited. For those prior-year restatement adjustments that we have not audited, we will audit them when all of Ginnie Mae's basic financial statements are in an auditable state, which is not expected by Ginnie Mae until fiscal year 2018. Our opinion has not been modified with respect to these matters in fiscal year 2017.

As part of our fiscal year 2017 audit of FHA, a material error was identified in the 2016 Note 7-Direct Loans and Loan Guarantees and Note 12-Gross Costs of FHA's financial statements that required correction of balances in fiscal year 2017. With the exception of the differences attributed to the timing of information being transferred between systems, as discussed in our report on internal controls, note 7 was restated to correct balances reported to the home equity conversion program (HECM) current-year endorsements, the cumulative current outstanding balance and maximum potential liability, and the single-family forward guaranteed loans outstanding and new guaranteed loans disbursed. Note 7 was also restated to correct the allocation of the technical-default reestimates between the subsidy expense and interest expense components. Additionally, note 12 was restated to correct gross cost with the public to adjust the allocation of reestimate and interest expenses. For these reasons, the opinion expressed on FHA's financial statements for fiscal year 2016, including its net costs, changes in net position, and budgetary resources, issued November 14, 2016, was no longer appropriate because the accompanying notes to the financial statements, as published at that time, contained material misstatements. Accordingly, our opinion on the audited financial statements of FHA for 2016 is withdrawn, because they could no longer be relied upon, and is replaced by the auditor's report on the restated financial statements.

Additional details on these items can be found in note 24 to the consolidated financial statements.

There were other potential material misstatements in the fiscal year 2016 financial statements in which no adjustments had been made, which are not described in note 24 in accordance with OMB Circular A-136. Specifically, regarding (1) the use of the FIFO method to liquidate obligations under CPD's formula grant programs, (2) lack of proper accounting for (a) prepayments, account receivables, and account payables related to PIH's HCVP cash management process, (b) property, plant and equipment; and (c) balances related to Section 184 and 108 loan guarantees; and (3) Ginnie Mae's nonpooled asset balances and continued inappropriate accounting of FHA reimbursable costs. No adjustments had been made because the specific amounts of misstatements and their related effects were unknown.

FHA's Loan Guarantee Liability

The loan guarantee liability is an 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. In 2017, FHA made a couple of model methodology changes. These changes included changing the methodology for (1) calculating for the net present value of the future cash flows using a single path (President's Economic Assumption released in March 2017) instead of using an average of 100 paths for claim and prepayments, which was the methodology used in 2016, and (2) discounting the timing of the cash flows from the end of the year to the middle of the year for certain programs. We caution our readers to be cognizant of the fact that the comparability of the loan liability guarantee numbers in 2017, when compared to 2016, could be impacted because of the changes. 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 2017 agency financial report, HUD presents "required supplemental stewardship information" and "required supplementary information." The required supplemental stewardship information presents information on investments in non-Federal physical property and human capital and investments in research and development. In the required supplementary information, HUD presents a "management discussion and analysis of operations" and combining statements of budgetary resources. HUD also elected to present consolidating balance sheets and related consolidating statements of changes in net position as required supplementary information. The consolidating information is presented for additional analysis of the financial statements rather than to present the financial position and changes in net position of HUD's major activities. This information is not a required part of the basic financial statements but is supplementary information required by FASAB and OMB Circular A-136.

Other Information

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.

Report on Internal Controls Over Financial Reporting

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.[6] 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 nine material weaknesses and six 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.

HUD-wide Weaknesses in Internal Controls Over Financial Reporting

Our audits of the FHA financial statements, Ginnie Mae financial statements, and the HUD consolidated financial statements identified weaknesses in internal controls over financial reporting. While some of the weaknesses identified were specific to FHA, Ginnie Mae, and HUD component financial reporting processes, the impact of the weaknesses identified at the component entities also impacted the effectiveness and accuracy of HUD's financial reporting process when consolidating component entity financial information to prepare HUD's consolidated financial statements and accompanying notes.

- HUD financial reporting. OCFO did not comply with financial reporting requirements and made management decisions that exposed its financial reporting process to increased risk of error. For example, (1) HUD has not designed or implemented effective

[6] Audit Report 2018-FO-0004, Additional Details To Supplement Our Fiscal Years 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Statements, issued November 15, 2017; Audit Report 2018-FO-0003, Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2017 and 2016 (Restated), issued November 15, 2017; Audit Report 2018-FO-0002, Audit of the Government National Mortgage Association's Fiscal Years 2017 and 2016 (Restated) Financial Statements, issued November 14, 2017

complementary customer agency controls to leverage Federal shared service provider (FSSP) controls; (2) HUD's OCFO did not provide third quarter notes to OMB or the Office of Inspector General (OIG) for review, and OCFO management implemented a new note preparation process in the eleventh month of the fiscal year before completing validation of the new process; (3) HUD's OCFO did not record budget authority provided in the fiscal year 2017 Continuing Resolution amounting to $5.2 billion in the first quarter, of which $4.2 billion remained unrecorded in the second quarter; (4) Ginnie Mae incorrectly implemented an accounting change that materially misstated its third quarter statements; and (5) HUD's OCFO continued performing a significant number of manual journal entries to clean up its general ledger. These deficiencies occurred because internal controls over HUD's financial reporting process were weak, allowing significant decisions to be made without careful consideration of (1) GAAP, (2) U.S. Department of the Treasury and OMB requirements, and (3) the impact on HUD's operations. The result of these conditions was that (1) OCFO duplicated processes instead of leveraging the U.S. Treasury, Bureau of Fiscal Services, Administrative Resource Center's services; (2) OIG and OMB staff were unable to review and provide comments to third quarter notes, increasing the risk of errors going undetected; (3) funds were not made available to major program offices, and there were material first and second quarter intragovernmental differences between HUD and Treasury; (4) HUD's quarterly financial statements were materially misstated; and (5) there was an increased risk of errors due to HUD's extensive reliance on manual journal vouchers.

- <u>Ginnie Mae's financial reporting</u>. Ginnie Mae's internal controls over financial reporting continued to be not effective in fiscal year 2017. These material weaknesses in internal controls were issues related to (1) improper accounting for FHA's reimbursable costs and accrued interest earned on nonpooled loans; (2) accounting issues related to cash in transit, revenue recognition, fixed assets, advances, and note disclosures; and (3) accounts payable accrual. The first two issues are repeat findings from prior years, and the last one was new in fiscal year 2017. 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.

- <u>FHA's financial reporting.</u> In fiscal year 2017, some of the control deficiencies in financial reporting identified in 2016 continued, and new control deficiencies were identified. Specifically, these new control deficiencies included issues related to the timing in the recognition of the credit subsidy expense and unrecorded accruals. In addition, FHA had material note disclosure errors in note 7 of the financial statements. These note errors included (1) inaccurate disclosure of the loan endorsement amounts for the 2017 and 2016 single-family and HECM loans and (2) incorrect allocation of loan guarantee liability reestimates between the subsidy expense and interest expense components in fiscal year 2016. These conditions occurred because FHA did not have effective monitoring and processes in place to ensure (1) that accounting events were recorded in a timely manner, (2) that accrual methodologies were reviewed on a regular basis for completion and accuracy, and (3) the accuracy of data reported in the financial statements. As a result, $382 million in accounting adjustments had to be made to correct the errors in FHA's accounting records and $23.7 billion in restatements were made to fiscal year 2016 endorsement amounts disclosed in note 7. Additionally, FHA may have missed an opportunity to put $270.7 million of its unobligated funds to better use because invalid obligations were not always deobligated on time.

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 adequately validate its accrued grant liabilities estimates; (2) PIH's accounting for its cash management process was haphazard and did not comply with Federal GAAP or FFMIA; (3) HUD did not recognize prepayments for funds advanced to its IHBG grantees for investments; (4) PIH did not accurately track accounts receivable payments or writeoffs related to the Housing Choice Voucher program; (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 (1) continued weaknesses in HUD's internal controls over financial reporting, (2) a lack of communication between OCFO and the program offices, and (3) insufficient information systems. As a result, several financial statement line items were misstated or could not be audited as of September 30, 2017. Specifically, (1) CPD's accrued grant liabilities estimates could not be audited; (2) PIH's prepayment and related accounts receivable and payable line items on its interim balance sheets were misstated; (3) we could not provide an opinion on PIH's prepayment balance; (4) HUD's assets and expenses related to IHBG investments were understated and overstated by approximately $149 million, respectively, due to the improper accounting of IHBG grant investments; (5) HUD's accounts receivable balance is at risk of misstatement because Housing Choice Voucher program debts were not adequately tracked; (6) the CPD Section 108 and PIH Section 184 loan guarantee liabilities contained unreconciled differences and could not be audited; and (7) HUD's $323.8 million balance for property, plant, and equipment was not supported.

Significant Reconciliations Were Not Completed in a Timely Manner
HUD did not resolve material differences between subsidiary ledgers and the general ledger and did not maintain sufficient evidence to support financial statement line items. Further, OCFO did not complete required cash reconciliations in a timely manner or properly reconcile and monitor HUD's suspense accounts. In fiscal year 2017, HUD made limited progress in establishing policies and procedures and defining roles and responsibilities related to key reconciliations of material financial statement line items. As a result, HUD remains susceptible to increases in the risks of fraud, waste, and mismanagement of funds, which affected HUD's ability to effectively monitor budget execution, and affects the ability to accurately measure the full cost of the Government's programs. Additionally, the risk that a misstatement to the financial statements would not be detected and prevented increased. Further, not maintaining accurate and detailed reports on HUD's suspense activity increases the effort required to resolve differences and clear transactions entered into the suspense accounts and increases the potential

risk that financial activity is not accurately reported, cash differences could occur, and overobligations or overexpenditures could be hidden.

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

HUD CPD's formula grant program accounting continued to depart from GAAP because of its use of the FIFO method[7] 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 United States Standard General Ledger (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

HUD's financial management system weaknesses remained a material weakness in fiscal year 2017 due to the combined impact of a multitude of financial reporting 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, 2017. Many of the material weaknesses discussed in this audit report share the same underlying cause, shortcomings in HUD's financial management systems. HUD's efforts to modernize its financial management systems continued to be hindered by weaknesses in implementing key information technology (IT) management practices.[8] HUD's inability to modernize its legacy

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[7] 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 (U.S. General 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.

[8] U.S. Government Accountability Office (GAO), GAO-16-656, July 2016, Financial Management Systems: HUD Needs to Address Management and Governance Issues That Jeopardize its Modernization Efforts; http://www.gao.gov/assets/680/678727.pdf

financial systems resulted in a continued reliance on legacy financial systems with various limitations. HUD's loans, grants, commitments, obligations, and payments still flow through antiquated systems developed 15 to 30 years ago that require complex interfaces into the FSSP environment. Program offices have 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 2017, for the fourth consecutive year, Ginnie Mae could not bring its material asset balances related to its NPA into an auditable state. Therefore, we were unable to audit the $3.6 billion (net of allowance) in NPA reported in Ginnie Mae's financial statements as of September 30, 2017. These assets relate to (1) claims receivable, net ($375 million); (2) mortgage loans held for investment including accrued interest, net ($3.13 billion); and (3) acquired property, net ($45 million). Although efforts are underway to develop financial management systems that are capable of handling loan-level transaction accounting, this condition occurred because these systems were still not in place in 2017. In addition, the critical accounting policies and procedures, which dictate how the nonpooled loan assets and related accounts will be recorded in the financial statements, were not in place. Therefore, we were again unable to perform all of the audit procedures needed to obtain sufficient, appropriate evidence to render an opinion. As a result, we deemed our audit scope to be insufficient to express an opinion on Ginnie Mae's $3.6 billion in nonpooled loan assets and related accounts as of September 30, 2017.

The Allowance for Loan Loss Account Balances Were Unreliable
In fiscal year 2017, as reported in previous years, the various underlying accounting issues we reported regarding Ginnie Mae's loan loss account balances continued. In addition, Ginnie Mae self-identified another allowance for loan loss issue this fiscal year. Specifically, this issue was in regard to how the servicing costs and certain foreclosure and maintenance costs were improperly considered in Ginnie Mae's allowance for loan loss estimation. Factors that contributed to these issues included (1) the delayed implementation of key accounting policies and procedures related to nonpooled loan assets and related accounts, including the allowance for loan loss and FHA reimbursable costs, and (2) the lack of financial management systems capable of handling loan-level accounting. Due to a combination of these accounting issues, we determined that the balance of the allowance for loan loss accounts reported in Ginnie Mae's financial statements, as of September 30, 2017, was unreliable.

HUD's and Ginnie Mae's Financial Management Governance Was Ineffective
Overall, we determined that HUD's financial management governance remained ineffective. Weaknesses in program and component internal controls 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.

HUD's financial management governance remained ineffective during fiscal year 2017. As of September 30, 2017, HUD's financial management leadership structure was in disarray. Entering its second full year without a confirmed Chief Financial Officer (CFO), its acting CFO unexpectedly resigned, and multiple assistant CFO positions remained vacant. Additionally, HUD continued to lack mature financial management governance practices and sufficient policies and procedures to update significant business process changes after its transition to an FSSP for financial management services. Further, as we have reported in prior-year audits, HUD did not have reliable financial information for reporting and continued the use of its outdated legacy financial systems. Weaknesses in program and component internal controls that impacted financial reporting were able to develop in part due to a lack of established financial management processes. HUD's unaddressed financial management weaknesses have significantly contributed to the high volume of material weaknesses in internal controls over financial reporting and instances of noncompliance with laws and regulations. Without financial management leadership setting direction and priorities and ensuring oversight, HUD's efforts at solving these deficiencies are unlikely to make meaningful progress.

Ginnie Mae's executive management effort in addressing the financial management governance problems cited in our fiscal years 2014, 2015, and 2016 audit reports continued to be a work in progress at the end of fiscal year 2017. While some progress had been made this fiscal 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 implementation of the corrective action plans took longer than anticipated and, therefore, contributed to Ginnie Mae's inability to produce auditable financial statements for the fourth consecutive fiscal year.

Weaknesses Identified in FHA's Modeling Processes

In 2017, OIG identified a number of weaknesses in FHA modeling processes. Specifically, these weaknesses were related to FHA's ineffective model documentation, model governance, and modeling practices. All of these weaknesses were the direct result of FHA's failure to ensure well-controlled modeling processes were implemented. As a result, FHA failed to prevent or detect $631.8 million in total errors to its model output results, which supports FHA's loan guarantee liability (LLG) line item in its financial statements. Further, given unresolved concerns regarding the predictive capability of the single-family model, along with not following established policies and procedures and best practices for model coding, all of these concerns could impact the reliability of FHA's LLG estimates.

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 and Internal Control Documentation

HUD continued to not have a fully implemented and complete administrative control of funds system and internal control documentation that provided oversight of both obligations and disbursements. We have reported on HUD's administrative control of funds in our audit reports and management letters since fiscal year 2005. Our current review noted instances in which (1) the Office of Multifamily Housing Programs did not follow HUD's administrative control of funds policies; (2) funds control matrices did not follow the policies and procedures included in HUD's Funds Control Handbook; (3) CAM1[9] was not included in funds control matrices and funds control documentation; (4) the Office of the Chief Procurement Officer (OCPO) did not maintain adequate records for interagency agreements in its procurement system of record, the U.S. Treasury, Administrative Resource Center's PRISM; and (5) OCFO did not maintain adequate records and internal control documentation for intragovernmental payments and collections that are recorded in the financial system of record, Oracle Federal Financials. These conditions existed because of (1) questionable management decisions made by HUD OCFO and OCPO, (2) a lack of compliance reviews conducted in fiscal year 2017, and (3) failures by HUD's allotment holders to update their funds control matrices and notify OCFO of changes in their obligation process before implementation. As a result, HUD could not ensure that its obligations and disbursements were within authorized budget limits and complied with the Antideficiency Act and internal control documentation requirements established by U.S. Government Accountability Office (GAO).

HUD Continued To Report Significant Amounts of Invalid Obligations

Deficiencies in HUD's process for monitoring its unliquidated obligations and deobligating balances tied to invalid obligations continued to exist. Specifically, some program offices did not complete their obligation reviews in a timely manner, and we discovered $263.5 million in invalid obligations not previously identified by HUD. We discovered another $323.6 million in obligations that were inactive,[10] potentially indicating additional invalid obligations. We also identified $61.8 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, 2017. We attributed these deficiencies to ineffective monitoring efforts and the inability to promptly process contract closeouts. Lastly, as of September 30, 2017, HUD had not implemented prior-year recommendations to deobligate $121.7 million in funds. As a result, HUD's unliquidated obligation balances on the statement of budgetary resources were overstated by at least $360.1 million and potentially overstated up to $770.6 million.

HUD's Computing Environment Controls Had Weaknesses

HUD had various weaknesses with system controls and security management and did not ensure that general and application controls over its financial systems and computing environment fully complied with Federal requirements. These conditions were the result of a lack of planning,

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[9] The Oracle financial system includes an account flex field for the line of accounting. The program class and program code are combined into one field called "CAM1" in Oracle.

[10] We defined an obligation as inactive if a disbursement has not been made within a reasonable amount of time. This time varies based on program area and applicable criteria.

oversight, resources, and monitoring. Without effective controls in place, HUD cannot ensure that the systems and network will perform as intended to support its mission and generate accurate financial statements.

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. We audited the general and application controls over the intranet general support system and selected information systems that support the preparation of HUD's financial statements.

Ginnie Mae Was Not in Full Compliance With Federal Information System Controls Requirements for GFAS

Ginnie Mae was not in full compliance with Federal information system controls requirements for its Ginnie Mae Financial Accounting System (GFAS). Our review of general and application controls over GFAS identified deficiencies with (1) the budget override function, (2) outdated system software, (3) user accounts that were not disabled in a timely manner, and (4) a lack of policies and procedures for its business processing application controls. These deficiencies occurred because Ginnie Mae (1) did not know that the override functionality was allowed by system default, (2) had limited funding and resources and prioritized system enhancements, (3) did not have a sufficient user account review process, and (4) did not develop specific policies and procedures for its business processes. These deficiencies could (1) provide opportunities for users to misuse or overextend their authority, (2) expose the system to known vulnerabilities, (3) subject the system to unauthorized access for malicious purposes, and (4) threaten the internal controls of the organization.

FHA's Controls Related to Partial Claims Had Improved, but Weaknesses Remained

In fiscal year 2017, FHA began billing noncompliant mortgagees for partial claims when the mortgagees had not provided FHA with the related promissory note (second mortgage note) when the note was not provided within 60 days of executing the partial claim.[11] FHA began billing mortgagees between 2 and 59 days after the 60-day expiration period. While this was a marked improvement from waiting until 6 months after the expiration period, it was not always immediately after as we had previously recommended. A delay in FHA management's reaching an agreement to change the billing policy and procedures was a contributing factor in FHA's delay in fully implementing the controls in a timely manner. Unnecessary delays in implementing the collection process from noncompliant mortgagees with unsupported partial claims is not a good cash management practice and does not help improve the health of the Mutual Mortgage Insurance fund.[12] FHA should continue to implement its policy and ensure that the implementation is fully carried out.

[11] The mortgagee must deliver to HUD's loan servicing contractor, no later than 60 days from the execution date of the partial claim, the original partial claim promissory note and no later than 6 months from the execution date, the recorded subordinate mortgage.

[12] Collecting the amounts for unsupported partial claims in a timely manner improves the status of the Mutual Mortgage Insurance fund by restoring funds paid out as loss mitigation claims.

Weaknesses Were Identified in Selected FHA Information Technology Systems
The Asset Disposition and Management System application and the source applications used in the credit reform estimation and reestimation process contained security vulnerabilities. These conditions occurred because of a lack of contract oversight and insufficient coordination between the Office of the Chief Information Officer and FHA. As a result, the confidentiality, integrity, and availability of critical information may be negatively impacted. In addition, the information used to provide input to the FHA financial statements could be adversely affected. We also determined that remediation of weaknesses previously reported with the Single Family Premium Collection Subsystem – Periodic, Single Family Acquired Asset Management System, Single Family Insurance System, and Single Family Insurance System – Claims Subsystem are in progress and expected to be fully remediated within the agreed-upon timeframes.

Report on Compliance With Laws and Regulations, Contracts, and Grant Agreements

We performed tests of HUD's compliance with certain provisions of laws and regulations. The results of our tests disclosed three 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. 17-03, Audit Requirements for Federal Financial Statements. However, the objective of our audit was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

HUD's Financial Management Systems Did Not Comply With the Federal Financial Management Improvement Act
In fiscal year 2017, we noted a number of instances of FFMIA noncompliance within HUD's financial management system. We also noted inaccuracies in the Federal Managers Financial Integrity Act (FMFIA) and FFMIA assurance statement process, which allowed certification of a financial management system as FFMIA compliant when it was not. This condition was caused by weaknesses in the reviews of the FMFIA and FFMIA assurance certifications. HUD's continued noncompliance with FFMIA was due to a high volume of material weaknesses, ineffectively designed and operating key internal controls over financial reporting, and longstanding issues related to component and program office system weaknesses that remained unresolved.

HUD Did Not Comply With the Debt Collection Improvement Act of 1996
The Debt Collection Improvement Act (DCIA), as amended, required that HUD refer delinquent debts to the Treasury within 120 days[13] and take all appropriate actions before discharging debts.[14] However, HUD and Ginnie Mae did not always follow applicable requirements for establishing and collecting debts.

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[13] Public Law 104-134—Apr. 26, 1996, 110 STAT. 1321 Sec. 31001. Debt Collection Improvement Act of 1996. (6) Any Federal agency that is owed by a person a past due, legally enforceable nontax debt that is over 180 days delinquent, including nontax debt administered by a third party acting as an agent for the Federal Government, shall notify the Secretary of the Treasury of all such nontax debts for purposes of administrative offset under this subsection. (Note: Effective May 9, 2014 agencies were required to transfer debts for administrative offset after 120 days in accordance with the DATA Act [Digital Accountability and Transparency Act of 2014]).
[14] Public Law 104-134—Apr. 26, 1996, 110 STAT. 1321 Sec. 31001. Debt Collection Improvement Act of 1996.

Specifically, for the Housing Choice Voucher program, HUD did not properly report receivables in HUD's financial statements and did not perform the procedures necessary to establish legally enforceable repayments, and HUD did not adequately track debt repayments and writeoffs. Additionally, a separate program audit[15] identified similar weaknesses in the area of debt forgiveness and termination. Specifically, HUD's debt collection and claims officer terminated debt collections and forgave debts without ensuring that required debt collection actions were taken and that U.S. Department of Justice approval was obtained when required. These conditions occurred because OCFO and PIH did not follow responsibilities and procedures outlined in the HUD handbook on debt collection. Therefore, HUD did not comply with DCIA as amended and, as a result, was unable to recoup money due back to HUD that could be used to serve the public.

In fiscal year 2017, Ginnie Mae's noncompliance with the DCIA of 1996 continued. Specifically, as reported in fiscal years 2016 and 2015, Ginnie Mae had not remediated its practice of not analyzing the possibility of collecting on certain uninsured mortgage debts owed to Ginnie Mae, using all debt collection tools allowed by law, before discharging them. This condition occurred because Ginnie Mae's management continued to take the position that the DCIA did not apply to Ginnie Mae; therefore, it did not need to comply with DCIA requirements.[16] As a result, Ginnie Mae may have missed opportunities to collect millions of dollars in debts related to losses on its mortgage-backed securities program.

<u>HUD Did Not Comply With the Improper Payments Elimination and Recovery Act of 2010</u>
HUD OIG's Improper Payments Elimination and Recovery Act (IPERA) audit[17] found that HUD did not comply with IPERA in fiscal year 2016 because it did not conduct its annual risk assessment in accordance with OMB Circular A-123, appendix C, guidance or meet its annual improper payment reduction target. Specifically, HUD did not assess all low-risk programs on a 3-year cycle and rate risk factors in accordance with its own risk rating criteria due to a lack of proper review procedures, thus making the review incomplete and noncompliant with section 3(a)(3)(B) of IPERA. HUD also missed its reduction rate goal for fiscal year 2016 for its high-priority program, Rental Housing Assistance Programs (RHAP), causing noncompliance with section 3(a)(3)(E) of IPERA. Additionally, information published in the agency financial report did not meet the reporting requirements of OMB Circular A-136 and deviated from the reporting requirements of OMB Circulars A-123 and A-136, significant improper payments in HUD's

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31 U.S.C. 3711- (g)(9) Before discharging any delinquent debt owed to any executive, judicial, or legislative agency, the head of such agency shall take all appropriate steps to collect such debt, including (as applicable)—administrative offset, tax refund offset, Federal salary offset, referral to private collection contractors, referral to agencies operating a debt collection center, reporting delinquencies to credit reporting bureaus, garnishing the wages of delinquent debtors, and litigation or foreclosure.
[15] Audit Report 2017-LA-0005, HUD Did Not Always Follow Applicable Requirements When Forgiving Debts and Terminating Debt Collections
[16] HUD is subject to the DCIA, and Ginnie Mae is an entity under HUD; therefore, it should be required to comply with the DCIA.
[17] Audit Report 2017-FO-0006, Compliance With the Improper Payments Elimination and Recovery Act, issued May 11, 2017

RHAP continued, and HUD's improper payment estimate and methodology for RHAP continued to have deficiencies during fiscal year 2016. This is the fourth consecutive year that HUD did not comply with IPERA.

Results of the Audit of FHA's Financial Statements

We performed a separate audit of FHA's fiscal years 2017 and 2016 (restated) financial statements. Our report on FHA's financial statements[18] includes an unqualified opinion on FHA's financial statements, along with discussion of two material weaknesses and two 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 2017 and 2016 (restated) financial statements. Our report on Ginnie Mae's financial statements[19] 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 17-03. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

With respect to information presented in HUD's "required supplementary stewardship information" and "required supplementary information" and management's discussion and analysis presented in HUD's fiscal year 2017 agency financial report, 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.

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[18] Audit Report 2018-FO-0003, Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2017 and 2016 (Restated), issued November 15, 2017, was incorporated into this report.
[19] Audit Report 2018-FO-0002, Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2017 and 2016 (Restated), issued November 14, 2017, was incorporated into this report.

Our procedures were not designed to provide assurance, and, accordingly, we do not provide an opinion on such information.

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

Agency Comments and Our Evaluation

We reviewed management's response to the draft independent auditor's report, which can be found in its entirety in appendix A. HUD is generally in agreement with the internal control weaknesses cited in our report.

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

Kimberly R. Randall

Kimberly R. Randall
Acting Assistant Inspector General for Audit
Washington, DC

November 15, 2017

Appendixes

Appendix A

Auditee Comments to Independent Auditor's Report

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-3000

November 14, 2017

MEMORANDUM FOR: Thomas R. McEnanly, Director of Financial Audits Division, HUD, GAH

FROM: Thomas W. Harker, Acting Deputy Chief Financial Officer for Accounting and Financial Management, HUD, F

SUBJECT: Response to Fiscal Year 2017 Financial Statement Audit – Transmittal of Draft Fiscal Year 2017 Independent Auditor's Report on HUD's Fiscal Year 2017 and 2016 Consolidated Financial Statements

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.

HUD agrees that it cannot continue to operate in the absence of a clean audit opinion, and we are committed to making the business process changes necessary to resolve the longstanding material weaknesses in internal control. We look forward to working with the OIG to identify the weaknesses that have the largest impact on the disclaimer condition, and will focus our remediation efforts to achieve the greatest results.

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 weaknesses impacting the audit opinion are adequately addressed.

We appreciate that the OIG is committed to HUD's missions, and is working to help provide us with actionable recommendations that will improve operations.

OIG Evaluation of Agency Comments

Comment 1 OIG acknowledges HUD's agreement with the weaknesses in internal controls reported in our independent auditor's report. We will continue to work with HUD in resolving these matters in fiscal year 2018, and we thank HUD for the cooperation and assistance extended to us during the audit.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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

Memorandum

TO: Ben Carson
Secretary, S

FROM: Helen M. Albert Helen M. Albert
Acting Inspector General, G

SUBJECT: Management and Performance Challenges for Fiscal Year 2018 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 2018 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 10 key management and performance challenges facing HUD:

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.
10. Operational and financial reporting challenges affecting Ginnie Mae.

Attachment

Introduction and Approach

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 have 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. It works with departmental managers to recommend best practices and actions that help address the management and performance challenges through its audits, evaluations, and investigations.

Human Capital Management and Financial Management Governance

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 4 years and which contributed to our issuing disclaimers of opinion as part of our annual financial statement audits of HUD's financial statements.

On March 13, 2017, President Trump signed an executive order on a Comprehensive Plan for Reorganizing the Executive Branch. The order asks agencies to identify where money is being wasted, how services can be improved, and whether the services are benefiting the Nation. The mandate also involves reducing the Federal workforce. To get to a smaller workforce, agencies had to act immediately and submit a plan to the Office of Management and Budget (OMB) by September 2017 as part of their fiscal 2019 budget submission.

In HUD, the effort to restructure itself is not an exercise in workforce reduction. According to its Chief Operating Officer, HUD has spent a lot of time trying to mitigate any concerns around the current or upcoming personnel and process changes by participating in a highly engaged process, which includes obtaining feedback from all levels of the workforce. HUD believes part of the path toward better execution includes Senior Executive Service (SES) reassignments and potential buyouts or early outs across the Department. HUD recognizes the real impact on morale that moving senior executives or offering buyouts could have on the agency. Around 10 to 15 percent of HUD's SES workforce have been reassigned, and HUD expected OMB to approve its reorganization plan by mid-September.

Human Capital Studies

In May 2015, GAO issued a report based on work issued from January 2014 through February 2015 and ongoing work related to employee engagement. The report 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 make certain business continues 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 other 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. GAO's report produced eight recommendations, of which five remain open.

In May 2017, the GAO director of strategic issues testified in front of the House of Representatives Committee on Oversight and Government Reform and spoke on the need to carefully consider the Federal compensation system and its modernization to avoid a mission-critical skills gap as more than 34 percent of current governmentwide employees become eligible to retire in 2020. At HUD, around 45 percent of employees are eligible to retire in 2020.

Financial Management Governance of HUD and the Impact on HUD's Financial Integrity

Financial management governance issues have contributed to several of the material weaknesses and significant deficiencies noted in our report on HUD's consolidated financial statements. In mid-September 2017, these issues were further complicated by the unexpected announcement of two Office of the Chief Financial Officer (OCFO) senior management departures. HUD's Deputy Chief Financial Officer (CFO)-Acting CFO departed HUD on September 25. The Assistant Deputy CFO for Budget was then named the Acting Deputy CFO and Acting CFO but has since announced that she also plans to leave HUD in early November 2017. These two senior positions set policy and give direction to HUD's and its components' budgetary and financial reporting processes. HUD has provided no information regarding when replacements for these positions will be announced. The absence of a confirmed CFO, coupled with vacancies in key management positions critical to financial reporting within HUD and Ginnie Mae, creates a lack of leadership going forward to address HUD's current financial integrity issues.

First, HUD's financial management governance weaknesses resulted in many financial statement errors that required frequent restatements. For the fourth consecutive year, HUD will need to restate its financial statements to correct errors. In addition, in fiscal year 2017, HUD had to withdraw and reissue its fiscal year 2016 financial statements. Further, HUD has not received a clean opinion since fiscal year 2014. Frequent restatements to correct errors and disclaimers can undermine public trust and confidence.

Second, we have noted that OCFO management has a high tolerance for risk. Management decided halfway through the fourth quarter of fiscal year 2017 to revamp the financial reporting process and implement a new process to prepare financial statement notes. While process improvements to more effectively prevent or detect the pervasive errors is a worthy goal, delaying such an impactful change presents substantial risks. In addition, we are concerned about the significant risks associated with OCFO's decision to make changes to key financial reporting processes and tools (such as technologies) so close to yearend. We are also concerned that OCFO's Financial Reporting Division, the group responsible for executing the significantly changed financial reporting processes, have not been included to the extent necessary to address risks. Going forward, HUD should increase the input of responsible personnel and plan time to provide responsible parties the opportunity to perform user acceptance testing and resolve unanticipated or unexpected difficulties. OCFO management has not fully disclosed to us why such a major decision was made so late in the fiscal year instead of immediately after the reissuance of prior-year financial statements. The factors noted above indicate that HUD's financial management maturity contains characteristics associated with "inadequate" or "basic" levels of a financial management maturity model recently published by the Bureau of Fiscal Services (BFS) within the U.S. Department of Treasury.[1]

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

During 2016, GAO and OIG reported on a number of issues related to HUD's transition to a Federal shared services provider (FSSP) for financial management services. During our audit of HUD's fiscal year 2016 financial statements, we noted significant internal control weaknesses in financial processes, information processing, and financial reporting that ultimately contributed to pervasive material errors in the financial statements and notes, causing HUD to withdraw and reissue its fiscal years 2016 and 2015 financial statements and notes. We attributed these weaknesses to the weak financial governance over the transition to the FSSP.

HUD did not identify or address significant risks or implement adequate controls before transitioning to the FSSP for financial management services. As a result, almost 2 years after the shift, several issues remain unaddressed. For example, HUD still cannot produce timely and accurate financial statement notes. Late in the fiscal year, in mid-August 2017, OCFO made the decision to change the way that it prepares the notes; and ultimately decided to not submit third quarter financial statement notes to OMB as required by Circular A-136. As a result, OCFO management will not have the benefit of an established process for yearend that will ensure timely and consistent financial reporting. Further, HUD has not incorporated key elements of internal control into its financial management operations and has yet to implement several important internal controls through policies and procedures or establish the periodic review of policies and procedures to reflect changes to business processes. This condition was identified during fiscal year 2016 and continued during fiscal year 2017 without significant improvement. 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 and will continue to hinder the resolution of numerous financial statement audit deficiencies.

Information and Communication

HUD's information and communication among departments and offices has been a consistent challenge. Program office accounting policies and procedures have at times been developed without adequate OCFO input due to broad delegation to program office personnel. 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 approval of

[1] Treasury Financial Management Federal Financial Management Self-Assessment Maturity Model

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 HUD's assets and liabilities being misstated or not adequately supported primarily to inadequate collaboration with OCFO.

Enterprise Risk Management and Formation of a Senior Management Council

HUD needs to implement processes and procedures to ensure an effective system of internal control, not only for financial management governance, but also across the Department within all programs. HUD is responsible for implementing enterprise risk management to comply with OMB's updated Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control.[2] These standards provide the criteria for designing, implementing, and operating an effective internal control system with a greater focus on operational risks and controls. To effectively implement enterprise risk management, HUD will need to establish a framework for operational risks and controls.

A 2015 National Academy of Public Administration study[3] of OCFO's governance supported the longstanding OIG recommendations that HUD strengthen the finance workforce, establish a management council to enhance its financial governance, and take action to address risks related to the FSSP transition.

While HUD had resisted recommendations to create a senior management council, the updated OMB Circular No. A-123 changed the establishment of a senior management council from a best practice to a requirement. In response, HUD has formed a senior management council and opted to locate the council and responsibility for enterprise risk management within the Office of Strategic Planning and Management (OSPM). HUD's success will depend on strong coordination between OCFO and OSPM.

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.

Looking Ahead

We will continue monitoring HUD's progress in establishing an effective human capital management program and improving financial management governance. In addition, we will monitor HUD's efforts to comply with the executive reorganization order. In 2017, the number

[2] OMB M-16-17, OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

[3] 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

of material weaknesses, significant deficiencies, and instances of noncompliance is likely to remain elevated, and the 2017 financial statement audit opinion is unlikely to change.

Financial Management Systems

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. OCFO did not properly plan and manage its implementation of the project. 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.

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, 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 five audits of HUD's implementation of the New Core Project and issued the reports from June 2015[4] through September 2017. With each audit, we continued to find weaknesses in the planning and implementation of the project. In the first audit, we found that weaknesses in the planned implementation of certain parts of the project were not adequately addressed. HUD also did not follow its own agency policies and procedures, the policies established for the New Core Project, or best practices. These weaknesses related to requirements and schedule and risk management areas that are significant to the project plan and HUD's ability to manage them were critical to the project's success.

Our second audit[5] found that 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. Although HUD had taken action to mitigate some of the problems, we were concerned that HUD was moving too fast with its implementation plans and would repeat these weaknesses.

[4] Audit Report 2015-DP-0006, Weaknesses in the New Core Project Were Not Adequately Addressed, June 12, 2015

[5] Audit Report 2015-DP-0007, New Core Release 1 of Phase 1 Implementation Was Not Completely Successful, September 3, 2015

Our third audit[6] found that HUD had unresolved data conversion errors and inaccurate funds management reports and lacked a fully functional data reconciliation process upon implementing certain parts of the project. 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. Oracle Financials provides the ability to establish and manage budgetary authority in accordance with federal appropriations law. These conditions occurred because HUD rushed the implementation of the release. 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 (HUDCAPS) and Oracle Financials.

Our fourth audit[7] found that HUD's transition to an FSSP did not significantly improve the handling of its financial management transactions. Weaknesses identified with the controls over New Core Interface Solution and the conversion to the shared service provider's procurement application contributed to this issue. A year after the transition, HUD had inaccurate data resulting from the conversions and continued to execute 97 percent of its programmatic transactions using legacy applications. In addition, the interface program that allowed for and translated the financial transactions between HUD and the U.S. Treasury's Administrative Resource Center (ARC) was not covered under HUD's disaster recovery plan. These conditions occurred because of funding shortfalls as well as highly questionable decisions made by HUD. Examples include that the Project Team decided to (1) separate phase 1 of the project into smaller releases, (2) move forward with the implementation despite having unresolved issues, and (3) terminate the project before its completion While HUD considered its New Core Project implementation successful, it acknowledged that not all of the originally planned capabilities were deployed. In April 2016, HUD ended the New Core Project and the transition to an FSSP after spending $96.3 million; however, the transition did not allow HUD to decommission all of the applications it wanted to or achieve the planned cost savings.

Our fifth review[8] found that transaction processing had improved but significant challenges and weaknesses remained. Although HUD had improved from what we found during our fiscal year 2016 audit work, HUD continued to experience some weaknesses in transaction processing, could not fully support the balances recorded in its general ledger, and did not fully reconcile data between HUDCAPS and its general ledger.

HUD encountered significant challenges with its transition to ARC's financial management services and Oracle Financials. Funding shortfalls, as well as the impact of HUD's decisions regarding the project, ultimately impaired the effectiveness of HUD's internal controls and the efficiency and effectiveness of its operations instead of improving them. The implementation increased the number of processes required to record programmatic financial transactions, which

[6] Audit Report 2016-DP-0004, HUD Rushed the Implementation of Phase 1, Release 3, of the New Core Project, September 20, 2016
[7] Audit Report 2017-DP-0001, HUD's Transition to a Federal Shared Service Provider Failed To Meet Expectations, February 1, 2017
[8] Audit Report 2017-DP-0003, New Core Project: Although Transaction Processing Had Improved Weaknesses Remained, September 29, 2017

increased the number of opportunities for data to be modified between HUD's legacy applications' subledgers and the general ledger maintained in Oracle Financials.

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. In addition, 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 private, personally identifiable information. 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 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, we have 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. In recent years, we have completed five audits on HUD's implementation of the New Core Project. The results showed that HUD continued to have weaknesses in planning and implementation throughout the project efforts to date. In addition, HUD's transition to an FSSP did not significantly improve the handling of its financial management transactions, even after spending $96.3 million on the project. Although our most recent testing showed that HUD had improved New Core transaction processing, significant weaknesses and challenges remain. HUD is also challenged by its reliance on outdated information technology systems. The lack of funding to modernize its systems hinders HUD in protecting its system data from being compromised.

Looking Ahead

We will continue evaluating HUD's activities related to the implementation of the New Core Financial Management Solution and FHA's management controls over its portfolio of integrated insurance and financial systems.

Digital Accountability and Transparency Act Compliance

One of the Department's emerging major management challenges is compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act).[9] The DATA Act builds on agency transparency reporting requirements established by the Federal Funding Accountability and Transparency Act of 2006 (FFATA) and the implementation date was 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.

Noncompliance With DATA Act Reporting Requirements

As of the statutory reporting deadline, HUD had not submitted all required data for FHA and Ginnie Mae, and loan program data under community planning and development and public and Indian housing for four of the seven required files because it was unable to resolve data quality and file consolidation issues. In addition, HUD was unable to produce, during the second quarter of 2017, two of the seven required files because the data from the awardees were unavailable.

In our August 2016 and March 2017 DATA Act readiness reviews, we found that HUD was not on track to meet the DATA Act's requirements by the statutorily required date of May 2017.[10] Our initial audit of HUD's compliance with the Act has validated those projections, and as of the second quarter of 2017, HUD was noncompliant. Further, the extent of HUD's noncompliance

[9] Digital Accountability and Transparency Act of 2014, Public Law No. 113-101

[10] 2016-FO-0802, Independent Attestation Review: U.S. Department of Housing and Urban Development, DATA Act Implementation Efforts, dated August 26, 2015, and 2017-FO-0801, Independent Attestation Review: U.S. Department of Housing and Urban Development, DATA Act Implementation Efforts,

increased with an initial third quarter data submission that did not meet governmentwide standards.

Lack of Management Governance Over DATA Act Implementation

HUD's management did not establish an environment for ensuring a successful implementation of DATA Act reporting during fiscal years 2016 and 2017. HUD's DATA Act team has been hindered by management turnover and indecision. HUD had three different senior accountable officials within a 6-month span during the initial phase of implementation. Additionally, the conclusion that the DATA Act applied to FHA and Ginnie Mae was not made until approximately May 2016, or 2 years after the Act requirements became effective and just over 1 year before the reporting deadline. These conditions delayed implementation efforts and precluded the reasonable expectation that the deadline would be met. More recently, we noted that the senior accountable official did not certify key data submissions.

Additionally, HUD's management did not consider establishing proper governance through documented policies and procedures. HUD's management was responsible for taking steps to comply with applicable guidance. In our readiness attestation reviews, we offered eight recommendations to management to ensure an effective implementation of the DATA Act within the agency. However, management disregarded our recommendations, thereby delaying its ability meet the statutory deadline.

In addition, management inaccurately represented HUD's progress toward implementation in a December 8, 2016, testimony[11] before the United States House of Representatives by stating that HUD has developed a plan that follows the eight steps outlined in the DATA Act Playbook and there has been proactive planning and management. Management represented that HUD was on track with completing milestones. However, we concluded in our second attestation review, issued March 2, 2017, that the agency was still unable to show progress in resolving the matters relating to reliance on many legacy and current financial systems with differing technologies and data elements and performing the required data inventory and mapping.

Generally, we have noted a low level of management and executive support for this statutorily required effort. While HUD has taken some steps to implement the DATA Act, the lack of management and executive support will continue to hinder HUD's compliance going forward.

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 did not complete an inventory of data elements or the mapping of agency data in a timely manner. Throughout the effort, HUD's project plan dates for milestones significantly exceeded Treasury and OMB guidance, and HUD's project plan dates did not position HUD for compliance with the DATA Act by the required implementation date.

[11] Testimony of Courtney Timberlake, Deputy Chief Financial Officer, U.S. Department of Housing and Urban Development, before the Committee on Oversight and Government Reform Subcommittee on Government Operations, United States House of Representatives, on December 8, 2016

HUD's DATA Act efforts languished, in part due to inadequate resources and unprepared personnel. Competing departmental priorities like HUD's transition to a shared service provider for financial management services added to HUD's resource limitations. While management consistently identified challenges related to limited resources, management did not take action to address these issues in a timely manner. For example, the Acting CFO, who is responsible for DATA Act implementation, decided not to fund contractor resources that were being used toward DATA Act implementation and allowed the existing contract to expire due to a lack of funding.

Information System Weaknesses and Data Quality Issues

HUD has experienced challenges with the 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. However, 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 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. Data quality issues have limited HUD's ability to map agency data to the established DATA Act schema, including assigning the Federal award identification number.

Weak Internal Controls Over DATA Act Reporting

HUD did not implement internal control policies and procedures for ensuring accurate, reliable, and complete data submissions to USASpending.gov by the statutory May 2017 deadline. HUD was unable to provide a listing and description of the internal controls designed and implemented for reporting for the DATA Act for each source system, including those for FHA and Ginnie Mae components. The data reported in HUD's files submitted to USASpending.gov for the second quarter of 2017 did not have the proper system-level controls over the data consolidated into each required file.[12]

In addition, HUD's management did not consider establishing proper governance through documented policies and procedures. Specifically, the senior accountable official did not document governance policies, including roles and responsibilities of each entity involved in the agency's submission to USAspending.gov. There were no defined policies and procedures established for HUD's internal personnel, including Ginnie Mae and FHA, and ARC for completing file consolidation.

Summary of OIG Work

We issued two preimplementation attestation reports that were designed to determine whether HUD was on track to meet the implementation deadline. Both attestation reports concluded that

[12] File A, Appropriations Account; File B, Object Class and Program Activity; File C, Award Data for Procurement and Financial Assistance; Files D1 and D2, Award and Awardee Attribute Files; File E, Additional Awardee Attributes; and File F, Sub-award Attributes

HUD was not on track to provide complete, departmentwide reporting by the May 2017 deadline. Additionally, we provided recommendations to the Department to address key issues that would impede timely compliance. However, six of eight recommendations issued remained unimplemented, two of which did not have management decisions at the date of this report.

Further, we assessed the agency's internal controls over DATA Act reporting and conducted a statistical sample of HUD's File C submission. Our draft audit report concluded that HUD's submission of second quarter 2017 data was not compliant with the Act. We recommended that the senior accountable official designate additional HUD personnel and establish an internal reporting structure to complete DATA Act implementation, while sustaining reliable DATA Act reporting for subsequent periods, and ensure that all reportable FHA and Ginnie Mae data are certified and submitted through the DATA Act broker and reported on USAspending.gov. Further, we recommended that HUD establish and implement internal control procedures to ensure that data reported from the agency's source systems are completely and accurately reported in USAspending.gov.

Looking Ahead

We will continue to perform our initial audit as HUD works to implement the DATA Act, and we plan to issue our first statutorily required report by the November 2017 deadline.

Due to the outstanding implementation issues identified during our attestation reviews and compliance audit, HUD continues to be noncompliant with the Act in the third and fourth quarters of 2017. The Department was unable to resolve data quality issues that impeded a complete and accurate submission to USAspending.gov. We will monitor HUD's progress in implementing our recommendations to ensure compliance in fiscal year 2018.

Weaknesses in Information Technology Security Control

To accomplish its mission of providing benefits and services to the American public and the nationwide housing market, HUD must efficiently process hundreds of thousands of transactions daily and manage and protect hundreds of millions of records containing the personal information of citizens. HUD systems and web services provide access to these data for HUD personnel, members of the public, and business partners and transmit large amounts of data daily. However, much of these data reside on or are processed on legacy systems, making it essential that HUD modernize its IT infrastructure to ensure the confidentiality, integrity, availability, and overall security of its data and systems.

OIG has conducted annual Federal Information Security Modernization Act of 2014 (FISMA) and other focused evaluations to review HUD's cybersecurity program, initiatives, and ability to secure HUD data and IT systems. Our reviews, evaluations, and audits have consistently found that HUD faces significant long- and short-term challenges in multiple FISMA areas and in its ability to modernize legacy systems. Our most recent FISMA evaluation found that while the Office of the Chief Information Officer (OCIO) is taking positive steps to improve its cybersecurity program, HUD still needs substantial time, effort, and resources to accomplish significant change. HUD continues to face many of the same IT challenges year after year, making this a challenge in itself. Although HUD is showing some progress in remediating deficiencies, it has 51 open FISMA evaluation recommendations from fiscal years 2013-2016 that have been open from 500 to more than 1,000 days. These recommendations need to be addressed to rectify longstanding security weaknesses. Further, the privacy program has an additional 14 open recommendations for the fiscal years 2013-2015 evaluation period. Additionally, 23 recommendations have been made in fiscal year 2017, and 4 of those have been closed.

As in prior years, we continue to report weaknesses in key areas, such as the IT risk management program, lagging IT system modernization efforts, key IT staffing vacancies, lack of technical contractor oversight, and gaps in the information security continuous monitoring program. HUD is working to develop a comprehensive enterprise risk management (ERM) program, to include IT risks, but this initiative is in its initial stages. Without an ERM, HUD continues to address risk in a decentralized and fragmented fashion and fails to fully incorporate and prioritize IT risks according to enterprise mission and business objectives. In addition, HUD inadequately documents security risks in accordance with National Institute of Standards and Technology guidance.

HUD maintains many legacy systems, resulting in more than 400 IT applications running on unsupported platforms, increasing the risk of unknown and unpatchable vulnerabilities. Legacy systems are difficult or unable to migrate to cloud technology or comply with two-factor authentication requirements, further complicating HUD’s long-term efforts to modernize and secure its systems and data while creating efficiencies and cost savings. HUD is striving to increase the use of cloud services but needs to complete and communicate a formal, detailed cloud strategy.

HUD continues to have significant staffing challenges with filling key IT vacancies. HUD recently filled the Chief Information Officer (CIO) position. However, this is a political appointee position and historically has experienced high turnover. The Deputy CIO for IT Operations has been vacant since December 2014, and the Chief Information Security Officer position has been vacant since March 2017. Further, our FISMA evaluation showed that 16 of the 36 key IT managerial and supervisory positions stationed at HUD headquarters were either vacant (11) or filled by temporary “acting” personnel (5) during fiscal year 2016, and the conditions continue to be similar in fiscal year 2017. We are concerned that turnover in IT leadership roles continues to deflate HUD’s momentum and reduce its chance of correcting short- and long-term IT security challenges. Because of this, HUD continues to outsource infrastructure and application support, divesting itself of much of its own technical expertise. HUD should also continue to review its cybersecurity cost requirements and be resourced appropriately. According to a draft GAO report,[13] HUD spends 1 percent of its IT budget on IT security, which is the lowest of all 23 Chief Financial Officer Act agencies. The average spending is 8 percent.

[13] GAO Draft Report, GAO-17-549, Federal Information Security

Further, OIG evaluations examined HUD's web application security posture during fiscal year 2017 and found that multiple publicly accessible web applications were not operated or their existence was unknown by OCIO. These web applications, in several instances, were operated by contractors and in cloud environments that were not vetted by OCIO, resulting in a significant security risk to the Department and its data. This occurrence highlights weaknesses in the CIO's authority and HUD's IT governance, both of which have been cited as longstanding concerns.

Although significant weaknesses still exist, HUD has made improvements to some elements of IT security. For example, HUD has successfully contracted for and implemented a new Computer Incident Response Team, greatly improving HUD's capability to detect and report security incidents. In addition, HUD is participating in the U.S. Department of Homeland Security's Continuous Diagnostics and Mitigation (CDM) program that Congress established to provide adequate, risk-based, and cost-effective cybersecurity and more efficiently allocate cybersecurity resources. HUD is in the early stages of implementing multiple tools and processes through the CDM program. Long-term improvements in HUD's cybersecurity program depend heavily on the successful deployment and integration of these tools and processes.

Summary of OIG Work

Our work has mainly focused on assessing mandated requirements and web application security to assist HUD in identifying IT risks and vulnerabilities. We continue to work with HUD by making recommendations to prioritize efforts for improving the cybersecurity posture and IT infrastructure and securing HUD data.

Looking Ahead

Numerous program areas need to be reviewed to independently identify and provide recommendations for improving the cybersecurity posture. We have developed a 3-year approach to evaluate HUD's IT infrastructure, policy, processes, and security program capabilities in order to focus on HUD's IT implementation plans and Federal Government IT initiatives. We will provide oversight on the progress of HUD's IT security program and modernization efforts by using the annual FISMA reviews and focused IT evaluations, while ensuring a collaborative effort with HUD and HUD's stakeholders.

Single-Family Programs

FHA's single-family mortgage insurance programs enable millions of first-time borrowers and minority, low-income, elderly, and other underserved households to benefit from home ownership. HUD manages a growing portfolio of single-family insured mortgages exceeding $1.1 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.[14] According to the 2016 actuarial study, the fund had an estimated economic value of $35.27 billion. Based on the 2016 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. We continue to take steps to help preserve the FHA insurance fund and improve FHA loan underwriting by collaborating 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 $14.8 billion in damages and penalties in the last 6 fiscal years.

For the FHA-insured loans, results in the last 6 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 $5.1 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 $3.3 billion of the $5.1 billion is of direct benefit 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 housing market and ensuring 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. Three years ago, we 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.

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[14] 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.

Based on the results of an August 2014 audit,[15] 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. 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 a 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 property 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 that 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 its concern that delayed foreclosures limited its ability to identify current and future risks to the FHA insurance fund.

Based on an audit report issued in October 2016[16] 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

[15] 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
[16] Audit report 2017-KC-0001, FHA Paid Claims for Properties That Servicers Did Not Foreclose Upon or Convey on Time, October 14, 2016

initiate foreclosure, it forfeited its mortgage interest and had no further financial or regulatory incentives to meet its remaining deadlines.

Further, in another audit,[17] 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 in fiscal year 2015. 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. We recommended that HUD 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.

Distressed Asset Stabilization Program (Single-Family Note Sales)

In July 2017,[18] we reported our concerns that HUD did not conduct rulemaking or develop formal procedures for its single-family note sales program. HUD conducts single-family mortgage note sales under section 204(g) of the National Housing Act. In 2012, HUD held three note sales. The first two sales were under the Loan Sales program, and with the third note sale, the name of the program was changed to the Distressed Asset Stabilization Program (DASP). DASP accepts assignment of eligible, defaulted single-family mortgage loans in exchange for claim payment and then sells them in a variety of pooled note sales. The FHA insurance on the mortgages terminates when the pooled notes are sold to investors. HUD has sold more than $18 billion in distressed notes through its note sales programs.

In 2006, HUD started but did not complete rulemaking for its note sales program. HUD issued an advance notice of proposed rulemaking to solicit comments on its Accelerated Claim and Asset Disposition (ACD) program. This was the first title used by HUD in referring to its single-family note sales program. In that notice, HUD stated, "This notice solicits comments on HUD ACD Demonstration program before HUD issues a proposed rule to codify the requirements for the ACD program." HUD went on in the Background section of the notice to state, "Before implementing the new ACD disposition process on a nationwide basis, HUD has conducted an ACD Demonstration program involving a group of defaulted mortgages. This has allowed HUD to assess the overall effectiveness of this disposition process. HUD believes that improvements can be made to the program to make it more effective. Consequently, before proceeding with the regulatory codification of the ACD program, HUD is soliciting comments from all interested parties, especially those who participated or declined to participate in the Demonstration program, on possible improvements to the program." HUD continued, "When codified, the ACD program will become a permanent part of HUD's single family mortgage insurance programs. The proposed rule would also revise 24 CFR part 291, which governs the disposition

[17] 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
[18] Audit Report 2017-KC-0006, HUD Did Not Conduct Rulemaking or Develop Formal Procedures for Its Single-Family Note Sales Program, July 14, 2017

of HUD-acquired single family property, to incorporate the policies and procedures for the sale of loans assigned to HUD under the ACD program." However, HUD did not finalize the comment process or prepare the program for a final rule.

We concluded that DASP is a substantive rule, which would be subject to rulemaking requirements under 24 CFR Part 10, which extends Administrative Procedure Act rulemaking requirements to HUD programs regarding loans and public property. During the prenote and postnote sale process, there are restrictions on the pooled loans, notification requirements to borrowers, and specific participation requirements of nonprofits and local governments in a direct sales program. These factors strongly suggest that this is more than a simple contractual relationship and may have impacts beyond the actual purchaser of the assigned mortgages. Completing the rulemaking process would allow public officials, citizens, and industry participants the opportunity to provide comments for a more than $18 billion program and would help HUD develop a consistent standard for administering the program.

FHA Safe Water Requirements

HUD requires that properties insured by FHA meet certain property requirements. One such requirement is that the insured property must have a continuing supply of safe and potable[19] water. We audited HUD's oversight of safe water requirements for FHA-insured loans nationwide due to news reports that identified elevated levels of lead contamination in water across the country and a prior audit of HUD's oversight of FHA-insured loans on properties in Flint, MI.[20]

In 2016, we issued a report on elevated levels of lead contamination in the water in Flint, MI. HUD had insured loans on properties in Flint that closed after the city began using the Flint River as its water source. In its response to the audit report, HUD expressed concern that FHA's duty to enforce the standards for minimum property requirements for homes that are candidates for FHA insurance is conflicted by FHA's commitment to carry out the Secretary's goal of promoting access to credit in all communities. It also expressed concern that this commitment was particularly important in communities like Flint that are underserved by the mortgage lending community. HUD further stated that it is essential that FHA's policy for underwriting mortgage loans be consistent across the entire Nation, including but not limited to the requirement for a safe and potable water supply. As part of the FHA-insured loan process, FHA requires a property appraisal. The appraiser must be an FHA Roster appraiser, licensed, and geographically competent. Geographic competency means that the appraiser is familiar with the local area and understands the local market. Relative to water quality, the requirement for local competency puts the burden on each appraiser to know whether water testing is necessary. It is impractical for FHA to have variations in policy locality by locality.

In response to the January 2016 Presidential Declaration regarding the water crisis in Flint, in February 2016, FHA issued a question and answer document that recognized the water contamination crisis in Flint and reminded lenders and other stakeholders involved with FHA transactions of the requirements for properties to be eligible for insurance. The guidance stated

[19] Potable water is water that is safe for drinking.
[20] Audit report 2016-PH-0003, HUD Did Not Ensure That Lenders Verified That FHA-Insured Properties in Flint, MI, Had Safe Water, July 29, 2016

that if a property was located in an area serviced by an unacceptable water system with unacceptable levels of contaminants, including lead, a water test must be completed. However, FHA has not incorporated this requirement or any other clarifying language into its single-family housing policy (HUD Handbook 4000.1). We made six recommendations to HUD and have reached management decisions with HUD on all of the recommendations, with final actions to be completed by December 20, 2017.

In September 2017, we further reported that HUD did not provide sufficient guidance and oversight to ensure that properties approved for mortgage insurance had a continuing and sufficient supply of safe and potable water. Of 49 loan files reviewed, from a universe of 1,432 properties connected to a public water supply for which a notice that it had lead contamination was issued to the public, none disclosed the contamination or contained evidence of water testing. We attributed this condition to HUD maintaining that its existing policies and guidance sufficiently ensured that FHA-insured properties had a continuing and sufficient supply of safe and potable water. HUD also lacked adequate controls to determine whether lenders and appraisers performed required testing of properties in areas serviced by a public water system with known issues.

In response to the audit report, HUD stated that it seeks to balance its primary missions of providing access to affordable mortgage credit while protecting the insurance fund and the need to promote safe housing. HUD agreed that its guidance for ensuring that properties meet minimum standards is inadequate regarding water quality. It stated that it will review its current guidelines and consult with appropriate government authorities to develop policies to ensure that lenders and appraisers have clear and consistent guidance for determining when water testing is required. HUD also stated that it will consider our recommendation to require water testing for all properties. It will also consider the cost and ability of the market to execute testing consistently nationwide.

Summary of OIG Work

We continue to report on risks to the FHA insurance fund. In the area of loan underwriting, audits and investigations conducted over the last 6 fiscal years have shown that a high percentage of loans reviewed should not have been insured because of significant deficiencies in the underwriting. In the area of insurance claims against the fund, we have noted HUD's financial exposure when paying claims on loans that were not qualified for insurance. Further, HUD did not always bill lenders for FHA single-family loans that had an enforceable indemnification agreement and a loss to HUD. Our audit of delayed conveyances 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.

Regarding other areas of HUD's single-family program, our audit of the rulemaking process for single-family note sales determined that HUD did not conduct rulemaking or develop formal procedures for its more than $18 billion program. Lastly, our two audits regarding FHA's oversight of insured properties having safe and potable water noted that HUD did not ensure that lenders verified that properties being serviced by a public water system with known levels of lead had the water tested.

Looking Ahead

We continue to take steps to help preserve the FHA insurance fund and improve FHA loan underwriting by collaborating 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.

We will also stay updated on the progress and use of the digital mortgage platform. We will engage with HUD to determine how it is preparing resources in the upcoming fiscal year to move to a digital platform.

We will remain vigilant in reviewing Ginnie Mae's oversight of its nonbank issuers. In fiscal year 2016, nonbank issuers accounted for 73 percent of Ginnie Mae's single-family mortgage-backed security issuance volume, up from 51 percent in June 2014. It is imperative to evolve and understand the risks imposed by nonbanks and proactively address them.

Community Planning and Development Programs

Integrated Disbursement and Information System

HUD's continued use of the FIFO (first-in, first-out) method as an accounting methodology for appropriated funds[21] results in a material misstatement of HUD's financial statements. HUD's plan to eliminate FIFO and to remove cumulative commitment accounting[22] 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 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 (GAAP) and result in material misstatements on the financial statements. Use of the FIFO method 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 through 2016. HUD's lack of retroactive removal of FIFO will have implications on future years' financial statement audit opinions until the impact is assessed to be immaterial. Despite the changes made to IDIS thus far, modifications are still needed for the system to fully comply with the Federal Financial Management Improvement Act (FFMIA), which were scheduled through September 2017. However, the fiscal year 2017 appropriations act removed the commitment requirement for the

[21] 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.

[22] 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.

HOME Investment Partnerships program for fiscal years 2016 through 2019; therefore, HUD will continue to use the cumulative method for determining compliance with the HOME commitment requirement.

Subgrantee Monitoring

Through August of fiscal year 2017, 5 of our 11 community planning and development-related audits found that in some instances, little or no monitoring occurred, particularly at the subgrantee level. The same deficiency was documented in 15 of our audits issued during fiscal years 2014 through 2016. 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. We have 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. In fiscal year 2016, HUD approved $80.71 million in Section 108 guaranteed loan commitments for a variety of community and economic development projects throughout the United States.

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

External audits we conducted 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 eight Section 108 loans in which loan agreement provisions and HUD requirements were not followed, which resulted in more than $54 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.

A 1997 report from GAO disclosed similar deficiencies regarding HUD's oversight of the Section 108 Loan Guarantee program. According to the report, some HUD field offices did not routinely include the Section 108 loans in their annual reviews because they (1) did not believe they had guidance on how to monitor the program, (2) did not believe they had a responsibility to monitor the loans, (3) had other priorities, or (4) lacked loan-specific information. The report recommended that HUD direct field offices to include a review of Section 108 activities when they reviewed CDBG communities and States and develop procedures to ensure that the information necessary to monitor the program was promptly provided to field offices. HUD agreed with the recommendations and stated that it would take appropriate corrective measures. However, the deficiencies continued to exist.

In April 2017, an OIG audit found that HUD's oversight of Section 108 loans was not adequate to ensure that funds were effectively used to meet program objectives and that borrowers complied with loan contract provisions. The Section 108 loans were not routinely included in HUD's annual reviews. HUD had not conducted monitoring reviews for 12 of 14 (85 percent, $102.5 million) loans that we reviewed. Between 327 and 2,533 days had elapsed since the loan contract date, and monitoring reviews had not been conducted for the 12 loans. For two loans, HUD's monitoring review was conducted between 682 and 901 days after the contract date. As a result, HUD had no assurance that more than $24 million in Section 108 loans fully provided the intended benefits and met program objectives and that borrowers complied with program requirements.

The infrequent monitoring of Section 108 loans was not consistent with section 104(e)(1) of the Housing and Community Development Act of 1974. HUD must conduct performance reviews at least annually to determine whether the grantees have carried out CDBG activities in a timely manner, in accordance with the program requirements, and in compliance with primary and national objectives.

On August 24, 2017, HUD submitted proposed management decisions on the April 2017 audit report, but we have been unable to reach an agreement on the actions necessary to correct some of the deficiencies identified. For example, HUD stated that it was in the process of developing new procedures for the Section 108 program. However, it disagreed with us regarding initiating remedial actions, under paragraph 12 of the loan contract, against borrowers that fail to comply with program requirements. HUD also disagreed with directing field offices to include the review of Section 108-funded activities when performing the annual reviews of CDBG recipients because of alleged resources constraints.

We are concerned that these issues, in which more than $78 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.

Disposition of Real Properties Assisted With CDBG Funds

HUD faces challenges in its oversight of the disposition of real properties assisted with CDBG program funds. CDBG funds may be used for several activities, including the acquisition, rehabilitation, demolition, remediation, and improvement of private and public real properties. Over the past 3 years, more than $9.7 billion, or 9.26 percent of the CDBG funds disbursed, went to activities involving real properties that we identified as higher risk based on prior audit work and activity definitions. These activities often involve large amounts of CDBG funds, are subject to several program requirements related to the use of the properties, and can generate program income upon the disposition of the properties, which can be several years after the funds have been used.

In a recent report,[23] we found that HUD could improve its oversight of the disposition of real properties assisted with CDBG funds. Although HUD's drawdown and reporting system allowed grantees to enter identifying information for assisted properties and its field offices performed risk-based monitoring of grantees, HUD's controls were not always sufficient to ensure that grantees (1) entered addresses of assisted properties into its system, (2) adequately protected HUD's interest in the properties, (3) provided proper notice to affected citizens before changing the use of assisted properties, (4) adequately determined the fair market value of assisted properties at the time of disposition, and (5) properly reported program income from the disposition of the properties. We attributed these deficiencies to HUD's lack of emphasis on verifying address information, its field office staff's not being adequately trained to use data to monitor HUD's interest in properties, and one field office that we reviewed incorrectly interpreting program requirements. As a result, HUD could not adequately track and monitor its interest in the properties and did not have assurance that its interest in these properties was protected. Further, HUD did not have assurance that grantees properly handled changes in use and properly reported program income.

OIG CPD Collaboration

An OIG and HUD CPD joint collaboration issued six integrity bulletins to assist grantees and subgrantees in the areas in which OIG reported that grantees and subgrantees were most vulnerable. The bulletins issued addressed the following areas:

- procurement and contracting,
- subrecipient oversight,
- conflicts of interest,
- internal controls,
- documentation and reporting, and
- financial management.

[23] Audit Report 2017-NY-0002, HUD Could Improve Its Controls Over the Disposition of Real Properties Assisted With Community Development Block Grant Funds, September 29, 2017

In addition, the Inspector General coauthored a joint letter with the 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 published bulletins are posted on our website at www.hudoig.gov/fraud-prevention. Since publication of the integrity bulletins, the work group has begun developing a guide to provide critical information and insight to CPD grantees to facilitate an efficient OIG audit process. The work group is also discussing other areas in which a joint collaboration may be beneficial.

Summary of OIG Work

We took exception to HUD's not removing the FIFO methodology retroactively, which continues the departure from GAAP and will 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 through 2016.

In fiscal years 2014 through August 2017, at least 20 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 we conducted for the period 2012 through 2017 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.

A recent audit found that HUD could improve its oversight of the disposition of real properties assisted with CDBG funds. We have concerns that HUD does not adequately track and monitor its interest in the properties and, therefore, has no assurance that its interest in these properties is protected.

In an effort to assist grantees and subgrantees in the areas in which our audit reports determined that the grantees and subgrantees were most vulnerable, we have 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. We will continue to work with 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 any related recommendations.

Public and Assisted Housing Program Administration

HUD provides housing assistance funds under various grant and subsidy programs to public housing agencies (PHA) and multifamily project owners. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. The Office of Public and Indian Housing (PIH) and the Office of Multifamily Housing Programs provide funding for rent subsidies through public housing operating subsidies and the tenant-based Section 8 Housing Choice Voucher and Section 8 multifamily project-based programs. Approximately 3,800 PHAs provide affordable housing for 1.1 million households through the low-rent operating subsidy public housing program and for 2.2 million households through the Housing Choice Voucher program. Multifamily project owners provide approximately 28,000 properties that assist more than 1.2 million households. The challenges listed below are the responsibility of PIH. The following challenges relate to PIH's limits on information systems:

- monitoring the Housing Choice Voucher program operations and physical inspections process,
- cash management requirements, and
- monitoring small and very small housing agencies.

Other challenges include

- central office cost centers,
- monitoring Moving to Work (MTW) agencies,
- overincome families in public housing,
- environmental review requirements,
- the Indian Home Loan Guarantee program, and
- the Required Conversion program.

Information Technology Challenges in the Office of Public and Indian Housing

Due to IT funding constraints, PIH has not updated several of its outdated systems. Many of these systems need updates or overhauls to help PIH comply with Federal requirements and its ever-changing environment. In the absence of modern automated systems, PIH is forced to use intensive manual processes that are time consuming, do not fully fulfill Federal requirements, and hamper PIH's monitoring efforts.

<u>Monitoring the Housing Choice Voucher Program Operations and Physical Inspections Process</u>
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. This tool would also assist in accumulating actual payments to individual landlords that would address the next challenge.

In response to a 2008 audit report,[24] 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 3-year demonstration program is ongoing. The demonstration authority was granted to test and then implement the revised protocol. It covers 241 PHAs and 45 percent of the Housing Choice Voucher program units. Meanwhile, we continue to identify PHAs with inspection programs which do not ensure that voucher program units comply with standards.

Our 2008 audit report also 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 continue to audit the physical condition of Housing Choice Voucher program units.

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. While PIH has made substantial progress in this area, 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. Complex reconciliations are prepared manually on 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. HUD has not provided a management decision indicating how it plans to implement this recommendation. However, HUD is in the initial planning stages of developing an automated system, which may take a considerable amount of work to implement.

[24] Audit Report 2008-AT-0003, HUD Lacked Adequate Controls Over the Physical Condition of Section 8 Voucher Program Housing Stock, May 14, 2008

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, they create oversight burdens and costs for both HUD and PHAs that are disproportionate to the number of families these PHAs serve. In a recent report,[25] we found that a significant cause of the deficiencies identified in small and very small PHAs was that executive directors and boards of commissioners chose to either ignore requirements or lacked sufficient knowledge to properly administer their programs. HUD uses a 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, we have 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 website at www.hudoig.gov/fraud-prevention. Several advisories were directly related to PHAs and were emailed to executive directors. In addition, the former Inspector General coauthored a joint letter with the former 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, the aforementioned training module for board members and executive staff.

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 is experiencing difficulties with its original plan to 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. However, HUD will continue to work with OIG to explore options to ensure that only those funds needed to cover costs are defederalized.

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

[25] Audit Report 2015-FW-0802, Very Small and Small Public Housing Agencies Reviewed Had Common Violations of Requirements, September 16, 2015

regarding the need for an asset management fee. Our 2014 report[26] found that HUD lacked adequate justification for allowing PHAs to charge an asset management fee, resulting in more than $81 million in operating funds being unnecessarily defederalized annually. We maintain concerns as to the fee's necessity, especially since the funds are defederalized.

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 missed the opportunity to gather baseline metrics when it began the program with the initial 39 agencies. HUD has experienced 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.

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. In April 2016, HUD extended its agreements with the 39 MTW PHAs through 2028. In light of the expansion, HUD began looking at new ways to evaluate overall program and agency performance. In the expansion program, HUD will take a more proactive role in controlling the initiatives undertaken and information gathered. Law requires that new agencies be added to the program in cohorts or groups of agencies that target one specific policy change. By narrowing the focus to one policy and trying it at several different agencies, it is possible to gather the needed data to properly analyze the policy being tested. As results become available over the next year or two, it will be clear whether HUD is collecting the data, it needs to adequately monitor the MTW agencies. As the expansion is implemented, we may have an opportunity to reevaluate the program and HUD's efforts to better monitor the outcome of the MTW demonstration program.

Overincome Families in Public Housing

HUD has a challenge in addressing families having excessive income living in public housing units. As result of our 2015 audit[27] and after much public and congressional concern, President Obama signed the Housing Opportunity Through Modernization Act in July 2016. Section 103 of 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. In November 2016, HUD published a Federal Register

[26] 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
[27] Audit Report 2015-PH-0002, Overincome Families Resided in Public Housing Units, dated July 21, 2015

notice for comment regarding its implementation of Section 103 of the Act. The notice sought comment on HUD's methodology for setting the overincome limit for areas where HUD has discretion to set higher and lower income limits based on local housing market conditions. The comment period expired on January 30, 2017. However, HUD has not yet finalized the rule due to the impact of Presidential Memorandum 1 and Executive Order 13771 on implementation. To issue Section 103 regulations, HUD needs to identify two deregulating actions.

Environmental Review Requirements

HUD has a duty to ensure that its projects are free of environmental hazards. As a result of recent OIG reports,[28] HUD established a memorandum of understanding among the program offices to define roles, responsibilities, and authorities. It also began providing more training to staff and grantees and implemented processes to improve its training program and curriculum to better support all program areas. In addition, HUD was piloting a recently developed electronic data system, HUD's Environmental Review Online System (HEROS), which is part of HUD's transformation of IT systems. HEROS will convert HUD's paper-based environmental review process to a comprehensive online system that shows the user the entire environmental process, including compliance with related laws and authorities. It will allow HUD to collect data on environmental reviews performed by all program areas for compliance. HUD's Office of Environment and Energy 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 PIH field offices evaluated, 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

HUD faces challenges in accounting for the Indian Home Loan Guarantee program due to systems limitations and past errors. HUD does not have an interface between the Computerized Homes Underwriting Management System, the system used to track the loan guarantees, and its

[28] 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

general ledger. As a result, HUD must transfer files via email to upload daily loan guarantee activity to its general ledger. Additionally, HUD is working to clear discrepancies between its general ledger and subsidiary records, including differences in foreclosed property balances and differences in balances by cohort. HUD and its shared service provider, ARC, are hoping to have the discrepancies resolved in the near future.

Required Conversion Program

HUD faces challenges in implementing its Required Conversion program. The Required Conversion program is included in Section 33 of the United States Housing Act of 1937 as amended and codified at 24 CFR Part 972. The purpose of the program is to ensure that distressed public housing developments are removed from the public housing inventory and tenant-based rental assistance is provided to the residents. The regulations require PHAs to identify distressed public housing developments (or parts of developments). These developments are subject to required conversion if they have vacancy rates of 12 percent or more and (1) it would be more expensive for the PHA to modernize and operate the distressed development as public housing for its remaining useful life than it would be to provide tenant-based rental assistance to all residents of those units or (2) the PHA cannot ensure the long-term viability of the distressed development.

In a recent report,[29] we found that HUD did not properly identify potential projects requiring conversion and did not follow up to ensure that PHAs took action by conducting proper analyses to determine whether projects should be converted to tenant-based rental assistance. Further, HUD did not apply available remedies when PHAs did not properly identify projects or implement required conversions. We attributed this deficiency to a lack of oversight and miscommunication among PIH, the Office of Field Operations, the Special Application Center, regional PIH field offices, and the PHAs. As a result, HUD did not require PHAs to identify and convert distressed projects, and up to $75 million in operating subsidies and capital funds could continue to be spent on projects that have not been determined to be physically viable or less expensive than tenant-based rental assistance. We recommended that HUD look at each of the nine PHAs noted in the report to determine whether they are subject to required conversion and develop and implement policies and procedures regarding identification of potentially distressed projects and monitoring and enforcement of the required conversion program.

Summary of OIG Work

In recent audit reports, we demonstrated that PIH faces IT challenges, specifically with (1) monitoring the Housing Choice Voucher program operations and physical inspections process, (2) fully implementing cash management requirements, and (3) monitoring small and very small PHAs. PIH also continues to face challenges in (1) balancing its responsibility to protect HUD funds and streamlining activities to provide relief for PHAs, (2) developing programwide performance indicators that will not inhibit the MTW participants' abilities to creatively impact the program, (3) addressing families having excessive income being allowed to continue to reside in public housing units, (4) ensuring that PHA projects are free of environmental hazards, (5) providing adequate oversight of the Section 184 program, and (6) implementing its required conversion program.

[29] Audit Report 2017-NY-0001, HUD PIH's Required Conversion Program Was Not Adequately Implemented, May 18, 2017

Looking Ahead

We will continue to work with and monitor HUD's actions to address challenges in these areas. We have started an audit to look at lead-based paint in public housing and Housing Choice Voucher program units. We will continue to audit PHAs to identify other areas of concern that may arise.

Administering Programs Directed Toward Victims of Natural Disasters

Congress has frequently provided supplemental appropriations through HUD's CDBG program to help communities recover from natural and man-made disasters. The CDBG program is flexible and allows CDBG-DR grants to address a wide range of challenges. Congress has appropriated more than $49.6 billion in supplemental funding to HUD since 1993 to address long-term recovery in the wake of the attacks of September 11, 2001; Hurricanes Katrina, Rita, and Wilma in 2005; Hurricanes Ike and Gustav and Midwest flooding in 2008; Hurricane Sandy in 2012; and the Louisiana flooding event and Hurricane Mathew in 2016. 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.

Of the active disaster grants, HUD has more than $37.9 billion in obligations and $34.5 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.

In addition to recovery efforts from prior-year disasters such as Sandy, HUD will have tremendous future challenges resulting from disaster relief efforts in response to the extraordinary destructive hurricanes that recently hit the United States in 2017. The United States has never been hit by three hurricanes as strong as Harvey in Texas, Irma in Florida, and Maria in Puerto Rico in the same season in modern times. As just one example, an estimated 213,000 FHA-insured single-family homes in the area affected by Hurricane Harvey lacked flood insurance. A media report puts the number of homes damaged or destroyed by Hurricane Harvey at 185,149, with at least 80 percent of those lacking flood insurance. The entire island of Puerto Rico and the States of Florida and Texas are in the process of fully assessing the massive destruction and recovery efforts that will be needed there. The amount of HUD funding ultimately needed to assist with recovery for these most recent disasters will be enormous. HUD's efforts to provide assistance to affected families and communities immediately after the storm and in the initial rebuilding stages will be essential to the recovery. HUD will also continue to have challenges for years to come when helping communities in their long-term recovery process.

Although HUD has made progress in recent years in 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,
- ensuring that disaster grantees are following Federal procurement regulations,
- citizens encounter challenges when seeking disaster assistance, and
- conducting consistent and sufficient oversight efforts on disaster grants.

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 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.

We have completed 38 audits and 4 evaluations 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 $119.6 million in ineligible or unnecessary costs, $465 million in unsupported costs, and $5.3 billion in funds put to better use. There are a number of other audits and evaluations as well as investigative work, which are underway. Before Hurricane Sandy, we 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 four audit reports that illustrate these challenges for HUD in administering disaster recovery programs.

- In our review of St. Tammany Parish's Disaster Recovery grant program,[30] we determined that Parish officials did not (1) support that they performed an independent cost estimate and adequate cost analyses or maintained complete procurement files; (2) maintain a complete monitoring policy and finalize and fully implement their policy to aid in detecting fraud, waste, and abuse or have an internal audit function; or (3) include

[30] Audit Report 2017-FW-1004, St. Tammany Parish, Mandeville LA, Did Not Always Administer Its CDBG Disaster Recovery Grant in Accordance With HUD Requirements or as Certified, April 6, 2017

all required information on their public website. As a result of these systemic deficiencies, the Parish could not provide reasonable assurance to HUD that it would properly administer, adequately safeguard, and spend its remaining $8.67 million in allocated CDBG-DR funds in accordance with requirements and paid more than $400,000 in questioned costs.

- In our report of the City of Springfield, MA's management of its CDBG-DR grants,[31] we found that the City did not always properly procure vendors in accordance with Federal requirements and some payments to vendors were not adequately supported. The City also did not always properly document the duplication of benefits review in accordance with Federal requirements and City policies. As a result, HUD lacked assurance that $1.9 million in CDBG-DR funds was provided for supported, necessary, and reasonable costs.

- In our review of the City of New York's Build it Back Single Family program,[32] we determined that City officials did not establish adequate controls to ensure that CDBG-DR funds were disbursed in accordance with the HUD-approved action plan and to ensure compliance with HUD's Lead Safe Housing Rule requirements. As a result, the City could not ensure that all eligible homeowners received fair and equitable treatment, and it did not show that more than $1 million disbursed was for lead-safe homes.

- In our review of the State of Connecticut's management of its Sandy CDBG-DR grants,[33] we found that the State did not always comply with the requirements for its owner-occupied rehabilitation and reimbursement programs. Specific issues included that procurements were not always executed in accordance with HUD requirements, environmental reviews were not completed in accordance with requirements, and the State did not always support the low- and moderate-income national objective. As a result, more than $2.4 million in CDBG-DR funds was ineligible, and more than $13.5 million was unsupported.

We attributed these conditions to the grantees' weaknesses in maintaining file and supporting documentation, unfamiliarity with HUD rules and regulations, inadequate controls over its rehabilitation and reimbursement program, noncompliance with existing policies and procedures, and failure to follow State and Federal procurement regulations.

Ensuring That Disaster 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. Under Public Law 113-2, 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

[31] Audit Report 2017-BO-1002, The City of Springfield, MA, Needs To Improve Its Compliance With Federal Regulations for Its Community Development Block Grant Disaster Recovery Assistance Grant, October 17, 2016
[32] Audit Report 2017-NY-1001, The City of New York, NY, Implemented Policies That Did Not Always Ensure That Community Development Block Grant Disaster Recovery Funds Were Disbursed in Accordance With Its Action Plan and Federal Requirements, November 2, 2016
[33] Audit report 2017-BO-1001, The State of Connecticut, Community Development Block Grant Disaster Recovery Assistance Funds, October 12, 2016

follow their own State and local laws, so long as their standards are equivalent to the applicable Federal law and standards. Further, a State is required to 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.

Our audits of disaster programs funded under Public Law 113-2 found CDBG procurement violations and other contracting problems. We issued 15 external audit reports on disaster grantees with questioned costs totaling more than $391.6 million related to procurement. Ten of the fifteen reports and more than $371 million of the more than $391.6 million involved State grantees. For example, in our audit of the State of New Jersey's CDBG-DR-funded Sandy Integrated Recovery Operations and Management System,[34] we found that the State did not procure services and products for its disaster management system in accordance with the Federal procurement requirements in 24 CFR 85.36(b) through (i). Specifically, the State (1) had not prepared an independent cost estimate and analysis before awarding the system contract to the only responsive bidder, (2) did not ensure that option years were awarded competitively and included provisions in its request for quotation that restricted competition, and (3) did not ensure that software was purchased competitively. The State did not adopt the Federal procurement standards but certified that its standards were equivalent to the Federal procurement standards. We concluded that the State's certification to HUD that it had proficient procurement processes was inaccurate. HUD disagreed. To resolve the recommendations from this audit, on January 10, 2017, HUD's former Deputy Secretary issued a memorandum stating that a State grantee that followed its procurement policy was not required to follow the Federal requirements.

In our audit of HUD's controls over its certifications of State disaster recovery grantee procurement processes,[35] 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. The report included five recommendations. HUD stated that our disagreement regarding the definition of a proficient procurement process as it related to State disaster grantees and the meaning of "equivalent" as it related to a State's procurement policies and procedures being "equivalent to" or "aligned with" the Federal procurement standards was closed by the former Deputy Secretary in her January 10, 2017, decision regarding the New Jersey audit. Based on that decision, HUD believed it was appropriate to close all of the recommendations. We disagreed and referred these recommendations to the Acting Deputy Secretary on March 31, 2017.

Although our audit reports have repeatedly identified procurement issues, HUD has continued to

[34] Audit report 2015-PH-1003, The State of New Jersey, Trenton, NJ, Community Development Block Grant Disaster Recovery-Funded Sandy Integrated Recovery Operations and Management System, June 4, 2015
[35] Audit Report 2016-PH-0005, HUD Certifications of State Disaster Grantee Procurement Processes, September 29, 2016

revise the procurement requirements for State grantees, by lowering the procurement standards. For example, under Public Law 113-2, HUD considered that State grantees had a proficient procurement process in place if the State's procurement standards were equivalent to the Federal procurement standards. However, in June 2016, under Public Law 114-113, HUD considered that State grantees had a proficient procurement process in place if the effect of the State's procurement standards was equivalent to the effect of the Federal procurement standards, meaning that the standards operate in a manner providing fair and open competition. Later, in November 2016 and January 2017, under Public Laws 114-223 and 114-245, respectively, HUD considered that State grantees had a proficient procurement process in place if the effect of the State's procurement standards was equivalent to the effect of the Federal procurement standards, meaning that the standards, while not identical, operate in a manner that provides for full and open competition. We disagree with the lower procurement standards and will continue to perform audits in this area. We believe that Federal procurement is more than ensuring full and open competition. It also involves the acquisition of products and services at fair and reasonable prices.

Citizens Encounter Challenges When Seeking Disaster Assistance

In response to a request from HUD, we identified the path and process citizens, homeowners, and businesses navigate to obtain disaster recovery assistance and the challenges and barriers they may encounter. Citizens may encounter a variety of challenges throughout the disaster navigation process. These challenges include potential duplication of benefits, slow disbursement of disaster-related funding, and delays in funding for low- and moderate-income citizens.

Based on our evaluation, Navigating the Disaster Assistance Process, 2017-OE-0002S, we identified the following challenges citizens may encounter while obtaining disaster recovery assistance:

- Duplication of benefits is an inherent risk to disaster recovery funding across the government. Benefits from multiple sources of Federal aid can result in citizens receiving funds that exceed the need for a particular recovery purpose. In these cases, citizens are responsible for repaying any duplicate benefits, which can be a burden to the citizen. A 2016 Congressional Research Service report noted duplication between the Small Business Administration (SBA) Disaster Loan Program and the CDBG-DR grant program. Another issue is that SBA disaster loans are dispersed more quickly than financial assistance from a CDBG-DR grant. As a result, it is possible for some homeowners to receive an SBA disaster loan, which would make them ineligible for a CDBG-DR grant. Therefore, homeowners who sought assistance early on are, in effect, disadvantaged because SBA loans must be repaid, while CDBG-DR grants do not have a repayment requirement.

- In some cases, the slow disbursement of funding created significant problems for citizens navigating the disaster recovery process. For example, in October 2016, the State of New Jersey's legislative committee held a hearing in which several citizens identified problems they encountered navigating the application process at both the Federal and State levels. Almost 4 years after Hurricane Sandy, citizens complained of difficulties in rebuilding their homes while fighting foreclosure actions, being short-changed by contractors, and receiving little or no help from the State or Federal agencies disbursing funds to help them recover from the storm.

- CDBG-DR spending rates as well as how funds were disbursed varied significantly from State to State, creating inconsistencies in recovery efforts. In general, at least half of CDBG-DR funding must benefit low- and moderate-income (LMI) individuals and areas. Based on our review of reports from HUD OIG, we found instances in which a significant portion of CDBG-DR funding was not provided to LMI individuals and areas. For example, in 2016, HUD OIG issued a report on the State of Connecticut's CDBG-DR funding for Hurricane Sandy, which found that the State did not always support the LMI national objective. The 2008 Steps Coalition report stated that only 23 percent of Mississippi CDBG-DR funding was devoted to LMI individuals. Lastly, the Mississippi Center for Justice report identified Mississippi's failure to rebuild homes and pressure placed on the State to redirect unused Federal hurricane resources to more recent disasters. Unfortunately, these shortcomings put low-income citizens at risk of not being able to return to a permanent home.

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. Monitoring of disaster grant recipients will continue to be of great importance, as multiple disasters have occurred in recent months.

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 and identified challenges citizens may encounter as they attempt to recover from disaster-related occurrences. In addition, 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, (3) timely oversight efforts, and (4) systematically documenting challenges citizens encounter during the disaster assistance process to reduce the likelihood of similar challenges recurring over time.

Departmental Enforcement

A common thread underlying several of the issues discussed earlier is the lack of a cohesive departmental approach to monitoring, risk management, and followthrough for OIG findings and recommendations. In an evaluation,[36] 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 followthrough for OIG findings and recommendations.

[36] Evaluation Report 2015-OE-0004, Comprehensive Strategy Needed To Address HUD Acquisition Challenges, February 2, 2016

Operational and Financial Reporting Challenges Affecting Ginnie Mae

Managing counterparty risks and strengthening Ginnie Mae's financial management accountability have been major challenges affecting Ginnie Mae in fiscal year 2017 and will continue in the coming years. Key factors that contributed to these challenges include the 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 pass-through payment of principal and interest to MBS investors, Ginnie Mae is required to assume responsibility for it. At times, Ginnie Mae assumes the servicing rights and obligations of the issuer's entire Ginnie Mae guaranteed, pooled loan portfolio. Ginnie Mae uses master subservicers (MSS) to service these portfolios. Ginnie Mae has two MSS for single-family defaulted issuers that service defaulted issuer portfolios (of pooled and nonpooled loans). 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 and continue to dominate Ginnie Mae's MBS program in terms of issuance. In fiscal year 2016, nonbanks were 73 percent of issuance volume, compared to 18 percent in fiscal year 2010.

Unlike regulated banks, these entities lack a primary prudential regulator to ensure their safety and soundness. In addition, 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 its operating resources.

Financial Reporting Challenges

Although Ginnie Mae has made progress in financial management governance issues in fiscal year 2017, there remain significant issues that warrant the attention of Ginnie Mae's stakeholders.

As in the previous 3 years, Ginnie Mae is not yet ready for OIG to audit all of the financial statements line items related to its nonpooled loan assets. In preparation for our full scope fiscal year 2017 audit of Ginnie Mae, we asked Ginnie Mae to provide progress updates and its work plan for its nonpooled loan assets and associated accounts (NPA) subledger database project. This was to include a schedule of when GAAP balances for all in-scope financial statements line items would be available for our review. In Ginnie Mae's response, it told us that while progress is being made to obtain operational balance on various NPA accounts, it was not possible for Ginnie Mae to produce GAAP balances on various NPA accounts in time for us to audit them in fiscal year 2017. Therefore, we excluded these Ginnie Mae financial statements line items in our audit scope for our fiscal year 2017 audit. Since the NPA accounts represent material balances in Ginnie Mae's financial statements as well as the HUD consolidated financial statements, their exclusion in our audit scope in 2017 because of their inauditability would likely lead to a disclaimer of opinion on Ginnie Mae and HUD consolidated financial statements fiscal year 2017 financial statements audit.

In fiscal year 2016, we identified shortcomings in Ginnie Mae's issuer default governance framework. This framework includes the identification, monitoring, analysis, evaluation, and response to potential issuer defaults. This process includes an assessment to maximize defaulted issuer assets and minimize losses to Ginnie Mae. Moreover, this process gap can lead to Ginnie Mae's failing to properly capture the loss contingencies measured under the MBS program guaranty (reserve for loss) financial statements line item. In accordance with GAAP, Ginnie Mae is required to book a reserve for loss related to potential issuer defaults that are probable and estimable and to disclose in the notes to the financial statements any reasonably possible issuer defaults.

Ginnie Mae continues to have staffing issues. Of 11 positions backfilled in fiscal year 2016, 5 employees resigned in fiscal year 2017, including 2 employees in executive management positions.[37] Although the executive vice president position was subsequently backfilled in July 2017, the vice president of accounting policy and financial reporting position had remained vacant since March 2017. The impact of not backfilling an important position such as the vice president of accounting policy and financial reporting, who left the agency after having been on the job for less than a year, has created a huge void in Ginnie Mae's financial management operations and was a significant setback for Ginnie Mae. As Ginnie Mae's chief accountant, we recognize the importance of the vice president of policy and financial reporting's role in shaping and managing Ginnie Mae's financial management operations. For example, given his recent departure, we now have concerns that this situation will put Ginnie Mae more behind in finalizing and implementing many of its accounting policies and procedures. Ginnie Mae has finalized only 8 of 21 critical accounting policies to date. To assist Ginnie Mae with its day-to-day activities, it continues to rely heavily on third-party contractors to perform almost all key operating functions, such as loan servicing, pool processing, financial reporting, and audit readiness and remediation.

Summary of OIG Work

We identified significant financial governance issues within Ginnie Mae. While progress was made in fiscal year 2017, more work is needed to maintain a governance framework that allows appropriate policies, people, systems, and controls working together 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. HUD and Ginnie Mae 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

[37] The two executive management positions are the executive vice president and vice president of accounting policy and financial reporting.

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.

Conclusion

HUD will continue to face the challenges we have described until it puts controls and adequate resources in place to provide the necessary oversight and enforcement of HUD's programs and operations. 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

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.

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.

HUD agrees that it cannot continue to operate in the absence of a clean audit opinion, and we are committed to making the business process changes necessary to resolve the longstanding material weaknesses in internal control. We look forward to working with the OIG to identify the weaknesses that have the largest impact on the disclaimer condition, and will focus our remediation efforts to achieve the greatest results.

In addition, we will continue to address the challenges in administering programs directed towards victims of natural disasters. The impact of three major hurricanes and the wildfires that have occurred in the last six months will be felt for years to come. We have a fiduciary responsibility to ensure that the funds that the Congress appropriates for us to assist the victims of these natural disasters are managed efficiently and effectively so that we can maximize the benefit to those in need.

We appreciate that the OIG is committed to HUD's missions, and is working to help provide us with actionable recommendations that will improve operations. We look forward to working with the OIG to resolve these management challenges.

Summary of Financial Statement Audit and Management Assurances

For Fiscal Year (FY) 2017, nine material weaknesses were identified by the Office of Inspector General in HUD's Consolidated Financial Statement Audit Report. Table 1 presents a summary of the results of the independent audit of HUD's consolidated financial statements. Table 2 is a summary of HUD's Federal Managers Financial Integrity Act of 1982 (FMFIA) management assurances.

Table 1

Summary of Financial Statement Audit

Audit Opinion	**Disclaimer**				
Restatement	Yes				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Weak Internal Controls Over Financial Reporting (HUD, Ginnie Mae, FHA)	1	0	0	0	1
Assets and Liabilities Were Misstated and Not Adequately Supported	1	0	0	0	1
Significant Reconciliations Were Not Completed in a Timely Manner	1	0	0	0	1
Non-GAAP Accounting for CPD Grants (FIFO method)	1	0	0	0	1
Departmental Financial Management Systems Weaknesses	1	0	0	0	1
Departmental (HUD and Ginnie Mae) Financial Management Governance	1	0	0	0	1
Inadequate Controls Increased the Risk of Financial Reporting Errors (Ginnie Mae)	1	0	0	1	0
Asset Balances for Non-Pooled Loans – (Ginnie Mae)	1	0	0	0	1
Allowance for Loan Loss Account Balances Were Unreliable (Ginnie Mae)	1	0	0	0	1
FHA Cash Flow Modeling Errors Were Not Detected	1	0	1	0	0
Weaknesses in FHA Modeling Processes	0	1	0	0	1
FHA's Controls Over Financial Reporting Related to Budgetary Resources Had Weaknesses	1	0	0	1	0
Total Material Weaknesses	**11**	**1**	**1**	**2**	**9**

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**
Weak Internal Controls Over Financial Reporting (HUD, Ginnie Mae, FHA)	1	0	0	0	0	1
Assets and Liabilities Were Misstated and Not Adequately Supported	1	0	0	0	0	1
Significant Reconciliations Were Not Completed in a Timely Manner	1	0	0	0	0	1
Non-GAAP Accounting for CPD Grants (FIFO method)	1	0	0	0	0	1
Departmental Financial Management Systems Weaknesses	1	0	0	0	0	1
Departmental Financial Management Governance	1	0	0	0	0	1
Inadequate Controls Increased the Risk of Financial Reporting Errors (Ginnie Mae)	1	0	0	1	0	0
Asset Balances for Non-Pooled Loans – (Ginnie Mae)	1	0	0	0	0	1
Allowance for Loan Loss Account Balances Were Unreliable (Ginnie Mae)	1	0	0	0	0	1
FHA Cash Flow Modeling Errors Were Not Detected	1	0	1	0	0	0
Weaknesses in FHA Modeling Processes	0	1	0	0	0	1
FHA's Controls Over Financial Reporting Related to Budgetary Resources Had Weaknesses	1	0	0	1	0	0
Total Material Weaknesses	**11**	**1**	**1**	**2**	**0**	**9**
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	No Assurance					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

Compliance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal Systems do not comply to financial management systems requirements					
Non-Compliance	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
HPS	1	0	1	0	0	0
SPS	1	0	1	0	0	0
HIAMS (*shown as FIRMS in FY 2016*)	1	0	0	0	0	1
IDIS	1	0	0	0	0	1
GFAS	1	0	0	0	0	1
NCIS	1	0	0	0	0	1
DRGR	0	1	0	0	0	1
SMART	0	1	0	0	0	1
SAMS	0	1	0	0	0	1
TRACS	0	1	0	0	0	1
Total non-compliances	**6**	**4**	**2**	**0**	**0**	**8**

Compliance with Section 803(a) of Federal Financial Management Improvement Act (FFMIA)		
	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

While the Department is expressing no assurance that internal controls over operations and financial reporting are effective, we are working hard to modernize our systems, organizations, and address significant infrastructure issues that cause most of the findings. As is common with most major financial system transitions, HUD is still working to fully leverage the benefits of our new financial services provider operating environment. While the transition to shared services has been very difficult, complicated even further by the mix of shared services and aged legacy systems, it did introduce additional financial discipline and uncovered historical issues. HUD is prioritizing, collaboratively researching, and working across multiple stakeholders to address these issues.

Material Weaknesses Summary by Category

Internal Control over Financial Reporting In FY 2017, HUD continued to strengthen its partnership with the Federal Shared Service Provider (FSSP), Treasury's Administrative Resource Center (ARC) as well as work on process improvements to strengthen our operating environment and controls. Improvements were made in the financial reporting area, where HUD developed a Financial Statement Notes Tool to automate notes preparation and provide enhancements to increase efficiency and consistency of financial data for the Annual Financial Report so that HUD can meet statutory deadlines. This effort has served to introduce additional controls, while ensuring a repeatable, timely process for compiling consistent financial statements and notes.

Through its newly implemented HUD Financial Management governance structure, the Department will provide further support to the Government National Mortgage Association (Ginnie Mae) in their efforts to transform its financial management organization. This includes improvements in its policies, procedures, governance structure, technology, and levels of staffing to aid in the resolution of the identified material weaknesses.

While the Federal Housing Administration (FHA) has made improvements in its internal controls and achieved closure of prior year material weakness in cash flow modeling, further improvements are needed to address issues in FHA modeling processes identified in FY 2017 material weakness. Additionally, FHA is working aggressively and making progress in its remediation for the timely de-obligation of invalid balances which is anticipated to provide closure of the material weakness concerning FHA's controls over financial reporting relating to budgetary resources in the near term.

Accounting Standards HUD has implemented a solution on a going-forward basis, whereby disbursement transactions were aligned to specific obligations on grants issued beginning in FY 2015 and forward. For the FY 2014 grants and prior, HUD does not have the historical records to be able to retroactively apply the corrections, or to estimate misaligned values (if any) in the financial statement. For this reason, the financial statements will continue to contain the impacts of historical First in First out (FIFO) for another two to four years, until FY 2014 and prior grants are substantially closed out.

Under the risk-based integrated audit remediation approach developed in FY 2017, HUD is systematically establishing internal controls and methodologies to resolve the findings and properly account for and to have adequate support for all of its assets and liabilities. Specifically, in FY 2017 HUD initiated a validation method for FY 2016 Community Planning and Development (CPD) accrued grant liabilities estimates, to be tested and expanded for FY 2018 validation, as well as a more consistent and timely estimation methodology for prepayment balance.

Regarding HUD's accounting treatment of funds disbursed to Indian Housing Block Grant grantees for investment as authorized by section 204(b) of the Native American Housing

Assistance and Self Determination Act of 1996, accounting analyses done by both the Office of the Chief Financial Officer (OCFO) and the Office of Inspector General (OIG) were reviewed by the former Deputy Secretary. Consistent with the audit resolution process articulated in the Department's Audit Management System Handbook, on July 11, 2017 the Deputy Secretary provided a final decision with which OIG disagreed. The Deputy Secretary's decision concluded that since investment is an authorized program purpose, HUD's accounting treatment was correct.

Financial Information Systems HUD's financial system weaknesses remain 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 FSSP in 2016, the Department encountered challenges post-implementation that had not been resolved as of September 30, 2017. 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 In fiscal year 2017, HUD has taken steps to improve its financial governance by a) launching the Financial Management Council to serve as the governing body over cross-program and operating entity financial initiatives; b) assigning responsible business owners and stakeholders for each of the 11 material weaknesses and their accountability for developing and executing corrective action plans; and c) developing an OCFO policy development framework, financial internal control policy and financial fraud risks framework. We will continue to further fine-tune our processes on various fronts to instill a disciplined approach in continuous monitoring, timely corrective actions, and management reviews along with measurable outcomes.

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 of 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. The Department will continue to evaluate its needs for other financial management capabilities.

In FY 2017, HUD improved processing and reporting of financial data through a collaborative error handling process that allowed for the quick identification and resolution of any errors.

HUD also implemented system changes improving reporting of multi-year funds and the recapture process. This allowed for more efficient posting to the official General Ledger, Oracle Federal Financials.

Additionally, HUD reduced the time necessary to bring the financial systems up for the new fiscal year processing by 1 week and opened for FY 2018 business earlier than planned. Paper mailings to the Line of Credit Control System grantee users were eliminated and the process was made fully electronic.

HUD established standard operating procedures to capture the process involved with the transfer of accounting data to Oracle from HUD's Central Accounting and Program System through the New Core Interface Solution. Procedures included measures to ensure that information is processed completely, accurately, and in a consistent and performable manner to allow for timely review. As a result, HUD has experienced significant operational improvements.

As of September 30, 2017, HUD had determined that 29 out of 37 of its financial management systems are substantially compliant with the Federal Financial Management Improvement Act (FFMIA). These systems comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger at the transaction level.

Overall, however, *HUD's Financial Management Systems Did Not Comply With the Federal Financial Management Improvement Act*, per OIG. Specifically, HUD determined eight systems were non-compliant with FFMIA, as listed in Table 2, above, and detailed below. Remediation activities for the systems non–compliant with FFMIA:

HUD Integrated Acquisition Management System (HIAMS), *Office of Chief Procurement Operations (OCPO).* OCPO has completed closing award actions in HIAMS, March 31, 2017. As of August 9, 2017, access to HIAMS has been removed from all users except for one (1) administrator. The system is no longer being used for data entry. OCPO is working with OCIO to determine where they can store the data for reporting purposes to begin the decommissioning phase. OCPO estimates HIAMS will be decommissioned and the system turned off in FY 2018 but is dependent on obtaining the storage space to contain the historical data for Freedom of Information Act reporting. OCPO's legacy systems, HUD Procurement System and Small Purchase System were decommissioned and removed from the network on June 29, 2017.

Integrated Disbursement and Information System (IDIS), *CPD.* HUD made necessary modifications to the Grant system to align the obligation and disbursement transactions for grants issued beginning in FY 2015 and forward on a grant specific basis. However, a feasible solution was not found to address the pre-FY 2015 Historical Transactions, which used a FIFO disbursement method to liquidate obligations. Historical records do not exist to allow retroactive application or estimation of any misaligned values in the financial statements. The balances are material to the Department's financial statements and the material weakness will remain until the balances become not material in another two to four years.

Ginnie Mae Financial and Accounting System (GFAS)*, Ginnie Mae.* Ginnie Mae did not provide assurance over GFAS in accordance with FFMIA given weaknesses affecting the overall financial management mixed system as indicated by the disclaimer of opinion on the FY 2016, 2015, and 2014 financial statements and related material weaknesses. The financial management mixed system covers the manual business processes and controls that affect the activity being recorded within the system. The Sub-Ledger Database (SLDB) Project is underway, with the expected "Go Live" date of June 2018. The core objective(s) of the SLDB is to address the Financial Statement Material Weaknesses outlined in the audit report. The target date to bring GFAS into compliance with FFMIA is FY 2018.

New Core Interface Solution (NCIS)*, Office of Chief Financial Officer (OCFO).* In FY 2016, OIG asserted that NCIS is non-compliant with FFMIA, due to data alignment and interface weaknesses between HUD's legacy systems and ARC's Oracle platform. OCFO established a remediation plan and is working to bring NCIS back into compliance. The targeted completion date to resolve the data alignment and interface weaknesses is FY 2019.

Disaster Recovery Grant Reporting System (DRGR), *CPD.* HUD determined that DRGR is non-compliant with FFMIA due to 1) not sufficiently monitoring obligations to ensure timely expenditures for the Disaster Recovery Program; and 2) invalid or expired obligations. CPD has established a remediation plan and is working to bring DRGR back into compliance. The targeted completion date to resolve these weaknesses is FY 2018.

Single Family Mortgage Asset Recovery Technology System (SMART) *Office of Housing.* HUD determined that SMART is non-compliant with FFMIA due to open audit recommendations related to 1) non-collection of partial claims; and 2) significant delays in billing noncompliant mortgagees for partial claims for which the promissory note was not provided within 60 days. Housing has established a remediation plan and is working to bring SMART back into compliance. The targeted completion date to resolve these weaknesses is FY 2018.

Single Family Acquired Asset Management System (SAMS) *Office of Housing.* HUD determined that SAMS is non-compliant with FFMIA due to open audit recommendations related to 1) weaknesses in the unliquidated balance review process; 2) inaccurate individual undelivered order balances for management and marketing contracts; 3) insufficient interface reconciliation between the Single Family Insurance System and SAMS; and 4) least privilege and segregation of duties requirements not fully implemented for SAMS users. Housing has established a remediation plan and is working to bring SAMS back into compliance. The targeted completion date to resolve these weaknesses is FY 2018.

Tenant Rental Assistance Certification System (TRACS) *Office of Housing.* HUD determined that TRACS is non-compliant due to open audit recommendations related to 1) non-compliance with administrative control of funds policies and procedures; 2) evidence of continuing presence of invalid obligations; 3) not meeting FY 2015 improper payment reduction target on Rental Housing Assistance Programs (RHAP); 4) not identifying or reporting high-dollar overpayments for RHAP in compliance with Executive Order 13520; 5) inaccurate RHAP improper payment estimate reported in the FY 2015 AFR; and 6) continuation of significant improper payments in RHAP. Housing has established a remediation plan and is working to bring TRACS back into compliance. The targeted completion date to resolve these weaknesses is FY 2018.

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) was enacted by Congress to prevent the incurring of obligations or the making of expenditures in excess of amounts appropriated, apportioned, or allotted. The Department, in coordination with the Office of Management and Budget (OMB), has completed a major effort to examine and strengthen its financial controls across all offices and programs in an effort to prevent ADA violations. This entailed a comprehensive review of HUD's financial management practices, communication protocols, and written guidance. The Department updated its funds control policy during the past fiscal year by issuing the *HUD Administrative Control of Funds Policies, 1830.2, REV-6 (Funds Control Handbook)* along with the *HUD Administrative Control of Funds Procedures for Salaries and Expenses.* In addition, departmental funds control processes were streamlined by converting over 200 funds control plans for HUD program funds to more transparent and user-friendly funds control matrices. The Department continued to sponsor Government Accountability Office Appropriations Law training sessions, especially for those employees throughout the Department with public trust responsibilities involving the obligation and expenditure funds.

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 Government Auditing Standards. The Department requires adherence to the audit resolution requirements of the Single Audit Act and coordinates the annual update of the OMB Compliance Supplement for single audits.

Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act of 1996 (DCIA), as amended, requires that Federal agencies refer delinquent debts to Treasury within 120 days and take all appropriate steps prior to discharging debts. HUD and Ginnie Mae did not always follow applicable requirements for establishing and collecting debts, resulting noncompliance with the DCIA. HUD plans to commence a full end-to-end analysis of its debt management to strengthen Department-wide controls and ensure compliance with Debt Collection statutes and regulations.

Payment Integrity

The Improper Payments Information Act of 2002 and subsequent amendments (i.e., the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012 – IPERIA) require that executive agencies assess every Federal program and dollar for improper payment risk, measure the accuracy of payments annually, and initiate program improvements to ensure payment errors are reduced. On November 20, 2009, Executive Order 13520—Reducing Improper Payments and Eliminating Waste in Federal Programs, was issued for the purpose of intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal government, while continuing to ensure that the right people receive the right payment for the right reason at the right time.

All HUD data reported in accordance with IPERIA is based on fiscal year (FY) 2016 data, except for Federal Housing Agency (FHA) which is reporting payment recovery data for FY 2017.

More detailed information on improper payments and improper payment estimates previously reported by HUD that is not included in the FY 2017 AFR can be found at: https://paymentaccuracy.gov.

Program Reset

In FY 2017, HUD revamped its IPERIA process to analyze and redefine payment programs to reflect common payment activities: conducting a risk assessment of all HUD programs to establish a three-year cycle, documenting program operations, refocusing the improper payment estimates on HUD process disbursement controls, and revising reporting disclosures and corrective action plans to address underlying causes of improper payments. The revisions included Risk Assessment Methodology, Estimation and Sampling Methodology, and the Improper Payment Control Framework. HUD conducted risk assessments for all programs in FY 2017 to establish a three-year rotation schedule compliant with the OMB A-123, Appendix C, IPERIA requirements and determined improper payment definitions for its high-risk programs. In addition, uniform requirements were standardized and formalized for programs to complete the risk assessments.

The Department implemented changes to its IPERIA program by (1) updating the identification of program disbursement data to verify completeness and accuracy of disbursements made, (2) focusing on remediation of overarching issues identified by the OIG, (3) identifying internal control flaws that result in improper payments within each HUD program, and (4) establishing a risk assessment review process for low risk programs not susceptible to significant improper payments. The benefit of the revamped approach has allowed HUD to establish a collaborative method across the Department to support improvement of HUD-wide financial management processes and controls, and produce solutions that can be leveraged for similar issues across the Department.

Payment Reporting

Rental Housing Assistance Programs (RHAP)

The Department provides housing subsidies to multifamily project owners and Public Housing Agencies (PHA) to administer housing assistance to eligible low-income families, elders and persons with disabilities. The Office of Public and Indian Housing (PIH) and Office of Multifamily Housing provide funding for rental subsidies 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). Prior to FY 2017, these programs were collectively identified as RHAP; for the purposes of FY 2017 reporting, RHAP will only refer to those PIH programs that were tested.

Changes from the Prior Year

HUD's RHAP is an OMB high-priority program. HUD's Office of the Chief Financial Officer (OCFO) commenced a comprehensive effort in FY 2017 to reset its improper payment program as part of the agreed upon approach to address the OIG's findings regarding HUD's improper payment program. Through this effort, HUD obtained OMB approval to utilize an alternative testing methodology to identify FY 2017 improper payments for RHAP (see Sampling and Estimation). As a result, the data reported does not reflect all RHAP activities. The disclosed amounts for RHAP are meant to provide insight into: 1) the documentation available to support the appropriateness of payment amounts and calculation information (underlying evidence and process); and 2) the payment processes in place at lower levels, for HUD to modify its improper payment methodology going forward.

The disclosed amounts for RHAP[1] using the OMB approved alternative method do not provide a statistically valid estimate of improper payments. Therefore, it would not be appropriate to 1) develop new corrective actions to address the root causes of improper payments identified, 2) report new supplemental measures, or 3) develop an annual reduction target based on the results of FY 2017. These activities will be performed as HUD moves to a statistically-valid methodology.

For FY 2017, estimated amounts of improper payments made directly by the Government or by recipients of Federal money by program or activity is not available. As the OMB approved

[1]HUD did not yield a confidence interval for the alternative methodology plan. The sampling error rate methodology does not meet the sampling precision for a statistically valid plan.

alternative methodology does not allow the level of detail for this information, this data will be reported when a statistically-valid estimation methodology is in place.

Improper Payment Reduction Outlook

($ in millions)

Program Name	FY 2016 Outlays ($M)	FY 2016 IP Amount ($M)	FY 2016 IP Rate	FY 2016 Overpayments $	FY 2016 Under-payments $
Office of Public and Indian Housing - Tenant-Based Rental Assistance*	N/A	N/A	N/A	N/A	N/A
CPD/DRAA**	1,982.00	7.53	0.38%	7.53	-
TOTAL	**$ 1,982.00**	**$ 7.53**	**0.38%**	**$ 7.53**	**$ -**

Program Name	FY 2016 Outlays ($M)	FY 2016 IP Amount ($M)	FY 2016 IP Rate	FY 2016 Overpayments $	FY 2016 Under-payments $
Rental Housing Assistant Programs*	32,741.33	1,701.89	5.20%	1,235.00	466.89
TOTAL	**$ 32,741.33**	**$ 1,701.89**	**5.20%**	**$ 1,235.00**	**$ 466.89**

* In FY 2016, HUD reported a combined error rate for both PIH and Housing aspects of its RHAP. Due to several factors, this combined error rate cannot be disaggregated for FY2016 comparative presentation and as such, HUD is reporting NA for the PIH portion. A contributing factor was due to HUD's resetting of its improper payment program beginning in FY2017. As a part of the reset, HUD performed testing on the PIH-only portion of RHAP. The PIH rate is based on an OMB approved alternative method that commenced within a compressed timeframe and was not intended to inform a statistically valid approach. As funding is available, HUD will develop this statistically valid approach which will meet all standard guidance found in OMB Circular A123 Appendix C for the entire RHAP, whether as disaggregated rates or a combined RHAP as was reported previously.

** CPD/DRAA's methodology uses on-site monitoring to determine the amount of improper payments in the program. In the FY 2016 (the period being reported in FY 2017), the program monitoring strategy included OIG findings which could ultimately prove to be improper payments. The determination of total improper payments resulting from the OIG findings was under review as of the end of FY 2016.

Improper Payment Reduction Outlook
($ in millions)

Program Name	FY 2017 Outlays ($M)	FY 2017 IP Amount ($M)	FY 2017 IP Rate	FY 2017 Overpayments $	FY 2017 Under-payments $	FY 2018 Est. Outlays	FY 2018 Est. IP %	FY 2018 Est. IP $	12 month Sampling Timeframe for FY 2017 data	
									Month and Year start date for data	Month and Year end date for data
Office of Public and Indian Housing - Tenant-Based Rental Assistance*	7,544.73	102.78	1.36%	102.69	0.09	N/A***	N/A***	N/A***	10/1/2015	9/30/2016
CPD/DRAA**	2,092.43	-	0.00%****	-	-	2,100.00	0.80%****	16.80	10/1/2015	9/30/2016
TOTAL	**$ 9,637.16**	**$ 102.78**	**1.36%**	**$ 102.69**	**$ 0.09**	**$ 2,100.00**		**$ 16.80**		

Program Name	FY 2017 Outlays ($M)	FY 2017 IP Amount ($M)	FY 2017 IP Rate	FY 2017 Overpayments $	FY 2017 Under-payments $	FY 2018 Est. Outlays	FY 2018 Est. IP %	FY 2018 Est. IP $	Month and Year start date for data	Month and Year end date for data
Rental Housing Assistant Programs*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**0**	**0**

*** The PIH rate for FY 2017 is based on a OMB approved alternative method. As funding is available, HUD will develop this statistically valid approach, which will meet all standard guidance found in OMB Circular A123 Appendix C for the entire RHAP, whether as disaggregated rates or a combined RHAP as was reported previously.

**** CPD is reporting no improper payments in its FY 2017 testing. The annual Risk Assessment process determines the frequency of monitoring reviews, as well as, uses information obtained through HUD-OIG audits, which informed CPD of certain funds that warranted repayment by the grantee and could ultimately be classified as improper payments. For FY 2017 data to be reported in FY 2018, the OIG has identified improper payment findings that are reflected in the percentage increase expected in next year's reporting.

Improper Payment Root Cause Category Matrix
($ in millions)

Program Name	Payment Type	Program Design or Structural Issue		Total
Office of Public and Indian Housing - Tenant-Based Rental Assistance	Overpayments	$ 102.69		$ 102.69
	Underpayments	$ 0.09		$ 0.09
CPD/DRAA	Overpayments			0.00
	Underpayments			0.00
	Agency TOTAL	$ 102.78		$ 102.78

The root cause identified during the FY 2017 pilot testing for the PIH - Tenant-Based Rental Assistance program was Program Design or Structural Issue. CPD did not identify any improper payments in the DRAA program and thus did not have a dollar amounts to identify by root cause category. CPD/DRAA's methodology uses on-site monitoring to determine the amount of improper payments in the program. In FY 2017, the program monitoring strategy included OIG findings which could ultimately prove to be improper payments. The determination of total improper payments resulting from the OIG findings was under review as of the end of FY 2017. Therefore, only Program Design or Structural Issue was identified as being a root cause for improper payments in HUD's programs that are a high risk of significant improper payments.

Improper Payment Corrective Action Plans

The disclosed amounts for RHAP cannot provide a statistically valid estimate of improper payments or a basis for new corrective actions to address the root causes.

HUD is working to resolve corrective actions reported in FY 2016. These corrective actions are detailed below.

Prior Year Corrective Actions Plans

In FY 2016, HUD reported RHAP as the only HUD program with improper payments exceeding the statutory thresholds according to OMB Circular A-123, Appendix C. The root causes of improper payments in RHAP were Administrative or Process Errors Made by a Federal Agency, and Administrative or Process Errors made by a Party Other Than a Federal, State, or Local Agency. To address these root causes, HUD utilizes the Enterprise Income Verification (EIV) System for PHAs, Multifamily Housing owners and managing agents. EIV is an on-line system that collects supplemental employment and benefit information through data sharing agreements with the Social Security Administration (benefit income) and the Department of Health and Human Services (National Directory of New Hires wage & unemployment income). EIV reports assist PHAs and HUD field offices to identify and resolve certain regulatory deficiencies and to implement proactive measures to effectively mitigate risk and reduce program waste, fraud and abuse. Errors that result from tenant underreporting or misreporting of income are found by obtaining and adequately verifying annual income and benefit information provided by program participants on Form HUD-50058 (Family Report) and supporting documentation, which is used in making rental housing subsidy determinations for HUD rental assistance programs, such as Public Housing and the Housing Choice Voucher programs. This is an ongoing effort.

The implementation of corrective actions is carried out by Supplemental Measures, including expanded use of the EIV system. Supplemental Measures enable HUD to reduce the error rate for root causes of improper payments in RHAP. Due to HUD resetting its improper payment program as part of an OMB approved alternative testing methodology, development of new Supplemental Measures would not be appropriate. See *paymentaccuracy.com* for further information on Supplemental Measures.

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 eligibility and subsidy determinations. The determination nexus is whether the EIV system works to determine rent subsidies, verify tenant income, reduce program design or structural 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, Multifamily program owners and management agents actively pursue collection of overpaid subsidies from the tenant. In most cases, they enter into a repayment agreement for the recapture of overpaid subsidies and/or other contracts that may be active.

Additionally, 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, HUD is making EIV available to more PHAs and owners and management agents and making them use the system.

HUD is also planning 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 to resolve errors and the steps taken to ensure that the error occurrence is reduced, and where possible, eliminated. It will work alongside the Tenant Rental Certification System. iSERS will also capture the category, error, cause, and resolution for each improper payment.

Under-reported Income, Identity Theft, and the Enterprise Income Verification (EIV) System

The overall goal of the EIV system is to reduce subsidy payment errors, and help aid in the detection of fraud in HUD's rental assistance programs. Public Housing Agencies (PHAs) are mandated to use the EIV system to help validate tenant reported wages, unemployment compensation, and social security benefits reported by program participants as part of the participant's recertification process.

Under-Reported Income by Program Participants

Subsidy payments, made by HUD and PHAs, are directly related to the program participants' income. The higher a participant's income, the larger the share of rent the participant is required to pay and the less Federal subsidy is needed. Therefore, there may be a natural inclination for program participants to under-report their income.

PHAs are required to monitor the EIV System's Income Discrepancy Report and resolve any discrepancies between program participants' reported income and EIV-reported income information. However, there is a timing difference with the EIV data used to calculate income, as the EIV system uses quarterly income data from the previous quarter to calculate annual income. This timing difference can be problematic when the income between quarters varies significantly because of an increase or decrease in hours worked, new employment, or when a participant has lost their job.

To address time lags, PIH's Real Estate Assessment Center (PIH-REAC) has developed an Income Validation Tool which is currently undergoing the completion of pilot testing by about a dozen PHAs. This tool will eventually be made available to all PHAs.

Identity Theft

Identity theft is a crime where an imposter obtains key pieces of personally identifiable information, such as a social security or driver license number, to impersonate someone else. This information is then used to obtain credit, merchandise or false credential in the name of the victim for employment or other reasons, such as housing assistance.

The EIV system and the Income Verification Tool when used in accordance with HUD program regulations at 24 CFR §5.233 and other guidance, will alert PHAs to potential cases of identity theft by detecting unusual activities associated with a program participants social security number. For example, the Income Verification Tool would identify instances where a participant may have employment income in three different states in a 12-month period. It may be that the participant actually worked in three different states or that there may be a case of identity theft where someone else is using the same social security number to work in a different state(s).

Potential Risk of Individuals with No Social Security Number

Currently, there are no provisions under HUD regulations which require an individual to have a social security number to execute a lease. However, in order to receive housing assistance, at least one of the household members has to be an eligible citizen or have eligible immigration status.

The EIV tool is designed to review income, credit and criminal background for all household members. If any household member does not have a social security number, the results from the EIV will be incomplete and some program participants may be in public housing or Housing Choice Voucher programs for which they are not eligible.

EIV provides data to help prevent improper payments from being incurred. According to data contained in the October 2017 EIV Income Discrepancy Report, there are approximately 22,000 families that may have potentially under-reported their income. Additionally, the number of households with ineligible non-citizen status and the number of program participants pending verification identified within the EIV Immigration Report is a little over 30,000.

Recapture of Improper Payments Reporting

Programs with Payment Recapture Audit Plans

Salaries and Expenses (S&E), Travel, and Training

Office	Program	Allotment Holder	Appropriation Account
S&E	Bi-Weekly Pay, Purchase Cards, Travel, and Retirement and Benefits	ADMN, CFO, CIO, CPD, CPO, FHEO, Ginnie Mae, HSNG, OCHCO, PDR, PIH	0143, 0332, 0334, 0335, 0337, 0338, 0339, 0340, 0341

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 Treasury's Administrative Resource Center's (ARC's) 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 the necessary action(s) to rectify the mistake. For example, OCHCO will collaborate with OCFO in Headquarters and the 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 Contracting Officer's Representative (COR) will review and process invoices, verifying invoice submissions against the pricing schedule and Treasury's ARC's Oracle financial system prior to approval. The CORs 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 COR is responsible for comparing the contract/IAA financial and deliverables schedule to the amount being invoiced. Whereas most OCHCO contracts/IAAs are fixed price, the COR will still confirm this against the pricing schedule. Once confirmed, the COR will provide approval through ARC Invoice Processing Platform (IPP) to authorize vendor payments for services exceeding $3,500. For federal agency Intra-Governmental Payments and Collections (IPACs), the COR will review the 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, the 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/IAAs go through formal closeout procedures and reconciliation which identifies any potential overpayments or payments made for incomplete deliverables. OCHCO contracts include a clause that requires the withholding of the final payment until the vendor has submitted the required deliverable and it has been accepted by OCHCO. As a result, this process prevents erroneous payments to vendors for unacceptable or incomplete deliverables at the end of the lifecycle of the contract.

Condition

No improper payments were identified in FY 2016. Therefore, no condition that leads to improper payments exists.

Office of Policy Development and Research (PD&R)

Office	Program	Allotment Holder	Appropriation Account
PD&R	PD&R Grant Program	PD&R	0108

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 Government Technical Representative (GTR). Before approving the drawdown, the GTR compares the work plan to progress reports and project outputs; reviews the SF-425 (Federal Financial 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 GTR 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 GTR 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.

Condition

No improper payments were identified for FY 2016 payment data. Therefore, no condition that leads to improper payments exists.

Office of Lead Hazard Control and Healthy Homes (OLHCHH)

Office	Program	Allotment Holder	Appropriation Account
Lead Hazard - LHB	Lead Hazard Reduction Grants	OHHLHC	0174

The OHHLC 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 Government Technical Monitors (GTMs) and the Certified Occupancy Specialists (COS), for contracts. For grants, this is supplemented by the required submittal of the backup documentation for invoices of $100,000 or more for direct lead hazard evaluation and control work. This also includes the unannounced once per fiscal year requirement by the GTR that each lead hazard control or healthy homes production grantee to submit all relevant documents to the GTR for evaluation before the GTR authorizes payment. This is an addition to the routine posting of supporting information for invoices onto the Office's on-line Healthy Homes Grants Management System).

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. These procedures are in addition to the ongoing requirement that all relevant documents be made available before making payment. All documentation must be 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. This approach is 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:

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 (Request Voucher for Grant Payment), 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 is determined that a financial error has occurred during its performance, 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, including 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 form HUD-1044 (Assistance Award/Assistance). 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 funds distributed are 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. SF-425, 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. On-site monitoring is conducted once a year after risk analysis is completed and/or high-risk is determined for each grantee. Poor performing grantees are required to submit weekly or monthly reports.

If an improper payment is identified, the GTR or COS, as applicable, provides 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, goes 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. Though there are no amounts that need to be recovered at this time, the Office's procedures depend on when in the course of an appropriation authority amounts were recovered. If the recovery occurred prior to the end of the obligation authority period, when the Office could re-obligate the funds, the Office would apply the funds to their original purpose; if not, the Office would return the funds to the Treasury.

Condition

The condition that lead to the identified and recaptured improper payments was incorrect documentation submitted by grantees and accepted by GTRs, GTMs, and COS. This was corrected by providing training to GTRs, GTMs, and COSs.

Office of Housing – Federal Housing Agency (FHA)

Office	Program	Allotment Holder	Appropriation Account
FHA	Contracts/Upfront Grants	HSNG - FHA	0183, 4072
FHA	Direct Loans	HSNG - FHA	4105
FHA	Other Disbursements	HSNG – FHA	4587, 4077, 4070, 4072
FHA	Single Family Claims	HSNG - FHA	4587, 4077, 4070, 4072, 4353
FHA	Single Family Notes	HSNG - FHA	4587, 4077, 4070, 4072, 4353
FHA	Single Family Property (SAMS)	HSNG - FHA	4587, 4077, 4070, 4072, 4353
FHA	Title I Claims	HSNG - FHA	4077, 4072
FHA	Title I Notes	HSNG - FHA	4077, 4072

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. A review of Do Not Pay Initiative was also performed.

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 confirmed acceptance of the transfer of an aged, delinquent debt, and that receivable has been removed from the 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.

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 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 the Treasury Lockbox Network 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.

Condition

FHA – Single Family Claims have been identified as high risk for improper payments. Several conditions have led to improper payments, one of which being a lack of compliance with underwriting requirements. This condition was corrected by taking steps to strengthen controls over the underwriting process, through the implementation of a Loan Review System (LRS).

Lenders interact with FHA through the LRS for the majority of FHA's quality control processes, including post-endorsement loan reviews, Direct Endorsement test cases, lender monitoring reviews, and self-reporting of fraud and violations of FHA policy. This consolidation of multiple quality control processes into a single, unified system allows FHA to better organize and track its interactions with lenders on these critical issues, and significantly enhances loan quality reporting and analytics. This will help FHA better manage its quality control processes and quickly identify risks to its portfolio. Additionally, FHA continues to improve the post claims review function by strengthening internal controls to ensure Single-Family (SF) Claim payments are accurate and supported. FHA has assigned additional staff members to the post claims team, procured a statistical sampling contractor with clarified guidance regarding the responsibilities of Post Claims Reviews. The post claims review team has also coordinated reviews with SF Housing staff to increase knowledge.

Programs Excluded from the Payment Recapture Audit Program where HUD has Determined It Would Not Be Cost-Effective

OMB was notified October 2016 that the following programs would not be cost effective to conduct a payment recapture audit program:

Rental Housing Assistance Programs (RHAP)

Office	Program	Allotment Holder	Appropriation Account
Housing - RHAP	Rental Housing Assistance Program	HSNG - MFH	4041
PIH - RHAP	Tenant Based Rental Assistance	PIH	0302

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

A cost-benefit breakdown cannot be provided for FY 2017. 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. Additionally, PIH's program counsel determined that 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.

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).

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. 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 equal total costs of $1,005,928,000.

Potential benefits would be possible recoveries of the estimated $1,235,004,360 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.

When the benefits of $864,503,052 are compared to the costs of $1,005,928,000,000, a payment recapture audit for RHAP is shown as not being cost-beneficial with costs exceeding benefits by $141,424,948.

Sampling limitations based on RHAP programs

<u>RHAP activities administered by Multi-Family Housing (MFH)</u>

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 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. With the tenant files stored locally at each multifamily property, 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.

RHAP activities administered by PIH

The RHAP activities managed by PIH are administered by 4,100 PHAs nationwide through the Housing Choice Voucher and Public Housing programs, and are the only PIH programs identified as susceptible to high risk for significant improper payments. There is a large volume and disparate location of records. Currently, 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 limit 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 2016, files were selected from FY 2015). 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 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.

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

Office	Program	Allotment Holder	Appropriation Account
PIH	Choice Neighborhoods Initiative	PIH	0349
PIH	Family Self-Sufficiency	PIH	0350
PIH	HOPE VI	PIH	0218
PIH	Indian Community Development Block Grants	PIH	0162
PIH	Native American (Indian) Housing Block Grants	PIH	0313
PIH	Native Hawaiian Housing and Indian Home Loan Guarantee	PIH	0233
PIH	Native Hawaiian Housing Block Grants	PIH	0235
PIH	Public Housing Capital Fund	PIH	0304
PIH	Public Housing Operating Fund	PIH	0163
PIH	Title VI Indian Federal Guarantees Financing Account	PIH	4244
HSNG	Emergency Home Loan Program	HSNG	4244
HSNG	Manufactured Housing	HSNG	0407
HSNG	Multifamily Housing Section 811 Project Rental Assistance	HSNG	8119

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.

CPD - non-DRAA-Sandy

Office	Program	Allotment Holder	Appropriation Account
CPD	Brownfield Economic Development Initiative	CPD	0314
CPD	Congressional Earmarks – Economic Development Initiative – Special Projects/ Neighborhood Initiatives	CPD	0162, 0222
CPD	Capacity Building	CPD	0162, 0176
CPD	Community Development Block Grants (CDBG), Neighborhood Stabilization Program, and Section 108 Loan Guarantee Program	CPD	0162, 0344, 0198, 4096
CPD	HOME Investment Partnerships Program	CPD	0205
CPD	Homeless Assistance Grants	CPD	0192
CPD	Housing Certificate Fund	CPD	0319
CPD	Housing Opportunities for Persons with AIDS (HOPWA)	CPD	0308
CPD	Rural Innovation Fund	CPD	0162
CPD	Sustainable Communities Initiative Program	CPD	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 reporting systems, and overall grantee performance.

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

Office	Program	Allotment Holder	Appropriation Account
CIO	Working Capital Fund	CIO	4586
CIO	Transformation Initiative	CIO	0402

Summary

OCIO uses HUD’s the Procurement Request Information System Management (PRISM) to process all contracts and contract obligations that are paid by the CFO Accounting Center Accounts Payable Office in Ft. Worth, TX. All contracts and contractual related obligations to contractors are processed via ARC PRISM and paid by the ARC’s Accounts 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. The 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. With no improper payments identified this fiscal year, the cost of any additional attempts to recover improper payments would exceed the benefit of improper payments recovered.

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	**18,225**
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**

Efficient techniques, such as sophisticated software and matches, cannot 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’s 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 does not 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, but a failure to properly document procedural inconsistencies. 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 three (3) activities are accomplished by three independent people.

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	**18,225**
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**

Costs	**(Total Cost of Payment Recapture Audit)**	**$210,625.00**
Benefits	**(Anticipated Recovered Over-Payments)**	**$0.00**
Net Benefit (Cost)		**$210,625**

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)

Office	Program	Allotment Holder	Appropriation Account
FHEO	Fair Housing Assistance Program	FHEO	0144
FHEO	Fair Housing Initiatives Program	FHEO	0144

Analysis

FHEO asserts that its programs and activities fall within the criteria that a payment recapture plan 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.

The Fair Housing Initiatives Program (FHIP) operates under grants and 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 2016, 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 (Ginnie Mae)

Office	Program	Allotment Holder	Appropriation Account
Program Expenses	Contractor Payments	Ginnie Mae	0186, 4240
Program Expenses	Master Sub-Servicer (MSS) Default Activity	Ginnie Mae	4240
Program Expenses	Refunds Program	Ginnie Mae	0186, 4240
Program Expenses	Soldiers' and Sailors' Civil Relief Act Program Reimbursement and Multifamily 1% Reimbursement Program	Ginnie Mae	4240
Program Expenses	Unclaimed Security Holder Payments	Ginnie Mae	4238

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, Ginnie Mae's improper payment recaptures have been focused on improper payments to 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 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. Ginnie Mae Contractor - Payments have been identified as 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.

Recaptured Amounts

HUD, as a Department, recovered $909,430,000 in FY 2017.

Overpayment Payment Recaptures with and without Recapture Audit Program

($ in millions)

		Overpayments Recaptured through Payment Recapture Audits				Overpayments Recaptured Outside of Payment Recapture Audits	
Does this include funds recaptured from a High-Priority Program (Y/N)	**Program or Activity**	**Amount Identified in FY 2017**	**Amount Recovered in FY 2017**	**Recapture Rate in FY 2017**	**FY 2018 Recapture Rate Target**	**Amount Identified in FY 2017**	**Amount Recovered in FY 2017**
N	OLHCHH/Grants	0.10	0.10	100%	100%	-	-
N	Chief Procurement Officer	-	-	-	0.00%	0.53	-
Y	Community Planning and Development	12.15	1.73	14.27%	10.00%	144.11	0.43
N	General Counsel	-	-	-	0.00%	908.09	884.73
Y	Housing	-	-	-	0.00%	392.77	13.44
Y	FHA Single Family Claims	29.80	25.10	84.23%	80.00%	26.97	5.67
Y	Public and Indian Housing	-	-	-	0.00%	44.85	5.16
	Total	**$ 42.05**	**$ 26.93**	**64.05%**		**$ 1,517.33**	**$ 909.43**

Disposition of Amounts Recaptured Through Payment Recapture Audits

Disposition of Funds Recaptured Through Payment Recapture Audit Programs

($ in millions)

Program or Activity	**Amount Recaptured (*This amount will be identical to the "Amount Recaptured through Payment Recapture Audits in Table 5*)**	**Agency Expenses to Administer the Program**	**Payment Recapture Auditor Fees**	**Financial Management Improvement Activities**	**Original Purpose**	**Office of Inspector General**	**Returned to Treasury**	**Other (*please explain in footnote*)**
CPD	1.73	-	-	-	1.73	-	-	-
FHA Single Family Claims	25.10	-	-	-	25.10	-	-	-
OLHCHH/Grants	0.10	-	-	-	-	-	0.10	-
TOTAL	**$ 26.93**	**$ -**	**$ -**	**$ -**	**$ 26.83**	**$ -**	**$ 0.10**	**$ -**

Aging of Outstanding Overpayments Identified in the Payment Recapture Audit Programs

($ in millions)

Program or Activity	**Amount Outstanding (0 - 6 months)**	**Amount Outstanding (6 months to 1 year)**	**Amount Outstanding (over 1 year)**	**Amount determined to not be collectable**
CPD	10.42	-	-	-
FHA Single Family Claims	7.00	13.00	55.00	-
Total	**$ 17.42**	**$ 13.00**	**$ 55.00**	**$ -**

Barriers

The barriers to reducing improper payments in HUD's rental assistance program is a function of program complexity, reporting, differences in processes per PHA, and the lack of available electronic reporting and records. 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, resulting in a need for a modified methodology to appropriately define, test and report improper payments. 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 occur. Each PHA may also have unique processes in place that increase the difficulty in evaluating all subsidy calculations on a standardized basis. Additionally, individual PHAs may use a variety of systems to store and report data to HUD, which can affect the uniformity of such information. In some cases, PHAs only maintain hardcopy records rather than electronic files.

Accountability

PIH and other HUD program offices, managers, and staff are responsible for meeting applicable improper payments reduction targets and for establishing and maintaining sufficient internal controls, including a control environment that prevents improper payments from being made, and promptly detects and recovers any improper payments that may occur. Offices and managers are held accountable through a variety of mechanisms and controls, including annual performance measures aligned to the strategic plan, organizational performance review criteria, and individual annual performance appraisal criteria.

PHAs are responsible and held accountable for tenant verification for rental housing assistance, while HUD certifies a PHA's eligibility for participation in RHAP programs. HUD contractors are held accountable through various contract management and oversight activities and functions, control assessments, and audits.

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.

Sampling and Estimation

Rental Housing Assistance Program (RHAP)

Through HUD's effort to revise its improper payment program, HUD OCFO is unable to implement a statistically valid sampling plan that will provide an IPERIA compliant estimate of the annual amount and rate of improper payments for the RHAP within the FY 2017 Annual Financial Report.

In FY 2016, HUD reported CPD Entitlement Grants Program and HOME Investments Program as susceptible to significant improper payment risk. For FY 2017, HUD implemented a risk assessment methodology that followed the OMB A-123, Appendix C requirements. During that process, HUD combined the CPD Entitlement Grants Program activity into the risk assessment performed for Community Development Block Grants (CDBG) Program. CDBG is rated as a program susceptible to significant improper payment risk. Additionally, the FY 2017 risk assessment performed determined the HOME Investments Program was not high risk.

HUD obtained OMB approval to utilize a temporary Alternative Testing Methodology to identify FY 2017 improper payments for RHAP. Due to limited financial resources and a compressed timeframe to identify improper payment information for RHAP, HUD identified the information presented in Payment Reporting tables by conducting a condensed OMB approved Alternative Testing Plan.

The condensed alternative testing methodology assessed payments to entities, subsidies for individuals, entity eligibility, participant eligibility, deceased participants, and eligible administrative expenses. HUD performed limited reviews of payments made to PHAs and subsidy amounts received by individuals primarily to gain insight about the amount of documentation available to support a PHA's payment process. In support of the alternative testing methodology, HUD developed a sampling design to allow for an extrapolation of the validated errors for subsidies to individuals identified during the pilot testing. The validated actual errors (improper payments identified in payments to entities) and the extrapolated errors (improper payments identified in individual subsidies) were used to identify the estimated error rate for the Office of Public and Indian Housing Rental Housing Assistance Program.

Community Planning and Development - DRAA-Sandy

Office	Program	Allotment Holder	Appropriation Account
CPD	Community Development Block Grant – DRAA-Sandy	CPD	0162

CPD's improper payment estimation process for the DRAA-Sandy funds incorporates a payment recapture audit plan. CPD initiates collection procedures immediately upon the identification of any improper payments during their review.

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 OMB approval to use an alternative estimation approach for the funds rather than a statistically-valid methodology with a 95% confidence interval.

Disaster Relief Appropriations Act (DRAA), 2013 – Sandy

The 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.

As a result, RHAP and DRAA - Sandy programs, administered by HUD's CPD, and include Sandy, Sandy Community Development Block Grants, Sandy Charge Card payments, and Sandy Payments to Federal employees, are required to identify improper payment information in accordance with OMB Circular A-123, Appendix C Part I.A.9 Step 2. Due to the nature of the funds, HUD utilized an OMB approved alternative estimation approach (see Sampling and Estimation) to identify the disclosed amounts for DRAA - Sandy.

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-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 calculated 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 payment 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.

OMB guidance on the development of an improper payment protocol for Disaster Relief Appropriations Act, 2013 (P.L. 113-2) Sandy funds notes, "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 CPD. Due to the nature of the funds, HUD has obtained approval from OMB to use an alternative estimation approach for the funds rather than a statistically valid methodology with a 95% confidence interval.

In lieu of a random sample approach to assessing improper payments in the DRAA-Sandy program, HUD estimated improper payments from the findings of the risk-based audit activities that are supported by the administrative appropriations. While a risk-based, rather than random, selection of examined cases is likely to overstate the level of improper payments reported for the DRAA-Sandy program, the approach is the only feasible method for HUD.

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.

Condition

The condition that led to improper payments that were identified and recovered was the general nature of the appropriations. The DRAA-Sandy supplemental appropriations are subject to national standards of a very general nature, none of which govern the levels of payment or set any rules through which payments can be judged as proper or improper. OMB approved the alternative estimation approach utilized for this program to address this matter and is being resolved via on-site monitoring reviews of the highest risk grantees.

Fraud Reduction Report

Overview

The Department has created a framework to implement the provisions of the Fraud Reduction and Data Analytics Act of 2015 (the Act), OMB's revised A-123, Management's Responsibility for Internal Controls, and the revised OMB A-136, Financial Reporting Requirements, circular to assist in the prevention, detection, and response to financial fraud affecting HUD programs and operations. In creating this framework, HUD has incorporated practices from the framework on fraud risks published by the GAO[1]. The framework encompasses five components, including Communications, Current State Snapshot, Fraud Risk Assessments, Antifraud Controls, and Monitoring.

Framework for Managing Fraud Risks in Federal Programs (GAO Framework)

Source: GAO. | GAO-15-593SP

Through the establishment of the HUD enterprise risk management program (ERM), HUD has integrated the Fraud Risk Management (FRM) Framework with ERM. Integrating FRM with ERM will allow HUD to consider the potential for fraud when identifying, analyzing, and responding to risks. As such, HUD's ERM program considers the potential for fraud risk in all HUD programs.

[1] GAO Framework for Managing Fraud Risks in Federal Programs

Key Department-wide activities in FY 2017 demonstrate progress in the implementation of FRM, as well as incorporate the governance framework. This Fiscal Year, HUD established a Chief Risk Officer (CRO) responsible for ERM and FRM, developed risk assessment and reporting structures for the risk profiles, and implemented risk culture activities, including monthly risk officer meetings, attended by all major HUD components. The fraud recovery amounts received by the OIG in FY 2016 are presented in the table below.

Table B
OIG and DOJ Fraud Recoveries, by Program
($ in millions)

Program or Activity	Recoveries[2]
CDBG – Entitlement	$ 1.35
CDBG Disaster Recovery Assistance	$ 1.66
Emergency Shelter Grants Program	$ 0.08
HERA NSP1	$ 0.05
HOME Program: HOME Investment Partnerships	$ 0.05
Shelter Plus Care	$ 0.10
Supportive Housing Program	$ 0.06
Section 106 Housing Counseling Grants	$ 3.79
Secretary's Regulation of Fannie Mae and Freddie Mac	$ 0.56
Indian Housing Block Grant (IHBG) Program	$ 0.04
Renewal of Section 8 Project-Based Rental Assistance	$ 0.44
Section 202 Supportive Housing for the Elderly	$ 0.15
Mortgage Insurance for Cooperative Housing (Section 213)	$ 0.34
Mortgage Insurance for Purchase or Refinance of Existing Multifamily Rental Housing (Sections 207 and 223(F))	$ 18.22
Multifamily Rental Housing for Moderate-Income Families (Section 221(d)(3) and (4))	$ 0.12
Investigations	$ 0.03
Housing Choice Voucher Program	$ 16.74
Office of Native American Programs – ONAP	$ 0.03
Project-Based Voucher Program	$ 0.85
Public Housing Operating Fund	$ 14.97
Revitalization of Severely Distressed Public Housing (HOPE VI)	$ 0.03
Homeownership Voucher Program	$ 0.02
Public Housing Capital Fund	$ 0.99
HECM – Section 255 Home Equity Conversion Mortgage Program	$ 0.25
REO – Section 204g Single Family Property Disposition Program	$ 0.16
Section 203b One-to-Four Family Home Mortgage Insurance	$ 145.49
Section 203k Rehabilitation Loan Insurance	$ 0.03
Section 234c Mortgage Insurance for Condominium Units	$ 96.15
Loss Mitigation	$ 3.47
Total[3]	$ 306.23

[2] Amount provided by OIG for FY 2016. Amounts include civil actions worked jointly with the Department of Justice and include HUD programs/categories as defined by OIG. Settlements received in FY 2016 are excluded.
[3] Recovery amounts were rounded to the nearest tens of thousands of dollars.

To safeguard HUD assets from fraud and abuse, HUD will implement the fraud risk management framework by considering the fraud risk factors, conducting fraud risk assessments, evaluating and refining the existing financial and administrative controls, providing enhanced training, and equipping the workforce with stronger fraud management tactics.

Fourth Quarter FY 2016 and FY 2017 Implementation Activities

HUD's Departmental Enforcement Center (DEC) is responsible for reviewing and responding to allegations of fraud and escalating significant findings to the appropriate stakeholders, including the Office of the Inspector General (OIG). The DEC and the CRO began examining fraud risk and identify the types of fraud, waste, and abuse that can occur within HUD programs and operations.

To provide an initial baseline of FRM activities at HUD, a fraud risk survey was distributed to all HUD program offices. The survey was designed to begin to capture the current state of antifraud activities and financial and administrative controls throughout HUD's programmatic and operational offices. The baseline results demonstrate a broad range of activities and various levels of maturity across the programs related to FRM.

Management also analyzed the effect of fraud risk on HUD objectives by implementing data analytics to detect and investigate fraud for its purchase card payment program.

Reduce the Footprint

Since FY 2013, HUD has experienced space reductions at 30 of its field offices and headquarters satellite locations, and the closing of nineteen of our smallest field offices that duplicate HUD services in states with at least one other larger office. These actions have resulted in a reduction of 235,917 usable square feet and an annual estimated rent cost avoidance of over $6 million.

A significant challenge for HUD is that many of the locations we occupy were designed when there was a far greater staffing level. HUD has initiated discussions with the General Services Administration to develop strategies to relinquish space that is no longer needed in a marketable fashion so the space can be removed from HUD's inventory.

HUD developed new design standards and these became effective in March 2016. The standards will enable HUD to work toward a target of 175 usable square feet per person for its overall portfolio.

HUD does not own or direct lease any of its locations.

Reduce the Footprint Policy Baseline Comparison			
	FY 2015 Baseline	**CY 2016**	**Change (FY 2015 Baseline -CY 2016)**
Square Footage (SF in millions)	3,098,523	3,054,291	(44,232)

Reporting of O&M Costs – Owned and Direct Lease Buildings			
	FY 2015 Reported Cost	**CY 2016**	**Change (FY 2015 Baseline-CY2016)**
Operation and Maintenance Costs ($ in millions)	N/A	N/A	N/A

Civil Monetary Penalty Adjustment for Inflation

In compliance with the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended, HUD has published in the Federal Register the adjustments for inflation of civil monetary penalties under its jurisdiction. The following table summarizes the current penalty levels, which were published in the Federal Register on May 30, 2017, with an effective date of June 29, 2017.

Statutory Authority	Penalty (Name or Description)	Year Penalty Enacted	Latest Year of adjustment	Current Penalty Level	Location for Penalty Update Details
31 U.S.C. 3802(a)(1)	False Claims & Statements	1986	2017	$10,957	82 Fed. Reg. 24521 (May 30, 2017)
42 U.S.C. 3537a(c)	Advance Disclosure of Funding.	1989	2017	$19,246	82 Fed. Reg. 24521 (May 30, 2017)
42 U.S.C. 3545(f)	Disclosure of Subsidy Layering	1989	2017	$19,246	82 Fed. Reg. 24521 (May 30, 2017)
12 U.S.C. 1735f–14(a)(2)	FHA Mortgagees and Lenders Violations.	1989	2017	Per Violation: $9,623 Per Year: $1,924,589	82 Fed. Reg. 24521 (May 30, 2017)
12 U.S.C. 1735f–14(a)(2)	Other FHA Participants Violations	1997	2017	Per Violation: $9,623 Per Year: $1,924,589	82 Fed. Reg. 24521 (May 30, 2017)
12 U.S.C. 1715z–13a(g)(2)	Indian Loan Mortgagees Violations	1992	2017	Per Violation: $9,623 Per Year: $1,924,589	82 Fed. Reg. 24521 (May 30, 2017)
12 U.S.C. 1735f–15(c)(2)	Multifamily & Section 202 or 811 Owners Violations.	1989	2017	$48,114	82 Fed. Reg. 24521 (May 30, 2017)
12 U.S.C. 1723i(b)	Ginnie Mae Issuers & Custodians Violations.	1989	2017	Per Violation: $9,623 Per Year: $1,924,589	82 Fed. Reg. 24521 (May 30, 2017)
12 U.S.C. 1703	Title I Broker & Dealers Violations.	1989	2017	Per Violation: $9,623 Per Year: $1,924,589	82 Fed. Reg. 24521 (May 30, 2017)
42 U.S.C. 4852d(b)(1)	Lead Disclosure Violation	1992	2017	$17,047	82 Fed. Reg. 24521 (May 30, 2017)
42 U.S.C. 1437z–1(b)(2)	Section 8 Owners Violations.	1997	2017	$37,396	82 Fed. Reg. 24521 (May 30, 2017)
31 U.S.C. 1352	Lobbying Violation	1989	2017	Min: $19,246 Max: $192,459	82 Fed. Reg. 24521 (May 30, 2017)
42 U.S.C. 3612(g)(3)	Fair Housing Act Civil Penalties	1988	2017	No Priors: $20,111 One Prior: $50,276 Two or More Priors: $100,554	82 Fed. Reg. 24521 (May 30, 2017)
42 U.S.C. 5410	Manufactured Housing Regulations Violation	1974	2017	Per Violation: $2,795 Per Year: $3,493,738	82 Fed. Reg. 24521 (May 30, 2017)

Grants Oversight & New Efficiency (GONE) Act Requirements

Federal Grant and Cooperative Agreement Awards and Balances Reportable Under the GONE Act

Category	2-3 Years	>3-5 Years	>5 Years	TOTAL
Number of Grants & Cooperative Agreements with Zero Dollar Balances	16,353	45,738	123,448	185,539
Number of Grants & Cooperative Agreements with Undisbursed Balances	305	458	4	767
Total Amount of Undisbursed Balances	$ 21,601,005.28	$ 48,942,303.53	$44,240.18	$ 70,587,548.99

HUD has convened a working group that is reviewing current closeout procedures from each program office to understand why grants have not consistently been closed out in the past and how to standardize procedures in the future to address this risk going forward.

We expect the work group will find four (4) factors contributing to grants reported under GONE Act requirements: (1) grants were administratively closed but the close out information was not transmitted to the financial or payment systems; (2) the payment system has incorrect period of performance data and corrections were not made in time for the first GONE Act report; (3) the lack of standardized processes and diminishing staff resources left close out of zero balance grants as a low priority in staff workload; and (4) previously, zero balance awards did not appear on year-end reports of open awards so program offices did not send notification of closeout to OCFO.

The closeout work group will build on the processes and procedures developed by consultants which enabled the Office of Community and Development and outside consultants that enabled CPD to close over 68,000 Continuum of Care (CoC) awards last year. We will implement similar processes throughout the Department in 2018 and produce quarterly follow-up reports to program offices to ensure progress in closing out expired awards, with both zero and non-zero balances, in anticipation of the November 2018 report.

Secretary's Audit Resolution Report to Congress

This information on HUD's audit resolution and follow-up activity covers the period October 1, 2016, through September 30, 2017. 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 2017 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 955 approved management decisions and successfully implemented 891 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, 2017. This inventory was successfully addressed and the Department resolved 230 recommendations in this category, which was a reduction of 47.1 percent.

Summary of Management Decisions On Audit Recommendations

Opening Inventory Requiring Decisions	536
New Audit Recommendations Requiring Decisions	877
Management Decisions Made[1]	(955)
Audit Recommendations Still Requiring Decisions[2]	458
Recommendations Beyond Statutory Resolution Period[2]	46

[1]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.

[2]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[1]	1699
Management Decisions Made During Report Period	955
Sub-Total Final Actions Pending	2654
Final Actions Taken[2]	(891)
Audit Recommendations Reopened During Period (Without Final Actions)	0
Total Audit Recommendations Still Requiring Final Actions[3]	1763

[1]Opening inventory reflects 3 retroactive entries from FY16

[2]Final Action was taken on a total of 891 recommendations (244 audits of which 108 had final actions taken, thus closing the audits). The number of recommendations where a management decision and final action were concurrent was 297 in 132 audits.

[3]Of the 272 audits remaining, 44.12 percent or 120 are under repayment plans.

Management Report on Final Action On Audits With Disallowed Costs

Audit Reports	Number of Audit Reports	Questioned Costs
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period[1].	348	3,404,654,806
B. Audit Reports on which management decisions were made during the period.	102	434,020,391
C. Total audit reports pending final action during period (total of A and B)	450	3,838,675,197
D. Audit Reports on which final action was taken during the period		
1. Recoveries[2]	60	145,030,513
(a) Collections and offsets	56	141,485,914
(b) Property	0	0
(c) Other	11	3,544,599
2. Write-offs	49	92,770,461
3. Total of 1 and 2	77[3]	264,525,849
E. Audit Reports needing final action at the end of the period (subtract D3 from C)[4]	373	3,600,411,580
F. Open recommendations with disallowed costs[5]	[837]	[3.385,512,457]

[Please note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total disallowed costs in the report are reported as open until all recommendations in a report are closed.]

[1] This figure was adjusted to reflect a retroactive entry.

[2]Audit Reports are duplicated in D.1.(a), D.1.(b) and D.1.(c); thus the total is reduced by 7.

[3] Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 32.

[4] Litigation, legislation, or investigation is pending for 62 audit reports with costs totaling $191,154,595.

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

Management Report on Final Action On Audits With Recommendations That Funds Be Put To Better Use

Audit Reports	Number of Audit Reports	Funds to be put to Better Use
A. Audit Reports with management decisions on which final action had not been taken at the beginning of the period[1].	192	7,814,218,218
B. Audit Reports on which management decisions were made during the period.	47	2,853,954,612
C. Total audit reports pending final action during period (total of A and B)	239	10,668,172,830
D. Audit Reports on which final action was taken during the period		
1. Value of Audit Reports implemented (completed)	33	2,106,038,980
2. Value of Audit Reports that management concluded should not or could not be implemented	12	441,436,344
3. Total of 1 and 2[2]	42	2,554,479,883
E. Audit Reports needing final action at the end of the period (subtract D3 from C)[3]	200	8,120,697,506
F. Open recommendations with funds put to better use[4]	[173]	[5,664,877,952]

[Please note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, total disallowed costs in the report are reported as open until all recommendations in a report are closed.]

[1] *This figure has been adjusted to reflect a retroactive data entry*

[2] *Audit Reports are duplicated in both D.1 and D.2; thus the total is reduced by 3.*

[3] *Litigation, legislation, or investigation is pending for 28 audit reports with costs totaling $1,596,880,666.*

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

Appendix A: Glossary of Acronyms

ADA	Anti-Deficiency Act (Public Law No. 97–258)
AFR	Agency Financial Report
AFS	Allowance for Subsidy
AHAR	Annual Homeless Assessment Report
AIDS	Acquired Immune Deficiency Syndrome
ALLL	Allowance for Loan and Lease Losses
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
BRE	Book-Rich Environment Initiative
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

Appendix A: Glossary of Acronyms

CNA	Capital Needs Assessment
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
DASP	Distressed Asset Stabilization Program
DATA Act	Digital Accountability and Transparency Act of 2014
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

Appendix A: Glossary of Acronyms

EIV	Enterprise Income Verification System
ELOCCS	Electronic Line of Credit Control System
eLOCCS	Electronic Line of Credit Control System
eSNAPS	electronic Special Needs Assistance Programs
EPA	Environmental Protection Agency
ENW	Economic Net Worth
EPIC	Energy and Performance Information Center
EPLS	Excluded Parties List System
EPPES	Employee Performance Planning and Evaluation System
ERM	Enterprise Risk Management
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
FASB	Financial Accounting Standards Board
FASS	Financial Assessment Subsystem
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employee Compensation Act of 1916
FERS	Federal Employees Retirement System
FFATA	Federal Funding Accountability and Transparency Act of 2006
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)
FLRA	Federal Labor Relations Authority
FMCS	Federal Mediation and Conciliation Service
FMFIA	Federal Managers’ Financial Integrity Act (Public Law No. 97-255)
FMC	Financial Management Center
FOC	Financial Operation Center
FR	Federal Register
FSA	Federal Student Aid
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

Appendix A: Glossary of Acronyms

HFA	Housing Finance Authorities
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
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)

Appendix A: Glossary of Acronyms

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
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

Appendix A: Glossary of Acronyms

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
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
NSP TA	Neighborhood Stabilization Program Technical Assistance
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
OER	Ginnie Mae’s Office of Enterprise Risk
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

Appendix A: Glossary of Acronyms

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
PAS	Program Accounting Systems
PBRA	Project-Based Rental Assistance
PBRD	Payroll, Benefits, and Retirement Division
PBV	Project-Based Vouchers
PD&R	Office of Policy Development and Research
PFS	Pay for Success
PH	Public Housing
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

Appendix A: Glossary of Acronyms

PRA	Paperwork Reduction Act
PRISM	Federal acquisition system used by ARC
PY	Previous Year
Q1	Quarter 1
Q3	Quarter 3
Q4	Quarter 4
QAD	Quality Assurance Division
QC	Quality Control
QMR	Quarterly Management Reviews
RA	Risk Assessment
RAD	Rental Assistance Demonstration
RAP	Rental Assistance Payment
RBD	Rebuild by Design
Recovery Act	American Recovery and Reinvestment Act of 2009
REMIC	Real Estate Mortgage Investment Conduits
Rent Supp	Rental Supplement
RHAP	Rental Housing Assistance Programs
RHEI	Road Home Elevation Incentive
RHYMIS	Runaway and Homeless Youth Management Information Systems
RIF	Rural Innovation Fund
RLF	Revolving Loan Fund
RMF	Risk Management Framework
RNP	Restricted Net Position
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
SES	Seniot Executive Service

Appendix A: Glossary of Acronyms

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
SOAR	Students + Opportunities + Achievements = Results
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
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

Appendix A: Glossary of Acronyms

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

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

Find HUD on Social Media

Flickr
YouTube
Facebook
Twitter
Instagram
RSS Feeds

Featured Initiatives

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

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

If you have any questions or comments, please contact the
Office of the 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 7th St. SW, Room 3126
Washington, DC 20410
Attention: Chief Financial Officer

Or by e-mail to
AgencyFinancialReport@HUD.gov

To view the report on the internet, go to the following website:
https://www.hud.gov/sites/dfiles/CFO/documents/afr2017.pdf

This Report is Available on the Web at:

https://www.hud.gov/sites/dfiles/CFO/documents/afr2017.pdf

U.S. Department of Housing and Urban Development