United States Department of Housing and Urban Development

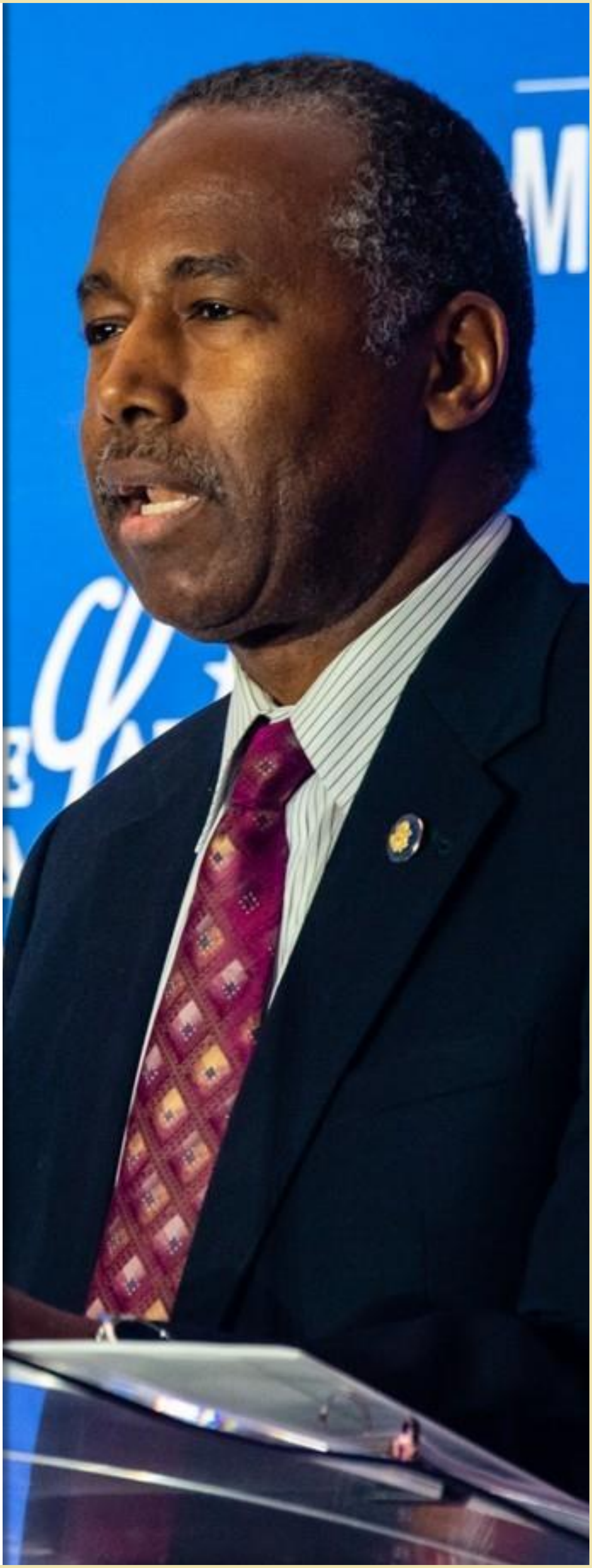
Fiscal Year 2020 Agency Financial Report

About This Report

The U.S. Department of Housing and Urban Development (HUD) Agency Financial Report (AFR) for Fiscal Year (FY) 2020 presents the Department's stewardship of financial resources entrusted to its care. HUD has chosen to produce an AFR and an Annual Performance Report (APR), which highlights the organization's efforts to execute its mission. The Fiscal Year 2020 Agency Financial Report is available on the web at: https://www.hud.gov/sites/dfiles/CFO/documents/afr2020.pdf

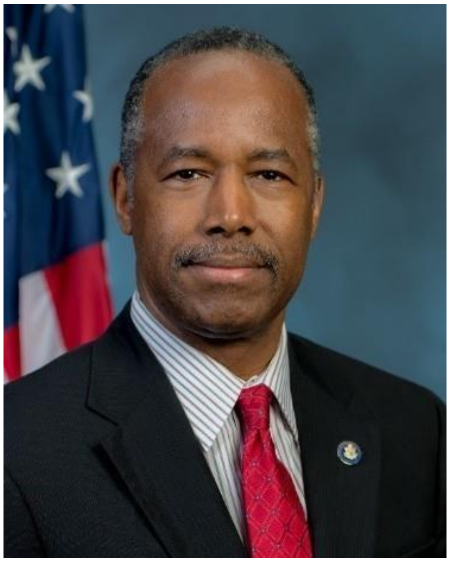
Table of Contents

Message From the Secretary



Message from the Secretary

December 4, 2020



I am pleased to present the Fiscal Year (FY) 2020 Agency Financial Report for the U.S. Department of Housing and Urban Development (HUD). This report features our financial and performance highlights for the fiscal year ending September 30, 2020.

During my tenure, we have successfully transformed the Department with a vision to serve the American people and change the lives of many for the better. We have placed more families in safe and affordable housing than ever before, served those who have served America by reducing the number of homeless veterans, reduced the impacts of lead hazards, and secured the future of our country by investing in our children. During these unprecedented times, we have also worked diligently to stabilize housing markets through our loan and security guarantee programs and eviction moratorium, enforced housing equity across America through the Fair Housing Act and through a number of partnerships, and facilitated the American people in becoming more self-sufficient while restoring dignity, pride, and self-worth.

HUD's mission of creating strong, sustainable, inclusive communities and quality affordable homes for all is achieved by administering more than 200 housing programs. In FY 2020, HUD's agency priority goals were to reduce homelessness, remove lead-based paint hazards and other health risks from homes, and enhance rental assistance in a way that promotes economic opportunity. During FY 2020, the Department set and exceeded several milestones in the advancement of these priorities to serve the American people. These successes include:

- Consolidated many functions into its Continuum of Care (CoC) Program competition, and reduced burdens on applicants and streamlining activities. In January 2020, an estimated $2.2 billion in grants were announced from the CoC program, along with an additional $118 million in March 2020. Approximately 7,000 awarded grants will assist communities across the Nation in reducing homelessness.
- The Office of Lead Hazard Control and Healthy Homes, Office of Community Planning and Development, and HOME Investment Partnerships programs implemented HUD's Lead Safe Housing Rule to ensure 6,308 housing units were lead-safe by the end of March 2020.
- Continued ongoing efforts to enhance and reform rental assistance programs by transitioning 6,992 public housing units to improved platforms to better meet the needs of the community. During Quarter 2 of FY 2020, HUD repositioned 3,613 public housing units through the Rental Assistance Demonstration, approved 3,178 units for demolition/disposition, and totaled 201 Declarations of Trust releases/conversions.

- Made significant improvements in HUD's financial governance and management with a focus on protecting taxpayer funds from fraud, waste, and abuse. In addition, we have coordinated with the White House's Office of American Innovation to make significant improvements in IT modernization in an effort to radically streamline our programs.

As a member of the White House Coronavirus Task Force and as a physician, I am humbled that HUD was entrusted, as part of the CARES Act, with providing $12.4 billion to our Nation's most vulnerable citizens. Our programs are providing funding to the homeless, persons with AIDS, tribal programs, rental assistance, and guidance on how the public can navigate the challenges of the epidemic.

Everyone at HUD is proud to serve our fellow Americans. From articulating a strategic vision and executing on that vision through our programs to reviewing our performance and financial management each year, every HUD employee's work is essential to our mission of improving programs to house millions of American families.

HUD is committed to ensuring transparency and accountability of the funds the public and Congress entrust to us. The financial and summary performance data provided in this report is reliable and complete. I have trust in our team that we will continue to identify and improve our challenging areas while exercising sound fiscal management. Our team's commitment to sound fiscal management and execution of a financial transformation plan has resulted in an unqualified audit opinion for the first time in eight years. This report and the "Message from the Chief Financial Officer" outline the clear progress we have made in FY 2020 and the opportunities we possess to improve our programs to work better for the people we serve. Each year brings new challenges, but I am confident that the men and women of HUD will continue to meet them in the coming years.

Sincerely,

Benjamin S. Carson, Sr.
Secretary


1562

Section 1: Management's Discussion and Analysis

Table of Contents

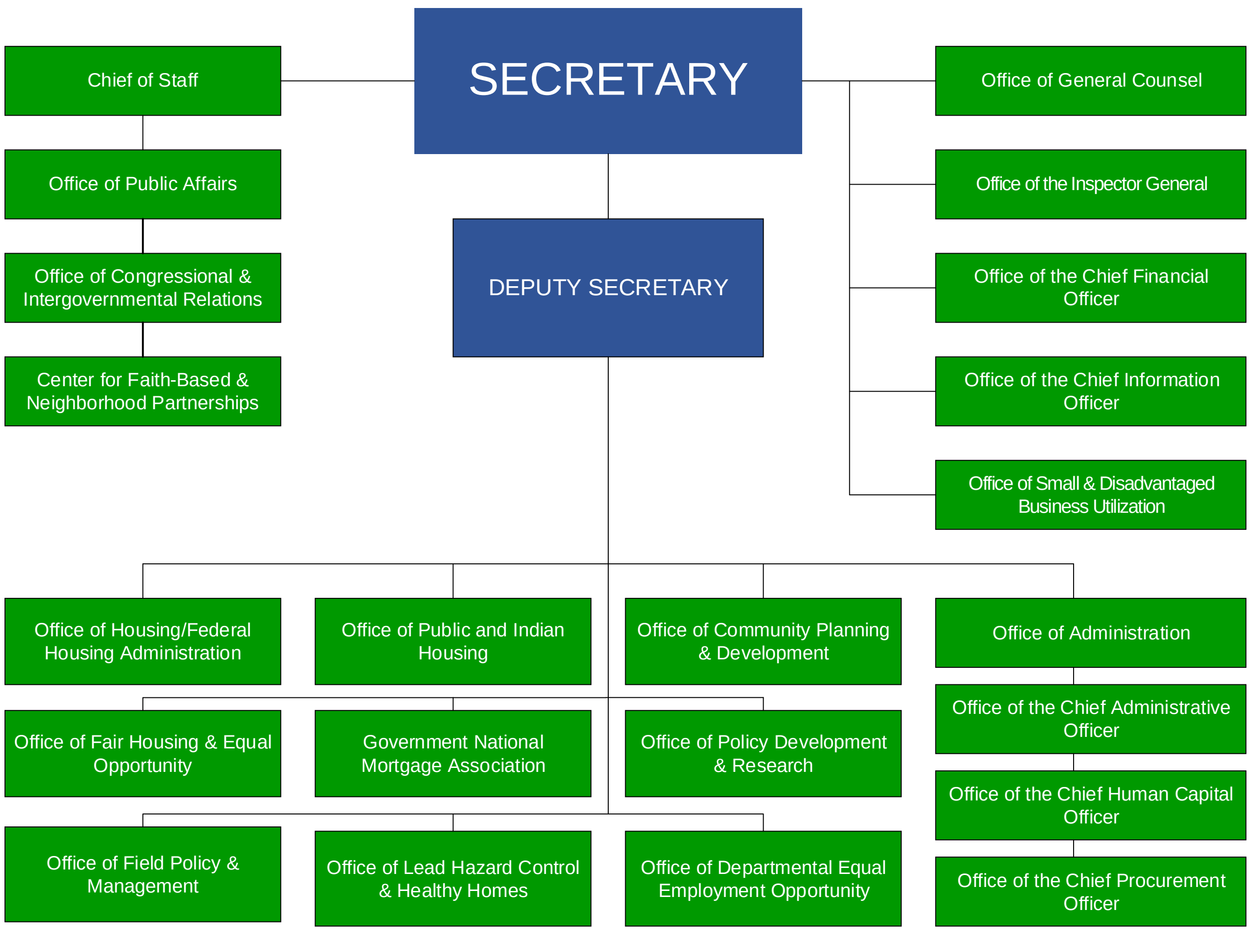
Mission and Organizational Structure

Mission

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

HUD is working to strengthen the housing market **to bolster the economy and protect consumers**; **meet the need** for quality affordable rental homes; utilize housing as a platform for **improving quality of life**; build **inclusive and sustainable communities** free from discrimination; and **transform the way HUD does business.**

Organizational Structure



Major Program Activities

Office of Housing

The Office of Housing plays a vital role for the nation's homebuyers, homeowners, renters, and communities through its nationally administered programs. It includes major program activities such as the Federal Housing Administration (FHA), Housing for the Elderly and Persons with Disabilities, and Section 8 Rental Assistance.

Federal Housing Administration (FHA)

The Federal Housing Administration (FHA) is the largest mortgage insurer in the world. It provides over $1.4 trillion in mortgage insurance for single family homes, multifamily properties, residential care facilities, and hospitals. This program protects lenders throughout the United States and its territories against losses by paying claims to lenders for unpaid principal balances when a property owner defaults on their mortgage. The FHA allows lenders to take on more risk and, as a result, offer more mortgages for homebuyers. It is the only government agency that operates primarily on self-generated income from insurance premiums paid by borrowers via lenders. The FHA is closely involved with the following program offices:

- Office of Multifamily Housing administers FHA's mortgage insurance programs that facilitate the construction, substantial rehabilitation, purchase, and refinancing of multifamily properties. It also administers subsidized housing programs that provide rental assistance to low-income families, the elderly, and those with disabilities, as well as the preservation and recapitalization of assisted affordable housing through such programs as Rental Assistance Demonstration (RAD).

- Office of Single-Family Housing administers FHA's mortgage insurance programs for mortgages secured by new or existing single-family homes, condominium units, manufactured homes, and homes needing rehabilitation. It also administers FHA's reverse mortgage program, the Home Equity Conversion Mortgage (HECM), for seniors.

- Office of Healthcare Programs administers FHA's mortgage insurance programs that help finance the construction, renovation, acquisition, or refinancing of healthcare facilities — including hospitals, nursing homes, and assisted living facilities.

- Office of Finance and Budget, which includes FHA's Asset Sales Office, is responsible for financial management activities, budget formulation and execution activities, and the overall integrity of FHA's accounting records. Additionally, the Office oversees the competitive sale and disposition of mortgage notes.

HUD SUCCESS STORIES:

Improving HUD's Efficiency & Effectiveness – FHA IT Modernization

The Federal Housing Administration (FHA) is embarking on a groundbreaking initiative to modernize the technology mortgage lenders, services, and other FHA program participants use when doing business. This initiative will move FHA's programs to a state-of-the-art single platform, allowing staff to respond quickly to meet the needs of borrowers, attract more participants to the program, and protect tax-payers' investments.

Click here to learn more

Housing for the Elderly and Disabled

Supportive Housing for the Elderly (Section 202) under the Office of Housing allows the elderly to live independently in an environment that supports them through activities such as cleaning, cooking, transportation, and more. This program provides capital advances to finance the construction, rehabilitation, and acquisition of structures to serve as supportive housing for very low-income elderly persons in addition to providing rent subsidies in order to help make housing affordable.

Supportive Housing for Persons with Disabilities (Section 811) under the Office of Housing, allows very low-income persons with disabilities to live as independently as possible with access to appropriate services. HUD provides funding for this program in two ways: (1) the traditional way, through interest-free capital advances and operating subsidies to nonprofit developers; and (2) through project rental assistance to state housing agencies.

Section 8 Rental Assistance

HUD's Section 8 Housing Choice Voucher program distributes vouchers which allow very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Participants may choose between different housing options such as single-family homes, townhouses, and apartments. These options are not limited to subsidized housing projects. Housing choice vouchers are administered by local public housing agencies (PHAs), which receive federal funding from HUD. A housing subsidy is paid directly to a landlord by the PHA on behalf of the participating family. The family will then pay the difference between the actual rent and the subsidy to the landlord. If allowed by the PHA, a family can purchase a modest home with their voucher.

HUD's Project-Based Rental Assistance (PBRA) program assists more than 1.2 million very low-income families in obtaining decent, safe, and sanitary housing. Project-based assistance is tied to units and does not travel with individual tenants. HUD renews Section 8 project-based housing assistance payments contracts with owners of multifamily rental housing. The project-based rental assistance makes up the difference between what a household can afford and the approved rent for an adequate housing unit in a multifamily project. Eligible tenants must pay the highest of 30 percent of adjusted income, 10 percent of gross income, the portion of welfare assistance designated for housing, or the minimum rent established by HUD.

Government National Mortgage Association (GNMA)

The Government National Mortgage Association's (GNMA) mission is to attract global capital into the U.S. housing finance system, provide liquidity to mortgage lenders, and support affordable homeownership opportunities for millions of Americans – while mitigating risk exposure for American taxpayers.

Through federally insured mortgage programs, GNMA makes affordable housing a reality for millions of low and moderate-income households across America by channeling global capital into the nation's housing markets. Through securitizing mortgage loans into mortgage-backed securities, explicitly guaranteed by the full faith and credit of the U.S. Treasury, GNMA can lower the cost of mortgage funding and pass along the savings to support housing and homeownership in American communities.

Office of Public and Indian Housing (PIH)

Office of Public and Indian Housing (PIH) oversees and monitors 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 August 1, 2020, PIH's workforce totaled 1,259 employees within eight major offices at Headquarters, 46 field offices, and six Office of Native American Program (ONAP) Area Offices, all overseeing three major business areas:

- Housing Choice Voucher Programs
- Public Housing Programs
- Native American Programs

HUD SUCCESS STORIES:

Improving HUD's Efficiency & Effectiveness – A Better Clearance Process

Strong internal controls uphold HUD's legal compliance with laws and regulations. A major component of these controls is the Office of Public and Indian Housing's (PIH) clearance process, which ensures published documents are compliant with federal requirements. The PIH clearance process exists to ensure published directives, notices of funding availability, and guidebooks are comprehensive, consistent, and in accordance with federal requirements.

Click here to learn more about PIH's updated clearance process

Office of Community Planning and Development (CPD)

The Office of Community Planning and Development (CPD) seeks to develop viable communities by promoting integrated approaches that provide decent housing, suitable living environments, and expansion of economic opportunities for low and moderate-income persons. The primary means toward this end is the development of partnerships among all levels of government and the private sector, including for-profit and non-profit organizations. Offices under CPD perform major program activities such as the HOME Investment Partnerships Program (HOME), Homeless Assistance Grants (HAGs), and Community Development Block Grants (CDBGs). The following offices support the work of CPD through programs listed on the respective pages:

HUD SUCCESS STORIES:

Improving HUD's Efficiency & Effectiveness – Risk to Aid HUD's Operations

HUD's Office of Community Planning and Development (CPD), with collaboration from the OCFO, is improving its risk process with the CPD Risk Management Platform. The current risk assessment process is complex, time-consuming, and labor-intensive, requiring both objective and subjective inputs from numerous data sources and significant manual involvement. This new platform will help ensure taxpayer dollars are efficiently spent to better assess risk and prevent fraud and abuse.

Click here to learn more about the CPD Risk Management Platform

HOME Investment Partnerships Program (HOME)

The Home Investment Partnerships Program (HOME) is the largest federal block grant program for state and local governments, and it is specifically designed to create affordable housing for low-income households. Often with local nonprofits, HOME funds a variety of activities including building, purchasing, and/or rehabilitating affordable housing for rent or homeownership and providing direct rental assistance to low-income people. HOME formula grants are awarded annually to participating jurisdictions (PJs) with enough flexibility for funds to be used as grants, direct loans, loan guarantees, other forms of credit enhancement, rental assistance, or security deposits.

Homeless Assistance Grants (HAG)

Homeless Assistance Grants (HAG) fund the Emergency Solutions Grants (ESG) program and the Continuum of Care (CoC) program, both in which are under the CPD Office.

HAGs allow the CoC program to follow its mission of ending homelessness and optimizing self-sufficiency by:

- Quickly rehousing homeless individuals and families;
- Minimizing trauma and dislocation of homeless individuals and families and;
- Promoting access and effecting utilization of mainstream programs that help homeless populations.

The ESG program focuses on addressing the needs of homeless people in emergency or transitional shelters. The program's goal is to quickly assist people in regaining stability in permanent housing after a housing crisis and/or homelessness.

HUD SUCCESS STORIES:

Improving HUD's Efficiency & Effectiveness – Grant Program to Impact Homelessness

In 2016, the Office of Special Needs Assistance Programs (SNAPS) began the Continuum of Care (CoC) Re-Imagining initiative with the goal of making the CoC Program competition less time-consuming and more efficient for communities, project recipients, and HUD employees. Ultimately, HUD's aims are to distribute funds more quickly and enable both HUD and communities to spend more time focusing on ending homelessness.

Click here to learn more about the Continuum of Care Re-Imagining Initiative

Community Development Block Grants (CDBG)

Community Development Block Grant (CDBG) programs are operated under CPD in order to fund a wide variety of programs that help support community development and encourage systematic and sustained action by state and local governments. These activities are identified through an ongoing process and address needs such as infrastructure, economic development, public facilities installation, community centers, housing rehabilitation, public services, clearance/acquisition, microenterprise assistance, code enforcement, homeowner assistance, and more.

All Other Program Activities

Office of Lead Hazard Control and Healthy Homes (OLHCHH)

The Office of Lead Hazard Control and Healthy Homes (OLHCHH) provides funds to state and local governments to implement cost-effective ways to reduce lead-based paint hazards. In addition, OLHCHH enforces HUD's lead-based paint regulations, provides public outreach and technical assistance, and conducts technical studies to help protect children and their families from health and safety hazards in the home.

HUD SUCCESS STORIES:

Improving HUD's Efficiency & Effectiveness – Grant Streamlining & Outreach

In recent years, the Office of Lead Hazard Control and Healthy Homes (OLHCHH) changed its business process to make things easier for grantees, HUD employees, and service recipients, and launched a campaign to update its stakeholders on how these changes would help their communities. Changes have included the "Healthy Homes Supplement" funding option, allowing grantees to use this funding to address additional hazards in homes in which lead-based paint hazards are being controlled under their grant.

Click here to learn more about OLHCHH's Grant Streamlining & Outreach

Office of Fair Housing and Equal Opportunity (FHEO)

The mission of the Office of Fair Housing and Equal Opportunity (FHEO) is to eliminate housing discrimination, promote economic opportunity, and create diverse, inclusive communities by leading the nation in the enforcement, administration, development, and public understanding of federal fair housing policies and laws.

FHEO enforces laws that protect people from discrimination based on race, color, religion, sex, national origin, disability, and familial status. In addition, FHEO ensures fair housing compliance by housing providers that receive HUD funding. FHEO's responsibilities include:

- Investigating complaints from the public;
- Ensuring civil rights compliance in HUD programs;

- Assisting states and localities with fair housing investigations;
- Increasing public awareness of housing related civil rights;
- Awarding and monitoring fair housing grants; and
- Enhancing economic opportunity for low-income populations.

Office of Housing- Other Program Activities

The Office of Housing is the largest office within HUD, and has the following key responsibilities:

- Encouraging recapitalization of the nation's aging affordable housing stock through programs such as the Rental Assistance Demonstration;
- Facilitating housing counseling assistance through HUD's Office of Housing Counseling; and
- Operating HUD's Manufactured Housing Program, which administers federal standards for the design and construction of manufactured homes across the country.

In addition to the offices listed under major programs, the Office of Housing includes the following program offices:

- Office of Housing Counseling supports a nationwide network of HUD-approved Housing Counseling Agencies, which provide counseling to current and prospective homeowners, renters, and victims of disasters so that they can make informed choices when addressing their housing needs.
- Office of Manufactured Housing administers HUD's oversight programs for the regulation and solutions-oriented oversight and monitoring of the affordability, quality, durability, and safety of manufactured homes. It also administers the *National Manufactured Housing Construction and Safety Standards Act* of 1974.
- Office of Risk Management and Regulatory Affairs examines the financial, credit, and operational risks facing the Office of Housing and articulates effective strategies and procedures for mitigating current and emerging risks. The strategies and procedures to mitigate these risks are based on best risk management practices and established governance policy. In pursuit of this goal, the office promotes a risk-conscious climate in a manner consistent with the mission of the Office of Housing.

HUD SUCCESS STORIES:

Improving HUD's Efficiency & Effectiveness – Supporting Affordable Communications

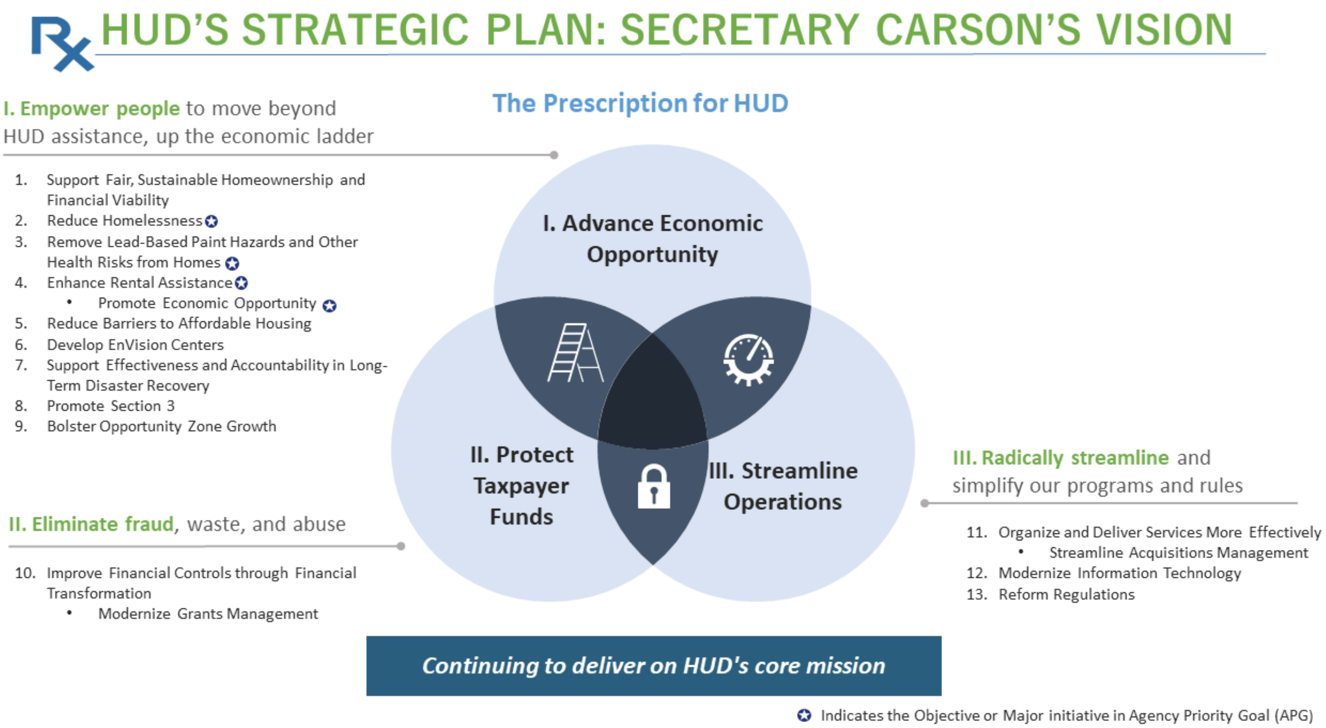
HUD has lessened the likelihood of waste, fraud, and abuse in Lifeline, a Federal Communications Commission (FCC) program that extends communications services to low-income subscribers. In 2016, HUD began processing eligibility certifications on behalf of HUD residents. This resulted in the creation of the Lifeline National Eligibility Verifier (**National Verifier**), a centralized system to determine whether a subscriber is eligible for Lifeline. Additionally, the National Verifier closed one of the main avenues that has historically led to fraud and abuse in the Lifeline program: Lifeline providers determining subscriber eligibility.

Click here to learn more about the National Verifier

Performance Goals, Objectives, and Results

HUD's FY 2018-2022 Strategic Plan defines the Department's strategic goals and objectives. The Department's annual targets for achieving its strategic goals and objectives include major milestones and performance indicators, as published in the FY 2021 Annual Performance Plan (APP) and FY 2019 APR. HUD focused on four FY 2020-2021 Agency Priority Goals (APGs). This portion of the FY 2020 AFR focuses on HUD's progress towards achieving APGs.[1] A partial summary of progress for FY 2020-2021 APGs can be found below.[2]

The Prescription for HUD



[1] APGs do not reflect the full scope of HUD's strategic goals and mission. APGs highlight Departmental Leadership's highest policy and programmatic priorities in two-year increments.
[2] For a complete review of HUD's FY 2020 performance, please see the FY 2020 APR, which is scheduled to be published in February 2021. Current and past APRs can be accessed online at: www.hud.gov/program_offices/spm/appr.

I: Advance Economic Opportunity: HUD is advancing economic opportunity for low-income families through homeownership, rental assistance, workforce training, educational advancement, and health and wellness programs and services. Strategic policy objectives include:

1. *Support Fair, Sustainable Homeownership, and Financial Viability;*
2. *Reduce Homelessness;* ✪
3. *Remove Lead-Based Paint Hazards and Other Health Risks from Homes;* ✪
4. *Enhance Rental Assistance;* ✪
    - *Major Initiative: Promote Economic Opportunity* ✪
5. *Reduce Barriers to Affordable Housing;*
6. *Develop EnVision Centers;*
7. *Support Effectiveness and Accountability in Long-Term Disaster Recovery;*
8. *Promote Section 3; and*
9. *Bolster Growth in Opportunity Zones.*

- Indicates the Strategic Objective or Major Initiative is an APG.

HUMANS OF HUD SPOTLIGHT:
Raquel – Oklahoma City, OK

"HUD and the Metropolitan Fair Housing Council of Oklahoma [MFHC] helped to improve my life and the lives of my children. Being a single mother, the worst fear is not feeling safe in your home and not being able to protect your family. MFHC took a stand with me to stop sexual harassment from landlords, and I will continue to stand and fight for woman's rights." – **Raquel**

Read her story here

II: Protect Taxpayer Funds: HUD is focused on reducing fraud, waste, and abuse of taxpayer dollars. HUD is improving its processes and policies with the goal of meeting its reporting requirements while complying with laws and regulations related to all financial matters. Efforts focus on the strategic management objective to:

10. *Improve Financial Controls through Financial Transformation.*
    - *Major Initiative: Modernize Grants Management*

III. Streamline Operations: HUD is streamlining rules and simplifying its operations to better serve its customers. The Department is exploring ways to strengthen coordination among program offices in Headquarters and the field to ensure front-line employees are empowered to respond effectively to customer needs. Improvement activities focus on the strategic management objectives to:

11. *Organize and Deliver Services More Effectively;*
    - *Major Initiatives: Streamline Acquisition Management*
    - *Cross Agency Priority Goal 6: Shift from Low-Value to High-Value Work*
12. *Modernize Information Technology; and*
13. *Reform Regulations*

APG: Reduce Homelessness

As of September 2019, more than 77 communities and three states have declared an effective end to veteran homelessness, and four communities have ended chronic homelessness. HUD will push to continue this movement by applying lessons learned from its work on veteran homelessness and best practices from local communities that are rolling out innovative, cost-effective solutions on a national scale. This will include sharing knowledge across communities through several targeted technical assistance efforts, each customized to serve the target community and population.

HUD continues to provide targeted community technical assistance to implement initiatives for households moving from permanent supportive housing to other subsidized rental assistance, as well as for unsheltered and rural populations. HUD has been able to consolidate many functions in the Continuum of Care (CoC) Program competition to reduce burdens on applicants and continues to look for opportunities to streamline activities. An estimated $2.2 billion in grants from the CoC Program were announced in January 2020 and $118 million in March 2020. A total of approximately 7,000 awarded grants will allow communities nationwide to address homelessness. HUD also began efforts on protecting people who are at risk of and/or experiencing homelessness from COVID-19. HUD is working closely with federal partners, especially CDC, and other national, state, and local partners to understand how best to serve the homeless amidst this pandemic and share that information with as many stakeholders as possible. HUD is also working with grantees to provide guidance, communicate best practices, and address community questions about how to safely respond to COVID-19. HUD is also providing a direct, one-on-one Technical Assistance (TA) approach targeted to communities with the highest risks of COVID-19 outbreaks due to the size of the homeless population. The TA strategy has focused initially on preventing or minimizing COVID-19 outbreaks among those experiencing homelessness, but it also has a long-term strategy to assist communities in maximizing the use of stimulus funds to rehouse persons experiencing homelessness.

APG: Remove Lead-Based Paint and Other Health Risks from Homes

By the end of March 2020, OLHCHH's lead hazard control grantees made 1,881 older low-income housing units lead safe, and CPD's Community Development Block Grant and HOME programs made 4,427 older housing units lead safe by implementing HUD's Lead Safe Housing Rule. OLHCHH awarded cooperative agreements to ten universities and public health organizations under its FY 2019 Lead and Healthy Homes Technical Studies Grant Programs to improve methods for identifying and controlling residential health risks including lead-based paint, mold, and other indoor contaminants.

HUMANS OF HUD SPOTLIGHT:

Luz – Puerto Rico

In 2017, Hurricane Maria destroyed **Luz** and her husband Santos' home in Cupey, San Juan, Puerto Rico. While seeking help at a FEMA Disaster Recovery Center, they met a HUD representative that told them about St. Mary's Home for the Elderly, where they then decided to move after the storm. HUD has allocated $20 billion in Community Development Block Grants-Disaster Recovery funding to help Puerto Rico recover after the 2017 hurricanes.

Read her story here

To further streamline its grant processes, OLHCHH became a founding member of the multi-office and multi-agency Interagency Collaboration on Weatherization Eligibility, seeking to harmonize and simplify eligibility determinations for families and housing owners seeking assistance under multiple federal housing programs. In support of the Federal Action Plan to Reduce Childhood Lead Exposures and Associated Health Impacts issued by the President's Task Force on Environmental Health Risks and Safety Risks to Children, OLHCHH co-chaired the work group that designed and implemented the multi-agency Federal Lead Action Plan Research Workshop. It communicated its lead safety research progress to date; identified research gaps and opportunities; prioritized next steps to leverage, coordinate, and further implement the research goal associated with the Action Plan's activities; and delivered several presentations at the workshop.

APG: Enhance Rental Assistance

HUD continued efforts to enhance and reform its rental assistance programs by providing sustainable models to empower communities in addressing local affordable housing needs. Overall, from FY18 Q1 through the end of FY20 Q2, HUD has transitioned 82,173 units. In FY20 Q2, 3,613 public housing units were repositioned through the Rental Assistance Demonstration (RAD); Demolition/Disposition approvals totaled 3,178 units; and DOT Releases/Conversions totaled 201.

Providing Technical Assistance (TA) to PHAs is a critical component in meeting HUD's repositioning goals. HUD has held several webinars on specific issues related to repositioning and has more planned. TA providers will produce a 45-minute video intended to introduce Boards to repositioning public housing units. For FY20, HUD had ten on-site trainings scheduled from March-December 2020. Due to COVID-19, most of these in-person trainings have been moved to later in the calendar year.

HUD's ability to assess metrics associated with this APG has improved exponentially. HUD leveraged an existing business analytics contract to build an enhanced data analytics dashboard for use in FY20. This dashboard was completed on schedule in Q2 and will periodically be updated and tested to ensure its reliability.

APG: Promote Economic Opportunity for HUD-Assisted Residents

Through Secretary Carson's leadership in the White House Opportunity and Revitalization Council, HUD is increasing interagency collaboration focused on improving economic opportunity and self-sufficiency for HUD-assisted residents. Setting a goal to achieve self-sufficiency and developing a way to measure the success of that goal will allow HUD to serve more families over time with its limited resources. However, HUD does not currently have the data to quantify how many families are leaving its rental assistance programs due to improved economic circumstances. HUD is conducting an exit survey as part of the Rent Reform Demonstration to obtain more information about exit outcomes and inform strategies for improving administrative collection of data. Similar data collection is planned for the Family Self-Sufficiency Demonstration. In the meantime, as a proxy, HUD is tracking the percentage of households leaving the Housing Choice Voucher Program with their income-based rental subsidy needs at or near zero. The research projects proposed in HUD's draft "Research Roadmap" learning agenda include several initiatives intended to improve tracking of households after exit, assess the prevalence of good outcomes after exit, and better understand which households are on track for positive exits.

HUMANS OF HUD SPOTLIGHT:

Kourtney – Louisville, KY

Kourtney's apartment at the Family Scholar House has provided her with support and encouragement from neighbors and allowed her to focus on school and raising her children without having to worry about housing or paying rent. The Family Scholar House received $6.3 million in HUD funding as well as Housing Choice Vouchers (HCV) through the Louisville Metro Housing Authority for the current 279 residents on their five campuses. The HCV program partners with local public housing authorities to help low-income individuals and families find affordable housing in the private market. HUD invested over $20 billion in the HCV program to help people like Kourtney find an affordable place to live.

Read her story here

Other Secretarial Priorities[3]

Reduce Barriers to Affordable Housing: In June 2019, the President issued *Executive Order 13878, "Establishing the White House Council on Eliminating Barriers to Affordable Housing,"* designating the HUD Secretary as Chair of the Council.

HUD has worked to support the implementation of Executive Order 13878 in several ways. HUD conducted three roundtables on reducing regulatory barriers with stakeholder groups from development finance, construction, and land use. HUD procured four white papers on topics for reducing regulatory barriers. A Request for Information (RFI) seeking public comment on eliminating barriers to affordable housing was published. HUD also received and reviewed over 325 public responses from the RFI on eliminating regulatory barriers to affordable housing.

HUMANS OF HUD SPOTLIGHT:

Luis – San Diego, CA

Luis served in the U.S. Navy for 18 years. When he returned, he battled against unemployment and eventually, homelessness, living on the streets of San Diego, CA. With the help of the Department of Veterans Affairs and the San Diego Housing Commission, Luis became one of the first residents of Hotel Churchill, a historic building housing more than 50 fellow service veterans.

Read his story here

Bolster Growth in Opportunity Zones: Opportunity Zones facilitate investment in distressed communities to allow low-income areas to tap into the gains of a prospering economy. An Opportunity Zone is defined as "an economically-distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment." HUD aims to support Opportunity Zones by pursuing the following strategies: 1) Integrate support for Opportunity Zone investment into HUD programs; and 2) Integrate Opportunity Zone investment into HUD rules, regulations, and guidance. HUD chairs the White House Opportunity and Revitalization Council, through Secretary Carson. The Council is charged with carrying out the Administration's plan to encourage public and private investment in urban and economically distressed areas, including qualified Opportunity Zones. Through the Council, HUD leads federal efforts to engage state, local, and tribal governments to better use public funds to revitalize economically distressed communities. HUD is also hosting the new Opportunity Zone website for the Council, which launched on October 1, 2019. The Council has been asked by President Trump to refocus its attention on the COVID-19 pandemic, especially as it has taken a

[3] Additional Secretarial Priorities can be found in the following link: https://www.hud.gov/program_offices/spm/appr

toll on America's underserved communities. The response to the pandemic has been the focus of the Council as of April 2020. The Council is gathering legislative proposals from its agencies. HUD and the Council will work to offer economic relief to those most in need, while continuing to promote the nation's 8,764 Opportunity Zones and ensure the success of the Opportunity Zones initiative.

Develop EnVision Centers[4]: The EnVision Centers initiative is a demonstration that supports the creation of centralized hubs located on or near public housing developments that focus service delivery for the four key pillars of self-sufficiency: 1) economic empowerment, 2) educational advancement, 3) health and wellness, and 4) character and leadership. These Centers focus on the implementation of a collaborative, interagency working model. Currently, 44 EnVision Centers have been designated, servicing close to 49,000 people. Additionally, HUD has partnered with 25 agencies, including federal, state, local, and non-profit in providing EnVision Center services. So far in FY20, over 650 meetings have been held with designated EnVision Centers and HUD staff in an ongoing effort to enhance the centers' ability in implementing centralized services and providing technical assistance to EnVision Centers needing additional support.

HUMANS OF HUD SPOTLIGHT:

Adaora – College Park, MD

Adaora received a voucher through the Housing Choice Voucher Program, which assists low-income families, the elderly, and the disabled in affording decent, safe, and sanitary housing in the private market. Assistance through this program allowed her to focus on her family and not the burden of finding affordable housing.

View her story here

[4] More information on EnVision Centers can be found here: https://www.hud.gov/envisioncenters

Analysis of Financial Statements and Stewardship Information

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

The principal financial statements are prepared to report the financial position, financial condition, and results of HUD's operations, pursuant to the requirements of *31 U.S.C §3515 (b)*. The statements are prepared from records of federal entities in accordance with federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor, and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

This part provides a summary of HUD's:

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

Summarized Financial Data		
(Dollars in Billions)	**2020**	**2019**
Total Assets	$262.2	$217.6
Total Liabilities	$55.3	$43.1
Net Position	$206.9	$174.5
Total Budgetary Resources	$269.9	$235.1
FHA Insurance-In-Force [5]	$1,462.0	$1,454.0
GNMA Mortgage-Backed Securities Guarantees [6]	$2,117.7	$2,092.8
Other HUD Program Commitments [7]	$60.3	$52.3

In FY 2020, HUD's Consolidated Financial Statements and Notes are not shown in comparative format, which is a departure from OMB Circular A136. For additional information about HUD's single year presentation, refer to Note 1, Basis of Accounting and Presentation in the Financial Section 2 of the AFR.

HUD continues to make significant strides in improving its overall internal control processes over financial reporting. HUD has continued to work diligently over this past year to improve the integrity of

[5] See HUD AFR, Note 7(J1 and J2) – FHA Only

[6] See HUD AFR, Note 25

[7] See HUD AFR, Note 20 (Unpaid Obligations)

its financial data by putting additional controls in place through the financial management transformation initiative. Some of those controls included the continual strengthening of cross collaboration throughout HUD; increasing special purpose work groups to identify areas requiring refinement; and implementing new processes to ensure financial data integrity and compliance with regulatory requirements. As a result of the continual progression of the financial management transformation momentum, HUD was able to identify and correct errors to avoid material misstatements to HUD's financial statements and notes. The correction of errors is related to (1) the "Outstanding Principal Guaranteed Loans" balance on the "All Other" line specifically for the Indian Housing Loan Guarantee (IHLG) Fund and (2) Leasehold Improvements. Additional details are outlined in Note 1, Correction of Errors in the Financial Section 2 of the AFR.

HUD also made a change in accounting principle in FY 2020 for FHA's reporting of accounts receivable and accounts payable related to direct loans and loan guarantees subject to the Federal Credit Reform Act (FCRA). For additional information about the FHA change in accounting principles, see Note 1, Changes in Accounting Principle in the Financial Section 2 of the AFR.

COVID-19

HUD was also confronted with the financial impact of the novel strain of the Coronavirus, also known as COVID-19, which was declared a pandemic by the World Health Organization and a national emergency in the United States on March 13, 2020.

In response to the pandemic, the United States Congress passed a series of bills including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19.

HUD was appropriated CARES Act funding, under Public Law 116-136, in the amount of $12.4 billion to prevent, prepare for, and respond to Coronavirus, including to provide additional funds to maintain normal operations and cover other necessary authorized activities during the period that the programs are impacted by the Coronavirus. The following HUD programs received funding: (1) Community Planning and Development (CPD) Programs $9.1 billion – Community Development Fund, Homeless Assistance Grants and Housing Opportunities for People with AIDS; (2) Public Indian Housing (PIH) Programs $2.2 billion – Tenant-Based Rental Assistance, Public Housing Operating Fund, and Native American Program; (3) Housing $1.1 billion – Project-Based Rental Assistance, Housing for the Elderly and Housing for Persons with Disabilities; (4) Fair Housing and Equal Opportunity (FHEO) Program $2.5 million – Fair Housing Activities; (5) Management and Administration $35 million – Administrative Support Offices and Program Offices; and (6) Office of Inspector General $5 million. As of September 30, 2020, the impact of the CARES Act funding increased HUD's Total Assets by $10.9 billion, Total Liabilities by $8.4 million, Net Position by $10.9 billion, Total Gross Costs by $1.6 billion, and Net Outlays were $2.3 billion.

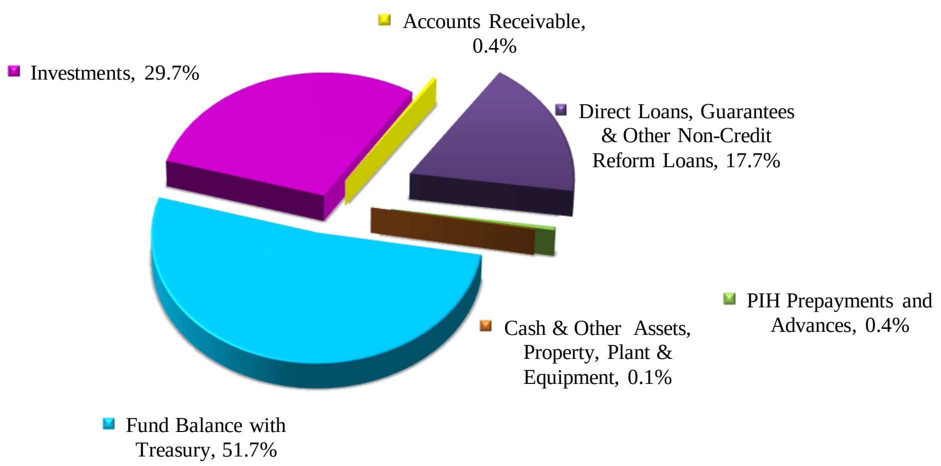
In addition to HUD receiving the CARES Act appropriations, GNMA was granted borrowing authority. On April 1, 2020, GNMA entered into an indefinite borrowing agreement with the Department of the Treasury with initial borrowing authority of $8.7 billion contingent upon an initial transfer of spending authority of $3 billion from the Capital Reserve. While indefinite borrowing authority is granted to GNMA in permanent law (pursuant to the National Housing Act), this borrowing agreement is intended to support the COVID-19 Pass-Through Assistance Program (PTAP). For additional information, see Note 27, COVID-19 activity in the Financial Section 2 of the AFR.

Analysis of Financial Statements

Assets – Major Accounts

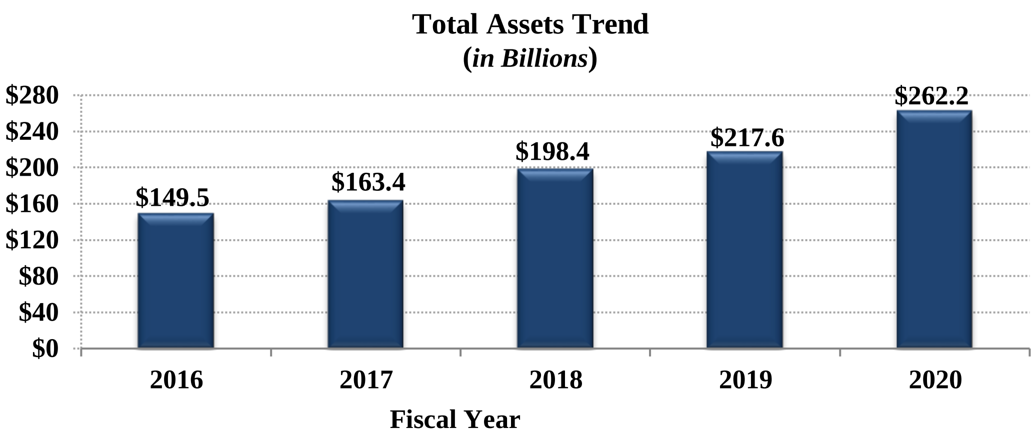
Total Assets for FY 2020, as reported in the Consolidated Balance Sheet, are displayed in the chart below. Total Assets of $262.2 billion are comprised of Fund Balance with Treasury of $135.6 billion (51.7 percent), Investments of $77.8 billion (29.7 percent), Accounts Receivable of $1.1 billion, Direct Loans & Loan Guarantees and Other Non-Credit Reform Loan of $46.3 billion (17.7 percent), PIH Prepayments and Advances of $1.2 billion, and Cash & Other Monetary Assets, Other Assets and Property, Plant & Equipment of $0.2 billion at September 30, 2020.

Composition of HUD Assets - FY 2020



Total Assets increased by $44.6 billion (20.5 percent) from $217.6 billion as of September 30, 2019. The net increase was due primarily to an increase of $24.8 billion (22.4 percent) in Fund Balance with the Treasury, an increase of $11.6 billion (17.6 percent) in Investments, an increase of $0.6 billion (107.4 percent) in Accounts Receivable, an increase of $7.3 billion (19.6 percent) in Direct Loans & Loan Guarantees, an increase of $0.5 billion (87.3 percent) in PIH Prepayments and Advances, and an increase of $0.1 billion (61.2 percent) in General Property Plant and Equipment offset by a decrease of $0.3 billion (10.9 percent) in Other Non-Credit Reform Loans.

The chart below shows Total Assets for FY 2020 and the four preceding years. The changes and trends affecting Total Assets are discussed in the subsequent paragraphs.



Fund Balance with Treasury of $135.6 billion represents HUD's aggregate amount of funds available to make authorized expenditures and pay liabilities. Fund Balance with Treasury increased by $24.8 billion due primarily to an increase of $4.0 billion for FHA, an increase of $9.1 billion for GNMA, an increase of $1.1 billion for Section 8, an increase of $3.2 billion for CDBG, an increase of $0.5 billion for HOME, an increase of $4.5 billion for Homeless, an increase of $1.1 billion for Public and Indian Housing (PIH), and an increase of $1.3 billion for All Other. The FHA increase is due primarily to an increase in activity of $5.9 billion in the MMI/CMHI Capital reserve fund offset by a decrease in activity of $2.0 billion in the GI/SRI Financing account. GNMA's Fund Balance with Treasury increase is comprised of (1) $7.4 billion in non-expenditure transfers (NETs) between the Capital Reserve Account (where capital is held in Treasury Overnight Securities), the existing Financing, Program, and the new Pass-Through Assistance Program (PTAP) accounts (where capital is held as Fund Balance with Treasury); (2) $1.6 billion in offsetting collections from Guaranty, Commitment, and Multiclass fees; (3) $0.3 billion from Other Non-Credit Reform loan interest and net repayments; and offset by (4) $0.3 billion in administrative and MBS program expense. The increases in Fund Balance with Treasury of $11.8 billion for HUD Proper programs (all non-FHA and non GNMA programs) are primarily attributable to the funds received from the COVID-19 response through the CARES Act in the 2nd Quarter of FY 2020. For additional information on amounts appropriated and the related programs, see Note 27, COVID-19 Activity in the Financial Section 2 of the AFR.

Investments of $77.8 billion consist primarily of investments by FHA's MMI/CMHI fund and by GNMA in non-marketable, intra-governmental, Treasury securities (i.e., investments not sold in public markets). FHA's investments increased by $18.9 billion due primarily to a large net downward re-estimate of $10.9 billion plus a negative subsidy of $7.1 billion that was transferred from the Financing Account to the Capital Reserve Account and subsequently invested. Accrued interest also increased by $0.3 billion because of the increase in investments. GNMA's investments decreased by $7.3 billion as a result of the liquidation of Treasury Securities and transfer out of cash reserves from the Capital Reserve to the Financing, Program and PTAP accounts to fund MBS guarantee program activity offset by a decrease in investment interest income collections of $0.1 billion. This amount was lower than in FY 2019 due to lower interest rates on daily overnight securities.

Accounts Receivable of $1.1 billion primarily consists of FHA premiums, partial claims and generic debt receivables, GNMA Fees, Interest Receivables, Reimbursable Cost Receivables, Criminal Restitutions, and Other. FHA's increase of $0.8 billion is because of the updated guidance in the Treasury Financial Manual (TFM) of the United States Standard General Ledger (USSGL) for reporting account receivables and account payables related to direct loans and loan guarantees subject to the Federal Credit Reform Act (FCRA). Under the new accounting guidance, FHA may record accounts receivable as an increase and accounts payable as a decrease directly to the Loan Guarantee Liability (LGL). FHA implemented this new guidance in FY 2020. Because of this change, FHA's accounts receivable balance increased in FY 2020 because they were no longer offset by contra-asset accounts. Refer to Note 1, Changes in Accounting Principle in the Financial Section 2 of the AFR for further explanation.

Direct Loan and Loan Guarantees of $44.3 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 $7.4 billion (20.7 percent) is primarily due to an increase in Single Family (SF), Multifamily (MF)/Healthcare (HC) and HECM receivable activity of $8.4 billion in the Mutual Mortgage Insurance (MMI)/ Cooperative Management Housing Insurance (CMHI) and the General Insurance (GI)/Special Risk Insurance (SRI) accounts. The increase was offset by net decreases of $0.7 billion in allowance for subsidy and foreclosed property of $0.5 billion.

Other Non-Credit Reform Loans of $2.1 billion consist of GNMA's Mortgage Loans Held for Investment, Advances, PTAP Issuer Advances, Properties Held for Sale, and Claims Receivable. GNMA's balance decreased by $0.3 billion primarily from normal paydown activities of the reperforming modified loans.

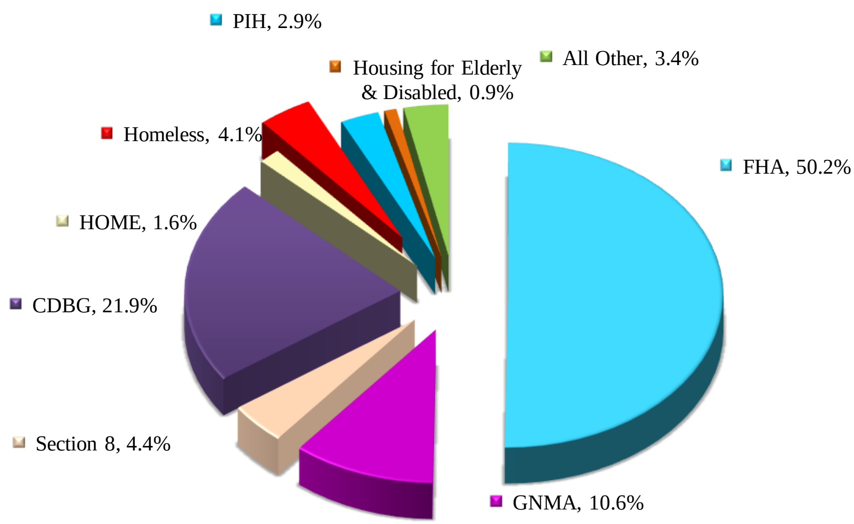
PIH Prepayments and Advances of $1.2 billion are the Department's estimates of Restricted Net Position (RNP) balances maintained by Public Housing Authorities under the Housing Choice Vouchers Program and IHBG Investments. RNP balances represent cash reserves held by Public Housing Authorities (PHAs) 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. The balance in PIH Prepayments is primarily due to an increase in Tenant Based Rental Assistance of $0.8 billion due to COVID-19, CARES Act.

Other Assets (Cash & Other Monetary Assets, Other Intragovernmental Assets, and Property, Plant & Equipment) of $0.3 billion is primarily comprised of IUS, furniture and fixtures, and other assets.

Assets – Major Programs

The chart below presents Total Assets for FY 2020 by major responsibility segment or program.

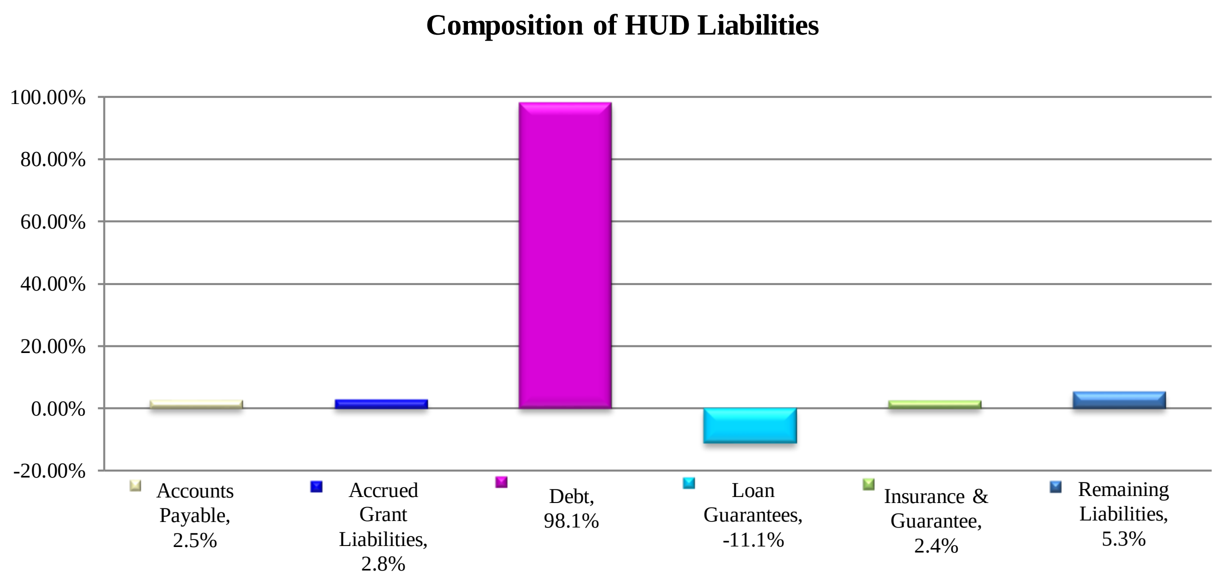
Assets by Responsibility Segment



Liabilities – Major Accounts

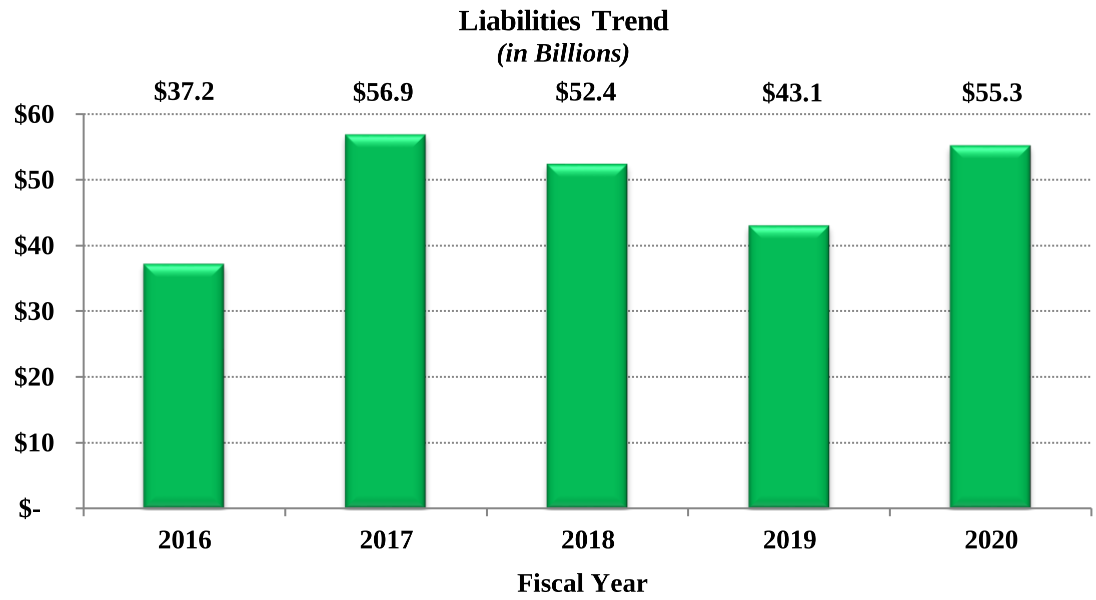
Total Liabilities of $55.3 billion consist of Intragovernmental Debt in the amount of $54.2 billion (98.1 percent), Accounts Payable of $1.4 billion (2.5 percent), Accrued Grant Liabilities of $1.5 billion (2.8 percent), Insurance and Guarantee Program Liabilities of $1.3 billion (2.4 percent), Remaining Liabilities of $3.0 billion (5.3 percent), and an offset Loan Guarantees of $6.1 billion (11.1 percent) at September 30, 2020.

Total Liabilities for FY 2020, as reported in the Consolidated Balance Sheet, are displayed in the chart on the next page.



The increase of $12.2 billion from FY 2019 to FY 2020 is due primarily to an increase of $21.8 billion in Intragovernmental Debt, an increase of $0.5 billion in Accounts Payable, an increase of $0.4 billion in Insurance and Guarantee Program Liabilities, an increase of $0.2 billion in Accrued Grant Liabilities offset by a decrease of $8.7 billion in Loan Guarantees, a decrease of $1.8 billion of Intragovernmental Liabilities, and a decrease of $0.2 billion in Other Liabilities.

The chart below presents Total Liabilities for FY 2020 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 (LGL) consists of the Liability for Loan Guarantees (LLG) related to credit reform loans made after October 1, 1991 and the loan loss reserves (LLR) for pre-1992 loan guarantees. LLG is comprised of the present value of anticipated cash outflows for defaults such as claim payments, premium refunds, property expense for on-hand properties, and sales expense for sold properties less anticipated cash inflows such as premium receipts, proceeds from property sales, and principal interest on Secretary-held notes. The $8.7 billion decrease from FY 2019 to FY 2020 was due primarily to a decrease of $8.7 billion in FHA's LGL re-estimates. The $0.8 billion Single Family Forward LLG decrease and the $9.0 billion HECM LLG decrease were mostly due to changes in the actuarial methodology, more favorable economic forecasts, and changes in actual loan performance in the MMI fund. There were also decreases in the LLG estimates in the GI/SRI funds for the Single Family Forward and HECM that contributed to the overall decrease in those program areas. For Multifamily/Healthcare, the $1.0 billion increase in the LLG occurred mostly in the GI/SRI funds. Refer to Note 7, Direct Loans and Loan Guarantees, in the Financial Section 2 of the AFR for further explanation.

Further explanation for the decrease in FHA's LLG is because in FY 2020, Treasury updated guidance in the TFM of the USSGL for reporting account receivables and account payables related to direct loans and loan guarantees subject to the FCRA. Prior to FY 2020, Treasury permitted FHA to offset account receivables and account payables with contra-asset and contra-liability accounts, respectively, so that its net assets would not be overstated. The new transactions from Treasury for account receivables and account payables related to direct loans and loan guarantees enabled FHA to discontinue using the contra-asset and contra-liability accounts. Under the new accounting guidance, FHA may record accounts receivable as an increase and accounts payable as a decrease directly to the Loan Guarantee Liability (LGL). FHA implemented this new guidance in FY 2020. For additional information about FHA's change in accounting principles, see Note 1, Change in Accounting Principle in the Financial Section 2 of the AFR.

Debt includes Intragovernmental Debt of $54.2 billion. The Intragovernmental Debt is primarily the result of FHA's principal debt with the Treasury. FHA's $21.8 billion (67.4 percent) increase is due primarily to an increase in net borrowing of $21.4 billion in the MMI/CMHI and GI/SRI financing funds to cover future claims and $0.4 billion in the GI Direct Loan financing fund. FHA borrowed because there was not enough cash in the fund to cover this large outlay while still maintaining the ability to cover future claims.

Accounts payable balance of $1.4 billion includes $0.8 billion for FHA and $0.6 billion for all others. FHA's increase of $0.3 billion is primarily because of the updated guidance in the TFM of the USSGL for reporting account receivables and account payables. Under the new accounting guidance, FHA may record accounts payable as a decrease directly to the Loan Guarantee Liability (LGL). FHA implemented this new guidance in FY 2020. Because of this change, FHA's account payables increased in FY 2020 because they were no longer offset with contra-liability accounts. See Note 1, Changes in Accounting Principle in the Financial Section 2 of the AFR for further explanation.

Insurance and Guarantee Program Liabilities consist of $1.3 billion. Prior to FY 2020, GNMA did not break out Insurance and Guarantee Program Liabilities as a separate line item and included this balance in

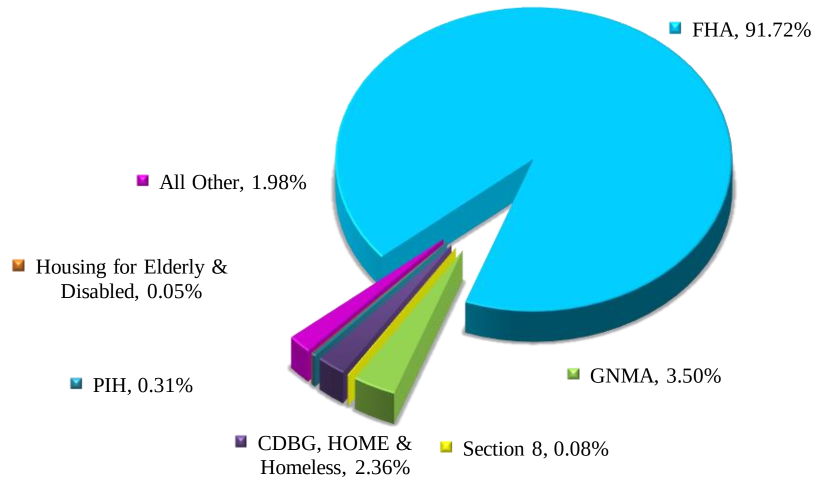
Other liabilities. On August 27, 2020, the updated OMB Circular A-136 included a new illustrative balance sheet (Option C) that separated Insurance and Guarantee Program liabilities from Other liabilities. GNMA implemented the Option C balance sheet in Quarter 4 of FY 2020.

Remaining Liabilities of $4.5 billion consist of Other Intragovernmental Liabilities, Accrued Grant Liabilities, Federal Employee and Veteran Benefits, and Other Liabilities. The $4.5 billion primarily consist of $2.0 billion for FHA, $0.5 billion for GNMA, and $1.9 billion for All Others. FHA decreased by $1.7 billion in Other Intragovernmental Liabilities, primarily due to a decrease in the year-end downward re-estimates for the GI/SRI accounts. All Other Liabilities decreased by $0.2 billion primarily due to a decrease in the General Fund Proprietary receipts.

Liabilities – Major Programs

The chart below presents Total Liabilities for FY 2020 by responsibility segment.

Liabilities by Responsibility Segment



Changes in Net Position

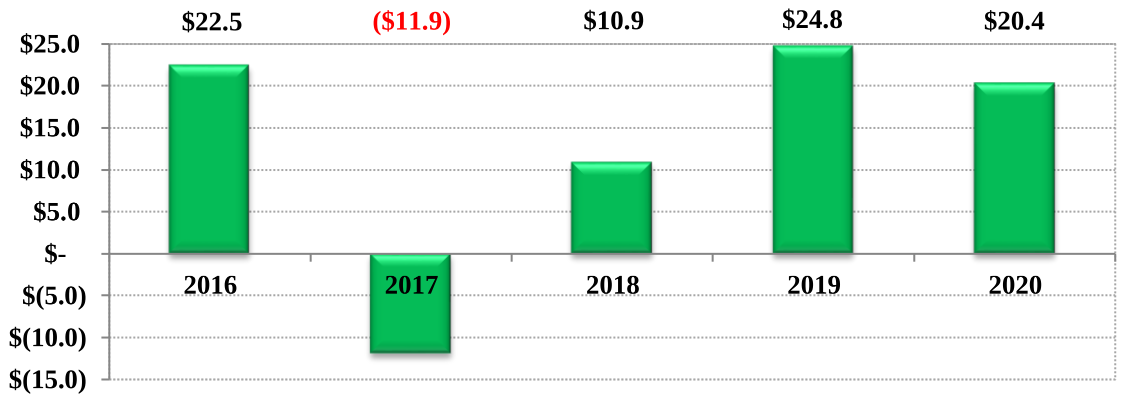
Changes in Unexpended Appropriations, Net Cost of Operations, and Financing Sources combine to determine the Net Position at the end of the fiscal year. The elements are further discussed below. Net Position as reported in the Consolidated Statement of Changes in Net Position reflects an increase of $32.4 billion (18.6 percent) from the prior fiscal year. The net increase in Net Position is primarily attributable to a $11.7 billion increase in Unexpended Appropriations and a $20.4 billion increase in Cumulative Results of Operations.

The overall increase in Unexpended Appropriations and Net Position for All funds is primarily due to the increase in Fund Balance with Treasury for the CARES Act funding received in the 2nd Quarter of FY 2020.

The combined effect of HUD's Net Cost of Operations and Financing Sources resulted in Net Results of Operations of $20.4 billion during FY 2020, a decrease of $4.4 billion from the prior fiscal year. Net Cost of Operations increased by $7.7 billion from the prior fiscal year and Total Financing Sources increased by $3.3 billion. FHA's Net Cost increased by $4.4 billion primarily due to an increase in SF's gross cost of $7.8 billion and an increase of $1.1 billion in MF's gross cost offset by decreases of $4.0 billion in HECM gross cost and $0.2 billion in Health Care gross cost. HUD Proper's increase in Net Costs of $3.7 billion is primarily due to program expenses as follows: $2.1 billion in Tenant Based Rental Assistance, $0.7 billion in Project Based Rental Assistance, $0.4 billion in CDBG, $0.4 billion in Homeless Assistance Grants, and $0.2 billion in Public Housing Operating Fund offset by decreases of $0.1 billion in the Home Investment Partnerships Program. Increases in net costs for HUD's new program Salary and Expense (S&E) fund are offset by decreases in HUD's former program S&E funds.

The chart below presents HUD's Net Change in Cumulative Results of Operations for FY 2020 and the four preceding years.

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



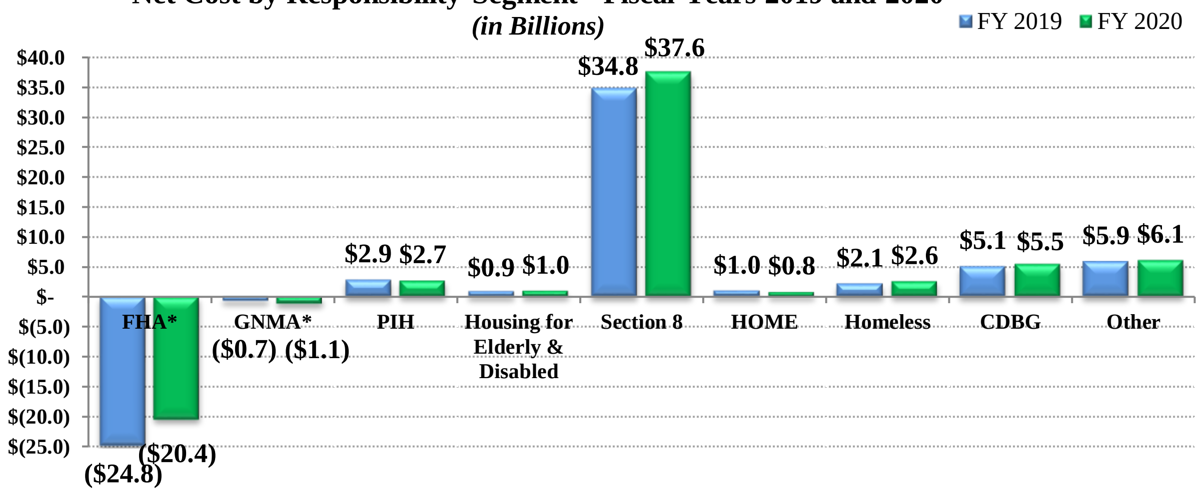
Fiscal Year

Unexpended Appropriations: As shown in HUD's Statement of Changes in Net Position, HUD's Unexpended Appropriations for FY 2020 totaled $98.0 billion. The increase of $11.7 billion (13.6 percent) is due primarily to increases of $3.0 billion in the CDBG program, $1.3 billion in the PIH programs, $1.6 billion in the Section 8 programs, and $4.2 billion in the Homeless programs with additional expenditures of $0.5 billion in the HOME program and $1.1 billion for All Other Programs. The overall increase is primarily due to COVID-19, CARES Act funding in the 2nd Quarter of FY 2020. Refer to Note 27, COVID-19 in the Financial Section 2 of the AFR for further explanation.

Financing Sources: As shown in HUD's Statement of Changes in Net Position, HUD's financing sources for FY 2020 totaled $55.1 billion. This amount is comprised primarily of $57.8 billion in Appropriations Used offset by approximately $2.7 billion in other financing sources.

The chart below presents HUD's Total Net Cost for FY 2019 and FY 2020 by responsibility segment.

Net Cost by Responsibility Segment - Fiscal Years 2019 and 2020
(in Billions)



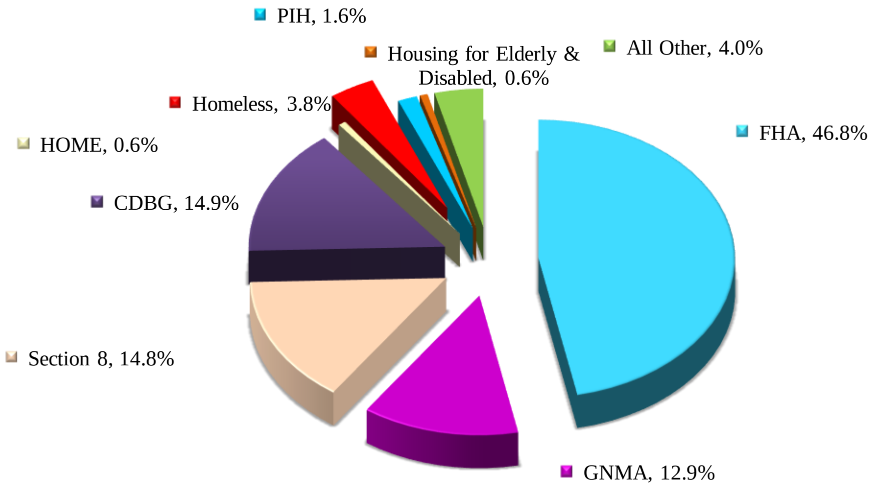
*FHA and GNMA's negative net cost includes negative subsidies.

As shown in the chart, Net Cost of Operations was primarily a result of spending $37.6 billion in support of the Section 8 program (administered jointly by PIH, Housing, and CPD programs). The current fiscal year change in Net Cost for the Section 8 programs was $2.8 billion (8.0 percent) more than the prior fiscal year. FHA's Net Cost increased by $4.4 billion as discussed in previous narrative.

Analysis of Budgetary Resources

Total Budgetary Resources by Responsibility Segment for FY 2020, as reported in the Consolidated Financial statements, are displayed in the chart below.

Budgetary Resources by Responsibility Segment



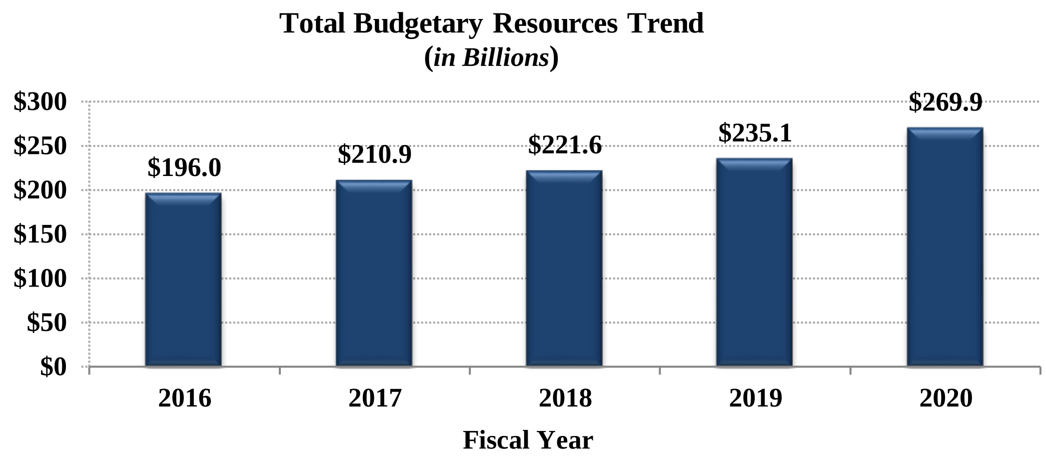
Total Budgetary Resources of $269.9 billion are comprised of $126.5 billion (46.8 percent) for FHA, $34.8 billion (12.9 percent) for GNMA, $40.0 billion (14.8 percent) for Section 8, $40.1 billion (14.9 percent) for CDBG, $1.6 billion (0.6 percent) for HOME, $10.1 billion (3.8 percent) for Homeless, $4.3 billion (1.6 percent) for PIH, $1.7 billion (0.6 percent) for Housing for the Elderly and Disabled, and $10.8 billion (4.0 percent) for All Other.

FHA's Budgetary Resources increased by $14.5 billion. The increase in borrowing authority is primarily due to a $10.6 billion increase in the MMI/CMHI Financing Account. Additional borrowing was required in FY 2020 to maintain liquidity in the MMI fund. There was also an increase in borrowing authority of $2.0 billion in the GI/SRI Guarantee Loan Financing Account offset by a decrease of $0.7 billion in the direct loan financing accounts realized borrowings. In addition, FHA's appropriations decreased primarily due to a decrease of $0.5 billion in appropriations needed for the GI/SRI upward re-estimate.

GNMA's Budgetary Resources increased by $7.4 billion. The increase is primarily due to borrowing authority of $8.7 billion to support the COVID-19 Pass-Through Assistance Program (PTAP) and Unobligated Balance From Prior Year Budget Authority, Net at the beginning of FY 2020, which was $1.3 billion greater than the Unobligated Balance From Prior Year Budget Authority, Net at the beginning of FY 2019. These increases were offset by a decrease in GNMA's Spending Authority from Offsetting Collections due to FY 2020's upward re-estimate that was $2.6 billion less than the upward re-estimate in FY 2019.

The increases in Budgetary Resources of $12.9 billion for HUD Proper programs are primarily related to COVID-19 CARES Act funding received at the end of the 2nd Quarter of FY 2020. Refer to Note 27, COVID-19 in the Financial Section 2 of the AFR for further explanation.

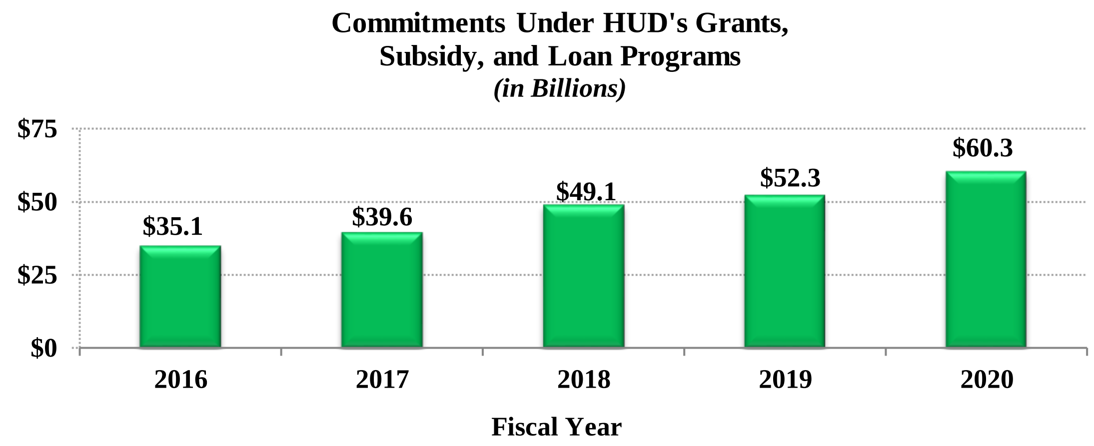
The chart below presents the Total Budgetary Resources Trend for FY 2020 and the four preceding years.



Contractual and Administrative Commitments

HUD's Contractual Commitments of $60.3 billion in FY 2020 represent HUD's commitment to provide funds in future periods under existing contracts for its grant, loan, and subsidy programs. Administrative Commitments (reservations) of $32.0 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 2020 and the four preceding years.

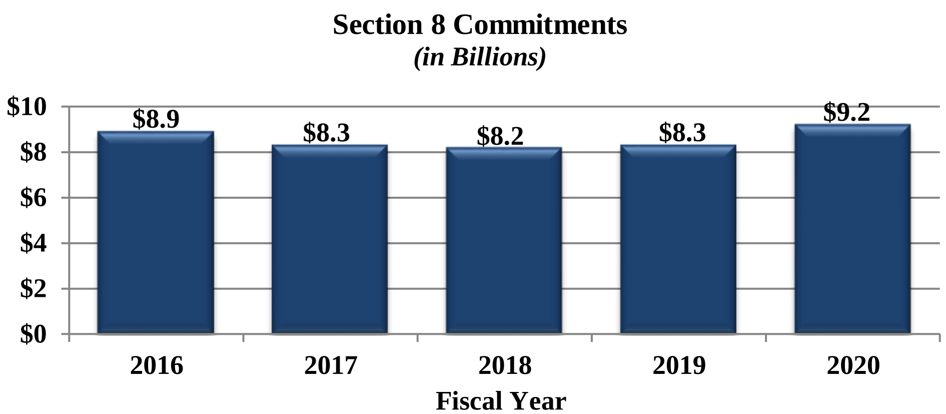


These commitments are funded primarily by a combination of unexpended appropriations and permanent indefinite appropriations, depending on the inception date of the contract. HUD draws on permanent indefinite budget authority to fund the current year's portion of contracts entered prior to

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

Total Commitments (contractual and administrative) increased by $12.0 billion (14.9 percent) during FY 2020. The change is primarily attributable to an increase of $0.6 billion in GNMA, an increase of 0.8 billion in Section 8, an increase of $5.1 billion in CDBG, an increase of $0.5 billion in HOME, an increase of $3.9 billion for Homeless, an increase of $1.4 billion for PIH, and an increase of $0.5 billion in All Other offset by a decrease of $0.7 billion in FHA and a decrease of $0.1 billion in Housing for the Elderly & Disabled.

The chart below presents HUD's Section 8 Contractual Commitments for FY 2020 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.

Analysis of Off-Balance-Sheet Risk

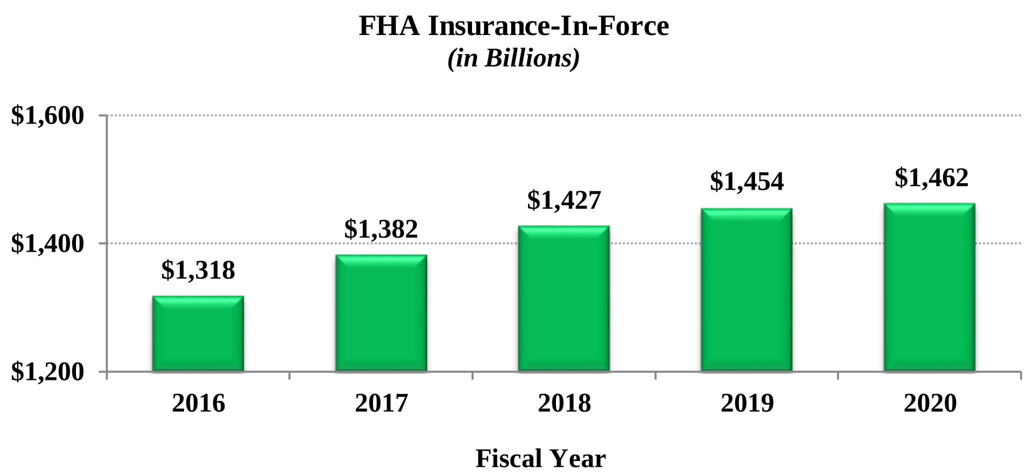
The financial risks of HUD's credit activities are due primarily to managing FHA's insurance of mortgage guarantees and GNMA's guarantees of MBS. Financial operations of these entities can be affected by large unanticipated losses from defaults by borrowers and issuers and by an inability to sell the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

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. FHA's Insurance-In-Force (including the Outstanding Balance of HECM loans) is $1,462.0 billion in FY 2020.

This is an increase of $8.0 billion (0.6 percent) from the FY 2019 FHA Insurance-In-Force of $1,454 billion. The HECM Insurance-In-Force includes balances drawn by the mortgagee, interest accrued on the balances drawn, service charges, and mortgage insurance premiums.

The chart below presents FHA Insurance-In-Force for FY 2020 and the four preceding years.

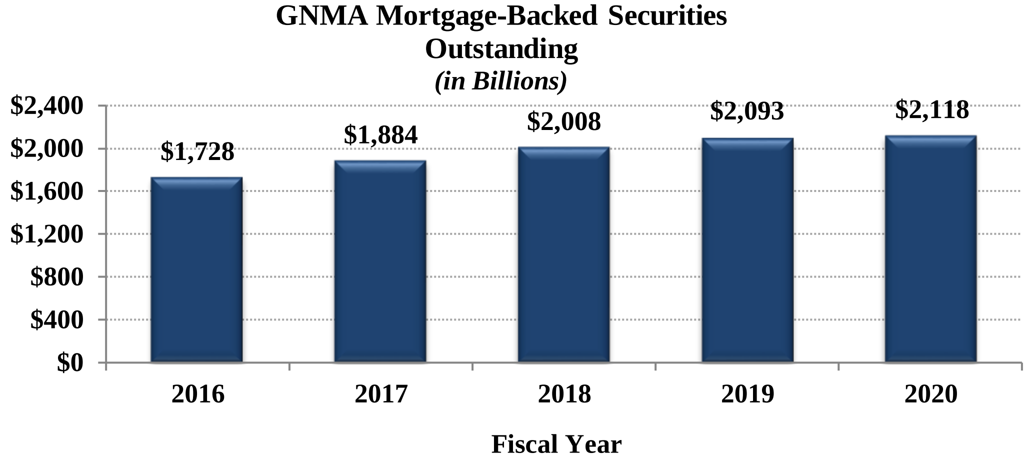


GNMA Guarantees

GNMA financial instruments with off-balance sheet risk include guarantees of Mortgage-Backed Securities (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. GNMA is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of GNMA guaranteed securities outstanding as of September 30, 2020 and 2019 were approximately $2,117.7 billion and $2,092.8 billion, respectively. In the event of default, the underlying mortgages serve as primary collateral, and FHA, USDA, VA and PIH insurance or guarantee indemnifies GNMA for most losses.

During the mortgage closing period and prior to granting its guaranty, GNMA enters into commitments to guarantee MBS. The commitment ends when the MBS are issued or when the commitment period expires. While GNMA's risks related to outstanding commitments are much less than outstanding securities, due in part to the federal guarantee on the underlying portfolio, GNMA 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, 2020 and 2019 were $234.4 billion and $115.7 billion, respectively.

The chart below presents GNMA MBS for FY 2020 and the four preceding years.



Generally, GNMA'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 2020 and FY 2019, GNMA issued a total of $159.4 billion and $128.3 billion, respectively, in its multi-class securities program. The estimated outstanding balance of multiclass securities in the total MBS securities balance as of September 30, 2020 and 2019 were $559.4 billion and $543 billion, respectively. These securities do not subject GNMA to additional credit risk beyond that assumed under the MBS program.

Multi-class securities include:

- **Real Estate Mortgage Investment Conduits (REMICs)** 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 GNMA Platinum security is formed by combining GNMA's MBS pools that have uniform coupons and original terms to maturity into a single certificate.
- **Callable Trusts** – Callable Trusts allow investors to better manage repayment risk and call redemptions at negotiated prices. Call features are attractive to issuers, because they allow them to refinance their debt if interest rates fluctuate.

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.

Previously, HUD's Required Supplementary Stewardship Information (RSSI) was reported in a separate section. In FY 2020, FASAB Standard 57 Omnibus Amendments, eliminated the RSSI category by rescinding FASAB Standard 8, Supplementary Stewardship Reporting. Due to the materiality of HUD's Stewardship Investments, HUD is including these reports in the MD&A Section of the AFR based on OMB Circular A-136 and FASAB Standard 15, Management Discussion and Analysis.

As mentioned in the Notes to the Financial Statements and the MD&A, the Department received funding in FY 2020 as part of the CARES Act to respond to the coronavirus pandemic. Amounts shown in the FY 2020 column of the RSSI tables may include investments funded by the CARES Act. A full disclosure of HUD's CARES Act funding by program and status of budgetary resources is in the AFR Financial Information Section 2 Note (27) COVID-19 Activity.

HUD's stewardship reporting responsibilities extend to the investments made by several 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, if 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.
- **The Housing Trust Fund (HTF**) provides grants to states to increase and preserve affordable housing for extremely low- and very low-income households.
- **Homeless – Continuum of Care (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.
- **Community Compass** provides technical assistance and capacity building to CPD grantees including onsite and remote training, workshops, and 1:1 assistance.
- **Distressed Cities TA** is a new program designed to build the administrative capacity of smaller distressed communities recently impacted by a natural disaster. The focus of this TA includes financial management, economic development, and disaster recovery planning.

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.

SSI 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 2016 through 2020.

Investments in Non-Federal Physical Property
Fiscal Year 2016 – 2020
(Dollars in Millions)

Program	2016	2017	2018	2019	2020
CPD					
CDBG	$996	$992	$1,068	$1,072	$1,085
CDBG-DR [1]	$466	$377	$371	$370	$499
HOME [2]	$14	$10	$9	$14	$10
CoC - Homeless [3]	$3	$2	$0	$1	$0
Housing Trust Fund [4]	$0	$0	$0	$3	$2
NSP [5]	$1	$0	$1	$0	$3
PIH					
ICDBG [6]	$57	$55	$63	$62	$58
NHHBG	$0	$2	$2	$2	$2
IHBG [7]	$247	$280	$188	$224	$61
HOPE VI [8]	$12	$27	$13	$10	$1
Choice Neighborhoods [9]	$70	$49	$48	$67	$78
PH Capital Fund [10]	$1,830	$1,698	$1,792	$2,182	$2,094
TOTAL	**$3,696**	**$3,492**	**$3,555**	**$4,007**	**$3,893**

Notes:

1. The downward trend from FY 2016 through FY 2019 is due to an increase in housing investment and affordable housing development instead of public facilities/non-residential properties. DRSI closed six grants in FY 2017, eleven in FY 2018, two in FY 2019 and two in FY 2020. Three grants in totals of $9.6 billion were added in FY 2020.
2. The impact of COVID19 issues and increased construction costs resulted in decreased production.
3. SNAPS awarded no new CoC Program grants with non-federal physical property in FY2019.
4. The program was first funded in FY 2016. There were no funds drawn for activities that were "Publicly Owned" for FY 2016 - FY 2018. The impact of COVID19 has resulted in less expended funds in FY 2020 than in FY 2019.

5. FY 2017 and FY 2019 amounts are not material to be included in the AFR. In FY 2020, the State of CA spent about 2.1 million of its PI in acquisition, construction, reconstruction of public facilities in the County of San Bernardino. As a result, there are significant changes in FY 2020.
6. Amounts are reported under the fiscal year in which they were appropriated, not necessarily the fiscal year in which they were awarded or expended. Grants funds appropriated in FY 2019 were awarded in FY 2020, as Office of Native American Programs competed a 2-year NOFA (FY 2019 and FY 2020).
7. FY 2018 and FY 2019 amounts have been updated to reflect corrections and updates made to the database since the last report. Amounts expended vary from year to year because annual grant amounts vary depending on funding levels, and grantees are free to expend funds on whatever activities address their current priorities. Due to COVID-19, expenditures significantly decreased in FY 2020.
8. The final HOPE VI appropriation was in 2011. Except for grants awarded before 2001, all HOPE VI funds have been expended or have been canceled and returned to Treasury. Obligations will decrease each year until all HOPE VI grants have exhausted all funds.
9. The increases in FY 2019 and FY 2020 are due to more grantees being further into their grant and completing vertical construction. 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.
10. Positive and negative swings in the Capital Fund appropriations has impacted the expenditure pattern stability in recent years. In FY 2020, the negative fluctuation in Capital Fund expenditures is within range. The amount for FY 2019 has been updated to include expenditures recorded subsequently.

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 table on the next page summarizes material program investments in Human Capital, for fiscal years 2016 through 2020.

Investments in Human Capital
Fiscal Year 2016 – 2020
(Dollars in Millions)

Program	2016	2017	2018	2019	2020
CPD					
CDBG	$21	$32	$30	$34	$32
CDBG-DR [1]	$97	$89	$39	$18	$16
CoC - Homeless	$16	$15	$14	$14	$13
ESG	$3	$5	$4	$4	$3
HOPWA [2]	$0	$0	$0	$1	$1
NSP TA [3]	$0	$0	$0	$0	$1
Community Compass [4]	$48	$54	$46	$44	$50
PIH					
IHBG [5]	$1	$8	$4	$3	$4
HOPE VI [6]	$5	$4	$1	$0	$0
Choice Neighborhoods [7]	$12	$9	$12	$11	$15
TOTAL	**$203**	**$216**	**$150**	**$129**	**$135**

Notes:

1. In FY 2019, the methodology for reporting CDBG-DR Investment in Human Capital was amended to accurately reflect the grantees' investments. In prior years, CDBG-DR reported on Technical Assistance (TA) contractors that are already reported in the RSSI under Community Compass. CDBG-DR has limited the data set to only public service activities which include services such as job training, childcare, fair housing counseling, education programs, and others. Prior reporting years included tourism funding and economic development activities which generally are not investments in Human Capital. CDBG-DR updated its methodology to exclude these activity types which explains the significant decrease in the data reported in FY 2019 and FY 2020.
2. Expenditures in FY 2016 through FY 2018 were not material to be included in the AFR.
3. All training portions of NSP were ended in FY 2017. In FY 2019, the methodology for reporting investments in Human Capital was amended to include public service activities. Expenditures in FY 2016 through FY 2019 were not material to be included in the AFR.
4. Increased appropriations for TA and supplemental appropriations for Disaster and CARES Act resulted in more awards, more award activity and increased expenditures in FY 2020.
5. In FY 2020, ONAP focused on providing more contracted technical assistance directly to tribes at their locations, resulting in an overall increase from FY 2019 despite many trainings and technical assistances having to be cancelled, delayed, or rescheduled due to the COVID-19 pandemic.
6. As of FY 2020, all HOPE VI funds have been expended or have been canceled and returned to Treasury. Expenditures in FY 2019 were not material to be included in the AFR.
7. The increase from 2019 to 2020 is due to a lag in new grantees getting up and running in 2019 and now having expended human capital funds.

Results of Human Capital Investments: The table below presents the results (number of people trained) of human capital investments made by HUD's CPD, PIH, and OLHCHH programs for fiscal years 2016 through 2020.

Results of Investments in Human Capital
Number of People Trained
Fiscal Year 2016 – 2020

Program	2016	2017	2018	2019	2020
CPD					
CDBG	47,805	73,922	70,253	61,444	56,919
CoC - Homeless [1]	19%	19%	18%	17%	17%
Distressed Cities [2]	N/A	N/A	N/A	N/A	1,324
HOPWA [3]	502	956	669	599	911
NSP TA [4]	6	5	0	0	0
Community Compass [5]	32,823	27,195	26,268	29,304	36,603
PIH					
NHHBG [6]	113	5	5	15	16
IHBG	1,752	1,812	1,403	1,470	1,534
HOPE VI (see tables on page 40)					
Choice Neighborhoods (see table on page 41)					
OLHCHH					
Lead Technical Assistance [7]	2,120	475	1,950	654	948
TOTAL	**85,121**	**104,370**	**100,548**	**93,486**	**98,255**

Notes:

1. CoC – Homeless results are expressed in terms of percentage of persons exiting the programs having employment income. This measure has a 1-year time lag.
2. FY 2020 is the first year of reporting for Distressed Cities. Expenditures under Investments in Human Capital were not material to be included in the AFR.
3. The increase in FY 2020 is due primarily to a grantee's incorrect reporting in FY 2018 and FY 2019 being corrected in FY 2020.
4. All training portions of NSP were ended in FY 2017.
5. The increase in total individuals trained is primarily from of persons completing online trainings; both self-paced and recorded trainings, offset by a decrease in the number of persons completing in-person trainings due to the COVID-19 pandemic.
6. Grantee received training, in FY 2016, from two contracted training providers. In FY 2017 through FY 2019, ONAP focused on providing technical assistance directly to the grantee. Expenditures under Investments in Human Capital, in FY 2016 through FY 2020, were not material to be included in the AFR.
7. In FY 2020, OLHCHH did not host a National Healthy Homes Conference. There was only a New Grantee Orientation and Grantee Program Mgrs. School, the latter performed virtually, due to the COVID-19 virus. OLHCHH did host a National Health Homes Conference in FY 2016 and FY 2018. Expenditures under Investments in Human Capital in FY 2016 through FY 2020 were not material to be included in the AFR.

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 2016 through 2020, reported as cumulative since the program's inception.

Key Results of HOPE VI Program Activities
Fiscal Years 2016 – 2020

HOPE VI Service	2016 Enrolled	2016 Completed	% Completed	2017 Enrolled	2017 Completed	% Completed
Employment Preparation, Placement & Retention [1]	87,564	N/A	N/A	87,861	N/A	N/A
Job Skills Training Programs	35,675	18,877	53%	35,748	18,917	53%
High School Equivalent Education	18,705	5,381	29%	18,792	5,390	29%
Entrepreneurship Training	3,795	1,682	44%	3,803	1,684	44%
Homeownership Counseling	17,399	7,804	45%	17,410	7,805	45%
HOPE VI Service	**2018 Enrolled**	**2018 Completed**	**% Completed**	**2019 Enrolled**	**2019 Completed**	**% Completed**
Employment Preparation, Placement & Retention [1]	87,873	N/A	N/A	87,873	N/A	N/A
Job Skills Training Programs	35,749	18,920	53%	35,749	18,922	53%
High School Equivalent Education	18,795	5,393	29%	18,795	5,393	29%
Entrepreneurship Training	3,803	1,684	44%	3,803	1,684	44%
Homeownership Counseling	17,413	7,805	45%	17,415	7,806	45%

Key Results of HOPE VI Program Activities
Fiscal Years 2016 – 2020 Cont'd

HOPE VI Service	2020 Enrolled [2]	2020 Completed [2]	% Completed [2]
Employment Preparation, Placement & Retention [1]	87,873	N/A	N/A
Job Skills Training Programs	35,749	18,922	53%
High School Equivalent Education	18,795	5,393	29%
Entrepreneurship Training	3,803	1,684	44%
Homeownership Counseling	17,415	7,806	45%

Notes:

1. Completion data for this service is not provided, as all who enroll are considered recipients of the training.
2. All HOPE VI grantees have concluded their CSS programs. Therefore, the total number of residents served will no longer change from year to year.

The following table on the next page presents Choice Neighborhoods cumulative performance information for fiscal years 2016 through 2020.

Key Results of Choice Neighborhoods Program Activities
Fiscal Years 2016 – 2020

Choice Neighborhoods Service	2016	2017	2018	2019	2020
Current Total Original Assisted Residents	10,089	13,446	10,132	13,906	13,961
Current Total Original Assisted Residents in Case Management	4,882	7,596	6,750	9,827	10,075
High School Graduation Rate [1]	N/A	N/A	N/A	N/A	N/A
Number of Residents (in Case Management) Who Completed Job Training or Other Workforce Development Programs	343	119	90	99	53

Notes:

1. Program level High School Graduation Rate data is currently not available for 2016 through 2020, 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 2016 through 2020.

Investments in Research and Development
Fiscal Year 2016 – 2020
(Dollars in Millions)

Program	2016	2017	2018	2019	2020
OLHCHH					
Lead Hazard Control	$5	$6	$3	$5	$5
TOTAL	**$5**	**$6**	**$3**	**$5**	**$5**

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. Additionally, grantees reported in FY 2020 significant issues completing units and additional costs during the COVID-19 pandemic. 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 2016 – 2020
(in Dollars)

Program	2016	2017	2018	2019	2020
OLHCHH					
Lead Hazard Control					
Per-Housing Unit Cost	$9,048	$8,437	$8,046	$11,442	$17,319
TOTAL	**$9,048**	**$8,437**	**$8,046**	**$11,442**	**$17,319**

Analysis of Systems, Controls, and Legal Compliance

Over the course of the fiscal year, the Department made significant improvements to systems, controls, and compliance with laws and regulations. HUD's Federal financial management systems provide accurate, reliable, and timely financial management information to the Department's managers. The remaining planned improvements to systems are scheduled to be completed in Fiscal Year 2021. HUD's Accountability, Integrity, and Risk (AIR) program identified no material gaps or non-compliance issues, confirming that a robust process of risk management and internal control is in place to support the Department's management assurances. Finally, HUD achieved compliance with both the Debt Collection Improvement Act and the Improper Payments Elimination and Recovery Act.

Management Assurances

Please see the FY 2020 Annual Assurance Statement on page 54.

Systems

FFMIA Compliance

In accordance with the Federal Financial Management Improvement Act (FFMIA), HUD performed an assessment of whether the Department's financial management systems comply substantially with Federal financial management systems requirements, applicable Federal accounting standards promulgated by FASAB, and the USSGL at the transaction level. Financial management systems include both financial and financially related (or mixed) systems.

As of September 30, 2020, HUD determined that 26 of 30 of its financial management systems are substantially compliant with Section 803(a) of FFMIA. These systems comply with Federal financial management systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level.

Non-Compliant Systems

The following systems do not comply with FFMIA Section 803(a).

- **Disaster Recovery Grant Reporting System (DRGR)**: HUD OIG determined that DRGR is still non-compliant with FFMIA due to two outstanding recommendations from OIG DRGR Ft. Worth Audit Report 2018-FW-0802 Recommendations 1A and 1B. OCFO is asserting that both weaknesses are closed. OIG is waiting for an opinion from GAO on this matter. Target Completion Date: FY 2021.
- **Single Family Insurance System (SFIS)**: HUD determined that SFIS was non-compliant due to

a security weakness. Office of Housing is working with Office of the Chief Information Officer (OCIO) to resolve this weakness. Target Completion Date: FY 2021.

- **Single Family Insurance System – Claims Subsystem (CLAIMS)**: HUD determined that CLAIMS was non-compliant due to a security weakness. Office of Housing is working with OCIO to resolve this weakness. Target Completion Date: FY 2021.
- **Tenant Rental Assistance Certification System (TRACS)**: HUD determined that TRACS is non-compliant due to previous year OIG audit findings. Office of Housing is working with OCFO to bring TRACS back into compliance with FFMIA. Target Completion Date: FY 2021.

Systems That Achieved Compliance

During FY 2020, financial management systems that were previously identified as non-compliant became compliant:

- **Government National Mortgage Association (GNMA) Financial and Accounting System (GFAS)**: Resolved when GNMA closed nine OIG audit recommendations relating to GFAS, allowing for certification of FFMIA compliance. Compliance is further supported by the OIG GNMA draft Financial Statement Audit Report, which states that GNMA achieved an unmodified audit opinion.
- **Integrated Disbursement and Information System (IDIS)**: Resolved when IDIS FIFO balances became immaterial for FY 2014 and prior.
- **Integrated Pool Management System (IPMS)**: Resolved when all IPMS OIG Information Systems Audit Division (ISAD) recommendations were closed.
- **New Core Interface Solution (NCIS)**: Resolved when prior year NCIS audit recommendations were closed.
- **Single Family Mortgage Asset Recovery Technology System (SMART)**: Resolved when prior year OIG audit recommendations were closed.

Systems Removed from Financial Management Systems Inventory

During FY 2020 three systems were removed from the financial management systems inventory:

- **EZBudget Formulation System (EZBudget)** was deactivated and removed from the financial management systems inventory.
- **Facilities Asset Management Enterprise System (FAMES)** was removed from the financial management systems inventory because the implementation of the Oracle Fixed Assets module resolved prior Property, Plant, and Equipment issues. As a result, FAMES was re-classified as a non-financial system.
- **Program Accounting System (PAS)** functionality migrated to the Line of Credit Control System (LOCCS) therefore the system was decommissioned and removed from the financial management systems inventory.

Controls

Material Weaknesses

The HUD Office of Inspector General (OIG) identified one material weakness and one instance of noncompliance with applicable laws, regulations, contracts, and grant agreements.

The OIG reported that HUD had weaknesses in its controls over financial reporting and did not always comply with Federal generally accepted accounting principles in six areas that collectively rose to the level of a material weakness. These deficiencies include:

- Proper accounting for Housing Choice Voucher Program (HCVP) CARES Act administrative funds in accordance with Federal generally accepted accounting principles;
- Sufficient documentation and validation of model assumptions used in the Office of Community Planning and Development (CPD) accrued grant liabilities estimate;
- Proper recording of all reductions in the guaranteed loan principal outstanding balance for loans in the Section 184 Indian Home Loan Guarantee program;
- Proper recognition of all financial events resulting from the Office of Public and Indian Housing (PIH) cash management process;
- Completeness of accounts receivables and adequate support for the net realizable value of its accounts receivable; and
- GNMA's organizational structure over two key functions, estimation model development and model verification.

HUD also was noncompliant with the Federal Financial Management Improvement Act, regarding certain requirements to establish and maintain financial management systems.

Corrective Actions

The department has put in place the following corrective actions to address the deficiencies that compose the material weakness:

- <u>Accounting for HCVP CARES Act Funds</u>: PIH and OCFO will continue to collaborate to properly account for HCVP CARES Act administrative fee disbursements, ensuring that the most conservative approach is taken to account for funding received from Congress to aid the American people. OCFO's six-organization clearance panel will continue to review public notices, relying on PIH's subject matter expertise relating to program operations and PHA funding. OCFO will continue to assist in reviewing the notices and will provide guidance as appropriate.
- <u>CPD Accrued Grant Liabilities Estimate</u>: OCFO will review cash advances found in the FY 2019 grant accrual validation with CPD. We will determine whether cash advances occurred and if they were appropriate. A determination of whether to estimate and account for cash advances for

financial reporting purposes will be made. OCFO will also review other methods for grant accrual validation, including the use of other sampling units. The results of this review will include the FY 2020 validation sampling plan along with the reasoning used for selecting the method used.

- Section 184 Indian Home Loan Guarantees: OCFO and ARC have completed an analysis of planned adjustments to USSGL account 8050 and posted adjustments to write-off balances related to prior-period activities. A total of thirteen journal entries were entered into the system during August and September 2020. These journal entries decreased the account balance. Additionally, OCFO created an IHLG loan database from 1994 through August 31, 2020 for the Note 7 calculation. OCFO staff updates the database monthly with newly certified loans and termination information from multiple sources. The database outputs will be provided to ARC quarterly to reconcile reductions and principle amortization.
- PIH Cash Management Process: OCFO will work with PIH to ensure that the reports provided to the OCFO for inclusion in the PIH prepayment estimate are in a format that easily facilitates preparation and review of the PIH Prepayment.
- Accounts Receivables Completeness and Support: OCFO will work with the Office of Multifamily Asset management and Portfolio Oversight to ensure all debt due to HUD is identified, accurately reported in HUD's financial records, and properly monitored to ensure compliance with applicable laws and regulations.
- GNMA Control Design Deficiencies: Compensating controls and validation procedures sufficiently mitigate the risk of misstatement. GNMA has taken immediate actions in response to this finding, which can effectively address the circumstances of concern. GNMA will continue to work with its auditors to ensure that the program continues to benefit the homeowners served by the federal mortgage programs that are funded through the securities they guarantee while protecting the American taxpayer.

Legal Compliance

During FY 2019, HUD had three reported instances of non-compliance with laws and regulations. The laws included the Debt Collection Improvement Act (DCIA), FFMIA, and the Improper Payments Elimination and Recovery Act (IPERA). In FY 2020, HUD focused on closing several recommendations and implementing new requirements to bring previously non-compliant systems into compliance. The results of the FY 2020 efforts are summarized below.

Law	FY 2019 Status	FY 2020 Status
DCIA	Non-Compliant	Compliant
FFMIA	Non-Compliant *8 Non-Compliant Systems*	Non-Compliant *4 Non-Compliant Systems*
IPERA	Non-Compliant *3 of 6 Non-Compliant Elements*	Compliant[8] *0 of 6 Non-Compliant Elements*

Financial Management Systems Framework

HUD's current and future financial management systems framework is composed of a mix of legacy and modernized technologies operated and maintained by the Department and external entities.

OCFO has five mission-critical systems, including the HUD Central Accounting and Program System (HUDCAPS), Line of Credit Control System (LOCCS), Loan Accounting System (LAS), Financial Data Mart (FDM), and New Core Interface Solution (NCIS). NCIS is HUD's interface with our service provider, the Department of Treasury's Administrative Resource Center (ARC). HUD's general ledger, Oracle Federal Financials, is serviced by ARC.

The Federal Housing Administration (FHA) and GNMA use the FHA Subsidiary Ledger (FHA-SL) and GNMA Financial Accounting System (GFAS) as their general ledgers, respectively.

HUD made tremendous progress in improving its financial management systems framework in FY 2020. Most importantly, the Department removed five systems from the FFMIA non-compliance list and closed longstanding recommendations related to financial system weaknesses that contributed to a significant deficiency.

HUD continues to take steps to modernize its financial management systems, decommission legacy systems, increase transparency, and improve customer service. The following are key improvements that HUD made during FY 2020 that improved the Department's financial management, financial reporting, and financial control:

[8] OIG will verify compliance for FY 2020 through a separate audit by the end of May 2021.

- Developed and implemented the first spending dashboard that combines data from numerous sources and analyzes millions of transactions. This allows HUD to monitor and track daily funding and spending down to the recipient and physical location.
- Updated the Continuity of Operations (COOP) Plan to prepare for pandemics, future disasters, prevent disruptions to financial operations, and ensure that financial systems are available to HUD staff so that HUD's mission can still be accomplished in the event of a disaster.
- Prepared UiPath Robotics Process Automation (RPA) Authority to Operate within a compressed two-month deadline to allow the CFO Intelligent Automation initiative to go live. The Department can now leverage RPA technology to improve business processes, create efficiencies, transform the culture, and make HUD a better place to work.
- Building on DATA Act compliance achieved in FY 2019, HUD contributed to increased accountability and transparency of Federal spending by obtaining a determination from the OIG that our data "is considered higher quality."
- Prepared Workiva Wdesk Authority to Operate (ATO) in a two-month timeframe to implement the first A-123 system for the Department. This will allow HUD to maintain and strengthen internal controls and achieve the Secretary's Strategic Goal to Protect Taxpayer Dollars.

Financial Management Systems Strategy

HUD is pursuing a multifaceted financial management systems strategy in the areas summarized below.

Service Provider Integration

HUD continues to work with the ARC to migrate and implement new technologies to provide better services to HUD's internal and external customers. This includes implementing OneStream Budget Formulation, Working Capital Fund, and Managerial Cost Accounting systems and functions to achieve the goals of improving financial management agency-wide. All three projects were inaugurated in 4th Quarter FY 2020 and will be implemented in FY 2021.

Automation

HUD seeks to implement automation wherever possible. In FY 2020, HUD worked to identify requirements to automate manual cash management activities within its Enterprise Voucher Management System (eVMS). We will continue to pursue this effort in FY 2021.

Modernization

HUD continues to modernize its existing IT systems through the OMB Technology Modernization Fund. This includes migrating Line of Credit Control System (LOCCS) to the cloud off the Unisys mainframe, and examining its technology infrastructure and operating procedures to identify needed upgrades and opportunities for improvement.

HUD also made significant improvements working toward decommissioning legacy systems. Through this work HUD achieves cost savings and can put funds to better use. The following systems went through the decommissioning process in FY 2020:

- **EZBudget Formulation System**: Deactivated and removed from the inventory. EZBudget is going through the decommissioning process that involves having its historical data archived into another system.
- **Program Accounting System (PAS)**: PAS functionality was migrated to Line of Credit Control System (LOCCS). As a result, HUD has decommissioned this system.
- **Total Estimated and Allocation Mechanism (TEAM)**: To lower additional operations and maintenance costs, HUD successfully decommissioned this system in FY 2020.
- **Web Focus Corrective Action Plan (CAP) Reports System**: HUD is in the process of decommissioning the Web Focus CAP Reports System and plan to complete this task during FY 2021.

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, financial markets, tax codes, and other federal, state and local conditions that may be transformational. HUD's 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 all enhanced controls that are crucial to the Department's ability to respond to conditions and accomplish more efficient and effective mission delivery.

The global pandemic of coronavirus disease 2019 (COVID-19) has transformed the socioeconomic and fiscal environment in which HUD undertakes its mission. The White House established a task force in January 2020 to coordinate national efforts to monitor, prevent, contain, and mitigate the spread of COVID-19. Public health restrictions subsequently imposed across the nation by federal, state, and local authorities, along with widespread concern among the public, caused serious economic contraction. The pandemic has affected households' employment, housing security, use of their homes, and interactions with their communities. The pandemic and the public response have numerous short-term and long-term implications that have not yet fully manifested for HUD's program operations.

Constrained federal funding levels affected most HUD programs during FY 2020 and are likely to continue their effects into the foreseeable future. The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided $12.4 billion of important supplemental funding for HUD to support pandemic-related homelessness services and increase housing subsidy needs as tenants lose earnings. Going forward, the federal spending for pandemic response and stimulus, along with any persistent macroeconomic challenges, is likely to further strain the federal fiscal situation and thus constrain the potential for major new investments in core HUD programs.

At the end of FY 2020 (September), the civilian unemployment rate was eight percent, compared with four percent a year earlier. In April 2020, as the first set of public health restrictions took effect, unemployment reached 15 percent, more than four times the low unemployment observed during the strong labor market of a year earlier.[9] Leading up to the pandemic, the median income of family households increased to $88,149 in 2019, up seven percent from 2018 levels. On a similar positive track, the official poverty rate for 2019 was 11 percent, down one percent from 12 percent in 2018, in the fifth consecutive year of declines.[10] These data suggest that, until the pandemic struck, underlying labor market and economic conditions were positive forces for increasing economic opportunity for HUD-assisted renters and for first-time homebuyers.

---

[9] Bureau of Labor Statistics. "Civilian Unemployment Rate, Seasonally Adjusted." https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm#. Accessed October 20, 2020.
[10] U.S. Census Bureau. 2020. "Income and Poverty in the United States: 2019." https://www.census.gov/library/publications/2020/demo/p60-270.html.

In the first quarter of CY 2020, the national homeownership rate was 65 percent, up one percent from the second quarter of CY 2019. Sales of new single-family homes in the second quarter of CY 2020 were up three percent from a year earlier, but sales of existing homes were down 19 percent from a year earlier as the pandemic took effect. Prices of owner-occupied homes as measured by the Case-Shiller index were up four percent in the second quarter of CY 2020 from a year earlier.[11] [12]

Homebuying demand was sustained through the first two quarters of CY 2020 due to the declining interest rate and the increase in median family income, which on average offset more than the increase in the median price of a single-family home. The Federal Reserve's monetary policy response on March 3 drove the average 30-year mortgage interest rates to a multi-decade low of three percent in the second quarter, one percent less than a year earlier. The resulting combination of rates, incomes, and prices caused the Homeownership Affordability Index to improve markedly to 168.5 in the second quarter, up by 10.8 points from a year earlier. Increased affordability created an opportunity for first-time homebuyers who have stable income, as first-time buyers accounted for 35 percent of sales transactions in the second quarter, up two points from a year earlier.[13]

The rate of mortgage delinquency, however, spiked to eight percent of mortgage loans in the second quarter of CY 2020, up five points from a year earlier and the highest delinquency rate observed since 2011. The spike in the delinquency rate reflects the impact of the pandemic (and its ripple effects through the economy) on households' ability to make mortgage payments. Delinquencies of 90 days or more also increased by one point from a year earlier to four percent in the second quarter, so increased foreclosures are likely to follow. Such factors are central to FHA policy decisions supporting HUD's mission of increasing access to homeownership while preserving capital reserves in the insurance fund.[14]

Housing construction in the second quarter of CY 2020 proceeded at a seasonally adjusted annual rate of 759,000 single-family housing starts, a reduction of 11 percent from a year earlier. Multifamily housing starts experienced a larger decrease of 24 percent, for a seasonally adjusted annual rate of 297,000 units in the second quarter. Such modest rates of production offer little potential to shrink the nation's longstanding unmet need for affordable housing.[15]

HUD's rental affordability index suggests that through the second quarter of CY 2020, renter household incomes made slight gains relative to rent increases. This index relates median renter household income to the qualifying income for the median-priced rental unit; it shows improvement from 106.6 in the second quarter of 2019 to 109.8 in 2020. The index implies that in 2020, the median renter has only 10 percent

---

[11] HUD PD&R. 2020. "National Housing Market Summary: 2nd Quarter 2020." https://www.huduser.gov/portal/ushmc/quarterly_commentary.html.

[12] The second-quarter 2020 homeownership rate was reported as sharply higher but is not presented here; the Census Bureau considers the estimate unreliable because of a break in the series caused by COVID-19.

[13] HUD PD&R. 2020. "National Housing Market Summary: 2nd Quarter 2020."

[14] HUD PD&R. 2020. "National Housing Market Summary: 2nd Quarter 2020."

[15] HUD PD&R. 2020. "National Housing Market Summary: 2nd Quarter 2020."

more income than the minimum amount necessary to qualify, at 30 percent of income, for the median-priced rental unit. [16]

Renter households with very low incomes—below 50 percent of area median income—continue to face a substantial gap in market supply of affordable housing. The most recent available data show that in 2019, only 62 affordable rental units were available per 100 very low-income renters.[17] Such unmet demand for affordable housing puts pressure on waiting lists for public and assisted housing, fair market rents, and HUD's subsidy costs, and increases the difficulty that voucher recipients face in finding a suitable unit.

The COVID-19 pandemic has exacerbated the housing instability generated by the national affordable housing shortage by shrinking household earnings and leaving many households unable to make rent or mortgage payments. On September 4, the Centers for Disease Control and Prevention used their public health authority to issue a residential eviction moratorium that temporarily halts evictions to prevent disease spread. While this action reduced immediate risk of eviction for distressed renter and owner households through the end of CY 2020, the long-term implications are not clear. Housing debts continue to accrue during the moratorium. Landlords, of whom many are small "mom-and-pop" owners, may become delinquent on their mortgages, which could lead to subsequent evictions even if they display maximum leniency to tenants.

There is a significant risk that the nation will experience substantial increases in evictions and homelessness in FY 2021 and perhaps subsequent years, depending on the duration of pandemic conditions and employment losses. Shortages of affordable housing and evictions frequently result in doubling up with other households or homelessness, especially for families. Leading up to the pandemic, the nation has made substantial progress in reducing homelessness. For many years, veterans were overrepresented in the homeless population, especially among those experiencing chronic homelessness, but the number of veterans experiencing homelessness decreased by two percent between 2018 and 2019 and by nearly 50 percent since 2009. Homelessness also has declined among families with children, with a five percent reduction between 2018 and 2019 and a 32 percent reduction since 2010.[18]

Under the National Disaster Recovery Framework, HUD has both coordinating and primary roles in the housing recovery function after a declared disaster, along with a primary role in the community planning and capacity building function and supporting roles in several other disaster recovery functions. The risk of costly new disasters continues to increase because land use policy is failing to prevent high risk development in areas such as those with growing flood risk or in the urban-wildland interface. Disasters have shown their potential to reshape housing and employment markets for months or years by, for instance, increasing mortgage delinquencies and foreclosures. Appropriations for the CDBG-Disaster Recovery program have increased to a significant fraction of HUD's budget in recent years.

---

[16] HUD PD&R. 2020. "National Housing Market Summary: 2nd Quarter 2020."

[17] HUD PD&R. Forthcoming. "Worst Case Housing Needs: 2021 Report to Congress." Units classified as "affordable and available" rent for no more than 30 percent of the very low-income limit and are not already occupied by a household with higher income.

[18] HUD CPD. 2020. "2019 Annual Homeless Assessment Report (AHAR) to Congress—Part 1: Point-in-Time Estimates of Homelessness."

As the frequency and cost of natural hazards has increased, HUD has devoted resources to monitoring and disclosing the hazard risk exposure of assisted properties and vulnerable populations, including flood risk and wildfire risk, to assess potential vulnerabilities and liabilities. To counteract such risks, HUD has increasingly reshaped disaster recovery grantmaking to encompass major disaster mitigation components for regions proven vulnerable by recent natural disasters. Additionally, HUD is engaged in research focused on improving recovery outcomes and the cost effectiveness of hazard mitigation strategies funded through its grants.

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 evidence-based policy efforts include the Office of Policy Development and Research's demonstration and evaluation program; engaging internal and external partners to address cross-cutting policy issues through research; the leveraging of HUD's data infrastructure by linking administrative data with surveys and other external data sources; the continuing integration of evidence into business operations; and the establishment of an Office of Innovation to test and validate solutions to state, local, and federal housing and community development problems in the domains of building technology, internal operations, and open innovation.

As HUD moves forward in executing the Strategic Plan, implementation of the Foundations for Evidence-Based Policymaking of 2018 (Evidence Act) will play an important complementary role. In CY 2020, as required by the Evidence Act, HUD has developed for Office of Management and Budget review an interim learning agenda, annual evaluation plan, and agency-wide Capacity Assessment for Research, Evaluation, Statistics, and Analysis. As these documents are refined and integrated with the FY 2022–FY 2026 Strategic Plan and other performance documents, an increasingly thoughtful and rigorous alignment of evidence-building with policymaking and program management across the Department is expected to develop. The research-oriented aspects are complemented by the forthcoming *HUD Research Roadmap: 2020 Update*, and data-centered aspects are supported by the initiatives of the Chief Data Officer, emphasizing data governance, open data, and advanced analytics.

Management Assurances

The United States Department of Housing and Urban Development's (HUD) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act*. HUD developed and executed the Department's Accountability, Integrity, and Risk (AIR) Program and conducted other assessments of risk and internal control as needed in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

Based on the results of these assessments, the Department can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2020, except for one existing material weakness noted by the Inspector General.

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, applicable Federal accounting standards, and the United States Standard General Ledger at the transaction level. As of September 30, 2020, HUD determined that 26 of 30 financial management systems were substantially compliant with FFMIA. See the "Analysis of Systems, Controls, and Legal Compliance" section of this report for a description of the remediation activities, target dates, and offices responsible for bringing the remaining systems into compliance.

Benjamin S. Carson Sr.
Secretary

December 4, 2020

Section 2: Financial Information

Table of Contents

Message from the Chief Financial Officer

December 4, 2020

Fiscal Year (FY) 2020 has brought unprecedented challenges to all of us. With a global pandemic declared by the World Health Organization related to COVID-19, HUD's financial operations reacted quickly to adapt to a changing environment. With the safety of our people as the top priority, HUD moved rapidly to make Work From Home available to employees to continue financial operations and execute our mission-critical activities. Despite the difficulties, our efforts to restore sound financial management and stability throughout the Department never stopped; it remained a top priority. I am pleased to report that we have made tremendous progress and achieved some very significant milestones and innovation breakthroughs again in FY 2020. I give thanks to my leadership team and the people of HUD, including those in the Office of the Chief Financial Officer, to make that happen. We have achieved our goal of financial excellence by remediating our financial infrastructure weaknesses and obtaining an unqualified audit opinion for the first time in eight years. The improvements we made in people, processes, and technology while ensuring the safety of our workforce during FY 2020 have significantly strengthened our financial operations, our governance structures, and our employee engagement.

OCFO Strategic Objectives

- I. FINANCE TRANSFORMATION PLAN
- II. IMPROVED GOVERNANCE-AGENCY-WIDE INTEGRITY TASK FORCE
- III. FISCAL RESPONSIBILITY – SHORT-TERM REMEDIATION EFFORTS FOR MATERIAL WEAKNESSES
- IV. AGENCY-WIDE ENTERPRISE RISK ASSESSMENT
- V. OVERSIGHT OF COMMUNITY DEVELOPMENT BLOCK GRANT – DISASTER RECOVERY FUNDS
- VI. DIGITAL TRANSFORMATION
- VII. IT AND GRANT MODERNIZATION

In the face of budget constraints and with limited resources to fully deliver our mission-critical activities, my leadership team continued the journey to financial excellence through intelligent automation. We successfully applied Robotics Process Automation, Artificial Intelligence, and leveraged data analytics to improve several processes. This work has triggered a cultural change, sparked a fire for automation and process improvements, and laid the foundation for financial transformation at HUD. The processes we successfully automated this year are estimated to save the Department several thousand hours annually.

Through these efforts, work that was manual, mundane, and transactional in nature has been transformed into more efficient and effective processes that allow our CFO team to perform activities that add value. As we continue to automate our processes, I anticipate we will save tens of thousands of hours that will translate to employees performing more meaningful, higher-value work.

HUD continues to engage with the White House's Office of American Innovations to modernize our business processes. In coordination with our OCIO, we have been actively engaged in the federal Centers of Excellence initiative to assist HUD in modernizing our IT systems and processes with a focus on improving the customer experience of the people and stakeholders we serve. The OCFO is particularly focused on using data to drive business decisions through our data analytics initiative. This effort uses business and intelligent automation to ensure our data is of high quality and reconstructed to dashboard technology to enable our leaders to make better operational decisions.

Through the work of our Agency-Wide Integrity Task Force, which I chair, we have reduced risk and improved areas that historically had been operational deficiencies. This task force, composed of key HUD leaders who oversee project management teams, was tasked with improving areas with identified deficiencies and has made great strides in improving HUD's governance and business operations on an agency-wide basis.

Our Financial Transformation initiative we implemented in 2018 is working! On behalf of the improvements made at HUD over the last three years, I was honored to receive the 2020 Donald L. Scantlebury Award to recognize the leadership of our senior financial management executives who have been responsible for significant economies, efficiencies, and improvements in the government.

Our positive and collaborative relationships across the Department and with the Office of Inspector General (OIG) has never been stronger. I believe a productive working relationship with the OIG and a sound financial statement audit approach is critical to financial transformation. The OIG's audit report reflects the significant improvements we have made in the financial controls over the last three years. As a result of the COVID-19 pandemic, HUD was delayed in submitting its final Annual Financial Report (AFR) because of challenges that prevented the OIG from obtaining and reviewing documentation necessary to finalize its audit of HUD's Consolidated Financial Statements before November 16, 2020.

While more opportunities remain, we are well on our way to financial excellence. While we may continue to uncover additional challenges from past practices and new ways of doing business in this unprecedented time, our improved financial controls and infrastructure put us in a strong position to address the unexpected. I remain committed to working with HUD leadership to maintain our momentum and create sustainable financial excellence. In closing, I am proud of the work my office has accomplished this year and am confident that we will continue to build upon our successes.

Sincerely,

Irving L. Dennis
Chief Financial Officer

Financial Statements

Introduction

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

The following financial statements are presented:

The **Consolidated Balance Sheet** as of September 30, 2020, 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** presents the net cost of HUD operations for the fiscal year ended September 30, 2020. 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** 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 fiscal year ended September 30, 2020.

The **Combined Statement of Budgetary Resources** presents the budgetary resources available to HUD during FY 2020, the status of these resources and the outlay of budgetary resources for the fiscal year ended September 30, 2020.

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

U.S. Department of Housing and Urban Development Consolidated Balance Sheet As of September 30, 2020 (Dollars in Millions)		
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$	135,587
Investments (Note 5)		77,770
Other Assets (Note 11)		46
Total Intragovernmental	**$**	**213,403**
Cash and Other Monetary Assets (Note 4)	$	69
Investments (Note 5)		-
Accounts Receivable, Net (Note 6)		1,064
Direct Loans and Loan Guarantees (Note 7)		44,278
Other Non-Credit Reform Loans (Note 8)		2,062
General Property, Plant, and Equipment, Net (Note 9)		137
PIH Prepayments and Advances (Note 10)		385
PIH Prepayments - CARES Act (Note 10)		793
Total Assets	**$**	**262,191**
Liabilities (Note 12):		
Intragovernmental:		
Accounts Payable	$	68
Debt (Note 13)		54,222
Other Liabilities (Note 15)		1,690
Total Intragovernmental Liabilities	**$**	**55,980**
Accounts Payable	$	1,334
Accrued Grant Liabilities		1,535
Loan Guarantee Liability (Note 7)		(6,165)
Debt Held by the Public (Note 13)		2
Federal Employee and Veteran Benefits (Note 14)		66
Insurance and Guarantee Program Liabilities (Note 25)		1,324
Other Liabilities (Note 15)		1,180
Total Liabilities	**$**	**55,256**
Commitments and Contingencies (Note 16)	$	-
Net Position:		
Unexpended Appropriations - Funds from Dedicated Collections (Combined Totals) (Note 17)	$	-
Unexpended Appropriations - All Other Funds (Combined Totals)		97,993
Cumulative Results of Operations - Funds From Dedicated Collections (Combined Totals) (Note 17)		26,984
Cumulative Results of Operations - All Other Funds (Combined Totals)		81,958
Total Net Position - Funds from Dedicated Collections (Combined Totals) (Note 17)	**$**	**26,984**
Total Net Position - All Other Funds (Combined Totals)	**$**	**179,951**
Total Net Position	**$**	**206,935**
Total Liabilities and Net Position	**$**	**262,191**

The accompanying notes are an integral part of these statements.

U.S. Department of Housing and Urban Development Consolidated Statement of Net Cost For the Year Ended September 30, 2020 (Dollars in Millions)		
COSTS		
Federal Housing Administration (FHA)		
Gross Costs	$	(18,329)
Less: Earned Revenue		(2,106)
Net Program Costs	**$**	**(20,435)**
Government National Mortgage Association (GNMA)		
Gross Costs	$	685
Less: Earned Revenue		(1,803)
Net Program Costs	**$**	**(1,118)**
Section 8 Rental Assistance		
Gross Costs	$	37,597
Less: Earned Revenue		-
Net Program Costs	**$**	**37,597**
Public and Indian Housing Loans and Grants (PIH)		
Gross Costs	$	2,718
Less: Earned Revenue		-
Net Program Costs	**$**	**2,718**
Homeless Assistance Grants		
Gross Costs	$	2,559
Less: Earned Revenue		(1)
Net Program Costs	**$**	**2,558**
Housing for the Elderly and Disabled		
Gross Costs	$	1,004
Less: Earned Revenue		(51)
Net Program Costs	**$**	**953**
Community Development Block Grants (CDBG)		
Gross Costs	$	5,517
Less: Earned Revenue		-
Net Program Costs	**$**	**5,517**
HOME		
Gross Costs	$	837
Less: Earned Revenue		-
Net Program Costs	**$**	**837**
All Other		
Gross Costs	$	5,941
Less: Earned Revenue		(26)
Net Program Costs	**$**	**5,915**
Costs not Assigned to Programs	$	218
Consolidated		
Gross Costs	$	38,747
Less: Earned Revenue		(3,987)
Net Cost of Operations	**$**	**34,760**

The accompanying notes are an integral part of these statements.

U.S. Department of Housing and Urban Development Consolidated Statement of Changes in Net Position For the Year Ended September 30, 2020 (Dollars in Millions)	Funds From Dedicated Collections (Combined Totals)	All Other Funds (Combined Totals)	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balances	$ -	$ 86,250	$ -	$ 86,250
Adjustments:				
Corrections of Errors	-	-	-	-
Beginning Balance, as Adjusted	$ -	$ 86,250	$ -	$ 86,250
Budgetary Financing Sources:				
Appropriations Received	$ -	$ 69,844	$ -	$ 69,844
Other Adjustments	-	(319)	-	(319)
Appropriations Used	-	(57,782)	-	(57,782)
Total Budgetary Financing Sources	$ -	$ 11,743	$ -	$ 11,743
Total Unexpended Appropriations	**$ -**	**$ 97,993**	**$ -**	**$ 97,993**
Cumulative Results from Operations:				
Beginning Balances	$ 25,859	$ 62,414	$ -	$ 88,273
Changes in Accounting Principles	-	320	-	320
Corrections of Errors	-	(9)	-	(9)
Beginning Balances, as Adjusted	$ 25,859	$ 62,725	$ -	$ 88,584
Budgetary Financing Sources:				
Other Adjustments	$ (1)	$ -	$ -	$ (1)
Appropriations Used	-	57,782	-	57,782
Nonexchange Revenue	3	7	-	10
Transfers-in/out without Reimbursement	-	(309)	306	(3)
Other Financing Sources (Nonexchange):				
Transfers-in/out without Reimbursement	-	306	(306)	-
Imputed Financing	1	77	-	78
Other	(6)	(2,742)	-	(2,748)
Total Financing Sources	**$ (3)**	**$ 55,121**	**$ -**	**$ 55,118**
Net Cost of Operations	**1,128**	**(35,888)**	**-**	**(34,760)**
Net Change	**$ 1,125**	**$ 19,233**	**$ -**	**$ 20,358**
Cumulative Results of Operations	**26,984**	**81,958**	**-**	**108,942**
Net Position	**$ 26,984**	**$ 179,951**	**$ -**	**$ 206,935**

The accompanying notes are an integral part of these statements.

U.S. Department of Housing and Urban Development Combined Statement of Budgetary Resources For the Year Ended September 30, 2020 (Dollars in Millions)	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:		
Unobligated Balance From Prior Year Budget Authority, Net	$ 102,890	$ 19,436
Appropriations (discretionary and mandatory)	70,069	-
Borrowing Authority (discretionary and mandatory)	8,700	23,449
Spending Authority from Offsetting Collections	22,190	23,184
Total Budgetary Resources	**$ 203,849**	**$ 66,069**
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total) (Note 21)	$ 69,311	$ 43,371
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	52,136	10,049
Unapportioned, Unexpired Accounts	81,498	12,649
Unexpired Unobligated Balance, End of Year	$ 133,634	$ 22,698
Expired Unobligated Balance, End of Year	904	-
Unobligated Balance, End of Year (Total)	134,538	22,698
Total Budgetary Resources	**$ 203,849**	**$ 66,069**
Outlays, Net:		
Outlays, Net (Total) (discretionary and mandatory)	38,009	-
Distributed Offsetting Receipts (-)	(4,819)	-
Agency Outlays, Net (discretionary and mandatory)	**$ 33,190**	**$ -**
Disbursements, Net (Total) (mandatory)	**$ -**	**$ 17,878**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

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 is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. HUD's financial statements and note disclosures should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

HUD's major programs, including FHA and GNMA, are discussed in the Management Discussion & Analysis (MD&A) section. Also, FHA and GNMA are considered consolidating entities to HUD. The other major programs are as follows:

The Section 8 Rental Assistance programs are for assisting low-income and very low-income families in obtaining decent, safe, and sanitary housing in the private market. Since housing assistance is provided on behalf of the family or individual, participants can find their own housing, including single family homes, townhouses, and apartments. HUD makes up the difference between what low-income and very low-income families can afford and the approved rent for an adequate housing unit funded by the Housing Choice Voucher (HCV) program.

Public and Indian Housing Loans and Grants includes both the Capital Fund and Native American Programs. The Capital Fund provides funds annually to Public Housing Agencies (PHAs) for the development, financing, and modernization of public housing developments and for management improvements. 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 Tribally Designated Housing Entities (TDHE) for construction and rehabilitation of low-rent housing. The Native American Programs guarantee home mortgage loans made to Native American borrowers. The loan guarantee assures the lender that its investment will be repaid in full in the event of a foreclosure.

The Homeless Assistance Grants (HAG) funds the formula Emergency Solutions Grant (ESG) program and the competitive Continuum of Care (CoC) 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 (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, disaster recovery assistance (DR), and improved community facilities and services.

The Home Investments Partnerships (HOME) 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-income 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 PHA and TDHE housing projects. These smaller programs are also included within the HUD consolidated revenues and financing sources reflected on the financial statements.

Under Federal Accounting Standards Advisory Board's (FASAB) S*tatements of Federal Financial Accounting Standards (SFFAS) No. 47: Reporting Entity*, HUD does not have any disclosure entities or related parties. HUD does not consider activities with a parent agency as a disclosure entity or a related party. HUD provides financial information to the parent agency monthly to facilitate the agency's reporting consolidation.

In HUD's FY 2019 Agency Financial Report (AFR), S*FFAS No. 49: Public-Private Partnerships (P3s)* risks were reported as a separate note disclosure based on HUD's interpretation of the newly implemented standard and most current OMB Circular A-136 guidance. In FY 2020, the OMB Circular A-136 provided clarifying guidance on public private partnerships and those activities that should be excluded from disclosure requirements. Based on the clarifying guidance, HUD's loan, loan guarantees, and insurance programs are excluded from P3 disclosure requirements.

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 *OMB Circular A-136, Financial Reporting Requirements*, and in conformance with the FASAB's *SFFAS* except for the presentation of comparative data. HUD Consolidated and the GNMA Component presented its financial statements (FS) and Notes as a single year presentation for FY 2020. HUD's decision to continue with single year reporting in FY 2020 is based on the complex nature of auditing the GNMA non-pooled asset portfolio and GNMA's cash flow models. The single year approach is necessary to allow adequate time for the audit of HUD's and GNMA's year-end FS and Notes. The FHA Component presents its year end FS and Notes comparatively in its Annual Management Report for FY 2020.

Pursuant to *SFFAS No. 34: The Hierarchy of Generally Accepted Accounting Principles (GAAP),* if the accounting treatment for a transaction or a similar event is not specified in FASAB and its related guidance, agencies can consider other accounting standards and guidance. GNMA has applied *SFFAS No: 34* in the accounting and presentation of its reimbursable costs, which are included on the Accounts Receivable, net line in the accompanying Balance Sheet, and to its Other Non-Credit Reform Loans, including associated interest income and accrued interest receivables. Details of the accounting policies for these items are included in the sections below titled "Accounts Receivable, net" and "Other Non-Credit Reform Loans."

Pursuant to *SFFAS No. 56: Classified Activities, under paragraph 12,* the accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

HUD's financial statements include all the accounts and transactions of HUD Proper, FHA, GNMA, and its grant, subsidy, and loan programs. All inter-fund accounts receivables, accounts payables, advances, prepayments, 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 (CMIA). The exceptions are as follows:

Public and Indian Housing's (PIH) HCV and Moving to Work (MTW) programs, where funds are paid on the first day of the month to cover rental expenses for that month. PIH's Office of Native American Programs (ONAP), where some grantees are granted authority by PIH to invest Indian Housing Block Grant (IHBG) funding based on programmatic requirements. In FY 2020, HUD received additional appropriated disaster funding Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19. PIH's HCV and MTW programs received additional CARES Act Housing Assistance Payments (HAP) supplemental and Administrative fees; this funding was pushed to the eligible Public Housing Authorities (PHAs).

C. Use of Estimates

The preparation of the principal financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of 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 (LLG), the Department relies on cash flow models associated with the loan guarantees subject to the Federal Credit Reform Act of 1990 (FCRA). The Department develops the assumptions underlying the cashflow models based on historical data, current and forecasted programs, and economic forecasts. Projections of future loan performance are used to estimate the Allowance for Subsidy and the LLG.

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.

OCFO and PIH worked to develop an estimation methodology to determine its quarterly prepayment balances for the Housing Choice Voucher (HCV) programs due to timing constraints on obtaining the actual data.

In FY 2019, OCFO, PIH, and Indian Housing Block Grant (IHBG) worked to develop an estimation methodology to determine its annual advance balances on the portion that is invested by eligible grantee recipients due to timing constraints in obtaining the actual data.

The PIH prepayment and advance estimate assumptions are disclosed in Note (10) PIH Prepayments and Advances.

HUD has a grant accrual policy and continues to refine its methodologies and underlying assumptions within that policy to develop the estimates. Grant accruals are calculated by the various program areas listed below on a quarterly basis and recorded in the trial balance to be included in the Financial Statements. These accruals represent HUD's estimate for its obligations/liability for work completed but not yet billed in its grant programs. The accruals are reversed in a later accounting period.

PIH: The Grant accruals are completed for the following PIH programs: Public Housing Capital Fund, HOPE VI/Choice Neighborhoods, Indian Housing Block Grant, and Native Hawaiian Housing Block Grant. These grant accruals are calculated by taking the actual total disbursements over a twelve-month period, divided by the number of months in a year. This methodology assumes that on average, there is a 30-day processing time for a PHA to incur an eligible expense, request a draw down, and then draw down the funds.

In the FY 2020 fourth quarter, the "*Public Housing Capital Fund*" and "*Indian Housing Block Grant*" grant accruals were calculated using the 30-day average, but the final accrual estimates were capped at the respective program obligation balances.

CoC: This grant accrual uses historical data based on the pattern of declining monthly grant balances. Based on the pattern of the balances, the program office projects the expenses that will be incurred and billed monthly based on the volume and timing of the grant funding and reasonable assumptions about the time period over which incurred expenses are billed.

Community Planning & Development (CPD): This grant accrual consists of the following CPD programs: HOME Investment Partnership Program (HOME), Community Development Block Grants Program (CDBG), Housing Opportunities for Persons with Aids (HOPWA), HUD Emergency Assistance Grant Program (HESG), and the Homelessness, Prevention and Rapid Re-Housing Program (HPRP).

HOME and CDBG follow the same grant accrual methodology. The working assumption for each program is that the expenses accrue over a period (which varies by activity and type) and are generally billed to the government within an interval of time after being incurred. The calculation process involves a financial model that includes the historical data of the total funded amounts by month for each CDBG and HOME activity type.

CDBG-DR accruals use a point estimate in conjunction with the program specific unliquidated obligations to determine a ratio. Once this ratio is determined, it is applied to the period in which an accrual is desired to be calculated. CPD's grant accrual estimates are statistically validated through annual execution of grantee survey responses.

Housing Opportunities for Persons with Aids (HOPWA), HUD Emergency Assistance Grant (HESG), and Homelessness Prevention and Rapid Rehousing (HPRP): These programs follow the same methodology and its calculations are based on historical data for each program's current year (which is expressed as a percentage of current period draws). This number is then applied to the total monthly withdrawn amount for the specified period.

Housing for the Elderly, Housing for Disabilities, and Housing Counseling Assistance Program: The methodology uses actual disbursements made to the grantees for the three-months ending on the financial reporting date. Grantees' drawdowns and spending patterns throughout the year may vary by grantee, and by month, based on various factors. A test of disbursement trends for 86-0237, 86-0320 and 86-0156 revealed that the volume and dollar amount of disbursements are declining over the years. Using the prior three months' disbursements allows for a closer estimate of current disbursement count and amount of Section 202, Section 811, and Housing Counseling. The total of the prior quarter's disbursements is used to provide the three-month estimate of disbursements.

This methodology is based on five assumptions: (1) Disbursements under the Project Rental Assistance Contract (PRAC) and Section 811 Project Rental Assistance (PRA) are excluded because they are project based and operate the same way as the Project Based Rental Assistance (PBRA) program which is on the CFO's Excluded Programs list; (2) The number of traditional Section 202 and Section 811 projects remaining in the pipeline have decreased since no new projects have been funded since the Appropriations Act of 2011; (3) Disbursements tend to be higher during the 4th quarter as offices try to achieve their goals of completing, initial and final closings, for Section 202 and Section 811 projects; (4) On average, there is a 30-day (or less) processing time for project/grantee to request and draw down funds. Disbursements for a month will generally reflect the expenses invoiced in the previous month; (5) The methodology accounts for wide variations in appropriation timing and in the timing of award announcements. Housing Counseling grantees' draw down of funds from eLOCCS and spending patterns throughout the year may vary by grantee, and by year and month, based on various factors (for example, the timing of award announcement).

GNMA has made significant estimates in a variety of areas including, but not limited to, its valuation of certain financial instruments such as: acquired property, allowance for loss on mortgage loans held for investment, and the liability for loss on remaining coverage associated with the administration of the MBS program guaranty. Those estimates are included in the balance of Other Non-Credit Reform Loans and Insurance and Guarantee Program Liabilities in the accompanying Balance Sheet (BS), the actual results could differ from those estimates. For additional information refer to Note (6) Accounts Receivable, net, Note (8) Other Non-Credit Reform Loans, and Note (25) Insurance Programs.

D. Entity and Non-entity Assets

Assets are classified as either entity or non-entity assets. Entity assets are those assets that HUD has the authority to use for its operations. Non-entity assets are those assets 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. For additional information refer to Note (2) Non-entity Assets.

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

Fund Balance with Treasury (FBWT) is an asset of HUD and a liability of the General Fund. Similarly, investments in Federal Government securities that are held by GNMA's Dedicated Collections accounts are assets of the reporting entity responsible for the Dedicated Collections and liabilities of the General Fund. In both cases, the amounts represent commitments by the Government to provide resources for HUD programs, but it does not represent the net assets to the Government as a whole. When HUD seeks to use FBWT to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

HUD maintains all cash accounts with Treasury. Treasury processes cash receipts and disbursements on behalf of HUD. 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.

GNMA's business operations are fully funded by dedicated offsetting collections paid by Financial Institutions (issuers) participating in the Mortgage-Backed Securities (MBS) Guarantee Program. Although GNMA's MBS Guarantee Program is not subject to Federal Credit Reform Act (FCRA), GNMA has implemented a "Modified Credit Reform" process and uses the program, financing, liquidating and capital reserve accounts to process its cash receipts and disbursements through Treasury. Cash held with Treasury includes GNMA's capital reserves (unavailable until apportioned by OMB) and available spending authority of obligated and unobligated balances available to finance allowable expenditures.

The capital reserve is a budget account that retains the MBS Guarantee Program's negative subsidy, downward re-estimates, and overnight securities interest collections. The capital reserve account maintains GNMA's unobligated reserve balances which are transferred to the program and/or financing accounts (as needed) to fund business operations.

The program account is a budget account that receives multiclass, commitment, and service fee collections from issuers and non-expenditures transfers (NET) from GNMA's capital reserve account to cover program contract obligations. The program account also disburses the upward re-estimates to the financing account; and receives spending authority appropriations enabling GNMA to use its multiclass and commitment fee collections to fund its administrative salaries and expenses.

The liquidating account is a budget account that receives overnight securities interest collections and records unclaimed security holders cash flows. The liquidating account maintains a spending authority level of $100 million and transfers collections in excess of that threshold to the capital reserve account.

The financing account is a non-budgetary account that records all cash flows resulting from GNMA's MBS guarantee. The financing account receives guarantee pool transfers and other program fee collections from issuers. It receives claim payments from direct loan and loan guarantee agencies. It receives NET from GNMA's capital reserve account to cover contract obligations, MBS guarantee program disbursements such as principle and interest past-through payments to MBS investors, and negative subsidy and downward re-estimate payments to the capital reserve account. The financing account also receives upward re-estimate payments from the program account. The unobligated balances in the financing account are not invested in Treasury securities and does not receive an uninvested interest collection from Treasury.

In prior fiscal years, GNMA earned and collected interest on uninvested funds, which was calculated using the applicable version of the Credit Subsidy Calculator (CSC2) provided by the OMB. In 2018, Treasury clarified rules regarding the collection of interest on uninvested funds in the Financing Account. Based on discussions with Treasury, GNMA was not entitled to earn interest on uninvested funds without a signed borrowing agreement in accordance with FCRA. GNMA is in ongoing discussions with OMB and its legal counsel on whether the Financing Account is fully subject to the provisions of FCRA. Resolution of the matter between GNMA and OMB is pending, and an agreement has not yet been reached concerning whether GNMA would be required to repay prior interest income received on uninvested funds or be able to earn interest in the future.

The Guarantees of Mortgage-Backed Securities Pass-through Assistance Account is a General Fund Expenditure account, established on April 1, 2020, for the purposes of properly recording non-FCRA borrowing agreement collection and repayments resulting from the financial obligations of GNMA's Pass-through Assistance Program (PTAP) related to COVID-19. For additional information on GNMA's PTAP refer to the PTAP section in this Note.

F. Investments

HUD limits its investments, which are principally comprised of investments by FHA's Mutual Mortgage Insurance (MMI)/Cooperative Management Housing Insurance (CMHI) Fund and GNMA, 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, that are publicly marketed.

HUD's investment decisions are limited to Treasury policy's 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. FHA uses the straight-line amortization method for the interest accrual and amortization of discounts for its investments in short-term Treasury bills. Some of FHA's short-term investments are in one-day overnight securities, which are measured at cost. For its investments in long-term Treasury notes and bonds, FHA uses the effective interest rate method to account for bond discount accretion and bond premium amortization.

GNMA's U.S. Treasury short-term investments consist of one-day overnight certificates that are issued with a stated rate of interest to be applied to their par value with a maturity date of the next business day. These overnight certificates are measured at cost, which approximates fair value. There is no amortization on GNMA's short-term investments.

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. For additional information refer to Note (5) Investments.

G. Accounts Receivable, net

HUD's accounts receivables include partial claims and generic debt, fees, interest, reimbursable costs, criminal restitution and other.

FHA's Single-Family Notes (SFN), Accounting Area 65, records the loss mitigation activity for all partial claim notes. Each subsection of the loss mitigation program has a set of qualifications and requirements that were put in place to assist borrowers who were in default or imminent default of retaining their homes, and/or to reduce losses to the insurance fund that result from mortgage foreclosures. Any FHA-insured borrower who is in default for a least 120 days and who occupies the mortgaged property as a primary residence can obtain a partial claim for the delinquent portion of their mortgage. The partial claim note is not due until the 1st lien has been paid in full. The partial claim note receivables reported under Note (6) Accounts Receivable, net, are partial claims for which FHA has paid a claim but has not received the note.

All HUD/FHA debt types are referred to as Generic Debts. Generic Debts may be consumer debts or commercial debts. Each debt type is associated with an accounting category, which facilitates appropriate financial reporting. The FHA Financial Operations Center (FOC) is responsible for the servicing and recovery of all delinquent debts owed to FHA. Debts serviced by the FOC are subject to the provisions of the Debt Collection Improvement Act (DCIA) of 1996 and the Center partners with Treasury's Bureau of Fiscal Service in the recovery of delinquent FHA receivables. The center maintains compliance with the

DCIA which requires that all eligible receivables that are 120 days delinquent must be referred to both Treasury's Offset Program (TOP) and Treasury's Cross Servicing Program. TOP is a centralized offset program which collects delinquent debts owed to federal agencies and states. The FOC's responsibility for debt collection begins when it receives a referral package, and this package contains enough documentation to load the debt into the Debt Collection Asset Management System (DCAMS). The actual documents and information submitted will vary based on the type of debt. HUD Proper debts and receivables are managed at the Department level.

GNMA accrues interest on mortgage loans held for investment at the contractual rate and records an allowance on accrued interest to the extent interest is uncollectible for conventional loans, and to the extent interest is not expected to be recovered per insurance guidelines for insured or guaranteed loans. GNMA's policy is to record interest on FHA-insured delinquent loans at the debenture rate, or rate per relevant insuring agency guidelines, as applicable, and place delinquent uninsured loans on non-accrual status. GNMA determines the allowance for uncollectible accrued interest for loans which are not impaired under *SFFAS No. 1*: *Accounting for Selected Assets and Liabilities – Accounts Receivable* and *SFFAS No. 5*: *Accounting for Liabilities of the Federal Government – Contingencies*.

GNMA places uninsured loans on a non-accrual status, which means that the interest is no longer accrued or recorded as earned for the loan, once principal and interest are 90 days or more past due, and GNMA believes collectability of payments is not reasonably assured. For uninsured loans placed on non-accrual status, interest previously accrued but not collected becomes a part of GNMA's recorded investment for the loan. The recorded investment represents the total recorded book value which is assessed for impairment purposes. Since FASAB currently does not directly address the accounting treatment for impairment of non-credit reform loan receivables, GNMA assesses interest under *Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 310 Receivables* for its impaired loans, in accordance with *SFFAS No. 34: The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. When a loan is on non-accrual status, GNMA has elected to apply any cash received for uninsured loans to the carrying value of the loan based on the cost recovery method. The cost recovery method defers recognition of any income related to the loan until the entire carrying value has been recovered.

Once insured loans are 90 days or more past due, they are placed on modified accrual status, whereby interest is accrued at the rate recoverable from the insurer, which is typically less than the original contractual rate. For insured loans placed on modified accrual status, interest previously recognized at the contractual rate is not reversed but becomes a part of GNMA's recorded investment. For FHA insured loans on modified accrual status, cash receipts are applied in accordance with the principal and interest amortization schedule due to the extent of the coverage provided by the FHA insurance which makes recovery more certain. For loans insured or guaranteed by other insurers/guarantors (Rural Development (RD), Veteran Affairs (VA), or PIH), GNMA has elected to apply cash received to the carrying value of the loan based on the cost recovery method, since amounts recovered may be less.

Loans can be returned to accrual status if GNMA is able to determine that all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period and there is a sustained period of reperformance. If a loan is modified, during the trial modification period, interest income is recognized when cash is received, rather than accrued under the modified terms, until the borrower has demonstrated the ability to meet the terms of the modified loan and the amounts become sufficiently assured of repayment to warrant accrual treatment.

GNMA advances funds to preserve its interests in mortgaged property, such as advancing funds to cover shortfalls for mortgagors' taxes and insurance when escrow balances are insufficient, or pre-foreclosure and foreclosure costs and other expenses, such as Homeowners Association fees incurred during the foreclosure process. These costs may be recovered through borrower repayments, proceeds from liquidation of mortgaged property, or, for insured loans, from reimbursement by the insuring agency. Costs incurred on both pooled and non-pooled loans expected to be reimbursed are recorded as reimbursable costs receivable and reported net of allowance for amounts that management believes will not be collected. The allowance for reimbursable costs is estimated based on historical experience, which includes expected collections from the mortgagors, proceeds from the sale of the property, and reimbursements collected from insurers or guarantors such as FHA, RD, VA, and PIH.

For additional information on HUD's accounts receivables refer to Note (6) Accounts Receivables, net.

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 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). Additionally, FHA has a capital reserve account associated with its MMI/CMHI Fund. These accounts are classified as either budgetary or non-budgetary in the *Combined Statement of Budgetary Resources (SBR)*. 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 budgetary 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 Treasury, earns or pays interest, and receives the subsidy cost payment from the program account. Although GNMA does not follow Credit Reform, its financing account is a non-budgetary account.

The general fund receipt account is an 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 Treasury's General Fund. The FHA general fund receipt accounts for the General Insurance (GI) and Special Risk Insurance (SRI) funds fall in this category.

In the National Affordable Housing Act (NAHA) of 1990 Congress introduced a capital ratio requirement for gauging the financial status of FHA's Mutual Mortgage Insurance Fund (12USC 1711 (f)(4) and requires that FHA maintain a two percent Capital Ratio in the MMI Fund. The Capital Ratio compares economic net worth (current cash plus the present value of all future net cash flows) of the MMI fund to the dollar balance of active insured loans (the unpaid balance of insured mortgages) at a point in time. 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 budgetary account that records all cash flows to and from FHA and HUD Proper 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 liquidating accounts including the GI/SRI at year-end are transferred to Treasury's General Fund. Consequently, if resources in liquidating accounts including GI/SRI are otherwise insufficient to cover the payments for obligations or commitments, the FCRA provides the liquidating accounts with permanent indefinite authority to cover any resource shortages.

I. 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 (FFB) Risk Share Program. Under the requirements of the FCRA, PMM notes are 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 lenders for claims on defaulted guaranteed loans, or loans that have reached their maximum claim amount, and takes assignment of these loans for direct collections. The majority of MNAs are Home Equity Conversion Mortgages (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. Partial claims are second mortgages on HUD-insured properties and are classified as defaulted guaranteed loans. Loans under the FFB Risk Share Program are direct loans pursuant to Treasury guidelines.

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: Amendments to Accounting Standards for Direct Loans and Loan Guarantee in Statement of Federal Financial Accounting Standards No. 2*. Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows associated with these assets, primarily from estimated proceeds less selling and maintenance costs. The difference between the cost of these loans and properties and the net present value is called the Allowance for Subsidy. Pre-Credit Reform loans receivable resulting from obligations or commitments prior to October 1, 1991, and related foreclosed property in inventory are recorded at net realizable value based on recovery rates net of any selling expenses. For additional information on pre-Credit Reform loans refer to Note (7) Direct Loans and Loan Guarantees, Non-Federal Borrowers.

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 the principal is considered doubtful, the accrual of interest income is suspended, and receipts (both interest and principal) are recorded as collections of principals. 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.

J. Other Non-Credit Reform Loans

Other Non-Credit Reform Loans consists of GNMA Advances, Pass-Through Assistance Program Issuer Advances, Mortgage Loans Held for Investment, Claims Receivable, and Properties Held for Sale.

GNMA Advances, Net

Advances represent GNMA pass-through payments to fulfill the guarantee of timely principal and interest (P&I) payments to Mortgage-Backed Securities (MBS) holders. GNMA reports advances net of an allowance for amounts not expected to be collected. GNMA calculates the allowance based on expected recovery amounts. The calculation incorporates reimbursements per established insuring or guaranteeing agency guidelines, GNMA's collections experience, and other economic factors. GNMA reclassifies advances associated with loans purchased out of the MBS pools as part of the total recorded investment in the purchased loan.

Pass-Through Assistance Program (PTAP) Issuer Advances

When the President of the United States declares a major disaster, GNMA, at its sole discretion, may extend to issuers one or more of the Disaster Assistance Programs identified in Chapter 34 of its Mortgage-Backed Securities Guide (MBS Guide), including PTAP. Under PTAP, GNMA assists Issuers with pass-through payments of P&I to investors if the issuers are facing a temporary liquidity shortfall directly attributable to a major disaster. Requests for assistance should only be made by an issuer as a "last resort." PTAP is not intended to provide long-term financing, or to address the full extent of solvency issues that an issuer might face as a result of a disaster. An issuer who receives an eligible pass-through assistance advance from GNMA will be obligated to repay it to GNMA according to the terms set forth in the applicable Supervisory Agreement. GNMA recognizes each pass-through assistance advance as a financing receivable, referred to as PTAP receivables. GNMA cannot transfer PTAP receivables to another party and has the intent and ability to hold them for the foreseeable future or until maturity. Therefore, GNMA classifies all PTAP receivables as Held for Investment (HFI) and reports their carrying value, which includes the outstanding contractual balance (including accrued interest), net of cost basis adjustments, and net of allowance. GNMA accrues interest on PTAP receivables based on the interest method and records an allowance on accrued interest to the extent interest is uncollectible.

GNMA places PTAP receivables on non-accrual status upon the earlier of when GNMA determines that payment in full is not expected from the issuer or when the PTAP receivable has been due and unpaid for 90 days. When PTAP receivables are placed on non-accrual status, GNMA suspends recognizing additional interest income.

GNMA performs periodic and systematic reviews of PTAP receivables to identify credit risks and assess the overall collectability. When GNMA determines that it is probable that a credit loss has occurred and the loss can be reasonably estimated, GNMA recognizes the estimated amount of the incurred loss. This allowance is netted against the recorded investment of PTAP receivables on the balance sheet.

GNMA charges off accrued interest and unpaid principle balance (UPB) amounts for PTAP receivables when it believes collectability of interest or principal is not reasonably assured. GNMA's policy is to evaluate individual PTAP receivables on a quarterly basis and record recoveries of PTAP receivables previously charged off when repayment received from the issuer exceeds the recorded investment. The recoveries are recorded by crediting the allowance, which results in an indirect credit to earnings through Recapture (Provision) for Pass-Through Assistance Program receivables including accrued interest, net.

Mortgage Loans Held for Investment, Net

GNMA approves issuers to pool loans and issue GNMA guaranteed MBS. For federal income tax purposes, the MBS pool created by the issuer is considered a grantor trust. As such, each of these "virtual trusts" are considered individual legal entities. When a GNMA issuer defaults, and is terminated and extinguished, GNMA steps into the role of the issuer and assumes all servicing rights and obligations of the issuer's entire GNMA guaranteed portfolio of mortgage loans. This includes loans in MBS pools created by the issuer and the obligation to make timely pass through payments to securities holders. GNMA utilizes a Master Sub-servicer (MSS) to service these portfolios. There are currently two MSS that service the terminated and extinguished issuer portfolios (pooled and non-pooled loans). Loans held in MBS pools are not included in the Balance Sheet since they are not assets owned by GNMA until purchased out of the pools.

In its role as servicer, GNMA assesses individual loans within its pooled portfolio to determine whether the loan must be purchased out of the pool. GNMA must purchase mortgage loans out of the MBS pool when the mortgage loans are ineligible for insurance by the FHA, RD, VA, or PIH, as well as loans that have been modified beyond the trial modification period. Additionally, GNMA has the option to purchase mortgage loans out of the MBS pool when the mortgage loans are insured but are delinquent for more than 90 days.

Mortgage loans are classified as Held for Investment (HFI) when GNMA has the ability and the intent to hold acquired loans for the foreseeable future or until maturity. HUD reports the carrying value of HFI loans on the Balance Sheet at the Unpaid Principal Balance (UPB) along with accrued interest, net of cost basis adjustments, and net of allowance for loan losses. GNMA records cost basis adjustments for HFI loans which are considered Troubled Debt Restructurings (TDR), or loans which are classified as Purchased Credit Impaired (PCI). GNMA also records an allowance for loan losses to reflect the collectability of the loans.

If HUD decides to sell the loans currently recognized on its Balance Sheet, HUD will reclassify the applicable loans from HFI to Held for Sale (HFS). For loans which are initially classified as HFI and subsequently transfers to HFS, those loans would be recognized at the lower of cost or fair value until sold, with any related cash flows classified as operating activities. As of September 30, 2020, HUD had no loans classified as HFS, and mortgage loans held for investment included only single-family loans.

Allowance for Loan Losses

GNMA performs periodic and systematic reviews of its loan portfolios to identify credit risks and assess the overall collectability of the portfolios. GNMA recognizes the estimated uncollectible portion of its recorded investment in the loans when (1) available information at each BS date indicates that it is probable a loss has occurred and (2) the amount of the loss can be reasonably estimated.

Loans which have not been classified as TDR or PCI are evaluated collectively. For large groups of homogeneous loans that are collectively evaluated, GNMA records an allowance for loan losses against both principal and interest. When GNMA determines that it is probable, a credit loss will occur, and that loss can be reasonably estimated. GNMA recognizes the estimated amount of the incurred loss in the allowance for loan losses. GNMA aggregates its mortgage loans based on common risk characteristics, primarily by the type of guarantee or insurance (FHA, RD, VA, PIH) associated with the loan, as each has a different recovery rate. GNMA also categorizes uninsured loans separately from insured loans. The allowance for loan losses estimate is calculated using statistical models that are based on historical loan performance and insurance recoveries. The estimate also includes qualitative factors, where applicable. This estimated allowance for losses represents management's best estimate of probable credit losses inherent in GNMA's mortgage loan portfolio. The allowance is netted against the recorded investment in mortgage loans.

GNMA charges off accrued interest and unpaid principal balances when it believes collectability of interest or principal is not reasonably assured. GNMA charges off confirmed losses against the asset (loan) and allowance for loan losses when the asset is greater than 180 days delinquent. The charge off is determined based on the difference between the recorded investment and either fair market value or net recoverable value.

GNMA records recoveries of non-FHA insured loans previously charged-off when cash is received from the borrower related to principal and interest in excess of the recorded investment. For FHA loans, GNMA records recoveries of previously charged-off accrued interest amounts when cash is received from the borrower related to interest in excess of the recorded interest on its books. Recoveries of loans previously charged off are recognized as an increase to the allowance for loan losses when payment is received.

GNMA considers a loan to be impaired when, based on current information, it is probable that amounts due will not be received in accordance with the contractual terms of the loan agreement. GNMA's impaired loans include those modified in TDRs and PCI loans. Since FASAB currently does not directly address the accounting treatment for impairment of non-credit reform loans receivables, GNMA assesses loans under *FASB ASC 310 Receivables* for its impaired loans. For impaired loans, GNMA measures impairment based on the present value of expected future cash flows. GNMA's expectation of future cash flows incorporates, among other items, estimated probabilities of default and prepayment based on several economic factors as well as the characteristics of a loan. Additionally, GNMA considers the estimated value of the collateral, as reduced by estimated disposition costs, and estimated proceeds from insurance and similar sources, if applicable.

To avoid foreclosure, the MSS, on behalf of GNMA, may modify loans to help mortgagors who have fallen into financial difficulties with their mortgages. Methods of modifying loans may include offering concessions and restructuring the terms of the loan to alleviate the burden of the mortgagor. Some concessions made are a delay in payment that is more than insignificant; a reduction in the contractual interest rate that is lower than the market interest rate at the time of modification; interest forbearance for a period of time for uncollected interest amounts, that is more than insignificant; principal forbearance that is more than insignificant; and discharge of the mortgagor's obligation due to filing of Chapter (7) Bankruptcy. GNMA considers these modifications a concession to mortgagors experiencing financial difficulties and classifies these loans as TDRs. GNMA measures the impairment on these loans restructured in a TDR based on the excess of the recorded investment in the loan over the present value of the expected future cash flows discounted at the loan's original effective interest rate.

As described in further detail in Note (27) COVID-19 Activity, the Board of Governors of the Federal Reserve, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Consumer Financial Protection Bureau, in consultation with state financial regulators, issued a revision to the Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus ("Interagency Statement"), which provides for certain accounting elections related to loan modifications under Section 4013 of the CARES Act. GNMA has elected to account for modifications in accordance with the guidance outlined within the Interagency Statement. For loan modifications subject to relief under the Interagency Statement, institutions may presume borrowers are not experiencing financial difficulties at the time of the modification for purposes of determining TDR status, and thus no further TDR analysis is required for each loan modification in the program. In accordance with the Interagency Statement, loans subject to relief will continue to be presented as current within the financial statement aging disclosures. Further, these loans will continue to recognize interest income subject to GNMA's existing accounting policy. For additional information refer to Note (8) Other Non-Credit Reform Loans.

GNMA evaluates 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 GNMA will be unable to collect all contractually required payments. GNMA considers insurance and guarantees from FHA, RD, VA, and PIH in determining whether it is probable that GNMA will collect all amounts due according to the contractual terms. Loans determined to meet these criteria are classified as Purchased Credit-Impaired (PCI). GNMA records realized losses on PCI loans when, upon purchase, the fair value is less than the acquisition cost of the loan. GNMA also recognizes the difference between the initial investment of the loan, and the undiscounted expected cash flows (known as the accretable yield) as interest income on a level-yield basis over the expected life of the loan.

Claims Receivable, Net

Claims receivable represent receivables for payments owed to GNMA from insuring agencies (FHA, RD, VA and PIH). Claims receivable consist of two primary components:

Short sale claims receivable: A property may be sold for an agreed-upon price that falls short of amounts owed on the property as an alternative to foreclosure. This type of sale is known as a “short sale”. Short sale proceeds are often insufficient to fully pay off the mortgage. GNMA’s MSS identifies loans that may be short sale eligible. This evaluation is based on factors such as delinquency, appraised value of the property, and location of the property. GNMA’s Office of Issuer and Portfolio Management (OIPM) approves all short sales.

FHA is the largest insurer for GNMA. FHA typically pays GNMA the difference between the proceeds received from the sale and the UPB of the mortgage loan plus FHA-allowable delinquent interest, and other reasonable and customary costs per the FHA guidelines. FHA guidelines provide for interest claims to be calculated based on a debenture rate, as published by FHA. FHA does not reimburse the first two months of delinquent interest payments. Short sales on RD, VA, and PIH guaranteed loans follow a similar process in which the claims receivable amount is determined in accordance with the respective agency guidelines. GNMA records a short sale claims receivable while it awaits repayment of the shortfall amount from the insuring or guaranteeing agencies.

GNMA uses statistical models to assess the collectability of its claims receivable. The models estimate expected recovery based on insuring or guaranteeing agency guidelines and GNMA’s historical experience. GNMA records an allowance for claims that are not expected to be recovered. GNMA charges off any uncollectable amounts against the allowance, once losses are confirmed.

Foreclosed property: GNMA records foreclosed property when the MSS receives title to a residential real estate property. Title may be received pursuant to a legal foreclosure process, or when the mortgagor conveys all interest in the property to satisfy the loan through a “deed in lieu of foreclosure” or similar legal agreement. These properties differ from acquired properties as GNMA intends to convey the property to an insuring or guaranteeing agency, instead of marketing and selling the properties. The amount of the claim receivable is determined based on the underlying insuring or guaranteeing agency guidelines. Typically, this includes the UPB for the loan and any allowable interest and other costs per the guidelines.

GNMA uses statistical models to assess the collectability of its claims receivable. The models estimate expected recovery based on insuring or guaranteeing agency guidelines and GNMA’s historical experience. GNMA records an allowance for claims that are not expected to be recovered. GNMA charges off any uncollectable amounts against the allowance once losses are confirmed.

Properties Held for Sale

GNMA recognizes properties held for sale (“acquired property”), when marketable title to the underlying property is obtained. Title may be obtained through a legal foreclosure process or deed in lieu of foreclosure or other similar legal agreements. These assets differ from “foreclosed property” as they are not conveyed to the insuring agencies and GNMA will hold the title while the properties are marketed for sale by the MSS.

GNMA initially measures acquired property at its fair value, net of estimated costs to sell. GNMA records a charge off against the allowance for loan losses when the recorded investment in the loan prior to acquisition of title exceeds the fair value, net of estimated cost to sell, of the acquired property. If the fair value, net of estimated costs to sell, exceeds the recorded investment in the loan, GNMA recognizes a recovery for any forgone P&I. This amount is recognized with operating expenses included in gross cost in the accompanying Statement of Net Cost (SNC).

GNMA subsequently measures acquired property at the lower of its carrying value or fair value, less estimated costs to sell. GNMA recognizes any decreases in fair value, net of estimated costs to sell, below the carrying value through a valuation allowance. The offsetting charge for the valuation allowance is recorded as income (expense) on acquired property included in gross cost in the accompanying SNC. Any subsequent increase in fair value, net of estimated costs to sell, up to the cumulative loss previously recognized through the valuation allowance, is recognized with operating expenses included in gross cost in the SNC.

GNMA capitalizes subsequent improvement costs for acquired property. GNMA expenses other costs as incurred with operating expenses included in gross cost in the SNC.

GNMA records gains and losses on sales of acquired property as the difference between the net sales proceeds and the carrying value of the property. These gains and losses are recognized through “Gains on Disposition of Assets – Other” included in earned revenues in the SNC. For additional information refer to Note (8) Other Non-Credit Reform Loans.

K. Property, Plant, and Equipment, Net

Property, Plant, and Equipment, net (PP&E) is comprised 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.

L. 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. For additional information on liabilities not covered by budgetary resources refer to Note (12) Liabilities Not Covered by Budgetary Resources.

M. Borrowings

As further discussed in other notes, several of HUD's programs have the authority to borrow funds from 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 borrows 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. For additional information refer to Note (13) Debt.

N. 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 sheet. Pursuant to *SFFAS No. 2*, the Loan Guarantee Liability (LGL) 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 based on its cash flow models and FHA values its Pre-Credit Reform related notes and properties in inventory at net realizable value, determined based on estimated net cash outflows. To value these items, FHA uses historical claim data, revenues from premiums and recoveries, and expenses of selling and maintaining properties.

O. 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 U.S. 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 the "Other Liabilities" line on the Consolidated Balance Sheet.

P. 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.

Q. Insurance and Guarantee Program Liabilities

GNMA's MBS program guarantees the timely payment of P&I on securities backed by pools of mortgage loans insured by FHA, PIH and Rural Housing Service, or guaranteed by the VA. GNMA's MBS Guaranty program is considered an exchange transaction insurance program other than life insurance under *SFFAS No. 51: Insurance Programs*. In accordance with the requirements of *SFFAS No. 51*, GNMA determines a liability for loss on remaining coverage associated with outstanding MBS guarantees as the total non-contingent guaranty obligation and contingent liability less the total guaranty asset. When a liability is determined to exist, this amount is recorded as the liability for loss on remaining coverage and is included in Insurance and Guarantee Program Liabilities on the Balance Sheet. Initial recognition and subsequent changes in the liability for loss on remaining coverage are reflected on the Balance Sheet and are recorded as a loss included in gross cost on the Statement of Net Cost.

R. Operating Revenue and Financing Sources

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

As a component of the Government-wide reporting entity, HUD is subject to the Federal budget process, which involves appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in HUD and the Government-wide financial reports.

HUD's budgetary resources reflect past congressional action and enable HUD to incur obligations, but they do not reflect assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions. After budgetary obligations are incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way that it finances all disbursements, using some combination of receipts, other inflows, borrowing from the public (if there is a budget deficit).

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.

GNMA Fees

Fees received for GNMA's guaranty of MBS are recognized as earned. Commitment fees represent income that GNMA earns for providing approved issuers with authority to pool mortgages into GNMA MBS. GNMA receives commitment fees as issuers request commitment authority and recognizes the commitment fees as earned when 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. Multiclass fees represent one-time upfront fees related to the issuance of multiclass products. Multiclass products include Real Estate Mortgage Investment Conduits (REMICs) and Platinum Certificates. The fees received for REMICs consist of guaranty fee and may include a modification and exchange (MX) Combination fee. The guaranty fee is paid by the sponsor and is based upon the total principal balance of the deal. The MX combination fee allows the sponsor to combine REMIC and/or MX securities at the time of issuance. The guaranty fee is deferred and amortized into income evenly over the contractual life of the security. The MX combination fee, on the other hand, is recognized immediately in earnings (i.e., upon the combination of REMIC and/or MX securities). The fees received for Platinum Certificates are deferred and amortized into income evenly over the contractual life of the security. GNMA also recognizes income through fees related to new issuer applications, transfers of issuer responsibilities, and mortgage servicing fees.

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 (OPM), 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.

S. 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 GI/SRI funds. For Credit Reform loan guarantees, appropriations to the GI/SRI funds are provided at the beginning of each fiscal year to cover estimated positive subsidy and upward re-estimates 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.

T. 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 estimated each responsible segment’s share of the program costs or resources provided by HUD or other federal agencies. In accordance with *SFFAS No. 55 Amending Inter-Entity Cost Provisions,* HUD records the required inter-entity costs which includes personal benefits and Treasury Judgment fund settlements. HUD has also elected to record inter-entity costs for a non-business type activity with Homeland Security for IT services.

U. 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, may have elected to either join FERS and Social Security or remain in CSRS. HUD expenses its contributions to the retirement plans.

Under FERS, HUD automatically contributes 1 percent of pay and matches any employee contribution up to 5 percent of an individual's basic pay. Under CSRS, employees do not receive any Government contributions in the (Thrift Savings Plan) TSP accounts. 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.

V. 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.

GNMA has fiduciary activities which involve the collection or receipt and subsequent disposition of cash in which non-federal entities have an ownership interest. Fiduciary assets are not assets of GNMA or the federal government. The fiduciary assets held by GNMA include escrow funds held in trust. Escrow funds held in trust are managed by the MSS on behalf of GNMA. Under the terms of contracts with the MSS, reporting of escrow amounts is provided subsequent to the release of the accompanying financial statements; however, one of the two MSS was able to provide this data earlier than required. As a result, GNMA estimates the amount of fiduciary activities based on the latest available escrow information. The fiduciary amount is $25 million which consists of $14 million for one of the two MSS as of September 30, 2020, and $11 million for the remaining MSS as of August 31, 2020. This amount approximates the total fiduciary balance as of September 30, 2020.

W. 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 non-federal 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.

X. 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.

Y. 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. For additional information refer to Note (17) Dedicated Collections.

HUD presents its funds from dedicated collections on the BS and Statement of Changes in Net Position (SCNP), from consolidating to combining based on the most recent guidance in the OMB Circular A-136. Non-exchange revenue and other financing sources from funds from dedicated collections, including net cost of operations, are shown separately on the SCNP. The portion of cumulative results of operations attributable to funds from dedicated collections is shown separately on both the SCNP and the BS.

Z. 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 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 agency to the child agency. HUD is the child for three allocation transfers, the Appalachian Regional Commission, Department of Transportation, and Department of Treasury.

AA. Correction of Errors:

HUD continues to make significant strides in improving its overall internal control processes over financial reporting. HUD has continued to work diligently over this past year to improve the integrity of its financial data by putting additional controls in place through the financial management transformation initiative. Some of those controls included the continual strengthening of cross collaboration throughout HUD, increasing special purpose work groups to identify areas requiring refinement and implementing new processes to ensure financial data integrity and compliance with regulatory requirements. As a result of the continual progression of the financial management transformation momentum, HUD was able to identify correction of errors to avoid material misstatements to HUD's financial statements and notes. The corrections of errors are listed below.

HUD's financial personnel improved its controls over financial reporting, and thus were able to identify and correct the "Outstanding Principal Guaranteed Loan" balance on the "All Other" line specifically for the Indian Housing Loan Guarantee (IHLG) Fund. The Department performed an analysis of the principal amortization of HUD Proper's guaranteed loan programs. As a result of the analysis, the Department determined that the IHLG program's Outstanding Principal Balance was being amortized at a significantly lower rate than HUD Proper's other loan guarantee programs. This resulted in a $3,24 million overstatement of the "All Other" line in Note (7) Section J1. There was no impact on the financial statements. HUD implemented a corrective action plan to review the data on a monthly basis using a database system which is updated regularly from various sources.

In FY 2020, HUD financial personnel performed extensive research to determine if previously recorded operating expenses that were financed to cover ESPC improvements to the HUD Headquarters Building should be recognized as leasehold improvements. After analysis and discussions with other federal agencies it was determined that these expenses should be recognized as leasehold improvements. This correction resulted in an increase to balance sheet liabilities of $44 million for the remaining balance on the debt service agreement as of September 30, 2020. It also resulted in an increase to balance sheet assets on the Net Property, Plant, and Equipment line of $34 million which includes leasehold improvements less the related accumulated depreciation. The balance sheet assets and liabilities were understated as a result of the error. There was an overall understatement of net position due to the unrecognized accumulated depreciation expenses of $12 million offset by $3 million of expenses that should have been recorded as a leasehold improvement. Since the debt service was not originally set up as an asset, HUD recorded a correction of an error, in FY 2020, in the amount of $9 million dollars. The overall amount of the leasehold improvement activity is immaterial to HUD's Total Assets. This correction of error impacted the Balance Sheet, Statement of Changes in Net Position and Note (9) Property, Plant, and Equipment, net.

AB. Changes in Accounting Principles:

In FY 2020, Treasury updated guidance in the Treasury Financial Manual (TFM) of the United States Standard General Ledger (USSGL) for reporting account receivables and account payables related to direct loans and loan guarantees subject to the FCRA. Prior to FY 2020, Treasury permitted FHA to offset account receivables and account payables with contra-asset and contra-liability accounts, respectively, so that its net assets would not be overstated. The new transactions established by Treasury for account receivables and account payables related to direct loans and loan guarantees enabled FHA to discontinue using the contra-asset and contra-liability accounts. Under the new accounting guidance, FHA may record accounts receivable as an increase and accounts payable as a decrease directly to the Loan Guarantee Liability (LGL). FHA implemented this new guidance in FY 2020. Because of this change, FHA's accounts receivable and accounts payable balances increased in FY 2020 because they were no longer offset with contra-asset and contra-liability accounts. For additional information on the impact of this change to the accounts receivables balances refer to Note (6) Accounts Receivable, net.

Under *SFFAS No. 21, Reporting Corrections of Errors and Changes in Accounting Principles*, if a change in accounting principle would have resulted in a change to prior period financial statements, the cumulative effect of the change on prior periods should be reported as a change in accounting principle and the adjustment should be made to the beginning balance of cumulative results of operations in the statement of changes in net position for the period that the change is made. If FHA had implemented the change in accounting principle in FY 2019, FHA's re-estimate expense would have decreased by $320 million, increasing HUD's cumulative results of operations. In accordance with *SFFAS No. 21*, HUD reported an adjustment to the beginning balance of Cumulative Results of Operations on its consolidated SCNP.

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. The Department's Non-entity Assets principally consist of 1) FHA's downward re-estimates and negative subsidies in the General Fund receipt accounts for the General Insurance (GI) fund, 2) escrow monies collected by FHA that are either deposited at Treasury or in minority-owned banks or invested in Treasury securities, 3) capital transfers to the General Fund of the Treasury from the Housing for the Elderly and Disabled Liquating Fund, 4) sustained audit receivables and court-enforced restitution in HUD's miscellaneous receipt account, 5) Emergency Home Loan Program (EHLP) receivables in the General Fund receipt account, 6) unclaimed MBS security holder payments held by GNMA in Fund Balance with Treasury, cash and investments , and 7) cash remittances from Section 8 bond refunding deposited in the General Fund of the Treasury.

HUD's Non-entity Assets as of September 30, 2020, are as follows:

Non-entity Assets		
(Dollars in Millions)		**2020**
Intragovernmental		
Fund Balance with Treasury	$	42
Investments		23
Total Intragovernmental	$	65
Public		
Cash and Other Monetary Assets	$	21
Accounts Receivable, Net		-
Loan Receivables and Related Foreclosed Property, Net		101
Total Public	$	122
Total Non-entity Assets	$	187
Total Entity Assets		262,004
Total Assets	**$**	**262,191**

Note 3: Fund Balance with Treasury

Treasury performs cash management activities for all federal agencies. The net activity represents Fund Balance with Treasury (FBWT). HUD’s FBWT is an asset to the Department.

HUD’s fund balances by fund type as of September 30, 2020 are as follows:

Fund Balance with Treasury		
(Dollars in Millions)		2020
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$	52,891
Unavailable		19,331
Obligated Balance not yet Disbursed	**$**	**63,328**
Non-Budgetary FBWT	**$**	**37**
Total	**$**	**135,587**

The Department’s Non-Budgetary FBWT 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. An SBR is not prepared for these funds since any cash remittances received by the Department are not defined as budgetary resources.

Unobligated and obligated balances reported in the Status of FBWT above do not agree with unobligated and obligated balances reported in the Combined SBR because the budgetary balances reported in the Combined SBR are supported by FBWT and other budgetary resources that do not affect FBWT such as investment authority, contract authority, borrowing authority, and budgetary receivables. Such authority permits an agency to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. Since federal securities are considered the equivalent of cash for budgetary purposes, investments in them are treated as a change in the mix of assets held, rather than as a purchase of assets. In addition, unobligated balances that include collections related to GNMA are not available to HUD unless approved by Congress. For additional disclosures on HUD’s unobligated FBWT restrictions, refer to Note (18) Legal Arrangements Affecting the Use of Unobligated Balances.

Increases to HUD’s FBWT include appropriations, borrowings, transfers from other agencies and collections. HUD’s FBWT is decreased by disbursements made to pay liabilities or to purchase assets, goods or services, transfers and reimbursements to other agencies or Treasury, investments in U.S. Securities, cancelled funds, and rescission or sequestration of appropriations. FHA’s appropriations would increase, if necessary, for positive subsidy or upward re-estimates in its GI/SRI loan guarantee programs. HUD Proper’s appropriations would also increase, if necessary, for upward re-estimates in its loan guarantee programs.

In FY 2020, HUD received $12,423 million in additional appropriated disaster funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19. As of September 30, 2020, HUD has disbursed a total of $2,347 million of its CARES ACT funding. For additional information, refer to Note (27) COVID-19 Activity.

GNMA's fund balance is classified as restricted when the funds are unavailable for withdrawal or usage due to status as non-entity assets, legally restricted deposits, contracts entered with others, or GNMA's statements of intention regarding particular deposits. As of September 30, 2020, $3 million of fund balance is restricted and principally consists of unclaimed security holder payments not available for use in GNMA's general operations. Unclaimed security holder payments represent money owed to mortgage-backed securities certificate holders that have not been claimed or where the certificate holder cannot be located. Such funds are classified as non-entity assets as disclosed in Note (2) Non-entity Assets and maintained in the fund balance account for GNMA's liquidating fund and are also included in the balance of Obligated Balance not yet Disbursed in the table above. Non-entity fund balance is always restricted.

An immaterial difference exists between HUD's recorded Fund Balances with Treasury and Treasury's records. To be 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. The immaterial differences are researched the following accounting period(s) for resolution.

Note 4: Cash and Other Monetary Assets

Cash and Other Monetary Assets of FHA consist of escrow monies collected that are deposited in minority-owned banks and deposits in transit. As of September 30, 2020, escrow monies and deposits in transit were $33 million.

Cash and Other Monetary Assets of GNMA, include funds from dedicated collections, and restricted cash. Funds from Dedicated Collections consist of cash that is received by the MSS but not yet transmitted to GNMA. As of September 30, 2020, deposits in transit from dedicated collections were $36 million.

GNMA cash is classified as restricted when the funds are unavailable for withdrawal or usage due to status as non-entity assets. As of September 30, 2020, $0.3 million of cash is restricted and principally consists of deposits in transit for refunding of commitment authority fees for unapproved issuers. Non-entity cash is always considered restricted. For additional information on the nature of these cash restrictions refer to Note (2) Non-entity Assets.

Note 5: Investments

The U.S. Government non-marketable intragovernmental securities are comprised of short-term and long-term securities. Short-term securities have an original maturity date of less than one year. Long-term securities have an original maturity date of one year or greater. FHA invests in short- and long-term securities. Some of FHA's short-term investments are in one-day overnight securities. GNMA primarily invests in U.S. Treasury overnight certificates which are issued with a stated rate of interest to be applied to their par value amount with a maturity date on the next business day.

The cost estimated market value, and amortization method of investments in debt securities as of September 30, 2020 are as follows:

Investments						
(Dollars in Millions)	2020					
	Cost	Amortization Method	Amortized (Premium)/ Discount, Net	Accrued Interest	Net Investments	Market Value
Treasury Bills	$ -	Straight-line	$ -	$ -	$ -	$ -
Treasury Notes	69,296	Effective interest	(391)	323	69,228	69,105
Overnight Securities	8,542	No Amortization	-	-	8,542	8,542
Total Investments	**$ 77,838**		**$ (391)**	**$ 323**	**$ 77,770**	**$ 77,647**

The federal government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The dedicated cash receipts collected from the public into the fund are deposited in the U.S. Treasury, which uses the cash for general government purposes. Treasury securities are issued to GNMA with a stated rate of interest to be applied to the par value with a maturity date of the next business day and are measured at cost, which approximates fair value. Treasury securities are an asset to GNMA and a liability to the U.S. Treasury. Because GNMA and the U.S. Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements.

When GNMA's Capital Reserve Fund redeems its Treasury securities to make expenditures, the U.S. Treasury will finance those expenditures in the same manner that it finances all other expenditures.

As of September 30, 2020, $23 million of investments are restricted and principally consist of unclaimed security holder payments not available for use in GNMA's general operations. These funds are classified as non-entity assets as disclosed in Note (2) Non-entity Assets.

Investments in Private-Sector Entities

Investments in private-sector entities are the result of FHA's Risk Sharing Debentures. Multifamily Risk Sharing Debentures [Section 542(c)] is a program available to lenders where the lender shares the risk in the property by issuing debentures for the claim amount paid by FHA on defaulted insured loans.

The following table presents financial data on FHA's investments in Risk Sharing Debentures as of September 30, 2020:

Investments						
(Dollars in Millions)	2020					
	Beginning Balance	Net Acquisitions	Share of Earnings or Loss	Return of Investment	Redeemed	Ending Balance
Securities Held Outside of Treasury	$ -	$ -	$ -	$ -	$ -	$ -
601 Program	-	-	-	-	-	-
Risk Sharing Debentures	6	-	-	-	(6)	-
Total	**$ 6**	**$ -**	**$ -**	**$ -**	**$ (6)**	**$ -**

Note 6: Accounts Receivable, Net

The following table presents the accounts receivable balances as reflected on the Balance Sheet as of September 30, 2020:

Accounts Receivable, Net			
(Dollars in Millions)	2020		
	Gross Accounts Receivable	Allowance for Loss	Total, Net
Intragovernmental	$ -	$ -	$ -
Public			
FHA Partial Claims and Generic Debt Receivables	$ 145	$ (1)	$ 144
GNMA Fees and Interest Receivables	174	(5)	169
Other Receivables	789	(51)	738
Criminal Restitution	-	-	-
FHA Criminal Restitution	13	-	13
GNMA Criminal Restitution	109	(109)	-
Other Criminal Restitution	66	(66)	-
Total Accounts Receivable	**$ 1,296**	**$ (232)**	**$ 1,064**

The Department's Accounts Receivable represents FHA Partial Claims and Generic Debt Receivables, GNMA Fees, Interest Receivables and Reimbursable Cost Receivables, Other Receivables, and Criminal Restitutions.

FHA Partial Claims and Generic Debt Receivables

FHA Partial Claims are paid to mortgagees as part of its loss mitigation efforts to bring delinquent loans current for which FHA does not yet have the promissory note recorded. The Generic Debt is mainly comprised of receivables from various sources, the largest of which are Single Family Claims that have gone to collection, Single Family Indemnification, and Single-Family Restitutions.

As discussed in Note (1) Summary of Significant Accounting Policies, there was a change in accounting principle implemented in FY 2020 by FHA based on updated Treasury guidance. Previously, FHA used contra asset and contra liability accounts to offset accounts receivables and payables related to its FCRA direct loan and loan guarantees to avoid overstating net assets. The new guidance establishes transactions to capture account receivables and payables related to direct loan and loan guarantees. As a result of this change in accounting principle, FHA's gross receivables with the public have increased.

GNMA Fees, Interest and Reimbursable Cost Receivables

Accrued Fees and Interest Receivable, net

GNMA fees consist of accrued guaranty fees due from issuers. Guaranty fees are payable monthly based on the outstanding UPB in GNMA-guaranteed MBS pools at the appropriate statutory rate. As of September 30, 2020, GNMA's accrued fees totaled $116 million.

GNMA also accrues interest on mortgage loans held for investment at the contractual rate and records an allowance on accrued interest to the extent interest is uncollectible for conventional loans, and to the extent interest is not expected to be recovered per insurance guidelines for insured or guaranteed loans.

As of September 30, 2020, GNMA's accrued interest receivable, net of adjustments, totaled $20 million. The associated allowance as of September 30, 2020 was $1 million. For the year ended September 30, 2020, the provision was $1 million.

As discussed in Note (1) Summary of Significant Accounting Policies, GNMA charges off accrued interest and UPB when it believes collectability of interest or principal is not reasonably assured. GNMA's policy is to charge off confirmed losses when the asset is at or greater than 180 days delinquent.

Reimbursable Costs Receivable, net

GNMA advances funds to preserve its interests in mortgaged property, such as advances to cover shortfalls for mortgagors' taxes and insurance when escrow balances are insufficient, or pre-foreclosure and foreclosure costs and other expenses, such as Homeowners Association fees incurred during the foreclosure process.

The following table presents reimbursable costs and related allowance amounts associated with loans serviced by GNMA, by loan insurance type as of September 30, 2020:

Accounts Receivable, Net					
(Dollars in Millions)	2020				
	FHA	VA	RD	Conventional	Total
Reimbursable Costs	$ 34	$ 2	$ 1	$ -	$ 37
Allowance for Reimbursable Costs	(3)	(1)	-	-	(4)
Reimbursable Costs, Net	**$ 31**	**$ 1**	**$ 1**	**$ -**	**$ 33**

The above table includes only reimbursable costs that are attributable to underlying loans and insuring agencies. Accordingly, $2 million of receivables due to GNMA from the MSS related to overpayments for reimbursable costs that were not required are not included in the total above but are included in the total amount disclosed for GNMA Fees, Interest and Reimbursable Cost Receivables.

Other Receivables

The Other Receivables line item 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, signed consent and judgements approved by the courts, and foreclosed property proceeds. Sustained audit costs are costs that have been challenged by the OIG, agreed upon by HUD, and evidenced by a repayment agreement. FHA insurance premiums receivable increased to $647 million in FY 2020 due to FHA's change in accounting principle for accounts receivable.

FHA reports an allowance for receivables relating to escrow advances and miscellaneous investment fees, which are categorized by HUD at the consolidated level as Other Receivables. Otherwise, FHA's premium and foreclosed property receivables accrued at the end of the reporting period are generally collected during the following reporting period, so FHA does not record an allowance for loss on those receivables. Furthermore, amounts required to be paid in signed consent judgments approved by the courts may not be contested, so no allowance is required.

HUD issued a new allowance for loss policy in November 2019 establishing a 100 percent allowance for HUD Proper. A 100 percent allowance was determined based on invalid receivables and claim to cash issues being discovered in 2019. Once these concerns are sufficiently mitigated, this policy will be revised to establish alternative allowance methodologies. The Department will continually review the policy at least annually or as determined necessary.

Criminal Restitution

Pursuant to the requirements of OMB Circular A-136, HUD must disclose separately any criminal restitution that is included in its AR balances, it must include the gross amount of receivables related to criminal restitution orders monitored by HUD and the estimate of net realizable value determined to be collectible for criminal restitution orders monitored by HUD. Criminal Restitution are payments by an offender to the victim for the harm caused by the offender's wrongful acts. Courts have the authority to order convicted offenders to pay restitution to victims as part of their sentences. There are several primary stakeholders in the criminal debt data management process. In the judicial branch, stakeholders are the District Court Clerk's Office and the Probation Office, in the executive branch, the stakeholders are the Department of Justice which includes the U.S. Attorney's Office (USAO) and the Bureau of Prisons (BOP). The USAO is statutorily responsible for the enforcement of the collections of criminal debt and the District Courts are responsible for receipting payments, disbursing restitution to victims, and tracking the debt.

HUD Proper has recorded a 100 percent allowance against the criminal restitution accounts receivables based on management's expectation that these amounts are not probable of collection. This assessment is based on HUD's position in the recovery prospect for debts from defendants, its historical experience with collections on these accounts, and the overall historical experience for the U.S. Government in collecting on this category of receivables.

FHA's Criminal Restitutions are defined as criminal remedies for false claims and statements that were not sufficiently responsive to curtailing the serious problem of substantial loss to the Government when individuals could receive federal funds or benefits to which they were not entitled. FHA recorded an immaterial allowance for loss against criminal restitution accounts receivable in FY 2020 based on updated historical loss experience and management's judgment about the collectability of the receivables.

GNMA's Criminal Restitution represent amounts due to GNMA as a result of court order in connection with criminal proceedings against certain defendants, primarily for fraud and false claims. GNMA has recorded a 100 percent allowance against the criminal restitution accounts receivables based on management's expectation that these amounts are not probable of collection. This assessment is based on GNMA's position in the recovery hierarchy for debts from defendants, its historical experience with collections on these accounts, and the overall historical experience for the U.S. Government in collecting on this category of receivable.

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

HUD reports pre-1992 direct loans and loan guarantees under the allowance for loss method. Under the allowance for loss method, the nominal amount of the direct loan is reduced by an allowance for uncollectible amounts. The liability for loan guarantees is the amount the agency estimates will more likely than not require a future cash outflow to pay default claims. Net loans receivable or the value of assets related to direct loans is not the same as expected proceeds from selling the loans.

Direct loan obligations and loan guarantee commitments made after FY 1991, and the resulting direct loans or loan guarantees, are governed by the FCRA, as amended. *SFFAS No. 2* requires that the present value of the subsidy costs, which arises from interest rate differentials, interest supplements, and defaults (net of recoveries, fee offsets and other cash flows) associated with direct loans and loan guarantees, be recognized as a cost in the year the direct or guaranteed loan is disbursed. Direct Loans are reported net of an allowance for subsidy at present value and loan guarantee liabilities are reported at present value.

The subsidy rates disclosed pertain only to the current fiscal 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.

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

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

FHA

FHA programs are operated primarily through four insurance funds: the Mutual Mortgage Insurance (MMI)/Cooperative Management Housing Insurance (CMHI), General Insurance (GI) and Special Risk Insurance (SRI). There is a fifth fund, HOPE for Homeowners (H4H) funds, that became operational in fiscal year 2009 and only contains minimal activity. The MMI fund is the largest. For financial reporting purposes, FHA combines the presentation of the MMI/CHMI and GI/SRI programs.

Mutual Mortgage Insurance (MMI)/Cooperative Management Housing Insurance (CMHI)

The MMI fund provides mortgage insurance on single family mortgage loans made by FHA-approved lenders and strives to meet the needs of many first-time and minority homebuyers who, without the FHA guarantee, may find mortgage credit to be unaffordable or simply unavailable. Through MMI, FHA offers several types of single family forward (traditional) mortgage insurance products and Home Equity Conversion Mortgages (HECM) (reverse mortgages) for seniors. Activity for the CMHI fund, which insures mortgages for multifamily cooperatives is reported together with MMI.

General Insurance and Special Risk Insurance (GI/SRI)

The GI/SRI fund provides mortgage insurance on multifamily rental housing and healthcare facilities, and single-family Title I manufactured housing and property improvement loans. GI/SRI programs are a critical component of FHA's efforts to meet the Nation's need for decent, safe and affordable housing.

GI/SRI's mortgage programs are designed to operate without the need for subsidy appropriations, with fees set higher than anticipated losses.

FHA began an FFB Risk Sharing Program, in FY 2015, an inter-agency partnership between HUD, FFB, and the Housing Finance Authorities (HFAs). The FFB Risk Sharing 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 Program; it only substitutes FFB as the funding source. The HFAs would originate and service the loans and share in any losses. The FFB Risk Sharing Program ended in FY 2019 for new endorsements.

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.

HOPE for Homeowners (H4H)

This program was authorized under the Housing and Economic Recovery Act of 2008. This program was effective for endorsements on or before September 30, 2011. The H4H act was designed to prevent qualified homeowners from defaulting on their loans and avert foreclosure. This was done through refinancing into affordable, fixed-rate mortgages.

FHA Foreclosed Property

The balance relating to foreclosures as of September 30, 2020 is comprised of only Single-Family properties. There are no Multifamily properties currently in inventory.

The Secretary has the authority under the National Housing Act (12 U.S.C §1710(g)) to manage or dispose of eligible HUD-owned property assets in a manner that will provide affordable, safe and sanitary housing to low-wealth families, preserve and revitalize residential neighborhoods, expand homeownership opportunities, minimize displacement of tenants residing in rental or cooperative housing, and protect the financial interest of the federal government.

Single Family properties may be sold to eligible entities (24 Code of Federal Regulations (CFR) §291.303) through public asset sales. Eligibility of bidders will be determined by the Secretary and included in the bid package with a notice filed in the *Federal Register*. In addition, HUD must ensure that its policies and practices in conducting the single-family property disposition program do not discriminate based on disability (24 CFR §9.155(a)).

For FHA foreclosed property, the average number of days in inventory for sold cases is 145 days in FY 2020. The total number of foreclosed properties on-hand as of September 30, 2020 is 4,359.

Loan Guarantee Liability

In FY 2020, FHA's LGL decreased by a total of $8,752 million. The narrative below summarizes the activity that caused the large fluctuation.

The $842 million Single Family Forward LLG decrease and the $8,950 million HECM LLG decrease were mostly due to changes in the actuarial methodology, more favorable economic forecasts, and changes in actual loan performance in the MMI fund. There were also decreases in the LLG estimates in the GI/SRI funds for Single Family Forward and HECM that contributed to the overall decrease in those program areas.

For Multifamily/Healthcare, the $1,040 million increase in the LLG occurred mostly in the GI/SRI funds as follows: the LLG estimates for the Section 223(f), Section 221(d)(4), Section 223(a)(7), and Section 242 programs increased by $413 million, $218 million, $98 million, and $8 million, respectively, due to higher claim and prepayment expectations. There were also increases in the LLG estimates for the Section 232 Healthcare Purchasing or Refinancing program of $121 million due to an increase in prepayment projections and the Section 232 Healthcare New Construction program of $19 million due to higher claim projections.

HUD Proper

HUD Proper's direct loan and/or guarantee programs are in the Housing for the Elderly and Disabled Programs and All Other Programs.

Housing for the Elderly and Disabled Program (HED)

The HED, Sections 202 and 811, were established by the Housing Act of 1959 and the National Affordable Housing Act of 1990 respectively to provide critical affordable housing to our nation's elderly and supportive housing for disabled very low-income persons. Assistance was provided to eligible private nonprofit organizations to cover construction, acquisition or rehabilitation expenses as well as rental assistance. There are three parts to the calculation of allowance for loss: Part one is the Loss rate for loans issued a Foreclosure Hearing Letter; Part two is the Loss rate for the estimated number of foreclosures in the current year; and Part three is the Loss rate for loans delinquent for more than 180 days. Loss rates for parts one and two are determined by actual historical data from the previous five years. Loss rates for part three are determined or approved by the Housing Office of Evaluation.

All Other Programs

The All Other have the following direct loan and/or loan guarantee programs: Flexible Subsidy Fund, Section 108 Loan Guarantees, Indian Housing Loan Guarantee Fund, Loan Guarantee Recovery Fund, Native Hawaiian Housing Loan Guarantee Fund, Title VI Indian Housing Loan Guarantee Fund, Green Retrofit Direct Loan Program, and Emergency Homeowners' Loan Program.

Flexible Subsidy Fund

The Flexible Subsidy Fund provided federal assistance for troubled multifamily housing projects which included supporting capital improvements to maintain these low to moderate income projects as authorized by 12 U.S. Code 1715z-1. There are four parts to the calculation of allowance for loss: Part one is the Loss rate for loans written-off; Part two is the Loss rate for restructured loans; Part three is the Loss rate for loans paid-off; and Part four is the Loss rate for loans delinquent or without repayment activity for 30 years. Loss rates for parts one and three are based on actual historical data derived from the previous three years. The loss rates for parts two and four are provided by or agreed to by the Housing Office of Evaluation.

Section 108 Loan Guarantees

This is a loan guarantee provision of the CDBG program which is authorized by the Housing and Community Development Act of 1974, as amended (42 USC 5308(a)). Neither the statute nor the regulations limit the portion of the loan guaranteed to less than 100 percent of the principal amount. Under this section, HUD offers communities a source of financing for certain community development activities, such as housing rehabilitation, economic development, and large-scale physical development projects. The purpose is to reaffirm the commitment of the federal government to assist local governments in their efforts in stimulating economic and community development activities needed to combat severe economic distress and to help in promoting economic development activities needed to aid in economic recovery as well as promote revitalization and development projects undertaken by local governments that principally benefit persons of low and moderate income, the elimination of slums , and to meet urgent community needs, with special priority for projects located in areas designated as enterprise zones by the federal government or by any state.

Indian Housing Loan Guarantee Fund

This loan guarantee fund was established under the Housing and Community Development Act of 1992 to facilitate homeownership and increase access to capital in Native American Communities. A home mortgage product specifically designed for American Indian and Alaska Native families, Alaska villages, tribes, or tribally designated housing entities. The purpose is to provide access to sources of private financing to Indian families, Indian housing authorities, and Indian tribes, who otherwise could not acquire housing financing because of the unique legal status of Indian lands. The Secretary may guarantee, not to exceed, 100 percent of the unpaid principal and interest due on any loan eligible under subsection (b) made to an Indian family, Indian housing authority, or Indian tribe.

Loan Guarantee Recovery Fund

This loan guarantee fund provides certain nonprofit organizations with a source of financing to rebuild property damaged or destroyed by acts of arson or terrorism. This loan guarantee provision was authorized under the Church Arson Prevention Act of 1996.

Native Hawaiian Housing Loan Guarantee Fund

This loan guarantee fund was established by the Hawaiian Homelands Homeownership Act of 2000 that added a new Section 184A to the Housing and Community Development Act of 1992 which authorized the Native Hawaiian Housing Loan Guarantee Program. The program is designed to offer homeownership, property rehabilitation, and new construction opportunities for eligible Native Hawaiian individuals and families wanting to own a home on Hawaiian homelands. The purpose of the Section 184A loan is to provide access to sources of private financing on Hawaiian homelands. Section 184A permits HUD to guarantee 100 percent of the unpaid principal and interest due on an eligible loan. The use of the Section 184A Loan Guarantee Program is limited to owner-occupant single family dwellings located on Hawaiian homelands.

Title VI Indian Housing Loan Guarantee Fund

This loan guarantee fund assists Indian Housing Block Grant (IHBG) recipients in financing additional construction or development, including new housing, rehabilitation, infrastructure, community facilities, land acquisition, architectural and engineering plans, and financing costs. It was authorized by Title VI of Native American Housing Assistance and Self Determination Act (NAHASDA) of 1996. A guarantee made under Title VI of NAHASDA shall guarantee repayment of 95 percent of the unpaid principal and interest due on the notes or other obligations guaranteed.

Green Retrofit Direct Loan Program

This direct loan program was authorized by the American Recovery and Reinvestment Act of 2009 to ensure that grants and loans are made available to eligible property owners to make energy and green retrofit investments in property and to maintain energy efficient technologies.

Emergency Homeowners' Loan Program

This direct loan program was authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act. It provides mortgage payment relief to eligible homeowners experiencing a drop-in income of at least 15 percent directly resulting from involuntary unemployment or underemployment due to adverse economic conditions and/or a medical emergency.

HUD Proper Foreclosed Property

The Indian Housing Loan Guarantee program had 34 (23 Fee Simple and 11 Tribal Trust) foreclosed properties on-hand as of September 30, 2020. The average number of days in inventory for fee simple property is 133 days and 963 days for Indian Trust Land. There are 99 Tribal Trust foreclosures in process.

The following tables are 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, 2020.

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)

Direct Loans and Loan Guarantees, Non-Federal Borrowers					
(Dollars in Millions)	2020				
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
Direct Loan Programs					
FHA					
a) GI/SRI Direct Loan Program	$ 8	$ 13	$ (8)	$ -	$ 13
Housing for the Elderly and Disabled	545	9	(10)	-	544
All Other					
b) Flexible Subsidy Fund	290	40	(42)	-	288
Total	**$ 843**	**$ 62**	**$ (60)**	**$ -**	**$ 845**

C. Direct Loans Obligated After-1991

Direct Loans and Loan Guarantees, Non-Federal Borrowers					
(Dollars in Millions)	2020				
	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Costs (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
Direct Loan Programs					
FHA					
a) MMI/CMHI Direct Loan Program	$ -	$ -	$ -	$ -	$ -
b) GI/SRI Direct Loan Program	2,364	6	317	-	2,687
All Other					
a) Green Retrofit Program	40	1	(33)	-	8
b) Emergency Homeowners' Relief Fund	57	-	(58)	-	(1)
c) EHLP Assigned Loans Receipt Account	101	-	-	-	101
Total	**$ 2,562**	**$ 7**	**$ 226**	**$ -**	**$ 2,795**

D. Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loans and Loan Guarantees, Non-Federal Borrowers	
(Dollars in Millions)	Current Year
Direct Loan Programs	
FHA Risk Sharing Program	$ 421
All Other	
a) Green Retrofit Program	$ (6)
b) Emergency Homeowners' Relief Fund	-
Total	**$ 415**

E. Subsidy Expense for Direct Loans by Program and Component

1. Subsidy Expense for New Direct Loans Disbursed

Direct Loans and Loan Guarantees, Non-Federal Borrowers					
(Dollars in Millions)	2020				
	Interest	Defaults	Fees	Other	Total
Direct Loan Programs					
FHA Risk Sharing Program	$ (55)	$ 1	$ (1)	$ 16	$ (39)
All Other					
a) Green Retrofit Program	-	-	-	-	-
b) Emergency Homeowners' Relief Fund	-	-	-	-	-
Total	**$ (55)**	**$ 1**	**$ (1)**	**$ 16**	**$ (39)**

2. Modifications and Re-estimates

Direct Loans and Loan Guarantees, Non-Federal Borrowers				
(Dollars in Millions)	2020			
	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Direct Loan Programs				
FHA Risk Sharing Program	$ -	$ (42)	$ 77	$ 35
All Other				
a) Green Retrofit Program	$ -	$ -	$ (6)	$ (6)
b) Emergency Homeowners' Relief Fund	-	-	-	-
Total	**$ -**	**$ (42)**	**$ 71**	**$ 29**

3. Total Direct Loan Subsidy Expense

Direct Loans and Loan Guarantees, Non-Federal Borrowers	
(Dollars in Millions)	Current Year
Direct Loan Programs	
FHA Risk Sharing Program	$ (4)
All Other	
a) Green Retrofit Program	$ (6)
b) Emergency Homeowners' Relief Fund	-
Total	**$ (10)**

F. Subsidy Rates for Direct Loans by Program and Component

Budget Subsidy Rates for Direct Loans

Direct Loans and Loan Guarantees, Non-Federal Borrowers 2020	Interest	Defaults	Fees and Other Collections	Other	Total
FHA Risk Sharing Program	0.00%	0.00%	0.00%	0.00%	0.00%
Green Retrofit Program (HUD Appropriation 86X4589)	41.00%	42.60%	0.00%	-1.30%	82.30%
Emergency Homeowners' Relief fund (HUD Appropriation 86X4357)	0.00%	0.00%	0.00%	97.70%	97.70%

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

Direct Loans and Loan Guarantees, Non-Federal Borrowers 2020	FHA Programs	All Other Financing Only	Total
Beginning Balance of Subsidy Cost Allowance	$ (306)	$ 101	$ (205)
Add: Total subsidy expense for direct loans disbursed during the reporting years as shown in E1	(39)	-	(39)
Adjustments:			
(a) Loan Modifications	-	-	-
(b) Fees Received	1	-	1
(c) Foreclosed Properties Acquired	-	-	-
(d) Loans Written Off	-	(3)	(3)
(e) Subsidy Allowance Amortization	(1)	-	(1)
(f) Other	(8)	-	(8)
Ending balance of the subsidy cost allowance before re-estimates	**$ (353)**	**$ 98**	**$ (255)**
Add or subtract total subsidy reestimates as shown in E2	35	(6)	29
Ending Balance of the Subsidy Costs Allowance	**$ (318)**	**$ 92**	**$ (226)**

H. Defaulted Guaranteed Loans from Pre-1992 Guarantees

Direct Loans and Loan Guarantees, Non-Federal Borrowers (Dollars in Millions)	2020				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$ 15	$ -	$ (3)	$ 4	$ 16
b) Multi Family	-	-	-	-	-
c) HECM	-	-	-	-	-
GI/SRI					
a) Single Family	1	-	(5)	9	5
b) Multi Family	1,360	250	(673)	(5)	932
c) HECM	2	1	(1)	(2)	-
Total	**$ 1,378**	**$ 251**	**$ (682)**	**$ 6**	**$ 953**

I. Defaulted Guaranteed Loans from Post-1991 Guarantees

Direct Loans and Loan Guarantees, Non-Federal Borrowers					
(Dollars in Millions)	2020				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Net	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
FHA					
MMI/CMHI					
a) Single Family	$ 13,780	$ -	$ (4,562)	$ 589	$ 9,807
b) Multi Family	-	-	-	-	-
c) HECM	17,828	13,944	(8,533)	107	23,346
GI/SRI					
a) Single Family	394	-	(133)	11	272
b) Multi Family	476	49	(226)	19	318
c) HECM	5,620	3,514	(3,292)	88	5,930
H4H					
a) Single Family	6	-	(3)	-	3
All Other					
a) Indian Housing Loan Guarantee	-	-	-	7	7
b) Native Hawaiian Housing Loan Guarantee	-	-	-	2	2
Total	**$ 38,104**	**$ 17,507**	**$ (16,749)**	**$ 823**	**$ 39,685**

Direct Loans and Loan Guarantees, Non-Federal Borrowers	
(Dollars in Millions)	2020
Total Credit Program Receivables and Related Foreclosed Property, Net	**$ 44,278**

J. Guaranteed Loans Outstanding

1. Guaranteed Loans Outstanding:

Direct Loans and Loan Guarantees, Non-Federal Borrowers		
(Dollars in Millions)	2020	
	Outstanding Principal Guaranteed Loans Face Value	Amount of Outstanding Principal Guaranteed
Loan Guarantee Programs		
FHA		
a) MMI/CMHI Funds	$ 1,381,136	$ 1,232,885
b) GI/SRI Funds	163,244	146,730
c) H4H Program	63	54
All Other	5,873	5,869
Total	**$ 1,550,316**	**$ 1,385,538**

2. Home Equity Conversion Mortgage Loans Outstanding:

Direct Loans and Loan Guarantees, Non-Federal Borrowers			
(Dollars in Millions)	2020		
	Current Year Endorsements	Current Outstanding Balance	Maximum Potential Liability
Loan Guarantee Programs			
FHA Programs	**$ 16,282**	**$ 82,687**	**$ 123,376**

3. New Guaranteed Loans Disbursed:

Direct Loans and Loan Guarantees, Non-Federal Borrowers		
(Dollars in Millions)	2020	
	Principal of Guaranteed Loans, Face Value	Amount of Principal Guaranteed
FHA		
a) MMI/CMHI Funds	$ 310,310	$ 307,212
b) GI/SRI Funds	21,111	21,013
c) H4H Program	-	-
All Other	757	757
Total	**$ 332,178**	**$ 328,982**

K. Liability for Loan Guarantees

1. Liability for Loan Guarantees (Estimated Future Default Claims for Pre-1992 Guarantees):

Direct Loans and Loan Guarantees, Non-Federal Borrowers			
(Dollars in Millions)	2020		
	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees, for Post 1991 Guarantees, (Present Value)	Total Liabilities for Loan Guarantees
Loan Guarantee Programs			
FHA Programs	$ -	$ (6,303)	$ (6,303)
All Other	-	138	138
Total	**$ -**	**$ (6,165)**	**$ (6,165)**

L. Subsidy Expense for Post-1991 Guarantees

1. Subsidy Expense for Loan Guarantees

Direct Loans and Loan Guarantees, Non-Federal Borrowers						
(Dollars in Millions)	2020					
	Endorsement Amount	Interest Supplements	Default Component	Fees Component	Other Component	Subsidy Amount
Loan Guarantee Programs						
FHA						
a) MMI/CMHI Funds, Excluding HECM	$ 310,310	$ -	$ 10,552	$ (19,988)	$ 2,391	$ (7,045)
b) MMI/CMHI Funds, HECM	16,282	-	639	(652)	-	(13)
c) GI/SRI Funds	21,111	-	154	(854)	-	(700)
d) H4H Program	-	-	-	-	-	-
All Other	-	-	14	(12)	-	2
Total	**$ 347,703**	**$ -**	**$ 11,359**	**$ (21,506)**	**$ 2,391**	**$ (7,756)**

2. Modification and Re-estimates

Direct Loans and Loan Guarantees, Non-Federal Borrowers				
(Dollars in Millions)	2020			
	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Loan Guarantee Programs				
FHA				
a) MMI/CMHI Funds	$ -	$ (79)	$ (11,766)	$ (11,845)
b) GI/SRI Funds	-	(3)	(951)	(954)
c) H4H Program	-	-	(1)	(1)
All Other	-	(9)	(32)	(41)
Total	**$ -**	**$ (91)**	**$ (12,750)**	**$ (12,841)**

3. Total Loan Guarantee Subsidy Expense

Direct Loans and Loan Guarantees, Non-Federal Borrowers	
(Dollars in Millions)	2020
	Current Year
Loan Guarantee Programs	
FHA	
a) MMI/CMHI Funds	$ (18,903)
b) GI/SRI Funds	(1,654)
c) H4H Program	(1)
All Other	(39)
Total	**$ (20,597)**

M. Subsidy Rates for Loan Guarantees by Programs and Component

Budget Subsidy Rates for Loan Guarantees

Direct Loans and Loan Guarantees, Non-Federal Borrowers				
	2020			
	Default	Fees and Other Collections	Other	Total
MMI/CMHI Funds				
Single Family - Forward	3.40%	-5.67%	0.00%	-2.27%
Single Family - HECM	3.89%	-3.97%	0.00%	-0.08%
Multi Family - Default CMHI (Cooperatives)	3.40%	-5.67%	0.00%	-2.27%
GI/SRI Funds				
Title I - Manufactured Housing	4.81%	-9.60%	0.00%	-4.79%
Title I - Property Improvements	4.00%	-5.41%	0.00%	-1.41%
Apartments - NC/SC Current	1.90%	-3.22%	0.00%	-1.32%
Tax Credit Projects Current	0.64%	-2.98%	0.00%	-2.34%
Apartments - Refinance 10/01/2019-03/01/20	0.22%	-3.50%	0.00%	-3.28%
Apartments - Refinance Current	0.25%	-3.49%	0.00%	-3.24%
HFA Risk Share	0.91%	-2.74%	0.00%	-1.83%
Other Rentals Current	1.19%	-2.99%	0.00%	-1.80%
Healthcare				
FHA Full Insurance - Health Care	1.54%	-6.84%	0.00%	-5.30%
Health Care Refinance	0.91%	-5.86%	0.00%	-4.95%
Hospitals	1.11%	-6.76%	0.00%	-5.65%
Other HUD Programs				
CDBG, Section 108(b)	2.00%	-2.00%	0.00%	0.00%
Loan Guarantee Recovery Fund	50.00%	0.00%	0.00%	50.00%
Indian Housing Loan Guarantee Fund	2.81%	-3.23%	0.53%	0.11%
Hawaiian Home Guarantee Loan Fund	0.66%	-1.00%	0.00%	-0.34%
Title VI Indian Housing Loan Guarantee	6.25%	0.00%	0.00%	6.25%

N. Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

Direct Loans and Loan Guarantees, Non-Federal Borrowers	
(Dollars in Millions)	2020
Beginning balance of the loan guarantee liability	**$ 2,727**
Add: total subsidy expense for guaranteed loans disbursed during the reporting years as shown in L1	(7,756)
Adjustments:	
(b) Fees Received	15,485
(d) Foreclosed Properties and Loans Acquired	13,965
(e) Claims Payments to Lenders	(16,906)
(f) Interest Accumulation on the Liability Balance	(1,139)
(g) Other	419
Ending Balance of the Loan Guarantee Liability before reestimates	**$ 6,795**
Add or subtract total subsidy reestimates by component as shown in L2	(12,841)
Ending Balance of the Loan Guarantee Liability	**$ (6,046)**
Adjustment for Unrealized GNMA claims from defaulted loans	**(119)**
Ending Balance of the Loan Guarantee Liability	**$ 6,165)**

O. Administrative Expenses

Direct Loans and Loan Guarantees, Non-Federal Borrowers	
(Dollars in Millions)	2020
Loan Guarantee Programs	
FHA	$ 826
All Other	-
Total	**$ 826**

Note 8: Other Non-Credit Reform Loans

The following table presents HUD's Other Non-Credit Reform Loans Receivable as of September 30, 2020:

Other Non-Credit Reform Loans					
(Dollars in Millions)	2020				
	GNMA Reported Balances (Gross)	GNMA Allowance	GNMA Net Reported Balances	Allowance for Loan Losses Due to Payment of Probable Claims by FHA	ONCRL Value of Assets Related to Loans
Mortgage Loans Held for Investment	$ 2,242	$ (141)	$ 2,101	$ (114)	$ 1,987
Advances Against Defaulted Mortgage-Backed Security Pools, Net	1	-	1	-	1
PTAP Issuer Advances, Net	3	-	3	-	3
Claims Receivable	-	-	-	-	-
Foreclosed Property	91	(20)	71	(5)	66
Short Sale	1	(1)	-	-	-
Properties Held for Sale, Net	5	-	5	-	5
Total	**$ 2,343**	**$ (162)**	**$ 2,181**	**$ (119)**	**$ 2,062**

Other Non-Credit Reform Loans consists of GNMA Mortgage Loans Held for Investment, Advances, PTAP Issuer Advances, Claims Receivable, and Properties Held for Sale. GNMA has applied *SFFAS No. 34: The Hierarchy of Generally Accepted Accounting Principles* in the accounting and presentation of its Other Non-Credit Reform Loans as the accounting treatment for these transactions are not specified in FASAB and its related guidance. GNMA's Other Non-Credit Reform Loans disclosures below are presented in accordance with guidance in FASB *ASC 310: Receivables*, *ASC 820: Fair Value Measurement*, *ASC 825: Financial Instruments*, *ASC 835: Interest*, as well as relevant industry practices based on the U.S. Securities and Exchange Commission's Regulation S-X. Below is a description of each type of asset recorded by GNMA and associated disclosures.

A. Mortgage Loans Held for Investment, Net

GNMA classifies loans as either HFS or HFI. As of September 30, 2020, GNMA's loan portfolio did not include any HFS loans. GNMA reports the carrying value of HFI loans at the recorded investment of the mortgage loan, which represents the UPB and accrued interest, net of cost basis adjustments, and net of allowance for loan losses including allowance for accrued interest receivable.

These HFI loans are periodically evaluated for impairment in accordance with guidance in *SFFAS No. 1: Accounting for Selected Assets and Liabilities – Accounts Receivable and SFFAS No. 5: Accounting for Liabilities of the Federal Government – Contingencies or ASC 310-10-35: Receivables – Overall.* GNMA's credit risk exposure on its HFI mortgage loans portfolio is limited by the underlying guaranty or insurance on loans, which may include FHA, RD, VA, and PIH.

The table below presents the carrying value of HFI loans including accrued interest broken down by underlying insuring agencies as of September 30, 2020:

8A1 Mortgage Loans Held for Investment, Net:

Other Non-Credit Reform Loans					
(Dollars in Millions)	2020				
	Conventional	FHA	VA	RD	Total
Mortgage Loans Held for Investment UPB	$ 113	$ 2,004	$ 87	$ 38	$ 2,242
Accrued Interest Receivable	2	17	1	-	20
Total Recorded Investment in Loans	**$ 115**	**$ 2,021**	**$ 88**	**$ 38**	**$ 2,262**
Allowance for Loan Losses	(5)	(133)	(3)	(2)	(143)
Mortgage Loans Held for Investment, Net	**$ 110**	**$ 1,888**	**$ 85**	**$ 36**	**$ 2,119**

Note that carrying value above includes UPB, accrued interest and associated allowances. Accrued interest and associated allowances are included and disclosed in Note (6) Accounts Receivable, net, under GNMA Fees and Interest Receivable line item. Disclosures included in tables 8A2, 8A6 and 8A7 are presented in terms of total recorded investment which reconciles to the disclosed recorded investment per the table above.

A2. Credit Quality Indicators

When estimating defaults, prepayments and recovery, GNMA considers several indicators including macro-economic factors such as interest rates, home price indices, and unemployment rates. In addition, GNMA considers several credit quality indicators such as loan-to-value (LTV) ratios and current delinquency status. Other characteristics include age of loan, insuring agency, credit score, and spread of mortgage rate to relevant market rate.

GNMA’s Credit Quality Indicators are presented in accordance with guidance within ASC 310: Receivables. The recorded investment for mortgage loans by original LTV ratio are as follows:

Table 8A2 Recorded Investment for Mortgage Loans by Original LTV Ratio:-

Other Non-Credit Reform Loans				
(Dollars in Millions)	2020			
	Less than 80%	80 to 100%	Greater than 100%	Total
Conventional	$ 8	$ 102	$ 5	$ 115
FHA	134	1,852	35	2,021
VA	6	64	18	88
RD	1	27	10	38
Total	**$ 149**	**$ 2,045**	**$ 68**	**$ 2,262**

A3. Impaired Loans

GNMA's impaired loans include TDR and PCI loans. GNMA measures impairment based on the present value of expected future cash flows for each loan classified as TDR or PCI.

GNMA's Impaired Loans are presented in accordance with guidance in ASC 310: Receivables. The number of loans, recorded investment, related allowance, UPB, average recorded investment, and total interest income recognized for impaired mortgage loans as of September 30, 2020 by underlying insurance agencies are as follows:

Table 8A3 - Number of loans, recorded investment, related allowance, UPB, average recorded investment, and total interest income recognized for impaired mortgage loans:

Other Non-Credit Reform Loans					
(Dollars in Millions)	2020				
	Recorded Investment	Related Allowance	Unpaid Principal Balance	Average Recorded Investment	Total Interest Income Recognized
With Related Allowance Recorded:					
Conventional	$ 46	$ (4)	$ 45	$ 46	$ 2
FHA	1,507	(130)	1,498	1,551	66
VA	62	(3)	62	65	3
RD	27	(2)	27	28	1
Total Impaired Loans with Related Allowance Recorded	**$ 1,642**	**$ (139)**	**$ 1,632**	**$ 1,690**	**$ 72**
With No Related Allowance Recorded:					
Conventional	$ 14	$ -	$ 14	$ 21	$ 1
FHA	188	-	184	300	8
VA	26	-	25	41	1
RD	11	-	11	17	1
Total Impaired Loans with No Related Allowance Recorded	$ 239	$ -	$ 234	$ 379	$ 11
Total Impaired Loans	**$ 1,881**	**$ (139)**	**$ 1,866**	**$ 2,069**	**$ 83**

Within the table above, interest income on impaired loans is recognized subject to GNMA's non-accrual policy (as applicable), as discussed in Note (1) Summary of Significant Accounting Policies. The recorded investment, related allowance, and UPB for TDRs was $1,839 million, $138 million, and $1,825 million respectively, as of September 30, 2020. The recorded investment, related allowance, and UPB for PCI loans was $42 million, $1 million, and $41 million respectively, as of September 30, 2020.

A4. Troubled Debt Restructuring

A restructuring of a debt constitutes a TDR if GNMA, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. Additionally, Chapter 7 Bankruptcies which result in a discharge to the borrower are considered TDR loans by GNMA, because the borrower is undergoing financial difficulty or insolvency and concessions are made to the borrower. GNMA also offers other informal options to troubled borrowers including repayment plans and forbearance agreements which are evaluated for TDR, as applicable.

Section 4022 of the CARES Act provides borrowers with "federally backed mortgage loans" a foreclosure moratorium and a right to forbearance of loan payments for homeowners experiencing financial hardship due to COVID-19. The majority of GNMA's non-pooled loan portfolio is insured/guaranteed by the FHA, VA, RD, or PIH, and therefore eligible for Section 4022 of the CARES Act. The federal agencies have issued guidance to align to the forbearance provisions of the CARES Act. FHA, VA and RD published guidance to offer extended foreclosure and eviction moratorium to its insured borrowers through December 31,2020. As described in Note (1) Summary of Significant Accounting Policies, and Note (27) COVID-19 Activity, GNMA has elected to follow the guidance issued in the Interagency Statement and, accordingly, loan modifications (including short term payment deferrals of six months or less) subject to relief under the Interagency Statement are not accounted for as TDRs and therefore not included within GNMA's TDR disclosures.

GNMA's loan modification programs may result in various types of concessions (including a combination of concessions) such as term extensions and, interest rate reductions (lower than what the mortgagor would receive in the market at the time of the modification). GNMA considers these modifications a concession to mortgagors experiencing financial difficulties and therefore classifies these loans as TDRs.

GNMA's Troubled Debt Structuring is presented in accordance with guidance in ASC 310: Receivables. The number of loans and recorded investment of loans newly classified as a TDR for the year ended September 30, 2020 by underlying insurance agencies are as follows:

Table 8A4 – Number of loans and recorded investment of loans newly classified as a TDR during the year ended September 30, 2020:

Other Non-Credit Reform Loans		
(Dollars in Millions)	**2020**	
	Number of Loans	**Recorded Investment**
Conventional	32	$ 4
FHA	174	23
VA	15	3
RD	8	1
Total	**229**	**$ 31**

The number of loans and total recorded investment as of September 30, 2020 for the loans that entered a TDR in the preceding year and for which there was a payment default during the year ended September 30, 2020 are as follows:

Table 8A5 - Number of loans and total recorded investment as of September 30, 2020 for the loans that entered a TDR in the preceding twelve months and for which there was a payment default during the period:

Other Non-Credit Reform Loans		
(Dollars in Millions)	**2020**	
	Number of Loans	**Recorded Investment**
Conventional	-	$ -
FHA	7	1
VA	2	1
RD	1	-
Total	**10**	**$ 2**

A5. Purchased Credit-Impaired Loans

Upon acquisition, if the purchased loan is delinquent and is not guaranteed or insured by FHA, GNMA concludes that it is probable that it will not collect all contractually required payments receivable. Accordingly, these loans are considered PCI mortgage loans.

Currently, upon acquisition, the PCI loans are recorded at UPB, less allowance. GNMA measures subsequent impairment on these loans based on the present value of expected future cash flows. For additional information refer to Note (1) Summary of Significant Accounting Policies for more information.

GNMA does not consider delinquent FHA guaranteed or insured acquired loans as PCI because the UPB and most of the delinquent accrued interest are deemed collectible per the FHA insurance reimbursement guidelines. The FHA insurance is inseparable from the underlying loan and remains with the loan upon transfer or disposition.

A6. Aging Analysis

GNMA's Aging Analysis is presented in accordance with guidance within ASC 310: Receivables. An aging analysis of the total recorded investment in GNMA's HFI mortgage loans by underlying insuring agency includes accrued interest (which is separately classified in Note (6) Accounts Receivables, net) are as follows:

Table 8A6 - Aging Analysis of the Total Recorded Investment in GNMA's HFI Mortgage Loan

Other Non-Credit Reform Loans									
(Dollars in Millions)	2020								
	One Month Delinquent	Two Months Delinquent	Three Months Delinquent	Four Months or More Delinquent	Total Delinquent	Current	Total	Loans Over 90 Days Delinquent and Accruing Interest	Recorded Investment in Non-accrual Loans
Conventional	$ 9	$ 3	$ 1	$ 11	$ 24	$ 91	$ 115	$ -	$ 22
FHA	151	65	38	301	555	1,466	2,021	301	-
VA	5	3	2	23	33	55	88	23	-
RD	4	1	1	7	13	25	38	7	-
Total	**$ 169**	**$ 72**	**$ 42**	**$ 342**	**$ 625**	**$ 1,637**	**$ 2,262**	**$ 331**	**$ 22**

A7. Foreclosures in Process

GNMA accounts for mortgage loans as Foreclosure in Process if a foreclosure has been filed but not completed. In this situation, the foreclosure has been filed, yet the foreclosure process has not been completed and GNMA has not received physical possession of the underlying property, and accordingly, Foreclosure in Process loans are accounted for like mortgage loans HFI.

Physical possession of residential real estate property is achieved when either the creditor obtains legal title to the residential real estate property upon completion of a foreclosure or the mortgagor conveys all interest in the residential real estate property through completion of a deed in lieu of foreclosure in order to satisfy that loan.

GNMA's Foreclosures in Process is presented in accordance with guidance within *ASC 310: Receivables*, with carrying amounts being measured based on the fair value of the collateral on a nonrecurring basis. There were 833 properties for which formal foreclosure proceeding are in process with a recorded investment of $136 million as of September 30, 2020. Although the foreclosure process has begun for these loans, GNMA believes that a portion of these loans will not complete the foreclosure process due to GNMA's loss mitigation activities.

A8. Allowance for Loan Losses

GNMA maintains an allowance for probable incurred losses related to non-pooled mortgage loans. The allowance for loan losses involves significant management judgment and estimates of credit losses inherent in the mortgage loan portfolio. The allowance for loan losses is intended to reduce the carrying value of GNMA's HFI and related accrued interest for probable credit losses embedded in the loan portfolio at the balance sheet date. HFI and accrued interest are reported net of the allowance on the Balance Sheet as part of Other Non-Credit Reform Loans and Accounts Receivable, net lines, respectively.

GNMA relies on MSS reports for information to assess mortgagors' ability to pay based on current economic environment assessment, and potential insurance recoveries as determinants in the statistical models that evaluate HFI collectability. Homogeneous pools of mortgage loans are defined on common characteristics such as age, insurance type, and geographic region, among others.

The projections are built based on actual loan performance data and performance of similar loans, current economic environment, and management judgment. GNMA monitors its projections of claim recoveries regularly to validate reasonableness. GNMA validates and updates its models and assumptions to capture changes in GNMA's servicing experience and changes in government policies and programs. When estimating defaults, prepayments and recoveries, GNMA considers several indicators including macro-economic factors such as interest rates, home price indices, nominal gross domestic product (GDP) growth, and unemployment rates. In addition, GNMA considers several credit quality indicators such as LTV ratios, current delinquency status, and recent payment history. Other characteristics include age of loan, year of origination, insuring agency, spread of mortgage rate to relevant market rate, and payment structure. GNMA uses probability of default and probability of prepayment models which employ logistic regressions to calculate dynamic default and prepayment probabilities based on actual loan performance data for GNMA's loan population and macroeconomic conditions. GNMA has implemented adjustments for the September 30, 2020 allowance for loan losses to capture the current impacts of COVID-19 on the economic environment.

GNMA's Allowance for Loan Losses are presented in accordance with guidance within ASC 310: Receivables. The total recorded investment and allowance for loan losses by allowance methodology as of September 30, 2020 are as follows:

Table 8A7 - Allowance for Loan Losses

Other Non-Credit Reform Loans	
(Dollars in Millions)	2020
	September
Recorded Investment:	
Collectively Evaluated	$ 381
Individually Evaluated	1,839
Purchase Credit Impaired	42
Total Recorded Investment in Loans	**$ 2,262**
Ending Balance of the Allowance for Loan Losses:	
Collectively Evaluated	$ (4)
Individually Evaluated	(138)
Purchase Credit Impaired	(1)
Total Allowance for Loan Losses	**$ (143)**
Net Investment in Mortgage Loans HFI	**$ 2,119**

Note that recorded investment above includes UPB, accrued interest and associated allowances. Accrued interest and associated allowances are included in Note (6) Accounts Receivable, net.

The changes in GNMA's allowance for loan losses during year ended September 30, 2020 are as follows:
Table 8A8 Changes in Allowance for Loan Losses

Other Non-Credit Reform Loans		
(Dollars in Millions)	2020	
	YTD as of September	
Beginning Balance	$	(144)
Recapture (provision) for Loan Losses		1
Charge Offs		7
Recoveries		(7)
Ending Balance	**$**	**(143)**

As discussed in Note (1) Summary of Significant Accounting Policies, GNMA determines the allowance for loan losses on a collective basis for whole loans under *SFFAS No. 1* and *SFFAS No. 5*, and determines the allowance under FASB *ASC 310: Receivables* for its impaired loans, in accordance with *SFFAS No. 34: The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

GNMA's charge offs may include write downs recorded when the mortgage loan receivables are transferred between certain asset classes. GNMA's recoveries may include miscellaneous adjustments and charge offs reversals.

B. Advances, Net

Advances include payments made to cover any shortfalls to investors resulting from mortgagors defaulting on their mortgage payments, and to active issuers under special assistance programs where GNMA may assist issuers with pass through payments if the issuer has a qualifying portfolio. Advances are reported net of an allowance, which is based on management's expectations of future collections from issuers, mortgagors, or recoverability from third-party insurers such as FHA.

During the year ended September 30, 2020, there were no issuer defaults, and as such no related subsequently termination and extinguishment activities. GNMA assumed the servicing rights and obligations of issuers which defaulted in prior fiscal years and advanced funds to the MSS throughout the year ended September 30, 2020 to cover P&I not yet paid by mortgagors, but due to the MBS investors.

GNMA's advances are presented netted in accordance with guidance within *ASC 310: Receivables*.

C. PTAP Issuer Advances, Net

In response to the COVID-19 national emergency declared by the President of the United States on March 13, 2020, GNMA has revised and expanded the issuer assistance programs in Chapter 34 of the MBS Guide. The expansion includes the addition of a new PTAP, specifically authorized for use in the response to the COVID-19 national emergency. Under this program, GNMA may assist issuers under the single-family and multifamily programs with pass-through payments to investors, if the issuers are facing a temporary liquidity shortfall directly attributable to the COVID-19 national emergency.

As of September 30, 2020, GNMA has disbursed a total of $12 million from its own capital reserves and received $9 million in total repayments (including interest) under PTAP. In connection with a memorandum of understanding with Treasury related to borrowing authority, GNMA has transferred $3,000 million into the PTAP fund from its Capital Reserve fund. If these capital reserves are depleted in the future, GNMA has the authority to borrow from the U.S. Treasury to meet immediate funding needs for PTAP. For additional information refer to Note (13) Debt.

As of September 30, 2020, no outstanding PTAP issuer advances are past due or impaired.

D. Claims Receivable, Net

Claims receivable are balances owed to GNMA from insuring or guaranteeing agencies (FHA, VA, RD, and PIH) related to conveyed properties and short sales. Short sales receivable represents payments owed to GNMA by insuring or guaranteeing agencies for properties where the net proceeds from a short sale are insufficient to repay amounts owed by the borrower, in accordance with the respective agency guidelines. Foreclosed property claims receivable represent amounts GNMA expects to receive from insuring or guaranteeing agencies for properties where GNMA has received title in lieu of foreclosure and intends to convey such title to the insuring or guaranteeing agency. GNMA records an allowance that represents the expected claims amounts which will not be recovered. The claims receivable balance, net of the allowance, represents the amounts that GNMA determines to be collectible. GNMA's Claims Receivable is presented in accordance with guidance within *ASC 310: Receivables*.

GNMA's foreclosed property and short sale claims receivable and related allowance, as of September 30, 2020 are as follows:

Table 8D1. Claims Receivable, Net

Other Non-Credit Reform Loans				
(Dollars in Millions)	**2020**			
	FHA	**VA**	**RD**	**Total**
Foreclosed Property Claims Receivable	$ 88	$ 2	$ 2	$ 92
Short Sale Claims Receivable	1	-	-	1
Allowance for Claims Receivable	(20)	(1)	-	(21)
Claims Receivable, Net	**$ 69**	**$ 1**	**$ 2**	**$ 72**

The foreclosed property claims, and short sale claims allowance balances are estimated based on underlying insuring or guaranteeing agency guidelines, and historical collectability experience.

The allowance for claims receivable includes effects of charge offs and recoveries. A claims receivable is recognized for the amount recoverable from the insurers and any excess amounts not recoverable are charged off against the allowance for loan losses. The amount of claims receivable not reimbursed by insuring or guaranteeing agencies is charged off against the allowance for claims receivable. If the claim proceeds received exceed the claims receivable's carrying amount, GNMA will apply the excess to amounts previously charged-off (i.e., recovery) with any residual amounts recognized as a gain.

E. Properties Held for Sale, Net

GNMA records properties held for sale or "acquired property" when it obtains marketable title to the underlying property after the foreclosure process is complete or the date on which GNMA received marketable title to the property through a deed-in-lieu of foreclosure. The acquired properties are typically either RD insured, VA insured or uninsured conventional loans. Acquired properties are assets that GNMA intends to sell and is actively marketing through the MSS. GNMA initially recognizes acquired property at its initial fair value less estimated costs to sell the property. This requires GNMA to make significant estimates in determining the fair value of acquired properties at acquisition.

GNMA uses fair value measurements under *ASC 820: Fair Value Measurements* for the initial recognition of assets and liabilities and periodic re-measurement of certain assets and liabilities on a recurring or non-recurring basis. *ASC 820: Fair Value Measurements* defines fair value, establishes a framework for measuring fair value, and sets forth disclosure requirements regarding fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. Fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

In determining fair value, GNMA uses various valuation techniques. The inputs to the valuation techniques are categorized into a three-level hierarchy, as described below:

Level 1: Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

GNMA subsequently measures acquired properties at the lower of cost or market "LOCOM". Subsequent valuation measurements are periodically performed up until the sale of the property. The dates of the fair value measurements vary from property to property and are not always at the reporting period end date. GNMA's accounting policy allows the use of fair value measurements from a variety of sources that are within nine months of the reporting period end date. GNMA recognizes any subsequent write-downs of the property to its fair value less estimated costs through a valuation allowance with an offsetting charge to “Expense (income) on acquired property” included in gross cost in the SNC. Any recoveries for subsequent increases in fair value less estimated costs to sell are recognized up to the cumulative loss previously recognized through the valuation allowance.

GNMA applies a valuation waterfall methodology in estimating the fair value of acquired properties. The most commonly used techniques by valuation sources used in the waterfall include discounted cash flow analysis and listing and sales price analysis of similar properties. Inputs to the valuation methodologies include recent historical data of the value of similar properties by a certified or licensed appraiser, recent pending sales information of similar properties, current listing of similar properties, estate brokers’ specific market research of similar properties, and historical data of the value of similar properties. GNMA also leverages historical information to calculate the flat estimated costs to sell percentage for its acquired properties when applying the estimated costs to sell to the fair value.

GNMA expenses all post-foreclosure costs as incurred in mortgage-backed securities program and other expenses included in gross cost in the Statement of Net Cost.

Upon disposition of an acquired property, GNMA recognizes any gain or losses through “Gains on Disposition of Assets – Other” in earned revenues in the Statement of Net Cost.

Activity for acquired properties are presented in the table below:

Table 8E1. Activity for Acquired Properties

Other Non-Credit Reform Loans	
(Dollars in Millions)	2020
	YTD as of September
Beginning balance - Acquired Properties	$ 11
Additions	12
Dispositions	(17)
Ending Balance - Acquired Properties	**$ 6**
Beginning Balance - Valuation Allowance	(1)
Change in Valuation Allowance	-
Ending Balance - Valuation Allowance	**$ (1)**
Ending Balance - Acquired Properties, Net	**$ 5**

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

PP&E 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. Leasehold improvements consist of additions, alterations, remodeling, renovations, or other changes to existing leased properties that either extend the useful life or enlarge or expand or improve its capacity and are paid or finance for by the lessee. Purchases of $500,000 (PP&E), $500,000 Leasehold Improvements, and $750,000 Internal Use Software (IUS) or more are recorded as an asset and depreciated over their estimated useful life on a straight-line basis with no salvage value for general property, plant, and equipment. Generally, the Department's assets are depreciated over a three-year period for PP&E, Leasehold Improvements, and IUS, unless it can be demonstrated that the estimated useful life is significantly greater than the specified time period.

The Department purchases and maintains all property, plant and equipment used by FHA, along with other Office of Housing activities.

In FY 2020, the Department recorded an immaterial amount of leasehold improvement activity that was previously recorded as operating expenses. For additional information on this correction refer to Note (1) Summary of Significant Accounting Policies under the Correction of Errors section.

GNMA's purchases of $100,000 or more for PP&E and IUS are recorded as an asset. GNMA depreciates its PP&E and IUS using the straight-line basis over a three to five-year period beginning when the assets are placed in use, unless another systematic and rational basis is more representative of the assets use.

The following table presents general property, plant, and equipment as of September 30, 2020:

General Property, Plant, and Equipment (PP&E), Net			
(Dollars in Millions)	2020		
	Cost	Accumulated Depreciation and Amortization	Book Value
Equipment	$ 6	$ (4)	$ 2
Equipment - GNMA	2	(1)	1
Leasehold Improvements	55	(18)	37
Leasehold Improvements - GNMA	-	-	-
Internal Use Software	-	-	-
Internal Use Software - GNMA	234	(181)	53
Internal Use Software in Development	31	-	31
Internal Use Software in Development - GNMA	13	-	13
Capital Leases - GNMA	1	(1)	-
Total	**$ 342**	**$ (205)**	**$ 137**

In FY 2020, the most recent OMB Circular A-136 guidance required federal agencies to disclose its total PP&E and accumulated depreciation for the current year in a reconciliation format. HUD added an additional line to its reconciliation to show its adjustment to the beginning balance for leasehold activity. For additional information on the leasehold activity adjustments refer to Note (1) Summary of Significant Accounting Policies under the Correction of Errors section.

The following table presents the PP&E and accumulated depreciation reconciliation as of September 30, 2020.

General Property, Plant, and Equipment (PP&E), Net	
(Dollars in Millions)	2020
	Net PP&E
Balance beginning of year	$ 85
Adjustments	35
Beginning balance, as adjusted	120
Capitalized Acquisitions	48
Dispositions/Revaluations	(2)
Depreciation/Amortization	(29)
Balance end of year	**$ 137**

Note 10: PIH Prepayments and Advances

PIH Prepayments

HUD's assets include the Department's estimates for Restricted Net Position (RNP) balances maintained by PHAs under the HCV Program. The voucher program is the federal government's major program for assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. 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.

OCFO and PIH implemented an estimation methodology to calculate the prepayment balance in FY 2018. PHAs have 45 calendar days after the end of the month to report their expenses, which creates delays in utilizing actuals for the prepayment balance calculation. Therefore, the OCFO and PIH estimates the second and third month of a quarter's VMS expense data. The three months of the quarter's general ledger (GL) disbursement data used in the methodology is the actual amounts. PHAs are also able to adjust prior months expense data at any point throughout the year based on various adjustment needs. These adjustments can adversely impact the estimate if adjustments are not captured in the estimate's beginning balances during the appropriate quarterly reporting cycle. The estimation methodology uses the beginning balance of the MTW and non-MTW RNP reports which includes any PHA prior period adjustments, PHA's disbursements from the trial balance, PHA's expenses from the Voucher Management System (VMS) Data Report that have been adjusted for expenses greater than funding received. The estimation calculation is completed on a quarterly basis.

PIH has estimated RNP balances of $178 million for the 4th quarter FY 2020, consisting of $155 million for the HCV Program and $23 million for the Moving to Work Program.

PIH Prepayment - CARES Act

On March 27, 2020, the President enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in response to the COVID-19 pandemic, providing $1,250 million to the Office of Housing Voucher Programs, Office of Public and Indian Housing (PIH) in supplemental funding. Of this amount, $400 million was earmarked for HAP supplemental to address per unit cost increases (under the Extraordinary Circumstance category, PIH Notice 2020-17) and to prevent termination of families from the program (Shortfall Prevention). Additionally, $850 million was provided to assist PHAs with COVID-19 related expenses (PPEs, deep cleaning of PBV properties, technology for remote operations, and social distancing requirements, etc., see PIH Notices 2020-08 and 2020-18), and to maintain and bring back HCV Program operations under the new norm.

PIH awarded approximately $243 million of HAP supplemental based on Extraordinary Circumstance applications submitted by approximately 300 PHAs during the month of August 2020. Approximately, $226 million of HAP supplemental funding was paid at the end of the fiscal year. Since, these CARES Act disbursements were made at the end of the year HUD believes an immaterial amount was spent, but as of year-end PHAs had not yet reported their expenses to HUD., HUD recorded this amount in its financial statements as an advance.

PIH awarded CARES Act Administrative Fees in the amount of $850 million through funding advances made in May 2020 and August 2020. These amounts have been fully disbursed to the PHAs and available to spend through December 2021. Any unspent funds will be returned to Treasury at the end of the period of availability. As of September 30,2020, PIH had a small number of PHAs that had reported back expense information from the funding disbursed in May 2020. Currently the only data available to HUD are financial statements from some PHAs with a June 30th fiscal year end. According to the PIH Public Notice 2020-24, issued September 14, 2020, PHAs with a fiscal year end June 30, 2020 that received the CARES Act Administrative fees were not required to report back its expenses to HUD until October 30, 2020. There is currently no data available for PHAs with other fiscal year ends.

OCFO and PIH worked together to develop an expense methodology to estimate how much of the May 2020 funding advance has been spent by the PHAs based on the PHAs that have already reported back expenses. The methodology was based on CARES Act administrative fees provided to PHAs with a June 30th fiscal year end. HUD received expense information for a total of 8 percent of its PHAs for funding received in May 2020. PIH calculated the actual expenses used by the PHAs that reported back divided by the amount obligated and disbursed to those PHAs that reported back to develop a percentage of expenses used. The percentage represented two months from the time when the June 30, 2020 PHAs received the funds within their fiscal year. The usage rate was 15 percent per month. Based on this usage rate, OCFO and PIH estimated that PHAs have spent 75 percent of its May 2020 funding as of September 30, 2020. This estimate does come with some risks because of the small number of PHAs that have reported back its actual expenses to HUD for the funding received in May 2020. HUD is unable to fully assess the amount of CARES Act Administrative Fees that have been used by the total PHA recipients. The expense methodology is currently HUD's best estimate approach in assuring the financial statements and notes are not materially misstated.

PIH's CARES Act prepayment has estimated balances of $793 million for the 4th quarter FY 2020, consisting of $696 million for the HCV Program and $97 million for the Moving to Work Program.

PIH Advances - IHBG Programs

HUD's assets also include the Department's advance estimates for the PIH, Office of Native American Programs (ONAP), IHBG program. The ONAP program administers housing and community development programs that benefit American Indian and Alaska Native tribal governments, tribal members, the Department of Hawaiian Homelands, Native Hawaiians, and other Native American organizations. Its overall mission is to increase the supply of safe, decent, and affordable housing available to Native American families. The recipients of this program can either be an individual or may designate a Tribally Designated Housing Entity (TDHE) to draw down, invest, and/or expend funds on their behalf. If recipients are eligible through programmatic requirements to invest IHBG funding, then PIH will grant them authority. Those recipients that are not eligible to invest will draw their funds on a reimbursable basis.

In FY 2019, OCFO and PIH developed and implemented an estimation methodology to calculate advances on the portion that is invested by eligible recipients. The estimation is determined by multiplying the investment ratio by the current year's grant allocation amount for the recipients that meet the investment criteria. There are currently thirty-six recipients that have PIH authority to invest and are currently investing. The investment ratio is determined by adding the investment recipients' September 30th balances for the last three fiscal years divided by the grant allocations made available to them during the same three previous fiscal years.

Due to the following constraints: 1) recipients have different fiscal year ends, 2) the recipient's financial report (SF425) do not report investment and expense amounts at the micro-level, i.e. individual grant and fiscal year, and 3) late funding availability causes investment portfolio fluctuations throughout the year. The advance estimation is completed annually.

PIH's IHBG has estimated advance balances of $207 million for the 4th quarter of FY 2020.

Note 11: Other Assets

The following table presents HUD's Other Assets as of September 30, 2020:

Other Assets					
(Dollars in Millions)	2020				
	FHA	GNMA	Section 8	All Other	Total
Intragovernmental Assets:					
Advances and Prepayments	$ -	$ -	$ 1	$ 45	$ 46
Total Intragovernmental Assets	**$ -**	**$ -**	**$ 1**	**$ 45**	**$ 46**
Public:					
Advances and Prepayments	-	-	-	-	-
Total	**$ -**	**$ -**	**$ 1**	**$ 45**	**$ 46**

The Department's Intragovernmental Other Assets primarily represent Policy, Development, and Research (PD&R) programs with other federal agencies.

Note 12: Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowings from the public (if there is a budget deficit).

The following table presents HUD's liabilities as of September 30, 2020:

Liabilities Not Covered by Budgetary Resources	
(Dollars in Millions)	2020
Intragovernmental	
Other Intragovernmental Liabilities	$ 24
Total Intragovernmental Liabilities	**$ 24**
Public	
Accounts Payable	43
Federal Employee and Veteran Benefits	66
Insurance and Guarantee Program Liabilities	1,324
Other Liabilities	98
Total Public Liabilities	**$ 1,531**
Total Liabilities Not Covered by Budgetary Resources	**$ 1,555**
Total Liabilities Covered by Budgetary Resources	**$ 52,012**
Total Liabilities Not Requiring Budgetary Resources	**$ 1,689**
Total Liabilities	**$ 55,256**

The Department's intragovernmental liabilities not covered by budgetary resources principally consist of unfunded FECA liabilities. HUD's public liabilities not covered by budgetary resources principally consist of GNMA's Insurance and Guarantee Program Liabilities and the Department's unfunded payroll and benefits costs such as unfunded leave, unfunded FECA liability, and actuarial FECA liability.

This note also includes the category "Total Liabilities Not Requiring Budgetary Resources" which primarily consists of FHA's receipt account liabilities and HUD's deposit, clearing and general fund receipt account liabilities.

Note 13: Debt

Several HUD programs have the authority to borrow funds from 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 FFB to finance construction and rehabilitation of low-rent housing. HUD is repaying these borrowings on behalf of the PHAs and TDHEs.

The following table presents HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2020:

Debt			
(Dollars in Millions)	2020		
	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Federal Financing Bank	$ 1,975	$ 395	$ 2,370
Debt to the U.S. Treasury	30,409	21,443	51,852
Held by the Public	2	-	2
Total	**$ 32,386**	**$ 21,838**	**$ 54,224**

Debt	
(Dollars in Millions)	2020
	Ending Balance
Classification of Debt:	
Intragovernmental Debt	$ 54,222
Debt Held by the Public	2
Total	**$ 54,224**

Interest paid on borrowings for FHA and HUD Proper as of September 30, 2020 were $2,058 million and $2 million respectively. The purpose of the borrowing is discussed in the following paragraphs.

Borrowings from Treasury

FHA

FHA borrows from the Bureau of the Fiscal Service's (BFS) Federal Investments and Borrowings Branch, which facilitates loans to federal agencies on behalf of the Department of the Treasury. The FCRA permits agencies to borrow from Treasury to support credit programs. Collections and disbursements with the public are transacted in FHA's financing accounts and are considered a means-of-financing (non-budgetary). When cash balances are insufficient to support its operations, FHA borrows from Treasury. When there is enough cash in the financing accounts, FHA can opt to repay principal. Repayments of principal can be made throughout the fiscal year.

Both interest revenue and expense are accrued at FHA's Single Effective Rate (SER). FHA's single effective rates for U.S. Treasury debt range from 1.02 percent to 7.59 percent and maturity dates for these debts rage from September 2022 to September 2041. FFB debt carried interest rates ranging from 2.60 percent to 3.40 percent, and the maturity dates for the FFB debt range from April 2043 to October 2060. Interest revenue is based on the cash balances in the financing accounts, whereas interest expense is based on the principal balances for the entire fiscal year (effective date of October 1st of the current fiscal year), regardless of the actual transaction date. As of September 30, 2020, FHA does not have any borrowing authority available from the U.S. Treasury.

GNMA

On April 10, 2020, GNMA issued All Participant Memoranda (APM) 20-03 announcing a new Pass-Through Assistance Program related to COVID-19, to the public. This program allows GNMA to assist issuers under the Single-Family program with pass-through payments to investors if issuers are facing a temporary liquidity shortfall. In support of this program, and pursuant to Section 306(d) (12 U.S.C. § 1721(d)) of Title III of the National Housing Act, GNMA executed a borrowing agreement with Treasury on April 7, 2020. Available borrowing authority, as of September 30, 2020, was $8,700 million.

Under this agreement, advances shall be made from time to time by Treasury, on an as needed basis, and upon request by GNMA to fund PTAP requirements only. Prior to the first advance, GNMA agreed with Treasury to transfer $3,000 million into the PTAP fund from its Capital Reserve fund. GNMA agreed to first use this transferred funding when fulfilling any program requirements prior to making a request for an advance under the borrowing agreement. Interest will accrue on such balances at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States as of the last day of the month preceding the issuance of the obligation of GNMA.

Each advance must be repaid by GNMA no later than five years from its effective date, with interest on each advance payable to Treasury semiannually on March 31 and September 30.

HUD Proper

HUD's Other Programs with outstanding aggregate borrowings are the Indian Housing Loan Guarantee Program, the Native Hawaiian Housing Loan Guarantee, Community Development Loan Guarantee, and the Green Retrofit Program. These borrowings have interest rates ranging from 3.09 percent to 7.23 percent. HUD Proper does not have any borrowing authority available from the U.S. Treasury as of September 30, 2020.

Borrowings from the Federal Financing Bank 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.

FHA began an FFB Risk Share program in FY 2015 an inter-agency partnership between HUD, FFB, and the 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. The FFB Risk Share program ended in FY 2019, so no new borrowing authority was made available in FY 2020.

Note 14: Federal Employee and Veteran 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 $66 million as of September 30, 2020. Future payments on this liability are to be funded by future financing sources.

Note 15: Other Liabilities

The following table presents HUD's Other Liabilities as of September 30, 2020:

Other Liabilities			
(Dollars in Millions)	2020		
	Non Current	Current	Total
Intragovernmental Liabilities			
FHA Special Receipt Account Liability	$ -	$ 1,544	$ 1,544
Unfunded FECA Liability	13	-	13
Employer Contributions and Payroll Taxes Payable	-	14	14
Miscellaneous Receipts Payable to Treasury	-	113	113
Advances to Federal Agencies	-	6	6
Intragovernmental Other Liabilities	**$ 13**	**$ 1,677**	**$ 1,690**
Other Liabilities			
FHA Other Liabilities	$ -	$ 429	$ 429
FHA Escrow Funds Related to Mortgage Notes Current	-	37	37
GNMA Deferred Income	480	47	527
Deferred Credits	-	7	7
Deposit Funds	3	26	29
Accrued Unfunded Annual Leave	98	-	98
Accrued Funded Payroll Benefits	-	45	45
Contingent Liability	-	-	-
Other	6	2	8
Total	**$ 600**	**$ 2,270**	**$ 2,870**

Special Receipt Account Liability

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

Other Liabilities

As of September 30, 2020, FHA's Other Liabilities consisted of liabilities for premiums collected on unendorsed cases of $312 million and miscellaneous liabilities of $117 million, which include disbursements in transit and unearned premium revenue. In addition, FHA had liabilities for escrow funds related to mortgage notes totaling $37 million. Premiums collected for unendorsed cases represent liabilities associated with premiums collected for cases that have yet to be endorsed.

Other liabilities current consists mostly of suspense funds, receipt accruals, and payroll-related costs, as well as the current portions of GNMA deferred income. Other liabilities non-current includes deferred income for GNMA fees, accrued and unfunded leave, deposit funds, and other liabilities. Current portions of liabilities are determined based on amounts projected to be realized in the following 12 months. The account balances are separately maintained at the general ledger account level between current and non-current portions and adjusted based on the underlying support and schedules for the balances maintained by GNMA. The classification of deferred income depends on the reason the revenue has not yet been recognized. Amounts received from a customer that are expected to be recognized as revenue upon completion of performance obligations are classified as deferred revenue prior to recognition as income. This includes commitment and multiclass fees received as issuers request commitment authority or issue multiclass products, respectively. Amounts are recognized into income over a period or at a point in time depending on when performance obligation is fulfilled. Cash collected that would have to be returned is classified as deferred liability. This includes unapplied deposits and cash received but transferred back to MSS for pass through to investors.

Note 16: Commitments and Contingencies

Legal and Other

HUD is party to several claims and tort actions related to pending or threatened litigation brought against it concerning the implementation or operation of its various programs. The Department does not have a contingent liability recorded in its financial statements as of September 30, 2020. HUD is party to various other cases listed below as "reasonably possible":

Contingencies				
(Dollars in Millions)	2020			
	Number of Cases	Accrued Liabilities	Range of Loss - Lower	Range of Loss - Upper
Legal Contingencies:				
Probable	-	$ -	$ -	$ -
Reasonable Possible	5	-	-	152
Other Contingencies:		$ -	$ -	$ -
Probable		-	-	-
Reasonable Possible		-	-	-

Of the five cases listed as reasonably possible, one of the cases have an unknown estimated amount or range of potential losses. All other case ranges have been disclosed in the table above. 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. HUD's two previously probable cases disclosed, in the 2019 AFR, have been settled in FY 2020 and paid out through the judgement fund.

The general counsel has reviewed FHA's and GNMA's claims for this fiscal year and determined that as of September 30, 2020, the ultimate resolution of legal actions would not affect HUD's consolidated financial statements. As a result, no contingent liability has been recorded for FHA and GNMA. In addition, there are no asserted or unasserted claims, or assessments in which GNMA's potential loss exceeds $5 million individually, or $11 million in the aggregate for cases not listed individually or as part of similar cases that could be material to the financial statements as of September 30, 2020.

GNMA’s management recognizes the uncertainties that could occur regarding potential terminated and extinguished issuers and other indirect guarantees, such as large issuer portfolio default, terminated and extinguished, lack of proper insurance coverage of terminated and extinguished loans.

If HUD is found liable and does not have the budget authority to cover the contingency, then the Judgment Fund will pay the claim on behalf of the agency. The Judgment Fund pays court judgments and negotiated settlements of lawsuits against the government. If the claim(s) will be paid through the Judgement Fund, then the information is disclosed in the agency’s legal letter. If the agency has another funding source to pay the claim(s), then the Judgment Fund cannot be used even if the other funding source does not have enough money to cover the claim.

Note 17: Funds from Dedicated Collections

SFFAS No. 27: Identifying and Reporting Earmarked Funds, as amended by *SFFAS No. 43: Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27,* defines the following three criteria for determining a fund from dedicated collections: 1) a statute committing the federal government to use specifically identified revenue and/or other financing sources that are originally provided to the federal government by a non-federal source only for designated activities, benefits, or purposes; 2) explicit authority for the fund to retain revenue and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) a requirement to account for and report on the receipt, use, and retention of the revenue and/or other financing sources that distinguished the fund from the federal government’s general revenue.

A fund from dedicated collection may contain non-federal sources of revenue and other financing sources that are material to the reporting entity provided it meets the criteria reported above. Each of HUD’s programs are considered non-governmental inflow.

Treasury securities reflect a Government commitment to the program and allow the program to continue to provide benefits required by law. When the benefits are paid, the way the Government finances the benefits is similar to the way it finances other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

Intradepartmental activity reported in a fund from dedicated collection is often offset with activity in other funds. Accordingly, the Department presents information for funds from dedicated collections and all other funds in the BS and SCNP on a combined basis. The elimination of intradepartmental activity between dedicated collections and all other funds is presented in the SCNP.

GNMA

Title III of the National Housing Act created GNMA as a government corporation to guarantee the timely payment of principal and interest on MBS certificates or other approved securities. GNMA is authorized under the Act to fund its program's operations through various off-setting collections, such as guaranty, commitment, multiclass, new issuer, civil penalty, servicing, and pool transfer fees. These collections are dedicated for GNMA use to administer its MBS guaranty program. In the event the issuer is unable to make any payment of principal or interest on any security guaranteed, GNMA shall make such payments as and when due in cash, and thereupon shall be subrogated fully to the rights satisfied by such payment. For additional information refer to Note (25) Insurance Programs. Further, as detailed in Note (13) Debt, GNMA agreed with Treasury to transfer $3,000 million into the PTAP fund from its Capital Reserve fund for the year ended September 30, 2020. These transferred funds remain dedicated for GNMA use to administer its MBS guaranty program, including funding PTAP advances to MBS Issuers under the terms of the MBS Guide.

GNMA invests certain accumulated fees not required for current or expected operational needs in U.S. Treasury overnight certificates. For additional information refer to Note (5) Investments.

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 amended in 1980 authorized the transfer of excess rent collections regardless of when collected.

Flexible Subsidy

As authorized by 12 U.S. Code 1715z-1, the Flexible Subsidy Fund provides federal assistance for troubled multifamily housing projects which includes supporting capital improvements to maintain these low to moderate income projects. 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.

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.

American Recovery and Reinvestment Act Programs (Recovery Act)

The Recovery Act included 17 programs at HUD which were 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 the Green Retrofit financing account) were changed to Other Funds based on exclusions noted in *SFFAS No. 27: Identifying and Reporting Dedicated Collections*. In the 4th quarter of FY 2020, the Green Retrofit program account had a downward technical re-estimate processed based on regulatory requirements in the OMB Circular A-11.

The following table presents the funds from dedicated collections balances as of September 30, 2020:

Funds from Dedicated Collections (Dollars in Millions)	2020 GNMA	Rental Housing Assistance	Flexible Subsidy	Manufactured Housing Fees Trust Fund	Recovery Act Funds	Total Dedicated Collections (Combined)
Balance Sheet						
ASSETS						
Intragovernmental:						
Fund Balance with Treasury	$ 17,013	$ 16	$ 592	$ 33	$ -	$ 17,654
Investments	8,524	-	-	-	-	8,524
Accounts Receivable, Net	1	-	-	-	-	1
Total Intragovernmental	**$ 25,538**	**$ 16**	**$ 592**	**$ 33**	**$ -**	**$ 26,179**
Cash and Other Monetary Assets	36	-	-	-	-	36
Accounts Receivable, Net	169	-	-	-	-	169
Direct Loans and Loan Guarantees	-	-	288	-	-	288
Other Non-Credit Reform Loans	2,181	-	-	-	-	2,181
General Property, Plant, and Equipment, Net	67	-	-	-	-	67
Total Assets	**$ 27,991**	**$ 16**	**$ 880**	**$ 33**	**$ -**	**$ 28,920**
LIABILITIES						
Intragovernmental:						
Accounts Payable	$ 36	$ -	$ -	$ -	$ -	$ 36
Total Intragovernmental Liabilities	**$ 36**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 36**
Accounts Payable	34	-	-	2	-	36
Insurance and Guarantee Program Liabilities	1,324	-	-	-	-	1,324
Other Liabilities	540	-	-	-	-	540
Total Liabilities	**$ 1,934**	**$ -**	**$ -**	**$ 2**	**$ -**	**$ 1,936**
Unexpended Appropriations	-	-	-	-	-	-
Cumulative Results of Operations	26,057	16	880	31	-	26,984
Total Net Position	**$ 26,057**	**$ 16**	**$ 880**	**$ 31**	**$ -**	**$ 26,984**
Total Liabilities and Net Position	**$ 27,991**	**$ 16**	**$ 880**	**$ 33**	**$ -**	**$ 28,920**
Statement of Net Cost for the Period Ended						
Gross Costs	$ 686	$ -	$ 5	$ 8	$ (6)	$ 693
Less: Earned Revenues	(1,803)	-	(3)	(15)	-	(1,821)
Net Costs	**$ (1,117)**	**$ -**	**$ 2**	**$ (7)**	**$ (6)**	**$ (1,128)**
Statement of Changes in Net Position for the Period Ended						
Net Position Beginning of Period	$ 24,940	$ 15	$ 880	$ 24	$ -	$ 25,859
Net Position Beginning of Period, as Adjusted	$ 24,940	$ 15	$ 880	$ 24	$ -	$ 25,859
Imputed Costs	1	-	-	-	-	1
Nonexchange Revenue	-	1	2	-	-	3
Other Adjustments	(1)	-	-	-	(6)	(7)
Net Costs	1,117	-	(2)	7	6	1,128
Change in Net Position	$ 1,117	$ 1	$ -	$ 7	$ -	$ 1,125
Net Position End of Period	**$ 26,057**	**$ 16**	**$ 880**	**$ 31**	**$ -**	**$ 26,984**

Note 18: Legal Arrangements Affecting the Use of Unobligated Balances

Pursuant to Title III of the National Housing Act, GNMA collections from Commitment and Multiclass fees are credited to offsetting collections in the Program Account. The portion of Commitment and Multiclass fees collection in excess of the enacted amounts available of annual and/or no-year S&E spending are precluded from being available for obligation.

The following table presents the precluded funds from obligation activities and balances as of September 30, 2020:

Legal Arrangements Affecting the Use of Unobligated Balances		
(Dollars in Millions)	2020	
Precluded Obligations Balance, Beginning	$	844
Collections		191
Precluded Obligations Balance, Ending	**$**	**1,035**

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.

In FY 2020, HUD received additional appropriated disaster funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19. As of September 30, 2020, HUD has incurred a total of $1,562 million in additional costs and expenses related to the CARES Act. For additional information, refer to Note (27) COVID-19 Activity.

The following table presents the cross-cutting of HUD's major program areas that incur costs that cross multiple program areas as of September 30, 2020:

Net Costs of HUD's Cross-Cutting Programs					
(Dollars in Millions)	2020				
	Public & Indian Housing	Housing	Community Planning & Development	Other	Consolidated
HUD's Cross-Cutting Programs					
Section 8 Rental Assistance					
Intragovernmental Gross Costs	$ 110	$ 60	$ -	$ -	$ 170
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	110	60	-	-	170
Gross Costs with the Public	24,407	12,951	69	-	37,427
Earned Revenues	-	-	-	-	-
Net Costs with the Public	24,407	12,951	69	-	37,427
Net Program Costs Other (Including indirect costs)	**$ 24,517**	**$ 13,011**	**$ 69**	**$ -**	**$ 37,597**
Public and Indian Housing Loans and Grants (PIH)					
Intragovernmental Gross Costs	$ 19	$ -	$ -	$ -	$ 19
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	19	-	-	-	19
Gross Costs with the Public	2,699	-	-	-	2,699
Earned Revenues	-	-	-	-	-
Net Costs with the Public	2,699	-	-	-	2,699
Net Program Costs Other (Including indirect costs)	**$ 2,718**	**$ -**	**$ -**	**$ -**	**$ 2,718**
Homeless Assistance Grants					
Intragovernmental Gross Costs	$ -	$ -	$ 29	$ -	$ 29
Intragovernmental Earned Revenues	-	-	(1)	-	(1)
Intragovernmental Net Costs	-	-	28	-	28
Gross Costs with the Public	-	-	2,530	-	2,530
Earned Revenues	$ -	$ -	$ -	$ -	$ -
Net Costs with the Public	-	-	2,530	-	2,530
Net Program Costs Other (Including indirect costs)	**$ -**	**$ -**	**$ 2,558**	**$ -**	**$ 2,558**
Housing for the Elderly and Disabled					
Intragovernmental Gross Costs	$ -	$ 5	$ -	$ -	$ 5
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	-	5	-	-	5
Gross Costs with the Public	-	999	-	-	999
Earned Revenues	-	(1)	-	(50)	(51)
Net Costs with the Public	-	998	-	(50)	948
Net Program Costs Other (Including indirect costs)	**$ -**	**$ 1,003**	**$ -**	**$ (50)**	**$ 953**
Community Development Block Grants (CDBG)					
Intragovernmental Gross Costs	$ -	$ -	$ 41	$ -	$ 41
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	-	-	41	-	41
Gross Costs with the Public	37	-	5,439	-	5,476
Earned Revenues	-	-	-	-	-
Net Costs with the Public	37	-	5,439	-	5,476
Net Program Costs Other (Including indirect costs)	**$ 37**	**$ -**	**$ 5,480**	**$ -**	**$ 5,517**
HOME					
Intragovernmental Gross Cost	$ -	$ -	$ 6	$ -	$ 6
Intragovernmental Earned Revenues	-	-	-	-	-
Intragovernmental Net Costs	-	-	6	-	6
Gross Costs with the Public	-	-	831	-	831
Earned Revenues	-	-	-	-	-
Net Costs with the Public	-	-	831	-	831

Net Costs of HUD's Cross-Cutting Programs					
(Dollars in Millions)	2020				
	Public & Indian Housing	Housing	Community Planning & Development	Other	Consolidated
Net Program Costs Other (Including indirect costs)	**$ -**	**$ -**	**$ 837**	**$ -**	**$ 837**
Other					
Intragovernmental Gross Costs	$ 84	$ 24	$ 50	$ 32	$ 190
Intragovernmental Earned Revenue	(6)	(1)	-	(2)	(9)
Intragovernmental Net Costs	78	23	50	30	181
Gross Costs with the Public	5,033	191	629	(102)	5,751
Earned Revenues	-	(18)	-	-	(18)
Net Costs with the Public	5,033	173	629	(102)	5,733
Net Program Costs Other (Including indirect costs)	**$ 5,111**	**$ 196**	**$ 679**	**$ (72)**	**$ 5,914**
Costs Not Assigned To Programs	104	50	64	-	218
Net Program Costs Other (Including indirect costs)	**$ 5,215**	**$ 246**	**$ 743**	**$ (72)**	**$ 6,132**
Eliminations					
Intragovernmental Gross Costs	$ -	$ -	$ -	$ -	$ -
Intragovernmental Earned Revenue	-	-	-	-	-
Intragovernmental Net Costs	-	-	-	-	-

Note 20: Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs

Contractual Commitments

HUD has entered into extensive long-term obligations that consist of legally binding agreements to provide grants, subsidies, or loans. Obligations become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy obligations 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 Programs, and a portion of "All Other" programs, HUD management expects all of the programs to continue incurring new obligations under authority granted by Congress in future years. However, estimated future obligations 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. As of September 30, 2020, HUD Proper does not have any contract authority available.

HUD's 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 is comprise funds with Treasury which are available to fund existing obligations 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 unexpended appropriations, permanent, indefinite authority, and offsetting collections. The appropriated funds are primarily used to support administrative contract expenses while the permanent indefinite authority and the offsetting collections are used for program services. The permanent indefinite authority for FHA as of September 30, 2020, was $64 million. The offsetting collections for FHA's undelivered orders as of September 30, 2020 were $2,173 million. The offsetting collection for GNMA's undelivered orders as of September 30, 2020 was $2,115 million.

In FY 2020, HUD received additional appropriated disaster funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19. As of September 30, 2020, HUD has unpaid undelivered orders in the amount of $4,101 million related to COVID-19. HUD also has paid undelivered orders in the amount of $793 million related to COVID-19. Finally, HUD has commitments in the amount of $3,537 million related to COVID-19. For additional information refer to Note (27) COVID-19 Activity.

The following table presents HUD's unpaid obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2020:

Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs			
(Dollars in Millions)	2020		
	Federal	Non-Federal	Total
Federal Housing Administration (FHA)	$ 11	$ 2,348	$ 2,359
Government National Mortgage Association (GNMA)	251	1,864	2,115
Section 8 Rental Assistance	1	9,154	9,155
Public and Indian Housing Loans and Grants (PIH)	-	6,951	6,951
Homeless Assistance Grants	-	4,388	4,388
Housing for the Elderly and Disabled	3	1,059	1,062
Community Development Block Grants (CDBG)	-	25,544	25,544
HOME	-	3,723	3,723
Section 235 & 236 Other	-	268	268
All Other	211	4,522	4,733
Total	**$ 477**	**$ 59,821**	**$ 60,298**

The following table presents HUD's paid obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2020:

Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs			
(Dollars in Millions)	2020		
	Federal	Non-Federal	Total
Federal Housing Administration (FHA)	$ -	$ -	$ -
Government National Mortgage Association (GNMA)	-	-	-
Section 8 Rental Assistance	1	972	973
Public and Indian Housing Loans and Grants (PIH)	-	207	207
Homeless Assistance Grants	-	-	-
Housing for the Elderly and Disabled	-	-	-
Community Development Block Grants (CDBG)	-	-	-
HOME	-	-	-
Section 235 & 236 Other	-	-	-
All Other	46	-	46
Total	**$ 47**	**$ 1,179**	**$ 1,226**

Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments which are the reservation 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 table presents HUD's administrative commitments as of September 30, 2020:

Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs (Dollars in Millions)	2020
Federal Housing Administration (FHA)	$ -
Government National Mortgage Association (GNMA)	-
Section 8 Rental Assistance	53
Public and Indian Housing Loans and Grants (PIH)	12
Homeless Assistance Grants	2,495
Housing for the Elderly and Disabled	87
Community Development Block Grants (CDBG)	28,605
HOME	456
Section 235 & 236 Other	-
All Other	314
Total	**$ 32,022**

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.

In FY 2020, HUD received additional appropriated disaster funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19. As of September 30, 2020, HUD has a total of $6,457 million in additional Category B direct obligations incurred related to the CARES Act. For additional information refer to Note (27) COVID-19 Activity.

HUD's categories of obligations incurred as of September 30, 2020:

Apportionment Categories of Obligations Incurred			
(Dollars in Millions)	2020		
	Category A	Category B	Total
Direct	$ 4,925	$ 103,987	$ 108,912
Reimbursable	-	3,770	3,770
Total	**$ 4,925**	**$ 107,757**	**$ 112,682**

Note 22: Explanation of Differences between the SBR and the Budget of the United States Government

The President's Budget containing actual FY 2020 data is not available for comparison to the SBR. Actual FY 2020 data will be available at a later date at https://www.whitehouse.gov/omb/budget/. For FY 2019, a reconciliation to compare HUD's SBR to the President's Budget of the U.S. was performed to identify any variances. The "Other" line represents rounding, timing, and other immaterial differences between HUD's Combined SBR and the Budget of the United States.

The table below displays the variances between HUD's Statement of Budgetary Resources to the Budget for the United States Government for FY 2019:

FY 2019 Reconciliation between Combined SBR and President's Budget (Dollars in Millions)	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 235,138	$ 113,447	$ (2,565)	$ 54,716
Resources related to HUD's expired accounts not reported in the President's Budget	(905)			
Offsetting receipts not included in the President's Budget			263	
Other	3	3	1	5
Budget of the United States Government	$ 234,236	$ 113,450	$ (2,301)	$ 54,721

Note 23: Reconciliation of Net Cost to Net Outlays

FASAB issued *SFFAS No. 53: Budget and Accrual Reconciliation*, which requires a reconciliation of HUD's net outlays on a budgetary basis to its net cost of operations during the reporting period. The reconciliation, called the Budget and Accrual Reconciliation replaces the Statement of Financing (SOF) net disclosure, which reconciled the budgetary resources obligated (and some non-budgetary resources) and the net cost of operations.

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays presented on a budgetary basis, and the net cost presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

In late FY 2020, the OMB Circular A-136 guidance changed the presentation of this reconciliation of net cost to net outlays from the prior year. Under the new guidance, agencies with loan receivables under the FCRA are required to exclude financing account activity. At the consolidated level, FHA and HUD Proper are excluding the financing account activity from all line items in the reconciliation. Whereas GNMA's financing account activity is included in the reconciliation because they do not follow FCRA. Due to the exclusion of financing funds from the reconciliation of net cost to net outlays, there is a discrepancy in the intragovernmental and public Net Operating Cost when compared to the RSI Statement of Net Cost. HUD's total net cost of operations on the Statement of Net Cost ties to this reconciliation's total net operating cost.

Components of Net Cost That Are Not Part of Net Outlays:

The unique nature of GNMA's business and accounting processes required to implement the Modified Credit Reform structure described in Note (1) Summary of Significant Accounting Policies requires that certain general ledger accounts are mapped differently than the suggested crosswalk published by Treasury. These differences are summarized below:

The Treasury crosswalk suggests mapping general ledger account "Interest Receivable – Investments" to the "Accounts Receivable" line. GNMA's includes the "Investments" line under "Increase (Decrease) in Assets." This is consistent with how GNMA presents its investments in the accompanying Balance Sheet and Note (5) Investments. The balance in this account pertains to interest receivable specifically attributable to GNMA investments.

GNMA's non-pooled loans are Non-Credit Reform loans, and therefore the activity related to those loans are included within the reconciling line items within the BAR, rather than omitted in lieu of reporting the subsidy cost, as is required for entities that apply FCRA reporting standards.

GNMA's general ledger accounts for "Foreclosed Property" and "Foreclosed Property – Allowance" and they are included in the "Loans Receivable" line under "Increase (Decrease) in Assets", consistent with how GNMA presents its "Other Non-Credit Reform Loans" on the accompanying Balance Sheet.

The Treasury crosswalk does not include suggested mapping for GNMA's Other Non-Credit Reform Loans general ledger accounts. For additional information refer to Note (8) Other Non-Credit Reform Loan. The Treasury crosswalk suggests mapping general ledger account "Other Assets" to the "Other Assets" line. GNMA includes account "Other Assets" in the "Loans Receivable" line under "Increase (Decrease) in Assets", this is consistent with how GNMA presents its "Other Non-Credit Reform Loans" on the accompanying Balance Sheet. GNMA uses account "Other Assets" to record its Properties Held for Sale. For additional information refer to Note (8) Other Non-Credit Reform Loans.

The Treasury crosswalk suggests mapping general ledger accounts "Gains on Disposition of Assets – Other" to the "Property, Plant, and Equipment disposal & reevaluation" line. GNMA includes the impact of all costs not part of net outlays which are present in the general ledger account in the "Loans Receivable" line under "Increase (Decrease) in Assets", consistent with how GNMA presents its "Other Non-Credit Reform Loans" on the accompanying Balance Sheet. GNMA uses account "Gains on Disposition of Assets – Other" to record gains and losses on disposal or liquidation of its Other Non-Credit Reform Loan assets. For additional information refer to Note (8) Other Non-Credit Reform Loans and Note (1) Significant Accounting Policies related to Other Non-Credit Reform Loans.

FHA's crosswalk also differs from the Treasury crosswalk. FHA reports interest receivable for investments as part of the "Investments" line item rather than "Accounts Receivable." This is consistent with how FHA presents investments in the accompanying Balance Sheet and Note (5) Investments. FHA also reports the subsidy payable to the financing account as part of "Accounts Payable" rather than as part of "Other Liabilities." This is consistent with how FHA presents accounts payable in the accompanying Balance Sheet. Under "Other Liabilities," FHA includes its liability for advances and prepayments to be consistent with how FHA presents other liabilities in the accompanying Balance Sheet and Note (15) Other Liabilities.

FHA previously based its Year-end credit reform subsidy re-estimates and Effect of prior year agencies credit reform subsidy re-estimates on activity in the financing accounts. Due to the change in OMB Circular A-136 that requires FCRA financing account activity to be excluded, FHA used activity in transfers out (in) without reimbursement related to the re-estimates to populate the Year-end credit reform subsidy re-estimates and Effect of prior year agencies credit reform subsidy re-estimates line items. Due to the change, FHA is classifying the Year-end credit reform subsidy re-estimates and Effect of prior year agencies credit reform subsidy re-estimates as intragovernmental rather than with the public. FHA's transfers out (in) without reimbursement are all intragovernmental in nature.

Components of Net Outlays that Are Not Part of Net Cost:

To determine the amount included in the "Acquisition of Capital Assets" line, GNMA computed the changes resulting from acquisition of assets in the proprietary property, plant, and equipment accounts. This was necessary as the suggested Treasury crosswalk requires the use of the memorandum account which is not used by GNMA. As part of GNMA's Modified Credit Reform accounting, GNMA maintains a non-FCRA financing account whose outlays are reported as "Disbursements, Net" on the SBR. An additional reconciling line item is included in the Reconciliation of Net Cost to Net Outlays to present the balance of outlays reported by GNMA's non-FCRA financing fund. The inclusion of this line item allows for the BAR to maintain the relationship between the Net Cost of Operations and Budgetary Net Outlays.

The Other line in HUD's reconciliation offsets the portion of activity under Other Liabilities that does not have an impact on budgetary resources. This includes FHA's GI/SRI downward re-estimates and negative subsidy, and an accrued liability to Treasury's General Fund, which is recorded as part of Other Liabilities. However, the GI/SRI downward re-estimate liability and the negative subsidy liability accrued at the end of the fiscal year are offset because they have no impact on budgetary resources until the next fiscal year when they are liquidated.

Other Temporary Timing Differences:

Other Temporary Timing Differences line captures HUD's general fund receipt accounts that are transferred to Treasury at fiscal year-end. This line also includes FHA's prior-year adjustment to cumulative results of operations due to its change in accounting principle.

Reconciliation of Net Cost to Net Outlays			
(Dollars in Millions)	2020		
	Intragovernmental	With the Public	Total
Net Operating Cost	$ (95)	$ 34,855	$ 34,760
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation	-	(29)	(29)
Property, plant, and equipment disposal & reevaluation	-	-	-
Unrealized valuation loss/(gain) on investment in GSE's	-	-	-
Year-end credit reform subsidy re-estimates	10,747	-	10,747
Other	1	-	1
Increase/(decrease) in assets:			
Accounts receivable	893	(203)	690
Loans receivable	-	(653)	(653)
Other assets	13	545	558
Investments	974	-	974
(Increase)/Decrease in Liabilities not affecting Budgetary Outlays:			
Accounts payable	(1,924)	(128)	(2,052)
Salaries and benefits	(3)	(9)	(12)
Insurance and guarantee program liabilities	-	(353)	(353)
Environmental and disposal liabilities	-	-	-
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	1,843	(39)	1,804
Other Financing Sources			
Federal employee retirement benefit costs paid by OPM and imputed to agency	(78)	-	(78)
Transfers out (in) without reimbursement	(13,718)	-	(13,718)
Other imputed finance	-	-	-
Non-FCRA Financing Fund Disbursements	(1,893)	1,795	(98)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**$ (3,145)**	**$ 926**	**$ (2,219)**
Components of the Budgetary Outlays That Are Not Part of Net Operating Cost			
Effect of prior year agencies credit reform subsidy re-estimate	2,069	-	2,069
Acquisition of capital assets	-	47	47
Acquisition of inventory	-	-	-
Acquisition of other assets	-	-	-
Debt and equity securities	-	-	-
Other	2,919	(181)	2,738
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	**$ 4,988**	**$ (134)**	**$ 4,854**
Other Temporary Timing Differences	**(4,786)**	**581**	**(4,205)**
Total Other Temporary Timing Differences	**$ (4,786)**	**$ 581**	**$ (4,205)**
Net Outlays (Calculated Total)	**$ (3,038)**	**$ 36,228**	**$ 33,190**
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net (Total) (discretionary and mandatory) (SBR 4190)			38,009
Distributed offsetting receipts (SBR 4200)			(4,819)
Outlays, Net (SBR 4210)			**$ 33,190**

Note 24: Exchange Revenue

Exchange Revenues or earned revenues arise when an entity provides goods and services to the public or another government entity for a price. The full amount of exchange revenue is reported on the SNC and are deducted from the gross cost of programs to determine the net program costs. HUD recognizes exchange revenue when earned in accordance with FASAB Standards.

The table below presents a breakdown of HUD earned revenues and summary information, presented in the Consolidated Statement of Net Cost as of September 30, 2020:

Exchange (Earned) Revenues							
(Dollars in Millions)	2020						
	Federal Housing Administration (FHA)	Government National Mortgage Association (GNMA)	Homeless Assistance Grants	Housing for the Elderly and Disabled	All Other	Eliminations	Total
Intragovernmental							
Interest Revenue from Deposits at US Treasury (Uninvested Funds)	$ (839)	$ -	$ -	$ -	$ (6)	$ -	$ (845)
Interest Revenue from Investments with US Treasury	(852)	(119)	-	-	-	-	(971)
Other Intragovernmental Revenue	-	-	(1)	-	(3)	1	(3)
Intragovernmental Earned Revenue:	**$ (1,691)**	**$ (119)**	**$ (1)**	**$ -**	**$ (9)**	**$ 1**	**$ (1,819)**
With the Public:							
Interest Revenue with the Public	(375)	(108)	-	(51)	(3)	-	(537)
GNMA Mortgage Backed Securities Guaranty Fees	-	(1,384)	-	-	-	-	(1,384)
Other Earned Revenues/Income with the Public	(40)	(192)	-	-	(15)	-	(247)
Earned Revenue with the Public:	**$ (415)**	**$ (1,684)**	**$ -**	**$ (51)**	**$ (18)**	**$ -**	**$ (2,168)**
Total Exchange (Earned) Revenue:	**$ (2,106)**	**$ (1,803)**	**$ (1)**	**$ (51)**	**$ (27)**	**$ 1**	**$ (3,987)**

FHA

FHA's Intragovernmental exchange revenue consists of interest revenue from deposits at the U.S. Treasury and from investments with the U.S. Treasury. Deposits at the U.S. Treasury are generated by post-Credit Reform loan guarantee activity in FHA's financing accounts, and FHA earns interest revenue on uninvested funds in the financing accounts. FHA also invests surplus resources in its MMI/CMHI capital reserve account in U.S. Treasury Securities and earns interest revenue on these investments.

FHA's exchange revenue with the public consists of interest revenue and other earned revenue and income. FHA's interest revenue with the public comes primarily from interest on uninvested funds for the FFB Risk Share program. FHA classifies interest revenue for the FFB Risk Share program as non-federal because of the nature of the program. Interest revenue with the public also includes interest on pre-Credit

Reform loan receivables. Other earned revenue and income consist of late charges, penalties, and premiums associated with pre-Credit Reform loan guarantees and revenue and gains from pre-Credit Reform notes and properties held and sold.

Insurance Premium Revenue

Under Credit Reform accounting, FHA's exchange revenue includes only premiums associated with the pre-1992 loan guarantee activity. Premiums for post-1991 guaranteed loans are included in the balance of the LLG. The FHA premium structure includes both up-front premiums and annual periodic premiums. The up-front premium and annual periodic premium rates for FY 2020 are reported below. However, the premiums received for post-1991 guaranteed loans are not reported under this note as part of exchange revenue.

Up-front Premiums

The up-front premium rates vary according to the mortgage type and the year of origination. The FHA up-front premium rates for loans committed in FY 2020 are as follows:

Exchange (Earned) Revenues	
	Upfront Premium Rates 10/1/2019 - 09/30/2020
Single Family	1.75%
Multifamily	0.25%, 0.50%, 0.65%, 0.80%, or 1.00%
HECM	2.00%

Annual Periodic Premiums

The periodic premium rate is used to calculate monthly or annual premiums. These rates also vary by mortgage type and program. The FHA annual periodic premium rates for loans committed in FY 2020 are as follows:

Exchange (Earned) Revenues	
	Annual Periodic Premium Rates 10/1/2019 - 09/30/2020
Single Family - Term > 15 years	0.80%, 0.85%, 1.00%, or 1.05%
Single Family - Term ≤ 15 years	0.45%, 0.70%, or 0.95%
Multifamily	0.45%, 0.57%, 0.65%, or 0.70%
HECM	0.50%

For Title I, the maximum insurance premium paid for guaranteed cases endorsed in years 1992 through 2001 is equal to 0.50 percent of the loan amount multiplied by the number of years of the loan term. The annual insurance premium for a Title I Property Improvement loan is 0.50 percent of the loan amount until the maximum insurance charge is paid. The annual insurance premium of a Title I Manufactured Housing loan is calculated in tiers by loan term until the maximum insurance charge is paid.

GNMA

GNMA's exchange revenues include interest revenues from investments with U.S. Treasury, GNMA interest income on non-credit reform mortgage loans receivable, GNMA MBS guarantee fees, and GNMA other fees and income including GNMA MBS commitment fees, Multiclass fees, and other earned revenues.

GNMA earns interest income on U.S. Government securities related to U.S. Treasury overnight certificates. Interest rates and pricing are established by U.S. Treasury in accordance with the Federal Investments Program guidelines.

GNMA also earns interest on mortgage loans held for investment at the contractual rate and records an allowance on accrued interest to the extent interest is uncollectible for conventional loans and not recovered for insured or guaranteed loans. GNMA guarantees the timely payment of principal and interest (P&I) on MBS backed by federally insured or guaranteed residential loans to its investors. In exchange for providing the guaranty, GNMA receives guaranty fees from the issuers on the UPB of the outstanding MBS in the non-defaulted issuer portfolio. These fees are received and recognized as revenue on a monthly basis over the contractual period that the guaranty is provided. Pricing of the guaranty fees is prescribed by 12.U.S.C. 1721 *Management and Liquidation Functions of Government National Mortgage Association.* Fees are calculated based on the prescribed pricing multiplied by outstanding UPB. For additional refer to Note (25) Insurance Programs.

In addition, GNMA earns other fees and income, including commitment fees received as issuers request commitment authority to issue GNMA MBS and one-time upfront fees related to the issuance of multiclass products, as well as various other MBS program fees. Pricing for other fees and income are based on guidance published by GNMA in the MBS Guide and are designed to provide appropriate compensation for the administrative costs and value of services provided by GNMA.

HUD Proper

HUD Proper's earned revenues include non-federal interest revenue from outstanding loans receivable in pre-1992 liquidating funds calculated based on contractual rates, intragovernmental interest revenue from uninvested funds deposited at the U.S. Treasury generated from post-1991 loan guarantees and direct loans in financing accounts calculated based on U.S. Treasury rates, Manufactured Housing Trust Fund fees authorized by the National Manufactured Housing Act of 1974 which is administered by the Office of Manufactured Housing Programs and immaterial intragovernmental earned revenues from other federal agencies.

Note 25: Insurance Programs

SFFAS No. 51: Insurance Programs, establishes accounting and reporting standards for insurance programs to ensure they are adequately defined and report consistent information about the liabilities for losses incurred and claimed as well as expected losses during the remaining coverage.

HUD Proper and FHA administers some direct loans and loan guarantee programs that meet the definition of insurance programs; however, they are excluded from this provision as noted in paragraph 6 of the standard.

GNMA's MBS program guarantees the timely payment of P&I on securities backed by pools of mortgage loans insured by FHA, PIH and Rural Housing Service, or guaranteed by the VA. GNMA's MBS Guaranty program is considered an exchange transaction insurance program other than life insurance under *SFFAS No. 51: Insurance Programs*. GNMA's principal risk associated with the MBS Guaranty program is default risk. When estimating defaults, prepayments and recovery, GNMA considers a few indicators including macro-economic factors such as interest rates, home price indices, and unemployment rates. In addition, GNMA considers several credit quality indicators such as LTV ratios, and delinquency status, GNMA also considers significant management judgment and estimates of credit losses inherent in the mortgage loan portfolio. As of September 30, 2020, the UPB of GNMA's MBS securities amounted to $2,117,699 million which represents the maximum potential exposure risk to the program. It should be noted, however, that GNMA's potential loss is considerably less due to the financial strength of its issuers. In addition, the value of the underlying collateral and the insurance provided by insuring or guaranteeing agencies indemnify GNMA for most losses.

In accordance with the requirements of *SFFAS No. 51*, GNMA is required to recognize and disclose Revenue and Liability for Unearned Premiums; Liability for Unpaid Insurance Claims; and Liability for Losses on Remaining Coverage for its MBS Guaranty program.

Revenue and Liability for Unearned Premiums

GNMA guarantees the timely payment of P&I on MBS issued by approved issuers. In exchange for providing the guaranty, GNMA receives guaranty fees from the issuers on the UPB of the outstanding MBS in the non-defaulted issuer portfolio. These fees are received and recognized as revenue on a monthly basis over the contractual period that the guaranty is provided. If necessary, a liability for unearned premiums is recognized in the amount of the premiums collected but not earned on a monthly basis in accordance with the requirements of *SFFAS No. 51: Insurance Programs* and *SFFAS No. 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. The monthly guaranty fees received are a result of GNMA "lending" its creditworthiness to the issuer to enhance the issuer's ability to borrow funds from investors.

Pricing of the guaranty fees is prescribed by *12.U.S.C. 1721 Management and Liquidation Functions of Government National Mortgage Association*, which provides for a fee of 6 basis points for Single Family

Programs, 30 basis points for Manufactured Housing Program, and 13 basis points for Multifamily Housing Programs.

GNMA had guaranty fee revenue of $1,384 million for the year ended September 30, 2020.
GNMA invests certain accumulated fees not required for current or expected operational needs in U.S. Treasury overnight certificates. For additional information refer to Note (5) Investments.

Liability for Unpaid Insurance Claims

GNMA defines the “adverse event” which triggers exercise of its guaranty primarily as default by the Single-Family MBS issuer, which can occur for inability or failure to make pass-through payments to MBS holders, or other violations of GNMA requirements. For Multifamily, the “adverse event” is triggered in the event of a loan default, pursuant to the Multifamily guaranty agreement. GNMA is responsible for missed pass-through payments; however, any such pass-through payments are made immediately when due by GNMA to satisfy the terms of the guaranty agreement and the expectations of MBS holders to receive timely payment. As a result, GNMA does not have any liability for unpaid insurance claims as of September 30, 2020.

Liability for Loss on Remaining Coverage

As of September 30, 2020, the liability for loss on remaining coverage was $1,324 million. The Loss on Remaining Coverage recognized and included in gross cost for the year ended September 30, 2020 was $353 million.

The overall increase in the Liability Loss on Remaining Coverage recognized and included in gross cost for the year ended September 30, 2020 of $353 million was primarily the result of a decrease in the guaranty asset (GA) balance of $357 million (credit) which combined with a decrease in the guaranty obligation (GO) balance of $41 million (debit) and a $37 million increase (credit) in the contingent liability for probable issuer defaults. The decrease of the GA was due primarily to changes in assumptions for the valuation model driven by the inclusion of COVID-19 impacts and resulting economic baseline scenarios impacting unemployment and interest rates, as well as existing portfolio pay downs which are increasing as a result of declining interest rates. These changes were partially offset by new MBS issuances. The decrease in the GO balance was primarily due to paydowns of existing MBS balances resulting in amortization of the liability, which was partially offset by new MBS issuances. The increase in contingent liability for probable issuer defaults was primarily related to expected losses on multifamily defaults.

The issuance of a guaranty under the MBS program obligates GNMA to stand ready to perform under the terms of the guaranty. GNMA’s GA represents the net present value of expected collections of guaranty fees associated with outstanding GNMA guaranteed MBS and is determined through a modeling process maintained by the Office of Enterprise Risk. The corresponding GO represents the non-contingent liability for GNMA's obligation to perform under its guaranty.

The GO is derived based on the market price of the guaranty, which represents the fair compensation the market would require making such a guaranty and is amortized systematically over the term of the MBS based on the amount of outstanding UPB for underlying loans. GNMA also records a contingent liability when it is probable that an issuer will default and the amount of the loss or a range of loss can be reasonably estimated. The contingent liability is measured initially and in subsequent periods in accordance with *SFFAS No. 5: Accounting for Liabilities of the federal government – Contingencies*. Once it is determined that an issuer default is probable to occur, GNMA estimates the probable credit losses in the underlying loan portfolio to calculate the loss contingency. As of September 30, 2020, no GNMA issuer was considered probable of defaulting, and GNMA estimated potential losses up to $286 million related to reasonably possible losses in the event of issuer defaults. Amounts related to reasonably possible defaults are not recorded as a liability in the financial statements. As of September 30, 2020, the contingent liability related to pooled Multifamily loans probable of defaulting was $44 million which is included in the Liability Loss on Remaining Coverage. Determining a contingent liability requires considerable management judgment including the evaluation of the likelihood that future events will confirm the loss. When assessing whether it is probable that a default will occur, management takes into consideration various factors including the issuer's financial and operational vulnerability, a qualitative and quantitative corporate credit analysis, other evidence of potential default (e.g., known regulatory investigations or actions), interest rates, and general economic conditions.

In March 2020, The President of the United States proclaimed that the COVID-19 outbreak in the United States constitutes a national emergency. Liquidity issues arose as market conditions changed and borrowers affected by COVID-19 were offered widespread forbearance, including forbearance on loans purchased and securitized by GNMA. As GNMA issuers must continue to advance mortgage principal and interest payments for GNMA loans during the forbearance period, liquidity pressures on certain issuers may increase. In response to these potential liquidity concerns, GNMA has heightened its monitoring and review of the financial stability of issuers. For additional information on GNMA's PTAP program refer to Note (1) Significant Accounting Policies and Note (8) Other Non-Credit Reform Loans.

Note 26: Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for FR Compilation Process

To prepare the Financial Report of the U.S. Government (FR), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. HUD's financial statements and HUD's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2019 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2020 FR will be posted to this site as soon as it is released.

In late FY 2020, the most recent OMB Circular A-136 updated its regulatory guidance for this note disclosure. The updated guidance changed the presentation of this note by adding additional columns for the following: Dedicated Collections Combined, Dedicated Collections Eliminations, All Other Amounts (with Eliminations), and Eliminations between Dedicated and All Other.

The term “intragovernmental” is used in this note to refer to amounts that results from other components of the federal government. The term “non-federal” is used in this note to refer to federal government amounts that result from transactions with non-federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

The Net Position section of the Balance Sheet presented in HUD's accompanying Balance Sheet is shown before eliminations, or "Combined." This is consistent with HUD's presentation of a "Combining" Statement of Change in Net Position in the accompanying Balance Sheet. The Reclassified Balance Sheet from GTAS differs from HUD's accompanying Balance Sheet in that it elects to show two lines with no distinction between Cumulative Results of Operations and Unexpended Appropriations “Funds from Dedicated Collections” and “All Other Funds.” Whereas HUD’s accompanying Balance Sheet displays four lines with the distinction between “Funds from Dedicated Collections” and “All Other Funds.”

Under the Reclassified Balance Sheet column of the reconciliation, HUD has a reclass entry between FHA’s LLG and the GNMA allowance. The Reclassified Balance Sheet lines that were impacted by the manual adjustment are “Direct loan and loan guarantees receivables” and “Loan guarantee liabilities.”

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet							
FY 2020 U.S. Department of Housing and Urban Development SNC		Line Items Used to Prepare FY 2020 Government-wide SNC					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
ASSETS							**ASSETS**
Intragovernmental Assets							*Intragovernmental Assets*
Fund Balance with Treasury	$ 135,587	$ 17,654	-	$ 117,933		$ 15,587	Fund Balance with Treasury
vestments	77,770	8,524	-	68,924	-	77,448	Federal Investments
		-	-	322	-	322	Interest Receivable - Investments
Total Investments	*$ 77,770*	*$ 8,524*	-	*$ 69,246*	-	*$ 77,770*	*Total Reclassified Investments*
Accounts Receivable, Net							
	-	-	-	-	-	-	Accounts Receivable, Capital Transfers
		-	-	-	-	-	Benefit Program Contributions Receivable
		1	-	-	(1)	-	Accounts Receivable, Net
		-	-	-	-	-	Transfers Receivable
Total Accounts Receivable, Net	-	$ 1	-	-	$ (1)	-	Total Reclassified Accounts Receivable
	-	-	-	-	-	-	Interest Receivable - Loans and Not Otherwise Classified
		-	-	-	-	-	Loans Receivable
Loans Receivable		-	-	-	-	-	*Total Reclassified Loans Receivable*
	46	-	-	46	-	46	Advances to Others and Prepayments
Other Assets		-	-	-	-	-	Other Assets
Total Other Assets	*$ 46*	-	-	*$ 46*	-	*$ 46*	*Total Reclassified Other*
Total Intragovernmental Assets	**$ 213,403**	**$ 26,179**	-	**$ 187,225**	**$ (1)**	**$ 213,403**	**Total Intragovernmental Assets**
Cash and Other Monetary Assets	$ 69	$ 36	-	$ 33	-	$ 69	Cash and Other Monetary Assets
	-	-	-	-	-	-	Securities and Investments
Investments		-	-	-	-	-	Investments in Government-Sponsored Enterprises
Accounts Receivable, Net	1,064	169	-	895	-	1,064	Accounts Receivable, Net
Taxes Receivable, Net	-						
Direct Loan and Loan Guarantees	44,278	2,469	-	43,990	(119)	46,340	Direct Loan and Loan Guarantees Receivable, Net
Other Non-Credit Reform Loans	2,062						
Inventory and Related Property, Net	-	-	-	-	-	-	Inventory and Related Property, Net

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet							
FY 2020 U.S. Department of Housing and Urban Development SNC		Line Items Used to Prepare FY 2020 Government-wide SNC					
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
General Property, Plant, and Equipment, Net	137	67	-	70	-	137	General Property, Plant, & Equipment, Net
PIH Prepayments and Advances	385						
PIH Prepayments - CARES Act	793						
Other Assets	-	-	-	1,178	-	1,178	Other Assets
Total Assets	**$ 262,191**	**$ 28,920**	**-**	**$ 233,391**	**$ (120)**	**$ 262,191**	**Total Assets**
LIABILITIES							**LIABILITIES**
Intragovernmental Liabilities							**Intragovernmental Liabilities**
Accounts Payable	68						
		-	-	$ 23	-	$ 23	Benefit Program Contributions Payable
		36	-	45	(1)	80	Accounts Payable
		-	-	-	-	-	Transfers Payable
Total Accounts Payable	$ 68	$ 36	-	$ 68	$ (1)	$ 103	*Total Reclassified Accounts Payable*
Debt	$ 54,222						
		-	-	-	-	-	Federal Debt
		-	-	-	-	-	Interest Payable, Debt
		-	-	-	-	-	Total Reclassified Federal Debt and Interest Payable
		-	-	6	-	6	Interest Payable - Loans and Not Otherwise Classified
		-	-	54,216	-	54,216	Loans Payable
		-	-	*54,222*	-	*54,222*	*Total Reclassified Debt Associated with Loans*
Other Liabilities	1,690						
		-	-	6	-	6	Advances from Others and Deferred Credits
		-	-	3	-	3	Other Liabilities (Without Reciprocals)
		-	-	1,646	-	1,646	Liabilities to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets
Total Other - Miscellaneous Liabilities	*$ 1,690*	-	-	*$ 1,655*	-	*$ 1,655*	*Total Reclassified Other - Miscellaneous Liabilities*
Total Intragovernmental Liabilities	**$ 55,980**	**$ 36**	**-**	**$ 55,945**	**$ (1)**	**$ 55,980**	**Total Intragovernmental Liabilities**
Accounts Payable	$ 1,334	$ 36	-	$ 1,298	-	$ 1,334	Accounts Payable
Debt Held by the Public	2	-	-	2	-	2	Federal Debt And Interest Payable
Loan Guarantee Liability	(6,165)	-	-	(6,046)	(119)	(6,165)	Loan Guarantee Liability
Federal Employee and Veteran Benefits	66	3	-	163	-	166	Federal Employee and Veteran Benefits Payable

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet								
FY 2020 U.S. Department of Housing and Urban Development SNC		Line Items Used to Prepare FY 2020 Government-wide SNC						
Financial Statement Line	Amounts	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total	Reclassified Financial Statement Line
Environmental and Disposal Liabilities	-	-	-	-	-	-	Environmental and Disposal Liabilities
Benefits Due and Payable	-	-	-	-	-	-	Benefits Due and Payable
Other Liabilities	1,180	537	-	2,078	-	2,615	Other Liabilities
Accrued Grant Liabilities	1,535						
Loss Reserves	-						
Insurance and Guarantee Program Liabilities	1,324	1,324	-	-	-	1,324	Insurance and Guarantee Program Liabilities
Total Liabilities	**$ 55,256**	**$ 1,936**	**-**	**$ 53,440**	**$ (120)**	**$ 55,256**	**Total Liabilities**
Commitments and Contingencies							
NET POSITION							**NET POSITION**
Unexpended Appropriations - Funds from Dedicated Collections	$ -	-	-	$ -	$ -	$ -	Unexpended Appropriations - Funds from Dedicated Collections
Unexpended Appropriations - All Other Funds	97,993			97,993	-	97,993	Unexpended Appropriations - All Other Funds
Cumulative Results of Operations - Funds From Dedicated Collections	26,984	26,984			7	26,991	Cumulative Results of Operations - Funds From Dedicated Collections
Cumulative Results of Operations - All Other Funds	81,958			81,958	(7)	81,951	Cumulative Results of Operations - All Other Funds
Total Net Position	**$ 206,935**	**$ 26,984**	**-**	**$ 179,951**	**-**	**$ 206,935**	**Total Net Position**
Total Liabilities and Net Position	**$ 262,191**	**$ 28,920**	**-**	**$ 233,391**	**$ (120)**	**$ 262,191**	**Total Liabilities & Net Position**

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost							
FY 2020 U.S. Department of Housing and Urban Development SNC		Line Items Used to Prepare FY 2020 Government-wide SNC					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations between Dedicated and All Other**	**Amounts**	**Reclassified Financial Statement Line**
Gross Costs	$ 38,747						**Non-Federal Costs**
		$ 502	$ -	$ 35,305	$ -	$ 35,807	Non-Federal Gross Cost
		-	-	-	-	-	Interest on Debt Held by the Public
		2	-	-	-	2	General Property Plant and Equipment (PP&E) Partial Impairment Loss
		$ 504	**$ -**	**$ 35,305**	**$ -**	**$ 35,809**	**Total Non-Federal Costs**
							Intragovernmental Costs
		5	-	210	-	215	Benefit Program Costs
		1	-	77	-	78	Imputed Costs
		182	-	342	(1)	523	Buy/Sell Costs
		-	-	5	-	5	Purchase of Assets
		-	-	-	-	-	Federal Securities Interest Expense
		-	-	2,059	-	2,059	Borrowing and Other Interest Expense
		-	-	-	-	-	Borrowing Losses
		1	-	62	-	63	Other Expenses (w/o Reciprocals)
		-	-	(5)	-	(5)	Purchase of Assets Offset
		$ 189	**$ -**	**$ 2,750**	**$ (1)**	**$ 2,938**	**Total Intragovernmental Costs**
Total Gross Costs	**$ 38,747**	**$ 693**	**$ -**	**$ 38,055**	**$ (1)**	**$ 38,747**	**Total Reclassified Gross Costs**
Earned Revenue	$ (3,987)	$ (1,702)	$ -	$ (466)	$ -	$ (2,168)	Non-Federal Earned Revenue
							Intragovernmental Revenue
		$ -	$ -	$ (4)	$ 1	$ (3)	Buy/Sell Revenue
		-	-	-	-	-	Benefit Program Revenue
		(119)	-	(852)	-	(971)	Federal Securities Interest Revenue Including Associated Gains/Losses (Exchange)
		-	-	(845)	-	(845)	Borrowing and Other Interest Revenue
		-	-	-	-	-	Borrowing Gains
	-	**$ (119)**	**$ -**	**$ (1,701)**	**$ 1**	**$ (1,819)**	**Total Intragovernmental Earned Revenue**
Total Earned Revenue	**$ (3,987)**	**$ (1,821)**	**$ -**	**$ (2,167)**	**$ 1**	**$ (3,987)**	**Total Reclassified Earned Revenue**
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	-	-	-	-	Gains/Losses from Changes in Actuarial Assumptions
Total Net Cost of Operations	**$ 34,760**	**$ (1,128)**	**$ -**	**$ 35,888**	**$ -**	**$ 34,760**	**Total Net Cost of Operations**

Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position							
FY 2020 U.S. Department of Housing and Urban Development SNC			Line Items Used to Prepare FY 2020 Government-wide SNC				
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations between Dedicated and All Other**	**Amounts**	**Reclassified Financial Statement Line**
UNEXPENDED APPROPRIATIONS							
Unexpended Appropriations, Beginning Balance	$ 86,250	-	-	$ 86,250	-	$ 86,250	Net Position, Beginning of Period
Changes in Accounting Principles	-	-	-	-	-	-	Changes in Accounting Principles - Federal
		-	-	-	-	-	Changes in Accounting Principles - Non-Federal
	-	-	-	-	-	-	Corrections of Errors - Federal
Corrections of Errors		-	-	-	-	-	Corrections of Errors - Non-Federal
		-	-	-	-	-	Corrections of Errors – Years Preceding the Prior Year - Federal
		-	-	-	-	-	Corrections of Errors – Years Preceding the Prior Year - Non-Federal
Total Corrections of Errors	-	-	-	-	-	-	*Total Reclassified Corrections of Errors*
Appropriations Received	69,844	-	-	69,525	-	69,525	Appropriations Received as Adjusted
Other Adjustments	(319)						
Appropriations Transferred-in/out	-	-	-	-	-	-	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources (Federal)
		-	-	-	-	-	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources (Federal)
Total Appropriations Transferred-in/out	-	-	-	-	-	-	*Total Reclassified Appropriations Transferred-in/out*
Appropriations Used	(57,782)	-	-	(57,782)	-	(57,782)	Appropriations Used (Federal)
Total Unexpended Appropriations	**$ 97,993**	**-**	**-**	**$ 97,993**	**-**	**$ 97,993**	
CUMULATIVE RESULTS OF OPERATIONS							
Cumulative Results, Beginning Balance	$ 88,273	$ 25,859	-	$ 62,414	-	$ 88,273	Net Position, Beginning of Period
Changes in Accounting Principles	320	-	-	-	-	-	Changes in Accounting Principles - Federal
		-	-	320	-	320	Changes in Accounting Principles - Non-Federal
	(9)	-	-	-	-	-	Corrections of Errors - Federal
Correction of Errors		-	-	(9)	-	(9)	Corrections of Errors - Non-Federal
		-	-	-	-	-	Corrections of Errors – Years Preceding the Prior Year - Federal
		-	-	-	-	-	Corrections of Errors – Years Preceding the Prior Year - Non-Federal
Other Adjustments	(1)	(1)	-	-	-	(1)	Other Budgetary Financing Sources
	10						**Non-Federal Nonexchange Revenues**
		-	-	-	-	-	Individual Income Tax and Tax Withholdings
		-	-	-	-	-	Corporation Income Taxes
		-	-	-	-	-	Excise Taxes
		-	-	-	-	-	Unemployment Taxes
		-	-	-	-	-	Customs Duties
		-	-	-	-	-	Estate and Gift Taxes
Nonexchange Revenues		3	-	7	-	10	Other Taxes and Receipts
		$ 3	**-**	***$ 7***	**-**	***$ 10***	***Total Non-Federal Nonexchange Revenues***
							Intragovernmental Nonexchange Revenue
		-	-	-	-	-	Federal Securities Interest Revenue, including Associated Gains/Losses (Nonexchange)
		-	-	-	-	-	Borrowings and Other Interest Revenue (Nonexchange)
		-	-	-	-	-	Benefit Program Revenue (Nonexchange)
		-	-	-	-	-	Accruals for Agency Amounts to be Collected in a TAS Other than the General Fund
		-	-	-	-	-	Other Taxes and Receipts

Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position							
FY 2020 U.S. Department of Housing and Urban Development SNC			**Line Items Used to Prepare FY 2020 Government-wide SNC**				
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations between Dedicated and All Other**	**Amounts**	**Reclassified Financial Statement Line**
		-	-	-	-	-	***Total Intragovernmental Nonexchange Revenues***
Total Nonexchange Revenues	$ 10	$ 3	-	$ 7	-	$ 10	*Total Reclassified Nonexchange Revenues*
Donations and Forfeitures of Property	-	-	-	-	-	-	Other Taxes and Receipts (Non-Federal) - Donations and Forfeitures of Property
	$ (3)	$ 13	$ (13)	-	-	-	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-In
		(13)	13	-	-	-	Appropriation of Unavailable Special/Trust Fund Receipts Transfers-Out
		8,380	(8,380)	-	-	-	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
		(8,380)	8,380	-	-	-	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
		-	-	-	-	-	Expenditure Transfers-In of Financing Sources
Transfers-in/out without Reimbursement - Budgetary		-	-	(3)	-	(3)	Expenditure Transfers-Out of Financing Sources
		-	-	-	-	-	Non-expenditure transfer-in of financing sources - capital transfers
		-	-	-	-	-	Non-expenditure transfer-out of financing sources - capital transfers
		2,749	(2,749)	-	-	-	Transfers-In without Reimbursement
		(2,749)	2,749	-	-	-	Transfers-Out without Reimbursement
		-	-	-	-	-	Other Non-Budgetary Financing Sources
		-	-	(3)	-	(3)	Total Reclassified Transfers-In/Out without Reimbursement - Budgetary (Federal)
Total Transfers-In/Out without Reimbursement - Budgetary	$ (3)	-	-	$ (3)	-	$ (3)	*Total Reclassified Transfers-In/Out without Reimbursement - Budgetary*
	$ (2,748)						***Non-Federal Non-exchange Revenues Other***
		-	-	$ 171	-	$ 171	Other Taxes and Receipts
		-	-	-	-	-	Miscellaneous Earned Revenues
		-	-	**$ 171**	-	**$ 171**	***Total Non-Federal Non-exchange Revenues Other***
							Intragovernmental Other
		-	-	-	-	-	Miscellaneous Earned Revenues
		-	-	-	-	-	Federal Securities Interest Revenue including Associated Gains/Losses (Nonexchange)
Other		(6)	-	6	-	-	Borrowing and Other Interest Revenue (Nonexchange)
		-	-	-	-	-	Accrual of Collections Yet to be Transferred to a TAS Other than the General Fund
		-	-	(4,785)	-	(4,785)	Non-entity collections transferred to the General Fund
		-	-	1,866	-	1,866	Accrual for non-entity amounts to be collected and transferred to the General Fund
		-	-	-	-	-	Other Budgetary Financing Sources
		-	-	-	-	-	Other Taxes and Receipts
		$ (6)	-	**$ (2,913)**	-	**$ (2,919)**	***Total Intragovernmental Other***
Total Other	$ (2,748)	$ (6)	-	$ (2,742)	-	$ (2,748)	*Total Reclassified Other*
Donations and Forfeitures of Cash and Cash Equivalents	-	-	-	-	-	-	Other Taxes and Receipts (Non-Federal) - Donations and Forfeitures of Cash and Cash Equivalents
Imputed Financing	78	1	-	77	-	78	Imputed Financing Sources (Federal)
Appropriations Used	57,782	-	-	57,782	-	57,782	Appropriations Used
Total Financing Sources	**$ 55,118**						
Net Cost of Operations	**$ (34,760)**	**$ 1,128**	-	**$ (35,888)**	-	**$ (34,760)**	**Net Cost of Operations**
Ending Balance - Cumulative Results of Operations	**$ 108,942**	**$ 26,984**	-	**$ 81,958**	-	**$ 108,942**	**Net Position - Ending Balance**
Total Net Position	**$ 206,935**	**$ 26,984**	-	**$ 179,951**	-	**$ 206,935**	**Total Net Position**

Note 27: COVID-19 Activity

On March 11, 2020, a novel strain of the Coronavirus, also known as COVID-19, was declared a pandemic by the World Health Organization. As a result, a national emergency was declared in the United States concerning the COVID-19 outbreak on March 13, 2020.

In response to the pandemic, the United States Congress passed a series of Bills including the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was signed into law by President Trump on March 27, 2020, to provide aid and economic assistance to individuals, families and businesses across the nation impacted by COVID-19.

HUD was appropriated CARES Act funding, under Public Law 116-136, in the amount of $12,423 million to prevent, prepare for, and respond to Coronavirus, including to provide additional funds to maintain normal operations and cover other necessary authorized activities during the period that the programs are impacted by the Coronavirus. The following programs throughout HUD received funding: (1) Community Planning and Development (CPD) Programs $9,075 million – Community Development Fund, Homeless Assistance Grants and Housing Opportunities for People with AIDS; (2) Public Indian Housing (PIH) Programs $2,240 million – Tenant-Based Rental Assistance, Public Housing Operating Fund, and Native American Program; (3) Housing $1,065 million – Project-Based Rental Assistance, Housing for the Elderly and Housing for Persons with Disabilities; (4) Fair Housing and Equal Opportunity (FHEO) Program $3 million – Fair Housing Activities; (5) Management and Administration $35 million – Administrative Support Offices and Program Offices; and (6) Office of Inspector General $5 million. HUD's table below displays the budgetary resources obligated and unobligated, the programs that received funding, FBWT, and net outlays.

As of September 30, 2020, the CARES Act funding increased the following in HUD's financial statements and notes: Total Assets by $10,869 million, Total Liabilities by $8 million, Net Position by $10,860 million, and Total Gross Costs by $1,562 million.

The table below displays the status of the CARES Act Funding as of September 30, 2020:

COVID-19 Activity						
(Dollars in Millions)	2020					
	Appropriated	Unobligated Available	Unobligated Unavailable	Obligated Balance not yet Disbursed	Fund Balance with Treasury	Outlays, net (total)
HUD Programs						
Section 8 Rental Assistance						
Housing - Project Based	$ 1,000	$ 178	$ -	$ 10	$ 188	$ 812
PIH - Tenant Based	1,250	156	-	17	173	1,077
PIH						
Native American Housing Block Grant	300	5	-	254	259	41
Homeless Assistance Grants	4,000	2,288	-	1,697	3,985	15
Housing for the Elderly and Disabled						
Elderly	50	31	-	3	34	16
Disabled	15	10	-	1	11	4
CDBG	5,000	3,237	-	1,697	4,934	66
Other						
CPD - HOPWA	65	16	-	48	64	1
FHEO	3	1	-	1	2	1
PIH Operating Fund	685	-	-	373	373	312
Management and Administration (S&E)	35	25	-	9	34	1
Office of the Inspector General (S&E)	5	4	-	-	4	1
HUD Program Offices (S&E)	15	15	-	-	15	-
Total	**$ 12,423**	**$ 5,966**	**$ -**	**$ 4,110**	**$ 10,076**	**$ 2,347**

Section 4013 of the CARES Act also provides financial institutions the option to temporarily suspend the accounting and reporting requirements for TDRs for loan modifications provided they are: 1) related to the COVID-19 pandemic, 2) the modification occurs between March 1, 2020 through the earlier of December 31, 2020 or 60 days after the date on which the COVID-19 outbreak national emergency terminates, and 3) the loan was not more than 30 days delinquent as of December 31, 2019. The scope of this Section applies to forbearance agreements, repayment plans, interest rate modification, and any similar arrangement that defer or delays the payment of principal or interest.

In April 2020, the Board of Governors of the Federal Reserve, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Consumer Financial Protection Bureau, in consultation with state financial regulators, issued a revision to the Interagency Statement on Loan Modifications by Financial Institutions Working with Customers Affected by the Coronavirus ("Interagency Statement"), which was confirmed with the staff of the Financial Accounting Standards Board. The Interagency Statement encourages financial institutions to work constructively with borrowers impacted by COVID-19, provides additional information over loan modifications, and clarifies interactions between the interagency statement and related relief provided by the CARES Act. The Interagency Statement allows for an entity to either choose to account for an eligible loan modification under Section 4013 of the CARES Act or in accordance with the Interagency Statement's interpretation of existing GAAP (ASC 310-40) in the context of COVID-19. Loan modifications eligible for relief under the Interagency Statement meet all of the following criteria: 1) related to the COVID-19 pandemic, 2) the loan was not more than 30 days delinquent as of the date of modification program implementation, and 3) the modification is short term in nature (e.g. six months). GNMA has elected to account for modifications in accordance with the guidance outlined within the Interagency Statement.

As described in more detail in Note (8) Other Non-Credit Reform Loans, GNMA has revised and expanded the issuer assistance programs in Chapter 34 of the MBS Guide to create a new PTAP in response to issuer liquidity impacts which have resulted from the economic disruption of COVID-19 and the forbearance programs described above.

As described in detail in Note (13) Debt, GNMA executed a borrowing agreement with Treasury on April 7, 2020 to support the PTAP program which provided GNMA borrowing authority of up to $8,700 million. In connection with the borrowing agreement memorandum of understanding, GNMA also agreed with Treasury to transfer $3,000 million into the PTAP fund from its Capital Reserve fund.
In addition, there are other HUD notes that discuss the COVID-19 impacts. These notes are as follows: Note(1) Summary of Significant Accounting , Note (3) FBWT, Note, Note (8) Other Non-Credit Reform Loans, Note (10) PIH Prepayment-CARES Act, Note (13) Debt, Note (19) Net Costs of HUD's Cross-Cutting Programs, Note (20) Undelivered Orders and Commitments under HUD's Grant, Subsidy, and Loan Programs, Note (21) Apportionment Categories of Obligations Incurred, and Note (25) Insurance Programs.

Note 28: Net Adjustments to Unobligated Balance Brought Forward, October 1:

During the year ended September 30, 2020, HUD made certain adjustments to the balances of unobligated budgetary resources available as of October 1, 2019. These adjustments include downward adjustments to undelivered and delivered orders that were obligated in a prior fiscal year as well as other adjustments.

The table below presents the adjustments to the unobligated balance, brought forward October 1 for September 30, 2020 are as follows:

Net Adjustments to Unobligated Balance, Brought Forward October 1 (Dollars in Millions)	2020
Net Adjustments to Unobligated Balance, Brought Forward October 1	
Prior Year Ending Unobligated Balance	$ 121,691
	-
Adjustments to Budgetary Resources Made During Current Year	
Downward Adjustments of Prior Year Undelivered Orders	1,094
Downward Adjustments of Prior Year Delivered Orders	118
Other Adjustments	(577)
Net Adjustments to Unobligated Balance Brought Forward, October 1	**$ 635**
Unobligated Balance from Prior Year (Discretionary and Mandatory)	**$ 122,326**

HUD's other adjustments line primarily consists of actual capital transfers to the General Fund of the U.S. Government of prior year balances ($306) million, cancelled authority ($196) million, undelivered order prior year adjustments ($58) million, partial or early cancellation of authority ($13) million, actual repayment of debt of prior year balances ($6) million, transfers from prior year balances of $4 million, and borrowing authority withdrawn ($2) million.

Required Supplementary Information

U.S. Department of Housing and Urban Development
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2020
(Dollars in Millions)

(Dollars in Millions)	2020														
	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 Association Non-Budgetary	Other Non-Budgetary Credit Reform Accounts	Total Non-Budgetary Credit Reform Accounts	Total
Budgetary Resources:															
Unobligated Balance From Prior Year Budget Authority, Net	$ 50,965	$ 12,840	$ 1,218	$ 340	$ 3,359	$ 462	$ 31,699	$ 267	$ 1,740	$ 102,890	$ 10,834	$ 8,416	$ 186	$ 19,436	$122,326
Appropriations (discretionary and mandatory)	947	-	38,782	3,961	6,777	1,060	8,425	1,350	8,767	70,069	-	-	-	-	70,069
Borrowing Authority (discretionary and mandatory)	-	8,700	-	-	-	-	-	-	-	8,700	23,436	-	13	23,449	32,149
Spending Authority from Offsetting Collections	19,439	2,483	-	-	-	185	-	-	83	22,190	20,801	2,335	48	23,184	45,374
Total Budgetary Resources	**$ 71,351**	**$ 24,023**	**$ 40,000**	**$ 4,301**	**$ 10,136**	**$ 1,707**	**$ 40,124**	**$ 1,617**	**$ 10,590**	**$ 203,849**	**$ 55,071**	**$ 10,751**	**$ 247**	**$ 66,069**	**$269,918**
Status of Budgetary Resources:															
New Obligations and Upward Adjustments (Total) (Note 21)	$ 2,169	$ 864	$ 38,686	$ 4,024	$ 4,231	$ 951	$ 9,188	$ 1,133	$ 8,065	$ 69,311	$ 40,410	$ 2,892	$ 69	$ 43,371	$112,682
Unobligated Balance, End of Year:															
Apportioned, Unexpired Accounts	96	11,860	1,205	257	5,119	564	30,904	458	1,673	52,136	2,576	7,432	41	10,049	62,185
Unapportioned, Unexpired Accounts	69,021	11,298	109	5	111	177	30	1	746	81,498	12,085	427	137	12,649	94,147
Unexpired Unobligated Balance, End of Year	$ 69,117	$ 23,158	$ 1,314	$ 262	$ 5,230	$ 741	$ 30,934	$ 459	$ 2,419	$ 133,634	$ 14,661	$ 7,859	$ 178	$ 22,698	$156,332
Expired Unobligated Balance, End of Year	65	1	-	15	675	15	2	25	106	904	-	-	-	-	904
Unobligated Balance, End of Year (Total)	69,182	23,159	1,314	277	5,905	756	30,936	484	2,525	134,538	14,661	7,859	178	22,698	157,236
Total Budgetary Resources	**$ 71,351**	**$ 24,023**	**$ 40,000**	**$ 4,301**	**$ 10,136**	**$ 1,707**	**$ 40,124**	**$ 1,617**	**$ 10,590**	**$ 203,849**	**$ 55,071**	**$ 10,751**	**$ 247**	**$ 66,069**	**$269,918**
Outlays, Net:															
Outlays, Net (Total) (discretionary and mandatory)	(17,040)	(1,956)	37,657	2,846	2,212	780	5,235	827	7,448	38,009	-	-	-	-	38,009
Distributed Offsetting Receipts (-)	(4,416)	-	-	-	-	-	-	-	(403)	(4,819)	-	-	-	-	(4,819)
Agency Outlays, Net (discretionary and mandatory)	**$ (21,456)**	**$ (1,956)**	**$ 37,657**	**$ 2,846**	**$ 2,212**	**$ 780**	**$ 5,235**	**$ 827**	**$ 7,045**	**$ 33,190**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 33,190**
Disbursements, Net (Total) (mandatory)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 17,763**	**$ 98**	**$ 17**	**$ 17,878**	**$ 17,878**

The accompanying notes are an integral part of these statements.

Independent Auditor's Report

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

In our audit of the fiscal year 2020 consolidated financial statements of the U.S. Department of Housing and Urban Development (HUD), we found

- that HUD's consolidated financial statements as of and for the fiscal year ending September 30, 2020, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- one material weakness in internal control over financial reporting, based on the limited procedures performed; and
- one reportable instance of noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes (a) emphasis-of-matter paragraphs related to single-year presentation of the financial statements and the Government National Mortgage Association's (Ginnie Mae) modified Federal credit reform accounting; (b) other matters paragraphs regarding required supplementary information (RSI),[1] and other information included with the financial statements;[2] (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) agency comments and our evaluation.

Report on the Financial Statements

In accordance with the Chief Financial Officers Act of 1990, as amended, we have audited HUD's consolidated financial statements. HUD's consolidated financial statements comprise the consolidated balance sheet as of September 30, 2020; the related consolidated statement of net cost, changes in net position, and combined statement of budgetary resources for the fiscal year then ended; and the related notes to the financial statements.

[1] The RSI presents management's discussion and analysis and a combining statement of budgetary resources.

[2] Other information consists of information included with the financial statements, other than the RSI and our independent auditor's report.

We conducted our audit in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibility for the Financial Statements

HUD management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We did not, however, audit the financial statements of Ginnie Mae, a component of HUD, whose statements reflect total assets constituting 10.7 percent of HUD's consolidated total assets as of September 30, 2020. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Ginnie Mae, is based solely on the report of the other auditors.

U.S. generally accepted government auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to the RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Financial Statements

In our opinion, based on our audits and the report of the other auditors, HUD's financial statements present fairly, in all material respects, HUD's financial position as of September 30, 2020, and its net cost of operations, changes in net position, and budgetary resources for the fiscal year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

The following are matters that we draw users' attention to that are presented or disclosed in the financial statements, which we believe are of such importance that it is fundamental to users' understanding of these financial statements. Both matters are discussed in note 1 to the financial statements. Our opinion was not modified with respect to these matters.

Single-Year Presentation of HUD's Financial Statements

We were engaged to audit HUD's fiscal year 2020 financial statements and not the prior-year financial statements. HUD presented single-year financial statements for fiscal year 2020 activity and did not present comparative statements. Therefore, the scope of our independent auditor's report is related to only the fiscal year 2020 financial statements.

Ginnie Mae's Modified Federal Credit Reform Accounting

Although Ginnie Mae's mortgage-backed securities (MBS) guarantee program does not follow the Federal Credit Reform Act, it uses a program, financing, liquidating, and capital reserve account to process its cash receipts and disbursements through the U.S Department of the Treasury. Ginnie Mae established this fund structure at the direction of the Office of Management and Budget (OMB) in 2012. Under this structure, OMB also instructed Ginnie Mae to annually record an upward or downward reestimate and negative subsidy payment, for budgetary purposes only. Based on these estimates, Ginnie Mae transfers money among its accounts. Ginnie Mae reflects these transfers in the spending authority from offsetting collections and new obligations and upward adjustments financial statement line items on HUD's statement of budgetary resources, and these transfers impact the amount held in fund balance with Treasury versus investments on HUD's balance sheet. Therefore, although HUD accounts for Ginnie Mae's MBS guarantee program in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 51 - Insurance Programs,[3] it also performs modified credit reform accounting at the direction of OMB.

[3] The accounting outlined in SFFAS 51 - Insurance Programs does not include the reestimates and negative subsidy payment transfers described above. The transfers described above are most closely related to the accounting required under SFFAS 2 - Accounting for Direct Loans and Loan Guarantees. However, Ginnie Mae does not follow SFFAS 2 and has only implemented the transfers described for budgetary purposes at the direction of OMB.

Other Matters
The following are other matters that are relevant to the users' understanding of the audit that we conducted of HUD's consolidated financial statements, our responsibilities as the auditor, and our audit report included here.

Required Supplementary Information
U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information
HUD's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on HUD's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control Over Financial Reporting
In connection with our audit of HUD's consolidated financial statements, we considered HUD's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to HUD's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility
HUD management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
In planning and performing our audit of HUD's consolidated financial statements as of and for the fiscal year ending September 30, 2020, in accordance with U.S. generally accepted government auditing standards, we considered HUD's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of HUD's internal control over financial reporting. Accordingly, we do not express an opinion on HUD's internal control over financial reporting. We are required to report all deficiencies that are considered to be material weaknesses[4] or significant deficiencies.[5] We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control Over Financial Reporting
An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct misstatements due to fraud or error.

Results of Our Consideration of Internal Control Over Financial Reporting
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 material weaknesses and significant deficiencies or to express an opinion on the effectiveness of HUD's internal control over financial reporting. Given these limitations, other deficiencies in internal control that might be material weaknesses or significant deficiencies may exist that have not been identified.

During our fiscal year 2020 audit, we identified deficiencies in HUD's internal control over financial reporting that collectively rose to the level of a material weakness. We have

---

4 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.

5 A significant deficiency is a deficiency or a combination of deficiencies in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

communicated these matters to HUD management. Exhibit I and two separate audit reports[6] contain details regarding internal control over financial reporting by HUD's components, the Federal Housing Administration (FHA) and Ginnie Mae. We also identified other deficiencies in HUD's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant HUD management's attention. We have communicated these matters to HUD management and, where appropriate, will report on them separately.

Material Weakness

HUD Had Weaknesses in Its Controls Over Financial Reporting and Did Not Always Comply With Federal Generally Accepted Accounting Principles

HUD's internal controls over financial reporting had weaknesses, and HUD did not properly account for or have adequate accounting support for certain assets and liabilities. Specifically, HUD did not (1) follow Federal generally accepted accounting principles when accounting for Housing Choice Voucher Program (HCVP) Coronavirus Aid, Relief, and Economic Security (CARES) Act administrative funds, (2) sufficiently document estimation model assumptions used in the Office of Community Planning and Development (CPD) accrued grant liabilities estimate or adequately validate the estimate, (3) record all reductions in the guaranteed loan principal outstanding balance for loans in the Section 184 Indian Home Loan Guarantee program, (4) recognize all financial events resulting from the Office of Public and Indian Housing (PIH) cash management process, or (5) ensure that its accounts receivables were complete or that it had adequate support for the net realizable value of its accounts receivable. These deficiencies occurred because of continued weaknesses in HUD's internal controls and insufficient financial management controls and systems. As a result, several financial statement line items were misstated or at risk of material misstatement as of September 30, 2020.

Further, Ginnie Mae, a component entity of HUD, had a significant deficiency in the design of its organizational structure for two key functions, estimation model development and model verification, within its model risk governance in appropriately mitigating inherent risk when employing complex models for significant estimates for financial reporting. The component auditor determined that the model development and verification functions reside within the same office. This control design deficiency potentially prevents an effective challenge to models used to develop significant estimates for financial reporting. As a result, these significant and complex models may

[6] Details on these matters are included in exhibit I of this report and in Audit Report 2021-FO-0001, Audit of the Federal Housing Administration's Fiscal Years 2020 and 2019 Financial Statements, issued November 12, 2020, and Audit Report 2021-FO-0002, Audit of the Government National Mortgage Association's Fiscal Year 2019 Financial Statements, issued November 16, 2020.

not have the rigorous review necessary to achieve Ginnie Mae's objectives and adequately address related risks.[7]

Intended Purpose of Report on Internal Control Over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of HUD's internal control over financial reporting and the results of our procedures and not to provide an opinion on the effectiveness of HUD's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

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

In connection with our audit of HUD's consolidated financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

HUD management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to HUD.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to HUD that have a direct effect on the determination of material amounts and disclosures in HUD's consolidated financial statements and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to HUD.

7 Audit Report 2020-FO-0002, Audit of Ginnie Mae's Fiscal Year 2020 Financial Statements, issued November 16, 2020

Results of Our Tests for Compliance With Laws, Regulations, Contracts, and Grant Agreements
Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed one instance of noncompliance for fiscal year 2020 that is reportable under U.S. generally accepted government auditing standards. We also noted other matters related to HUD's compliance with the Antideficiency Act and the Improper Payments Elimination and Recovery Act of 2010. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to HUD. Accordingly, we do not express such an opinion. Exhibit II contains details of HUD's noncompliance with applicable laws, regulations, contracts, and grant agreements.

HUD's Financial Management System Did Not Comply With the Federal Financial Management Improvement Act
HUD's noncompliance with the Federal Financial Management Improvement Act (FFMIA) continued in fiscal year 2020. Specifically, HUD's financial management system did not comply with the three section 803(a) elements of FFMIA. Section 803(a) requires agencies subject to the Chief Financial Officers Act to establish and maintain financial management systems that substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the U.S. Standard General Ledger (USSGL) at the transaction level. We noted a number of instances of FFMIA noncompliance within HUD's financial management system. HUD's continued noncompliance was due to its having ineffectively designed and operating internal controls over financial reporting and unimplemented recommendations for corrective action from longstanding issues related to component and program offices' system weaknesses.

Other Matters

Potential Noncompliance With the Antideficiency Act
As of September 30, 2020, HUD had 13 cases of potential or confirmed Antideficiency Act violations under investigation by its Office of the Chief Financial Officer (OCFO). The Act prohibits Federal employees from making or authorizing an expenditure in excess of the amount available in the appropriation or fund or in excess of the amount permitted by agency regulations.[8] Of the 13 cases, 9 carried forward from prior years, and 4 were identified during fiscal year 2020. At fiscal yearend, HUD was assessing 9 of the 13 cases with OMB's Office of General Counsel.

Noncompliance With the Improper Payments Elimination and Recovery Act of 2010 Our Improper Payments Elimination and Recovery Act of 2010 (IPERA) audit[9] found that fiscal year 2019 marked the seventh consecutive year in which HUD did not comply with

8 Antideficiency Act, 31 U.S.C. (United States Code) 1341(a)(1)(A) and 1517(a)

9 Audit Report 2020-AT-0001, Compliance With the Improper Payments Elimination and Recovery Act, issued May 14, 2020

IPERA. Specifically, it did not (1) publish improper payments estimates for all programs it identified as susceptible to significant improper payments and (2) meet annual reduction targets for each program assessed to be at risk and estimated for improper payments. Despite continued efforts, this condition occurred because HUD did not have an effective process to comply with all IPERA requirements. HUD continued its plans to address many of the prior-year IPERA compliance issues, including hiring a contractor in fiscal year 2018 to help bring the program into compliance, and closed all open recommendations on September 30, 2020. In its Fiscal Year 2020 Agency Financial Report, HUD reported that it believes it is compliant with IPERA for fiscal year 2020. Our audit of HUD's compliance with the Payment Integrity Information Act of 2019[10] for fiscal year 2020 will be conducted in fiscal year 2021.

Intended Purpose of Report on Compliance With Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements and the results of that testing and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Results of the Audit of FHA's Financial Statements

We performed a separate audit of FHA's fiscal years 2020 and 2019 financial statements. Our report,[11] dated November 12, 2020, includes an unmodified opinion on FHA's financial statements. In addition, we reported no material weaknesses or significant deficiencies in internal control over financial reporting and no instances of noncompliance with laws, regulations, and contracts.

Results of the Audit of Ginnie Mae's Financial Statements

An independent certified public accounting firm performed a separate audit of Ginnie Mae's fiscal year 2020 financial statements. Its report on Ginnie Mae's financial statements,[12] dated November 16, 2020, includes an unmodified opinion on these financial statements. In addition, the accounting firm reported one significant deficiency in internal control over financial reporting and no instances of noncompliance with laws, regulations, and contracts.

---

[10] The Payment Integrity Information Act of 2019, enacted March 2, 2020, repealed IPERA.

[11] Audit Report 2021-FO-0001, Audit of Federal Housing Administration's Fiscal Years 2020 and 2019 Financial Statements, issued November 12, 2020

[12] Audit Report 2020-FO-0002, Audit of Ginnie Mae's Fiscal Year 2020 Financial Statements, issued November 16, 2020

Auditee Comments and Our Evaluation

On November 23, 2020, the Chief Financial Officer (CFO) provided formal comments to our report. The CFO’s formal response, in its entirety, along with our evaluation are presented in appendix A.

The CFO recognized the Department’s success in achieving an unmodified audit opinion on its fiscal year 2020 financial statements and the Department’s continued progress in the execution of its financial transformation plan to restore sound financial management and transparency. The CFO also acknowledged that deficiencies remain which require further enhancement of HUD’s internal control environment to ensure high standards of integrity and transparency in reporting its financial performance.

We look forward to working with HUD during the audit resolution process as it develops and implements corrective action plans to address reported deficiencies and continues with its financial transformation efforts.

Kimberly Randall
Deputy Assistant Inspector General for Audit
Washington, DC

December 4, 2020

Exhibit I

Material Weakness

HUD Had Weaknesses in Its Controls Over Financial Reporting and Did Not Always Comply With Federal Generally Accepted Accounting Principles

HUD's internal controls over financial reporting had weaknesses, and HUD did not properly account for or have adequate accounting support for certain assets and liabilities. Specifically, HUD did not (1) follow Federal generally accepted accounting principles when accounting for HCVP CARES Act administrative funds,[13] (2) sufficiently document estimation model assumptions used in CPD's accrued grant liabilities estimate or adequately validate the estimate, (3) record all reductions in the guaranteed loan principal outstanding balance for loans in the Section 184 Indian Home Loan Guarantee program,[14] (4) recognize all financial events resulting from PIH's cash management process, or (5) ensure that its accounts receivables were complete or that it had adequate support for the net realizable value of its accounts receivable. These deficiencies occurred because of continued weaknesses in HUD's internal controls and insufficient financial management controls and systems. As a result, several financial statement line items were misstated or at risk of material misstatement as of September 30, 2020.

HUD Did Not Follow Generally Accepted Accounting Principles When Accounting for HCVP CARES Act Administrative Funds

OCFO did not properly account for $850 million in HCVP CARES Act administrative fee disbursements in accordance with generally accepted accounting principles. Specifically, OCFO did not recognize a prepayment for HCVP CARES Act administrative fees disbursed to more than 2,000 public housing agencies (PHAs) during the third and fourth quarters of

---

[13] The CARES Act was passed on March 27, 2020, to prevent, prepare for, and respond to the coronavirus. Under this Act, PHAs were appropriated additional funds to maintain normal operations and take other necessary actions during the period in which the program was impacted by coronavirus, which included $850 million for both administrative expenses and other expenses of public housing agencies for their Section 8 programs.

[14] Congress established the Section 184 Indian Home Loan Guarantee program in 1992 to facilitate homeownership and increase access to capital in Native American communities. The Office of Loan Guarantee within HUD's Office of Native American Programs (ONAP), guarantees the Section 184 home mortgage loans made to borrowers. The loan guarantee assures the lender that its investment will be repaid in full in the event of foreclosure.

fiscal year 2020 that had not been used by the PHAs for eligible expenses.[15] Instead, it recognized the entire $850 million that it disbursed as an expense.

This failure to follow generally accepted accounting principles was primarily due to OCFO's lack of (1) a designated program accounting analysis official and (2) a documented accounting analysis of the HCVP, evaluating each type of activity (disbursements, repayments, payables, etc.) that would give rise to an accounting event and the appropriate accounting treatment.

Lack of Designated Program Accounting Analysis Official
OCFO did not have a designated official whose primary responsibility was to evaluate HUD's new program notices, regulations, and other program changes against the accounting standards and HUD's current accounting treatment to determine any accounting implications. Instead, OCFO relied on (1) information from program offices (a) made up of personnel who did not have a full Federal financial accounting background and (b) having program execution as their primary responsibility and (2) reviews conducted by certain OCFO officials during the departmental clearance process.

Lack of Documented Understanding of the Nature of all HCVP Disbursements
OCFO had not documented its understanding of the nature of all HCVP disbursements. It is essential that OCFO have a thorough and documented understanding of the nature of each type of HCVP disbursement, to include the qualities the disbursement type embodies and what qualities are necessary for recognition as a prepayment versus an expense in accordance with generally accepted accounting principles. Because OCFO did not have this accounting analysis documented as part of its regular PIH prepayment estimation process, it was difficult for OCFO to obtain the information needed to make a complete assessment of the appropriate accounting for the CARES Act funding.

As a result, HUD's financial statements were originally misstated by the portion of the $850 million of disbursed HCVP CARES Act administrative funds that had not been spent by PHAs. When we brought this matter to OCFO's attention, it recorded the $850 million prepayment; however, the amount of eligible expenses incurred to liquidate the prepayment was not known because PHAs had reported very little expense data to HUD.[16] The only data available were

---

[15] According to PIH Notice 2020-24 - Extension of Period of Availability for CARES Act Supplemental Public Housing and Housing Choice Voucher Funds, Guidance on CARES Act Financial Reporting Requirements (FDS and Quarterly Reporting), and Other CARES Act Provisions, issued September 14, 2020, PHAs must consider CARES Act administrative fee funds as restricted cash and unearned revenue until the PHA incurs an eligible cost that will be funded by the CARES Act administrative fee funding.

[16] PIH usually collects expense information from PHAs on regular HCVP funding in the Voucher Management System (VMS), however, PIH reported that adding a field in VMS to capture this new information was difficult due to (1) outdated system functionalities and no additional funding available to update the system as it transitions to a new system, the Enterprise Voucher Management System (eVMS), and (2) limitations imposed

early submissions of financial statements from PHAs that had a June 30 fiscal yearend,[17] which represented only 8 percent of total PHAs, and included expenses for only 2 of the 5 months during which funding was available through September 30, 2020. Based on these limited data, PIH estimated that PHAs had spent $283.3 million, and HUD adjusted its general ledger and financial statements to record this expense estimate in time for yearend reporting.
Due to the lack of data available to determine eligible expenses incurred, there was a high degree of estimation uncertainty that management was unable to reduce. HUD started disbursing HCVP CARES Act administrative funds to PHAs in May 2020, soon after it had urged PHAs to use these supplemental funds for regular and additional COVID-19 administrative expenses first.[18] Therefore, it is reasonably possible that PHAs spent a significant portion of the $850 million in CARES Act administrative funds by September 30, 2020. When asked if this was a possibility, PIH's position was that it was not likely; however, PIH had no data or analysis to support this position. Based on the data in VMS,[19] we estimated that if PHAs used their CARES Act funding to pay for all of the administrative expenses reported in VMS between May and September 2020, approximately $38.6 million in prepayment from CARES Act funding would remain, compared to $566.7 million that HUD reported on its yearend financial statements. While this difference does not represent a known misstatement in HUD's financial statements at this time, it highlights the high degree of estimation uncertainty with the estimate PIH and OCFO had developed.

HUD Did Not Sufficiently Document Estimation Model Assumptions Used in CPD's Accrued Grant Liabilities Estimate or Adequately Validate the Estimate

CPD had weaknesses in its processes to estimate accrued grant liabilities, and OCFO had weaknesses in its processes to validate CPD's estimate. CPD based its estimation on each program's historical disbursement activity and applied a percentage multiplier to adjust for the

---

by the Paperwork Reduction Act. PIH also reported that it planned to use a portal in development by OCFO for PHAs to report their CARES Act expenses; however, it will not be available until January 2021.

17 PHAs may have a March 31, June 30, September 30, or December 31 fiscal yearends. Financial statements are usually due to HUD 2 months after the PHA's fiscal yearend. However, PIH extended the June 30 submissions to October 30 due to COVID-19.

18 According to PIH Notice 2020-08- CARES Act - HCV Program Administrative Fee, issued April 28, 2020, "Under the CARES Act, this supplemental administrative fee funding may be used only for two purposes: (1) any currently eligible HCV (including Mainstream voucher) administrative costs during the period that the program is impacted by coronavirus; and (2) new coronavirus-related activities…." "HUD urges PHAs to expend this supplemental administrative fee funding first, to prevent, prepare for, and respond to coronavirus….HUD recommends that PHAs apply their supplemental administrative fee amounts to eligible expenses first, since the HCV Program FY [fiscal year] 2020 administrative fees may also be used for coronavirus-related activities within the period of availability and will continue to be available for regular administrative fee purposes beyond the period of availability."

19 We used May through August actual administrative expense data from VMS and averaged May through August expenses to calculate an estimate for September 2020 because PHAs were still reporting September VMS data at the time of our calculation.

reporting fiscal year; however, it had not sufficiently justified the percentage used in its estimation process. In addition, OCFO conducted its validation of CPD's estimate by acquiring expenditure data and related documentation from a sample of its grantees. However, the grantee responses were not always accurate, and the use of the inaccurate grantee responses in OCFO's validation process prevented it from producing reliable information to test the validity of CPD's accrued grant liabilities estimate. As a result, the weaknesses in CPD's and OCFO's processes put HUD at risk of reporting the estimate on its financial statements when the estimate may not have been reasonable.

Estimation Weaknesses

For fiscal year 2019, CPD estimated its accrued grant liabilities to be $910.9 million. We evaluated the reasonableness of CPD's estimate by selecting a statistical sample of 90 expenditure reimbursements from a universe of 107,478 disbursements made by CPD to grantees during the first and second quarters of fiscal year 2020 and reviewing supporting documentation obtained from CPD and the sampled grantees to determine when the grantees incurred the expenses. Based on our results, we estimated that CPD's fiscal year 2019 accrued grant liabilities should have been at least $1.5 billion, or about 65 percent higher than reported in HUD's financial statements. We also determined that CPD had based its estimation on each program's historical disbursement activity and applied a percentage multiplier to adjust for the reporting fiscal year. However, CPD could not provide adequate justification for the percentage multiplier used to estimate the accrual amount for each program. As a result, CPD's fiscal year 2019 accrued grant liabilities estimate was potentially understated by at least $589.1 million.

Validation Weaknesses

As stated above, for fiscal year 2019, CPD estimated its accrued grant liabilities to be $910.9 million. OCFO conducted its process to validate CPD's estimate and determined that CPD's estimate was reasonable. However, internal control deficiencies prevented OCFO from adequately validating CPD's estimated accrued grant liabilities in accordance with FASAB Technical Release 12, Accrual Estimates for Grant Programs. Due to a lack of relevant data available from grantee reporting, OCFO conducted a survey to obtain expenditure data from grantees responsible for a statistical sample of projects. OCFO received survey responses from grantees for 465 of 628 sampled projects and used that information to validate CPD's estimate by developing an independent point estimate and range. OCFO compared its independent point estimate and range to CPD's estimate and determined that CPD's estimate was reasonable.

To assess OCFO's validation methodology and results, we obtained the survey sampling data and related documentation from OCFO and selected a statistical sample of 50 of the 465 survey responses and 18 of 163 nonresponses for review. We also obtained supporting documentation from OCFO for our sample of 68 projects to determine whether the amounts in the survey responses certified by the grantees were accurate. We found that 9 of the 50 survey responses represented amounts that were not accurate based on documentation provided to support the response. Interpreted in terms of the impact on the 465 survey items for which OCFO received a response, we determined that OCFO's review process did not identify errors in at least 43 items, or 9.3 percent of the 465 survey items.

These errors occurred because the data used in OCFO's validation, which were based on grantee responses, were not always reliable. Although online training was provided to assist the grantees in completing the survey and documentation was requested from the grantees to support the amounts they had certified, OCFO continued to face challenges in obtaining accurate and sufficient responses from the grantees and in identifying errors in the amounts certified by the grantees. We have identified similar challenges with OCFO's validation methodology since its implementation in fiscal year 2017. The inclusion of unsupported survey responses in the statistical validation calculation prevented OCFO from producing a reliable point estimate and range to validate the reasonableness of CPD's grant accrual estimate, and it invalidated the statistical integrity of the process.

As provided above, CPD and OCFO believed the estimate of $910.9 million for accrued grant liabilities was reasonable. Using our own methodology to develop a point estimate, we determined that the estimate should have been at least $1.5 billion. To further assess OCFO's validation methodology, we compared the results from the sample of expenditure reimbursements (CPD disbursements) used for our point estimate to the results from OCFO's validation sample of projects. Because our sampling unit (disbursements) was a subset of OCFO's sampling unit (projects), the grant accrual amounts we identified by project should have been smaller than the amount identified by OCFO. However, we noted that in 7 of 10 instances in which our sample and OCFO's sample overlapped, we identified a larger accrual amount than OCFO. This discrepancy indicates that the survey responses used in OCFO's validation did not provide a complete picture of the amounts that should have been accrued, thereby preventing OCFO from adequately validating the reasonableness of CPD's accrued grant liabilities estimate.

Because our audit work showed that CPD's fiscal year 2019 accrued grant liabilities estimate was potentially understated and CPD had not made substantive changes to its estimation methodology for fiscal year 2020, CPD's accrued grant liabilities estimate for fiscal year 2020 was at high risk of misstatement. Additionally, given the estimation uncertainty and related inherent risk for CPD's accrued grant liabilities estimate, it is critical that OCFO's validation methodology include the evaluation of relevant and reliable data for it to be able to adequately determine whether the CPD estimate is reasonable.

Further, OCFO's accrued grant liabilities validation effort identified 45 grantees that reported having a cash advance instead of an accrued liability. At the time of our audit, neither OCFO nor CPD had investigated whether what was reported by the grantees were actual advances or grantee errors in completing the survey responses. This may indicate that HUD made advances to grantees that were not recognized in its financial statements.

HUD Did Not Record All Reductions in the Guaranteed Loan Principal Outstanding Balance for Loans in the Section 184 Indian Home Loan Guarantee Program

PIH did not report to OCFO all reductions in the guaranteed loan principal outstanding balance for loans in the Section 184 Indian Home Loan Guarantee (Section 184) program in accordance with SFFAS 2. OCFO's reconciliations between HUD's general ledger and subsidiary ledger for the Section 184 program identified data integrity and collection inadequacies within PIH's Section 184 systems and manual processes. PIH was reporting reductions resulting from mortgage default claims; however, it was not reporting reductions due to collections, payoffs, and other adjustments.

This condition occurred because PIH did not have an adequate automated loan tracking system and did not track all reductions in the guaranteed loan principal outstanding balance for these loans. Rather, PIH used a combination of manual processes and local spreadsheets; the Computerized Homes Underwriting Management System (CHUMS), a legacy system not built for portfolio tracking; and most recently, the Office of Native American Programs (ONAP)-Loan Origination System (LOS), to account for the origination of loans in the Section 184 program. Before developing ONAP-LOS, PIH used CHUMS as its primary tool to track the origination of these loans. However, information systems limitations arose as CHUMS did not meet certain requirements specific to the Section 184 loan guarantee program. To better manage and track the Section 184 loans, HUD developed ONAP-LOS on modernized technology; however, it never matured beyond a pilot program and the system development did not attain key integrated functionality and had reporting inadequacies. Therefore, management of the Section 184 program remained dependent on CHUMS, which operated on outdated software and hardware without contract support, to process Section 184 loan guarantees. Most importantly, HUD had not implemented a process or system interface across its general ledger, CHUMS, and ONAP-LOS to ensure that all adjustments, including collections, payoffs, and refinancings, were made to USSGL account 8050 – guaranteed loan principal outstanding.

As a result, HUD significantly overstated the outstanding loan principal balance for the Section 184 loan guarantee program, reported in Note 7 – Direct Loan and Loan Guarantees, Non-Federal Borrowers of its consolidated financial statements. To mitigate PIH's loan guarantee system weaknesses, OCFO developed a methodology to determine the guaranteed loan principal outstanding balance quarterly, based on data maintained by Ginnie Mae, which securitizes a majority of Section 184 loans. Using this methodology, OCFO made 13 adjustments totaling $3.6 billion to USSGL account 8050 for the Section 184 program to record past reduction activity. These adjustments impacted Note 7, Table J1 – Guaranteed Loans Outstanding, Amount of Outstanding Principal Guaranteed. Additionally, these adjustments impacted the Section 184 annual loan guarantee subsidy reestimate calculation. If OCFO had made the adjustments on or before September 30, 2019, the impact would have been an increase of $8.3 million in the downward reestimate recorded in fiscal year 2020, thereby influencing the loan guarantee liability line item on HUD's balance sheet and the other financing sources on the statement of changes in net position. The effects of the adjustments will be included in the reestimate recorded in fiscal year 2021.

In July 2020, HUD's Office of the Chief Information Officer (OCIO) began to leverage FHA Catalyst system components to account for the Section 184 program rather than continue development of ONAP-LOS. Per HUD, it planned to decommission ONAP-LOS in early 2021 and continue development of FHA Catalyst functionalities and clone them for use by ONAP's loan guarantee programs by October 2021.

HUD Did Not Recognize All Financial Events Resulting From PIH's Cash Management Process

PIH's cash management process resulted in financial transactions that were either not recognized at all or not recognized accurately and in a timely manner at the transaction level. First, OCFO did not recognize PIH prepayments and PHA expenses in HUD's general ledger as they occurred at the transaction level. Instead, OCFO recorded an expense for the total amount of HUD's prepayment disbursement when it occurred and recorded manual journal entries quarterly to adjust the prepayment and expense balances to agree with OCFO's PIH prepayment estimate. Secondly, when PIH completed its semiannual cash reconciliations, it determined that it had overpaid and underpaid PHAs $137 million and $207 million, respectively, as of December 31, 2019, and $95.8 million and $185 million, respectively, as of June 30, 2020. However, OCFO did not record accounts receivables and payables to recognize HUD's claim to cash for overpayments and liability for underpayments in accordance with SFFAS 1, Accounting for Selected Assets and Liabilities.

This condition occurred because PIH's cash management process was manual and untimely as it did not have a system that could provide real-time information on PHA expenditures or automatically reconcile PHA expenditures with HUD's disbursements. Instead, PIH relied on untimely information submitted by PHAs through VMS and performed manual reconciliations. Real-time expenditure data and automated reconciliation are essential for recognizing PIH cash management activity accurately and in a timely manner at the transaction level. Under this manual process, by the time PIH completed the semiannual reconciliations, the excesses or shortages identified would likely not be representative of the current receivables or payables. As a result, HUD understated the accounts receivable and accounts payable line items in its quarterly and yearend financial statements and overstated the PIH prepayment by the amount of the receivable.[20] Additionally, because prepayment, receivable, and payable transactions were not recorded as they occurred, HUD's process did not comply with FFMIA.[21]

---

[20] We could not identify the total amount of these misstatements in HUD's fiscal year 2020 financial statements because, as discussed above, HUD did not determine its receivables and payables until several months after the point of recognition, due to the manual processes involved.

[21] FFMIA, section 803(a), states, "Each Agency shall implement and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level."

In our fiscal year 2013 audit report,[22] we recommended that PIH implement an automated cash management system. In fiscal year 2019, PIH worked with a contractor to develop the Enterprise Voucher Management System (eVMS), which should address this issue.[23] As of fiscal yearend 2020, PIH had completed the application design of eVMS; however, it was not in use because the data warehouse used in eVMS is under moratorium until OCIO completes a securities and vulnerabilities assessment. Once the moratorium is lifted, PIH will work with PHAs in waves to transition them from the current disbursement process to eVMS calculated disbursements. PIH planned to have all PHAs under the new process by September 2022.

HUD Did Not Ensure That Its Accounts Receivables Were Complete or That It Had Adequate Support for the Net Realizable Value of Its Accounts Receivable

HUD had made significant progress in properly accounting for its accounts receivables and resolved several issues previously identified. However, HUD did not ensure that its accounts receivables were complete or that it had adequate support for the net realizable value of its accounts receivable. Specifically, OCFO had not recognized repayment agreements between HUD and property owners participating in programs under the Office of Multifamily Housing Programs as accounts receivables in accordance with generally accepted accounting standards. In addition, OCFO had not evaluated its accounts receivables for allowance for loss in accordance with SFFAS 1, Accounting for Selected Assets and Liabilities. Instead, OCFO used a 100 percent allowance on its yearend non-Federal receivable balance of $117 million, based on OCFO's concerns with the validity and accuracy of its accounts receivable data.

We attribute these conditions to the late implementation of corrective actions in fiscal year 2020. During fiscal year 2020, OCFO added or modified several internal controls to address previously reported deficiencies. However, OCFO implemented the controls too late in the fiscal year to fully correct all identified issues by yearend. One key control that OCFO put into place in June 2020 was the issuance of a new Debt Collection Handbook,[24] which clarified that it was the responsibility of program offices to develop standard operating procedures and train and monitor action officials[25] to ensure financial reporting and debt collection compliance. However, because the handbook was not issued until the end of the third quarter, the Office of Multifamily Housing Programs had not implemented standard operating procedures or a system to train and monitor its action officials.

---

[22] Audit Report 2014-FO-0003, Additional Details To Supplement Our Report on HUD's Fiscal Year 2013 and 2012 (Restated) Financial Statements, issued December 16, 2013

[23] The eVMS will use current family-level PIH Information Center (PIC) data to calculate monthly PHA disbursements based on need and will automate the cash reconciliation process. According to PIH, the use of PIC data and the automation of cash reconciliations will allow for timely and accurate identification of (1) PHA expenses and (2) receivables and payables.

[24] HUD Handbook 1900.25, REV-5, Debt Collection Handbook, issued June 15, 2020

[25] According to HUD Handbook 1900.25, REV 5, the program action official is the program official with responsibility for any program. Initial responsibility for identifying and collecting debts due HUD is vested in the program action official.

This lack of controls allowed for (1) inconsistent reporting by field offices and (2) a listing of repayment agreements that contained errors and was unreliable for financial reporting purposes. In addition, OCFO implemented a control during fiscal year 2019 to conduct quarterly reconciliations of repayment agreements with the program offices. However, this control did not require a negative confirmation from program offices until the fourth quarter of fiscal year 2020; therefore, OCFO was not aware that the Multifamily Housing program office was not reporting its repayment agreements. Finally, OCFO could not adequately evaluate its accounts receivables to determine an appropriate allowance for loss because correction of its accounts receivable data was not complete until yearend.[26] OCFO reported that once it had corrected the data, it would prepare a standard operating procedure to reevaluate the allowance for loss policy in fiscal year 2021.

Consequently, HUD's accounts receivable reported on its fiscal year 2020 quarterly and yearend financial statements may have been misstated due to (1) incomplete recording of amounts due established by Multifamily Housing repayment agreements and (2) inadequate evaluation of allowance for loss rates to support the net realizable value of accounts receivables. Due to the unreliability of Multifamily Housing's repayment agreement listing, we could not quantify the total misstatement in HUD's financial statements that resulted from debt owed to HUD from Multifamily Housing property owners.[27]

Recommendations

Several prior-year recommendations regarding the accounting for cash management activity in the HCVP and one recommendation related to the accounts receivables allowance for loss remained open and are included in the Followup on Prior Audits section of this report.

Recommendations regarding implementation of a loan tracking system for the Section 184 program from previous reviews of the program[28] also remained open, and resolution of these recommendations will help HUD remediate this finding. The following are new recommendations to address the deficiencies in this finding.

---

[26] OCFO reported that it worked with the U.S. Treasury's Administrative Resource Center to ensure that its receivable balances were accurate and to produce a report that accurately displayed collection terms and delinquencies for all receivables. However, OCFO did not complete this process until fiscal yearend.

[27] The repayment agreement listing from HUD's Tenant Rental Assistance Certification System (TRACS) provided by Multifamily Housing contained 70,205 repayment agreements with remaining balances totaling $113 million. However, the listing contained repayment agreements between (1) HUD and owners participating in Multifamily Housing programs and (2) tenants and owners participating in Multifamily Housing programs. Multifamily Housing could not distinguish between the two types of repayment agreements in the listing and was unsure whether all of the listed debts to HUD remained outstanding. Therefore, we could not quantify the amount not recorded.

[28] Audit report 2015-LA-0002, issued July 6, 2015; audit memorandum 2018-LA-0801, issued August 27, 2018; and evaluation report 2018-OE-0004, issued August 13, 2018

We recommend that the Chief Financial Officer

1A. Prepare a white paper regarding the accounting treatment for each type of funding disbursed under the HCVP, to include a comparison of the qualities the funding embodies against the qualities that are necessary for it to be considered a prepayment versus an expense according to generally accepted accounting principles. The Chief Financial Officer should work with PIH to gather the information necessary to complete this analysis and have PIH review it to ensure the accuracy of the program information used.

1B. Develop and implement a policy that requires OCFO to review all new program notices, new regulations, and new types of funding and evaluate each against the accounting standards and current accounting treatment (as documented in white papers or other forms) to determine whether OCFO's treatment complies with generally accepted accounting principles and if not, propose changes. The policy should include formal designation of roles and responsibilities as well as internal controls to ensure proper review and approval of conclusions.

1C. Once additional data are available, and at least quarterly, reduce the CARES Act PIH prepayment by the amount actually spent by PHAs or an estimated amount with a low level of estimation uncertainty.

1D. As part of the validation process for CPD's accrued grant liabilities, review CPD's accrued grant liabilities estimation methodology to ensure that it is based on verifiable grantee supporting documentation and all assumptions and variables used for the grant accrual estimate were properly established, supported, and documented.

1E. Research the survey responses that resulted in a positive cash on hand balance to determine whether a cash advance exists. If so, the Chief Financial Officer should coordinate with CPD to (1) determine whether the grantees have proper documentation and approvals allowing for cash advances and (2) develop and implement procedures to estimate and account for cash advances for financial reporting purposes.

1F. Investigate other methods for validating CPD's accrued grant liabilities estimate, including the use of other sampling units, which could provide additional relevant information that can be used to produce more reasonable results and reduce estimation uncertainty to a low level.

1G. Work with the Director of the Office of Multifamily Asset Management and Portfolio Oversight to ensure that all debt owed to HUD is identified, accurately reported in HUD's financial records, and properly monitored to ensure compliance with applicable laws and regulations.

We recommend that the Deputy Assistant Secretary for Community Planning and Development

1H. Reevaluate and adequately document justification for the establishment of the percentages and other key assumptions used to determine the accrual amount for each program in CPD's accrued grant liabilities estimate.

We recommend that the Assistant Secretary for Housing - Federal Housing Commissioner

1I. Implement the requirements of HUD's current Debt Collection Handbook, to include (1) assigning a program office manager, (2) developing and implementing debt collection standard operating procedures, (3) designating program action officials, and (4) ensuring that program action officials are trained and perform debt collection duties in a timely manner in accordance with the Debt Collection Handbook; HUD Handbook 2000.06, REV-4, Audits Management System; and other pertinent guidance and policies to ensure the accurate reporting of receivables in the general ledger.

1J. Review all executed repayment agreements in HUD's Tenant Rental Assistance Certification System (TRACS) to determine which repayment agreements have not been fully repaid and represent an amount owed to HUD and work with OCFO to record these receivables.

1K. Include a field in TRACS to identify which repayment agreements represent an amount owed to HUD and implement controls to ensure the accuracy of the listing in TRACS.

1L. Develop and implement controls to track and enforce repayments owed to HUD to ensure that owners are not delinquent on their repayment agreements.

We recommend that the Assistant Secretary for Public and Indian Housing

1M. Ensure that OCFO has the data it needs to record a reasonable PIH prepayment estimate related to supplemental pandemic funding in fiscal year 2021 and beyond if additional funding is provided.

Exhibit II

Compliance With Laws, Regulations, Contracts, and Grant Agreements

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

HUD's financial management system's noncompliance with FFMIA continued in fiscal year 2020. HUD's continued noncompliance was due to its having ineffectively designed and operating internal controls over financial reporting and unimplemented recommendations for corrective action from longstanding issues related to component and program offices' financial management system weaknesses.

HUD's Financial Management System's Noncompliance With FFMIA Continued in Fiscal Year 2020

HUD's financial management system did not comply with the three section 803(a) elements of FFMIA. Section 803(a) requires agencies subject to the Chief Financial Officers Act to establish and maintain financial management systems that substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the USSGL at the transaction level. FFMIA also requires agencies and their auditors to determine annually whether an agency's financial management system (including primary or general ledger accounting systems and subsidiary or "mixed" systems) complies with those requirements.

We tested compliance with FFMIA in accordance with OMB Circular A-123, Appendix D, Compliance With the Federal Financial Management Improvement Act of 1996,[29] and noted instances in which HUD's financial management system did not comply with the three FFMIA section 803(a) elements. HUD also concluded that its financial management system did not comply with each element of section 803(a) of FFMIA as of September 30, 2020.

For areas of FFMIA noncompliance, each agency must identify remediation activities that are planned and underway, describing target dates and offices responsible for bringing systems into compliance with FFMIA.[30] HUD will include these details in its Fiscal Year 2020 Agency Financial Report.

---

29 OMB Memorandum M-13-23 (OMB Circular A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996), issued September 20, 2013, defines requirements for determining compliance with FFMIA.

30 OMB Circular A-136, Revised, Financial Reporting Requirements, issued August 27, 2020

In addition, when auditors disclose a lack of compliance with one or more of the section 803(a) requirements, FFMIA requires that auditors provide additional details regarding the noncompliance.[31] The details about systems not in compliance with FFMIA, responsible parties, primary causes, recommendations, and HUD's intended remedial actions are included below by FFMIA section 803(a) element(s).

Systems That Did Not Comply With Federal Financial Management Systems Requirements and Federal Accounting Standards

Single Family Insurance System (SFIS) and the SFIS CLAIMS Subsystem

The Office of Housing is responsible for the SFIS and the SFIS CLAIMS subsystem. SFIS and CLAIMS did not comply with Federal financial system requirements and Federal accounting standards due to open audit recommendations related to data processing and application configuration. While Housing planned to address the recommendations during fiscal year 2020, remedial actions remained in process as of September 30, 2020.

Systems That Did Not Comply With Federal Financial Management System Requirements, Federal Accounting Standards, and the USSGL at the Transaction Level

Disaster Recovery Grant Reporting System

CPD is responsible for the Disaster Recovery Grant Reporting (DRGR) system, an internet-based system supporting the Community Development Block Grant Disaster Recovery (CDBG-DR) program and other special appropriations. DRGR did not comply with Federal financial management system requirements, Federal accounting standards, and the USSGL at the transaction level due to system weaknesses and insufficient monitoring of invalid and expired obligations. While CPD had implemented a number of updates to the DRGR application and related processes to mitigate the risks, corrective actions remained under our review as of September 30, 2020.

Tenant Rental Assistance Certification System

The Office of Housing is responsible for the TRACS application. A 2017 FFMIA compliance review performed by OCFO noted that TRACS was not compliant with Federal financial management system requirements, applicable Federal accounting standards, and the USSGL at the transaction level. TRACS is the official contract management repository for the Office of Multifamily Housing Programs' rental assistance project-based contracts, including budget projections and funding for contracts. TRACS is designed to process subsidy contracts, tenant rental assistance information, and owner requests for payment (vouchers) for project-based programs. TRACS issues included noncompliance with funds control policies and procedures, weaknesses in monitoring unliquidated obligations, and a failure to comply with improper payment requirements related to HUD's rental housing assistance programs. The Office of Housing addressed the issues related to funds control and unliquidated obligations and was in the

[31] OMB Bulletin 19-03, Audit Requirements for Federal Financial Statements, issued August 27, 2019

process of implementing two system enhancements to track the dollar impact of rent discrepancies and the resolution of such errors and to report on repayments to address the issues related to improper payments. The Office of Housing was working on remedial actions to bring TRACS back into compliance by August 2021.

Recommendations

Prior-year recommendations regarding this finding remained open and are included in the Followup on Prior Audits section of this report. We have no new recommendations in this report.

Followup on Prior Audits

The recommendations made after each finding in this report do not include recommendations from prior-year HUD financial statement audits that had not been fully implemented as of September 30, 2020, according to the Audit Resolution and Corrective Action Tracking System.

As of September 30, 2020,[32] we identified 41 unimplemented (open) recommendations, dating back to the audit of the fiscal year 2013 financial statements. Management had established corrective action plans for 37 of the 41 unimplemented recommendations, of which 23, or 62 percent, were past agreed-upon dates for final action. HUD did not have established corrective action plans for four recommendations.

Some of these recommendations were originally made to management to correct material weaknesses or significant deficiencies included in the Report on Internal Control Over Financial Reporting in prior years. In some instances, the deficiency in internal control that continues to exist as a result of the recommendation's not being implemented is no longer determined to meet the definition of a material weakness or significant deficiency individually or in the aggregate. HUD should continue to track these recommendations under the prior-year report numbers in accordance with departmental procedures. Each of these open recommendations and its status is shown below.

Followup on prior audits			
Audit rec #	**Program office**	**Open recommendations**	**Final action target date**
Additional Details To Supplement Our Fiscal Year 2019 U.S. Department of Housing and Urban Development Financial Statements Audit, 2020-FO-0003, February 7, 2020			
2020-FO-0003-001-I	OCFO	Develop and implement a procedure that requires OCFO to identify and research all debts that are more than 120 days old to ensure (1) validity, (2) that proper debt collection efforts occur, and (3) that the status reported in the TROR is correct according to Treasury's TROR requirements.	09/30/2020
2020-FO-0003-001-J	OCFO	Review the 76 sustained audit receivables not under repayment agreement totaling $59.6 million to determine validity and ensure that debt collection procedures are followed if applicable, to include (1) issuing demand letters, (2) creating repayment agreements if appropriate, and (3) referring delinquent debt or initiating writeoffs as	09/30/2020

32 Actions on open recommendations that occurred after September 30, 2020, were not considered in our analysis.

		appropriate. For all receivables determined to be valid, ensure that they are accurately reported to Treasury in the quarterly TROR. For all receivables determined to be invalid, remove the receivables from HUD's accounts receivable balance.	
2020-FO-0003-001-K	OCFO	Develop and implement standard operating procedures for calculating and reporting HUD's quarterly allowance for loss based on periodic evaluation of each type of HUD's accounts receivables in accordance with GAAP. The procedures should also include steps to ensure proper note disclosure for significant classes of accounts receivables.	04/20/2021
2020-FO-0003-001-N	OCFO	Recognize unrecorded assets and liabilities related to leasehold improvements and make proper disclosures regarding HUD's leasehold improvement liability in the financial statements and notes.	09/30/2020
2020-FO-0003-001-O	CPD	Collaborate with OCFO to review methodologies used to produce grant accrual estimates, to include testing and verification of the resulting accrual estimates.	05/22/2021
2020-FO-0003-003-A	CPD	Implement information security controls over the Section 108 loan guarantee database that prevent and detect unauthorized changes to program data (or implement an updated Section 108 loan guarantee database with information security controls that prevent and detect unauthorized changes to program data).	05/20/2021
2020-FO-0003-004-A	OCFO	Develop a formal enterprise risk management policy for program offices' risk owners, including guidance for completing the annual risk profile refresh, requirements for completing risk mitigation strategies, and reporting risk mitigation progress to the Risk Management Council.	08/13/2021
2020-FO-0003-004-C	Housing	Develop and implement policy and procedures for the incremental obligation process used for project-based Section 8 funds, including documentation for determining the incremental amounts and controls to review the amounts for accuracy.	04/30/2021

2020-FO-0003-004-E	OCPO	Ensure that contracting officers and OCPO field offices review and follow the records management policies and procedures, including completing and signing Forms 7600A and 7600B, to ensure consistency among contract officers approving interagency agreements in the procurement system of record.	05/27/2021
Additional Details To Supplement Our Fiscal Years 2018 and 2017 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, 2019-FO-0003, November 15, 2018			
2019-FO-0003-004-E	OCFO	Assign and communicate the responsibility of the MCR program policy, implementation, and oversight to ensure that program offices routinely conduct reviews to support a compliant internal control framework.	10/1/2020
2019-FO-0003-005-E	CPD	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $7,517,486 in 187 program obligations and $62,183 in 9 administrative obligations marked for deobligation as of September 30, 2018.	1/31/2020
2019-FO-0003-005-F	CPD	Review the 473 identified inactive retained obligations with remaining balances totaling $43,005,703 and close out and deobligate amounts tied to obligations that are no longer needed.	1/31/2020
2019-FO-0003-005-G	Housing	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $51,396,319 in 735 administrative obligations and $5,350,112 in 68 program obligations marked for deobligation as of September 30, 2018.	11/30/2019
2019-FO-0003-005-I	PIH	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $588,694 in 12 administrative obligations marked for deobligation as of September 30, 2018.	10/1/2020
2019-FO-0003-005-K	FHEO	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $168,198 in 29 obligations marked for deobligation as of September 30, 2018.	02/28/2020
2019-FO-0003-005-M	OCHCO	Deobligate all obligations marked for deobligation during the departmentwide OOR,	10/1/2020

		including as much as $574,511 in 79 administrative obligations marked for deobligation as of September 30, 2018.	
2019-FO-0003-005-N	ODEEO	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $106,962 in 30 administrative obligations marked for deobligation as of September 30, 2018.	10/1/2020
Additional Details To Supplement Our Fiscal Years 2017 and 2016 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, 2018-FO-0004, November 15, 2017			
2018-FO-0004-007-E	OCPO	Ensure that originating base IAAs and modifications are maintained in HUD's procurement system of record, PRISM, including manual documentation and records from HIAMS.	N/A
2018-FO-0004-008-C	CPD	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $11,463,971 in 189 program obligations and $13,640 in 10 administrative obligations marked for deobligation as of September 30, 2017.	3/12/2019
2018-FO-0004-008-D	CPD	Review the 1,110 identified inactive retained obligations with remaining balances totaling $229,327,332 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	3/12/2019
2018-FO-0004-008-E	CPD	Close out and deobligate the remaining balances on 2,741 expired homeless assistance contracts of $159,437,069.	11/10/2018
2018-FO-0004-008-L	FHEO	Deobligate all obligations marked for deobligation during the departmentwide OOR, including as much as $559,569 in 53 administrative and $641,110 in 9 program obligations marked for deobligation as of September 30, 2017.	1/4/2019
2018-FO-0004-008-S	Ginnie Mae	Deobligate all obligations marked for deobligation during Ginnie Mae's open obligation review, including as much as $34,814,053 in eight contract obligations marked for deobligation.	6/30/2018
2018-FO-0004-011-A	PIH	For all 32 debts not under repayment agreement, (1) send demand letters for any debts for which a demand letter has not been sent and (2)	10/1/2020

		aggressively work with the PHAs to determine appropriate repayment agreement terms.	
2018-FO-0004-011-E	OCFO	Work with PIH to determine which debts should be transferred to the Departments of Treasury or Justice and which debts should be written off. The Deputy CFO should ensure that proper documentation is maintained to support a decision for writeoff.	10/31/2019
Additional Details To Supplement Our Fiscal Years 2016 and 2015 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, 2017-FO-0003, November 15, 2016			
2017-FO-0003-002-A	OCFO	Continue working with ARC and complete the reconciliation and cleanup efforts for balances related to HUD's loan guarantee programs.	N/A
2017-FO-0003-008-A	CPD	Close out and deobligate the remaining balances on 3,121 expired homeless assistance contracts of $151,719,152. Further, deobligate $10,996,784 in 234 program obligations marked for deobligation during the departmentwide open obligations review.	11/10/2018
2017-FO-0003-008-P	Ginnie Mae	Review the contracts totaling $72.8 million to determine validity and if no longer needed, forward to HUD's procurement office for closure and deobligation.	9/30/2017
2017-FO-0003-008-Q	Ginnie Mae	Record the deobligations provided by OCPO totaling as much as $86.4 million for the contracts identified during our review. Additionally, Ginnie Mae should deobligate the $587,505 in three administrative obligations marked for deobligation during the departmentwide open obligations review.	9/30/2017
Additional Details To Supplement Our Report On HUD's Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, 2016-FO-0003, November 18, 2015			
2016-FO-0003-002-D	PIH	Establish a process to track the amount HUD owes to PHAs to cover prepayment shortages and provide the information to OCFO so that it can be properly recognized as accounts payable.	N/A
2016-FO-0003-006-C	OCFO	Develop procedures to provide oversight of OCPO procurement activities to ensure that those with financial accounting and reporting impact are properly captured and reflected in HUD's financial statements.	1/13/2021

2016-FO-0003-006-D	OCFO	Review projects and acquisitions to determine whether the proper accounting treatment was applied and determine whether corrections to HUD's financial statements are needed.	9/30/2020
2016-FO-0003-006-E	OCFO	Contact all other HUD program offices to determine whether any other programs authorize or are aware of grantees holding funds in advance of their immediate disbursement needs and determine financial statement impact on and compliance with Treasury cash management requirements of any found.	4/30/2021
2016-FO-0003-006-J	OCFO	Revise policies and procedures to ensure that MCRs are routinely monitored and completed for all program areas and establish a timeframe for completion of the MCR reports. Further, HUD should ensure that an escalation process is included to address untimely completion of the MCR process.	3/17/2017
2016-FO-0003-008-A	CPD	Close out and deobligate the remaining balances on 2,308 expired homeless assistance contracts of $104,347,996. HUD should also deobligate $3,602,342 in 102 program obligations marked for deobligation during the departmentwide open obligations review. Lastly, HUD should review the 57 obligations with remaining balances of $188,176 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	3/16/2017
2016-FO-0003-008-L	ODEEO	Review the 20 obligations with remaining balances of $77,807 and close out and deobligate amounts tied to obligations that are no longer valid or needed.	03/22/2017
Additional Details To Supplement Our Report on HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements, 2014-FO-0003, December 16, 2013			
2014-FO-0003-002-A	PIH	Transition the PHA NRA excess funds, which are as much as $643.6 million as of June 30, 2013, to HUD's control as soon as possible to safeguard the program resources.	12/31/2057[33]
2014-FO-0003-002-C	PIH	Implement a cost-effective method for automating the cash management process to	N/A

[33] Recommendation is under repayment.

		include an electronic interface of transactions to the standard general ledger.	
2014-FO-0003-002-E	OCFO	Review the cash management process to identify all financial events to be recognized in accordance with GAAP. Establish procedures to account for the cash management activity in a timely manner in compliance with GAAP.	4/8/2015
2014-FO-0003-002-G	OCFO	Ensure that PIH's automation of its cash management process complies with Federal financial management requirements.	12/31/2015
2014-FO-0003-008-B	CPD	Complete the closeout of any remaining CDBG-R and HPRP grants and forward all grant closeout agreement certifications to OCFO for recapture.	9/30/2014

Appendixes

Appendix A

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

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

CHIEF FINANCIAL OFFICER

HUD OCFO MEMO 21-11

MEMORANDUM FOR: Rae Oliver Davis, Inspector General, HUD, GAF

FROM: Irving L. Dennis, Chief Financial Officer, F

SUBJECT: Response to Fiscal Year 2020 Financial Statement Audit — Transmittal of Draft Fiscal Year 2020 Independent Auditor's Report on HUD's Fiscal Year 2020 Financial Statements

DATE: November 23, 2020

Comment 1

Thank you for the opportunity to review the draft Fiscal Year 2020 Independent Auditor's Report on HUD's Fiscal Year 2020 Financial Statements. The high level of professionalism, technical expertise, and integrity demonstrated by the Program Offices and Office of Inspector General in this year's audit contributed greatly to the Department's successful results.

We are proud of the Department's success in achieving an unmodified audit opinion on the Department's Fiscal Year 2020 Financial Statements. This remarkable achievement demonstrates the commitment of our Financial Transformation plan to restore sound financial management and transparency. This achievement is also remarkable considering the impacts on our working environment due to the COVID-19 national emergency.

During the year, we made substantial progress to continue our commitment for responsible stewardship of taxpayer resources by prioritizing efforts for financial management, risk monitoring, and information technology. In FY2020, the Department successfully launched the Accountability, Integrity, and Risk (AIR) program to promote transparency and accountability in the areas of internal control and risk management. In collaboration with Program offices, this evidence-based integrated review of risks and internal controls positions the Department for continued success. In addition, our Intelligent Automation Initiative is reducing manual processing and increasing capacity by applying technology enablers to improve data accuracy and improve monitoring capability. We remain committed to monitor progress with these efforts to ensure strong financial standing and continuous process improvement through agile enhancements to effectively use scarce financial resources. Our focus continues to be on improving internal controls, leveraging technology, and developing risk-based solutions.

Comment 2

We acknowledge that for FY2020 HUD had deficiencies resulting in one material weakness and one instance of noncompliance with laws, regulations, contracts, and grant agreements. We will continue to refine and enhance our internal control environment to ensure high standards of integrity and transparency in reporting our financial performance and look forward to work together with the OIG to drive transformational change at HUD to serve the American public.

2

OIG Evaluation of Auditee Comments

Comment 1 We recognize the continued progress that HUD has made during fiscal year 2020 in the execution of its financial transformation plan to advance its financial management maturity to a compliant state, to include achieving an unmodified opinion, particularly during these unprecedented times. We further recognize the positive impact HUD's new Accountability, Integrity, and Risk (AIR) program has made on HUD's internal control framework. The AIR program has enabled OCFO to detect and prevent risks to financial reporting that could have resulted in misstatements to the financial statements. We look forward to working with HUD as it carries out its commitment to focus on improving internal controls, leveraging technology, and developing risk-based solutions.

Comment 2 The CFO acknowledged that deficiencies remain that require further enhancement of HUD's internal control environment, as reported in our reports on internal control over financial reporting and compliance with laws, regulations, contracts, and grant agreements. During fiscal year 2021, we will work with HUD to evaluate the corrective actions planned to address the findings in this report.

Section 3: Other Information

Table of Contents

FY20 OCFO Accomplishments

The OCFO made substantial progress towards achieving several of its financial transformation and strategic objectives in FY 2020. The OCFO has demonstrated a commitment to investing in its people, processes, and technology to advance HUD's goals of protecting taxpayer funds while maintaining efficient and effective operations and we will continue to make improvements.

- As a result of the improvements made at HUD over the last three years, Irving Dennis was honored to receive **the 2020 Donald L. Scantlebury Award** to recognize the leadership of our senior financial management executives who have been responsible for significant economies, efficiencies, and improvements in the government.
- **Remediated eight material weaknesses** and **eliminated all four disclaimers** that were in the 2017 financial statements with the Financial Transformation initiative we began in 2018. As further discussed below, our finance transformation initiative resulted in HUD becoming compliant with the DATA Act, IPERIA, A-123 Compliance, Positive Statement of Assurance, and GONE Act Compliance.
- **Established the HUD CARES Act Compliance Response Team** to monitor compliance and audit processes with the CARES Act.
- **Implemented RPA and AI initiatives for OCFO and HUD Agency-wide** resulting in reaching 45,630 of the 70,000-hour goal set by the Chief Financial Officer (CFO), designing and building 18 of the 51 automations, along with moving five processes to operations and maintenance. Improvements achieved in the areas of data analytics (e.g., enhancing monitoring capabilities); forms creation and processing (e.g., enhancing data security and privacy and reduce time spent on manually aggregating data); and report generation (e.g., aggregating data to create reports and dashboards). Anticipated completing development of another 14 automations by the end of calendar year 2020.

HUD SUCCESS STORIES:

Improving HUD's Efficiency & Effectiveness – OCFO's Use of Robotics

HUD is using data business intelligence tools, including artificial intelligence, machine learning, and robotics process automation, to improve mission execution. OCFO believes there are many programs within the Department that are ready for robotics, and as internal processes are identified for streamlining, additional bots will be deployed. CFO Irv Dennis and Financial Management Office have established a goal to identify approximately 60,000 manual hours that can be converted to robotics. This will free-up HUD workforce to shift its focus from low- to high-value work by reducing significant employee hours for tasks. Robotics will not be replacing jobs, rather it will improve the efficiency and effectiveness in daily work. *Click here* to learn more about how HUD has utilized robotics to assist employees.

CFO Irv Dennis on Robotics

- **Established a roadmap to monitor the flow of funds for the disaster grants for the first time in HUD** as part of the OCFO's oversight of internal controls over the CDBG-DR funds, and through the cross-collaborative effort with CPD and the Departmental Enforcement Center. Updated the CDBG-DR Monitoring Handbook to include enterprise risk management and internal controls to adopt fraud detection requirements into the financial operations of the grantees, for the first time since the establishment of the CDBG-DR program.
- **Developed and implemented the first-ever spending dashboard,** combining data from numerous sources and analyzing millions of transactions to allow for the first time in HUD history a comprehensive daily monitoring, and tracking of funding and spending down to the recipient and physical location levels. This was revolutionary for HUD!
- Obtained UiPath Robotics Process Automation (RPA) Authority to Operate (ATO) within a compressed two-month deadline to allow the CFO Intelligent Automation initiative to go live. The Department can now leverage RPA technology to **improve business processes, create efficiencies, transform the culture, and make HUD a better place to work.**
- **Prepared HUD Workiva Wdesk ATO in a two-month timeframe** to implement the first A-123 system for the Department. This will allow OCFO to maintain and strengthen internal controls and achieve the Secretary's Strategic Goal to Protect Taxpayer Dollars.

HUD SUCCESS STORIES:

Improving HUD's Efficiency & Effectiveness – Improving Data Collection

Historically, HUD's various discretionary grant programs maintained separate and manual performance data collection processes to meet their performance reporting needs and compliance requirements. After transitioning toward electronic grants management systems, HUD determined that the manual processes had become antiquated, burdensome, and did not link data amongst various programs with similar target populations. Ultimately, HUD systematically surveyed the existing data measures collected across programs and developed **Standards for Success**.

Click here to learn more

- **Achieved full compliance with all requirements of the Improper Payment Act** by co-solutioning with PIH, CPD, Housing, and GNMA and leveraging available regulations for the first time in seven years.
- **Achieved reasonable assurance by successfully launching the Accountability, Integrity, and Risk (AIR) program**, a fully integrated risk management and internal control assurance program. Assessed nearly 400 internal controls across six HUD Program Offices providing coverage around controls for 98.9% of the Balance Sheet Assets, 91% of Balance Sheet Liabilities and 75% of total Statement of Net Cost and reasonable assurance.
- Enabled HUD to address long-standing issues by bringing together program offices to preemptively identify, quickly resolve weaknesses, and achieve an evidence-based HUD-wide positive statement of assurance. Plus, AIR established the foundation to launch the CARES

Response Team, **allowing the Department to achieve 100% compliance with the CARES Act requirements.**

- **Improved the funds control process** to allow rapid obligation against the $12.4 billion of CARES Act funding, across 10 programs reaching 26,800 recipients while meeting all federal funding requirements and maintaining effective internal controls.
- Implemented Microsoft Power BI to automate the data analysis of over 1,700 open OIG audit recommendations across all HUD program offices. The tool **allowed for the first time the full and complete risk analysis, trend identification, data transformation and data modeling of more than 1,700 recommendations,** which allowed focused efforts by the programs to close recommendations.
- Identified and categorized 52 processes for automation and delivered 15 automated processes, and deployed 3 bots, with a **total projected hour saved per year over 45,000** through the Intelligent Automation project, co-sponsored with CIO.
- **Reduced open recommendations by 40%** since FY 2018, setting a seven-year low for open (active and restricted) recommendations (below 1,300) by designing and implementing an engaging process to collaborate with HUD Program Offices and formed an effective partnership with OIG. Significant improvements also made in achieving 114% of the departmental stretch goal to be under 1,000 active recommendations, effectively reducing unresolved active recommendations to 865; decreasing overdue recommendations by 81% in a single year (from 621 to 115); and, increasing the closure of aged recommendations by 70% since FY 2017.

HUD SUCCESS STORIES:

Improving HUD's Efficiency & Effectiveness – AIR: Accountability, Integrity, and Risk

AIR is a program designed to promote fiscal accountability, financial integrity and operational risk awareness through a strong governance system and HUD-wide coordination. AIR was created with the intent to achieve financial reporting excellence while aiming to be the leaders in the federal government in the financial integrity space. AIR provides HUD staff with the training to make them more aware of everyday risk and internal controls. Additionally, it gives them with a voice in improving HUD's financial transformation efforts. *"AIR…is really about making our goals transparent and involving all HUD employees in the process." – CFO Irv Dennis*

Click here to learn more about AIR

- Leveraged HUD technology to enhance employees and grantees knowledge and skills through stackable virtual on-demand trainings. **Increased training reach by 1,000% since FY 2018.** Planned and delivered 13 on-demand training videos and 8 live training sessions, reaching 4,456 stakeholders in FY 2020 which enabled quick and easily application of knowledge to improve processes, internal controls, fiscal accountability, and reliability in reporting and demonstrates strong governance.
- Transitioned the CPD grant accrual validation to AMAD in FY 2020. The division staff was trained remotely under unusual circumstances during the lockdown due to COVID-19 to review the grantees' responses, determine whether the documentation was acceptable, and work with the

support contractors to successfully resolve any discrepancies prior to the deadline. Additionally, during these unusual circumstances, Accounting was able to work with OIG for corrective action plans on all OIG recommendations related to CPD validations with expected closure dates for all but one before the end of the fiscal year.

- Ensured 100% delivery of PBC requests and a 0% rejection rate.
- Successfully remediated and concurrently closed Significant Deficiency 1.1, “Interim Financial Statements and Notes Errors.”
- Improved the Funds Control Division Grants SharePoint as a one-stop shop for submitting grant documents which facilitates remote processing and approximately 20,000 transactions totaling $5.5 billion have been processed since pandemic telework began.
- Automated the WCF Ordering, Invoicing, and Payment processes, reducing processing time for the Division, reducing manual errors and corrections
- Assisted the Native American Program in cleaning up dated financial records in the Indian Housing Loan Guarantee Program.
- Tracked and reported CARES Act performance. To date, HUD program offices have obligated $3B in CARES related funding to help safeguard housing and protect vulnerable populations in lieu of the COVID-19 pandemic.
- Executed reporting and risk management rapid response initiatives to support efficient and compliant program delivery through co-solutioning with programs. This effort is leading to the identification of intelligent automation (IA) opportunities.
- Developed and submitted HUD’s Agency Plan on Use of Covered Funds to the Pandemic Response Accountability Committee (PRAC) by working with programs and administrative offices.
- Completed fourth annual HUD Risk Profile. Enhanced formalization of enterprise risk standards and compliance across HUD’s risk programs by developing and implementing HUD Enterprise Risk Profile Refresh: Office Procedure to aid risk officers in completing their respective risk profiles in accordance with OMB Circular A-123 guidance.
- Implemented first enterprise SharePoint site for use by all HUD Offices in the risk profile submission process. Centralized site streamlined submission process, improved data quality, and operationalized enterprise data standards. The SharePoint will also allow HUD Offices to manage and report on risks centrally.
- Leveraged Microsoft Power BI to automate the data analysis of over 100 active risks submitted by HUD’s 15 program offices. The Power BI tool has assisted the CRO office with risk analysis, trend identification, data transformation and cleansing, and data modeling of over 700,000+ elements for FY20 which are directly reported to the CFO and RMC.
- Held RMC meetings to provide senior leadership with clear detailed analysis and understanding of HUD EFRM’s progress and ongoing initiatives. Continued effort and briefings are provided regarding the Enterprise Risk Profile, CARES Act, providing recommendations to improve material and non-material weaknesses, and supporting enterprise risk mitigation.
- CARES Act legislative drafting required extensive communication and coordination with congressional appropriations staff as well as program staff and program counsel and senior leadership during a short and fast-paced period, including nights and weekends, to help Congress

meet its legislative schedule to enact legislation to address the extraordinary challenges of the coronavirus pandemic.

- Sustained and determined effort to complete Antideficiency Act (ADA) investigations, mitigate or prevent reportable ADA violations which included quick and coordinated action with program and budget offices to make corrections and prevent several reportable ADA violations, and identify and address control weaknesses through development or enhancement of policies and procedures.
- Resolved longstanding findings to remove five systems from the Federal Financial Management Improvement Act non-compliance list. Closed five audit recommendations from FY 2016/2017, which contributed to a Significant Deficiency. Also closed a recommendation from the FY 2019 financial statement audit report. This helped HUD achieve compliance with laws and regulations to support HUD's path toward a clean audit opinion.

HUD SUCCESS STORIES:

Improving HUD's Efficiency & Effectiveness – Enhancing HUD's Mission Delivery

Over the past two years, HUD's CFO and CIO have collaborated to modernize HUD's IT systems and business processes with 13 different prototypes designed to enhance HUD's mission delivery and generate efficiencies. Through the Centers of Excellence (CoE), HUD has developed various prototype tools and processes that include Robotics Process Automation, Enterprise Risk Management, and Intelligent Data Extraction.

Click here for more on HUD's IT Mission Delivery

Summary of Financial Statement Audit and Management Assurances

HUD OIG identified one material weakness in HUD's FY 2020 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 and systems' compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA).

Table 1: Summary of Financial Statement Audit

Summary of Financial Statement Audit					
Audit Opinion	**Unmodified**				
Restatement	**No**				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
HUD Had Weaknesses in Its Controls Over Financial Reporting and Did Not Always Comply With Federal Generally Accepted Accounting Principles	1	0	0	0	1
Total Material Weaknesses	**1**	**0**	**0**	**0**	**1**

HUD SUCCESS STORIES:

Improving HUD's Efficiency & Effectiveness – Improving HUD's Financial Health

The OCFO has provided leadership in instituting financial integrity, fiscal responsibility, and accountability. Over the past two years, OCFO has led HUD towards significantly stronger governance and business practices. In response to a 2018 HUD OIG audit report, which revealed the department's noncompliance with OMB Circular A-123, and the DATA act of 2014, OCFO leadership sparked a financial transformation strategy within HUD devised to improve operations and modernize its overall financial processes.

Click here to learn more about 'OCFO Transforming HUD'

Table 2: Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
HUD Had Weaknesses in Its Controls Over Financial Reporting and Did Not Always Comply With Federal Generally Accepted Accounting Principles	1	0	0	0	0	1
Total Material Weaknesses	**1**	**0**	**0**	**0**	**0**	**1**
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	**Unmodified**					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**
Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	**Federal Systems do not conform to financial management system requirements**					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
FAMES	1	0	1	0	0	0
IDIS	1	0	1	0	0	0
DRGR	1	0	0	0	0	1
NCIS	1	0	1	0	0	0
SMART	1	0	1	0	0	0
TRACS	1	0	0	0	0	1
GFAS	1	0	1	0	0	0
IPMS	1	0	1	0	0	0
SFIS	0	1	0	0	0	1
CLAIMS	0	1	0	0	0	1
Total non-conformances	**8**	**2**	**6**	**0**	**0**	**4**

Compliance with Section 803(a) of the 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

Payment Integrity

For the first time in seven years, HUD completed all requirements with the Improper Payments Information Act of 2002 (IPIA), as amended by subsequent legislations[19] and concluded that the Department achieved full compliance. Through the annual payment integrity audit, OIG will substantiate HUD FY 2020 compliance by May 2021.

In FY 2020, HUD tested four high risk programs: Government National Mortgage Association (GNMA) Contractor Payments, Rental Housing Assistance Program (RHAP) - Tenant Based Rental Assistance (TBRA), RHAP - Project Based Rental Assistance (PBRA) and Community Development Fund - Disaster Recovery Assistance - Hurricane Harvey, Irma, Maria (HIM). The table below provides an overall outlook on the results of HUD's improper payment testing based on OMB guidance.[20]

Improper Payment Reduction Outlook – FY 2020 (In Millions)

Program Name	Outlays	Properly Paid Amount	Properly Paid Percentage Rate	Improperly Paid Amount	Improperly Paid Percentage Rate	Reduction Target
GNMA Contractor Payments[21]	$115.35	$109.66[22]	95.06%	$5.70[22]	4.94%	4.90%
RHAP - TBRA	$22,222.69	$22,220.62	99.99%	$2.07	0.01%	N/A[23]
RHAP - PBRA	$12,189.97	$12,097.20	99.24%	$92.77	0.76%	N/A[23]
HIM	$122.15	$122.15	100%	$0.00	0.00%	N/A[23]

For more detailed information on HUD's payment integrity efforts, please visit https://paymentaccuracy.gov/.

---

[19] IPIA was amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), and the Payment Integrity Information Act of 2019 (PIIA).

[20] Based on updated A-136 guidance issued August 27,2020, much of this information is submitted via the OMB data call.

[21] The achieved precision of the estimated properly/improperly paid rates is 1.56% at the 95 percent confidence level.

[22] The total outlays for GNMA Contractor Payments is $115.35M. The sum of the properly paid amount and improperly paid amount differ by $0.01 due to rounding.

[23] According to OMB Circular A-123, Appendix C, Part III.A.3, "OMB does not expect the program to publish a reduction target until a full baseline has been established and reported. If a program had a 24-month reporting cycle where no changes occur, the program will most likely be considered to have established a baseline." FY 2020 is the first year of reporting for these programs and HUD executed non-statistically valid methodologies, therefore, reduction targets will be set once HUD has established a full baseline for payment integrity reporting.

Corrective Action Plans

Corrective actions are required when estimated improper payments exceed the statutory thresholds listed in OMB Circular A-123, Appendix C, Part I.B.1. When estimated improper payments exceeding either 1) both 1.5% of program outlays and $10,000,000 of all program or activity payments made during the fiscal year reported, or 2) $100,000,000, then corrective actions are required. The GNMA Contractor Payments, RHAP - TBRA, RHAP - PBRA, and HIM programs are not required to report corrective actions.

Actions Taken to Address Auditor Recovery Recommendations

HUD has recovery audit programs but did not receive any recovery auditor recommendations for the FY 2020 reporting cycle. Therefore, there are no actions to report that address recovery auditor recommendations.

HUD SUCCESS STORIES:

Improving HUD's Efficiency & Effectiveness – Achieving Full Compliance with *IPERIA*

HUD's Office of Chief Financial Officer and program offices collaborated to launch initiatives to help programs develop comprehensive solutions to reduce improper payments and meet *IPERIA* standards. Through innovative and streamlined approaches, HUD standardized the claims review process and conducted comprehensive risk assessments. This helped HUD's program offices significantly reduce improper payments, therefore safeguard federal funds and promote sound financial reporting. HUD achieved full compliance with *IPERIA* requirements the first time in seven years.

Fraud Reduction Report

The Fraud Reduction and Data Analytics Act of 2015 (FRDAA) was enacted to help improve federal agencies' financial and administrative controls and procedures to assess and mitigate fraud risks and to improve federal agencies' development and use of data analytics for the purposes of preventing, detecting, and responding to fraud. The FRDAA requires agencies to (1) conduct an evaluation of fraud risks and use a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks; (2) collect and analyze data on detected fraud to monitor fraud trends and use the data and information to continuously improve fraud controls; and (3) use the results of monitoring, evaluation, audits, and investigations to improve fraud prevention, detection, and response. In support of its FDRAA compliance efforts, HUD continued the development of the Department-wide fraud program, in accordance with OMB Circular A-123 and fraud risk principles detailed in the Standards for Internal Control in the Government (Green Book), in order to identify, assess, manage, and report risks.

The risks of fraud within HUD programs remains consistent and understood allowing HUD to establish reasonable controls to prevent, detect, and respond to fraud.

As part of our ongoing risk and control assessment efforts along with addressing the impacts of COVID-19, **we established the Accountability, Integrity, and Risk (AIR) team and the HUD CARES Compliance and Response Team (HCCRT)**, respectively. The former is to assess and report on the effectiveness of HUD's financial and operational risks and controls to support reasonable assurance while the latter monitors compliance and audit processes with the CARES Act.

In addition, we conducted training and developed SOPs for program managers on how to report on fraud risks and expanded the fraud risk compendium to help educate program managers about fraud schemes that could affect HUD programs.

The Risk Management Council (RMC), a governing body for the identification, assessment and monitoring of HUD's enterprise and fraud risks, continues to serve as the focal point for risk management decision making. Concurrently, OCFO conducts and validates program level improper payments risk assessments for approximately one-third of the HUD Programs each year on a rotating three-year cycle. Any programs identified as high-risk (susceptible to improper payments) are individually reviewed and tested for improper payments (which would include potentially fraudulent payments).

We continue to build upon the travel and payroll data analytics tools and the grant data analytics pilots while making progress on data analytics work (e.g., intelligent automation) related to contracts and purchase cards. The Department is seeking further improvement in the process, additional data sources, and options for automation tools in validating/verifying benefits, vouchers, subsidies, and payments made by HUD and its public housing agencies, housing owners, and sub-recipients to qualified individuals and families.

Finally, we continue to leverage all vehicles at our disposal to communicate ethical guidelines around fraud, waste, abuse, and mismanagement. Communication to raise awareness around fraud risk was done through various means including declaring November as anti-fraud month and launching a public information campaign to increase awareness of fraud activity as part of employee reporting responsibilities.

Real Property

As part of the Reduce the Footprint policy set forward by the OMB, HUD has continued to work to **reduce the amount of square feet (SF) its office locations take up from its 2015 baseline of 3,098,523 SF.** HUD has successfully reduced its usable square footage (USF) space by 97,335 SF in 2019.

HUD acquired all its office space assignments through GSA, and, as such, it does not have any real estate capital expenditures. HUD also does not have any warehouse space. HUD pays rent to GSA for space it occupies through Occupancy Agreements (OAs). HUD does not anticipate establishing any new locations or expanding any of its existing locations through FY 2024. HUD's space activities will continue to concentrate on reducing space as existing OAs expire and as funding permits. In cases of relocations and reductions in space, there are significant costs associated with construction, moving, and furniture, so funding must be available to complete these actions.

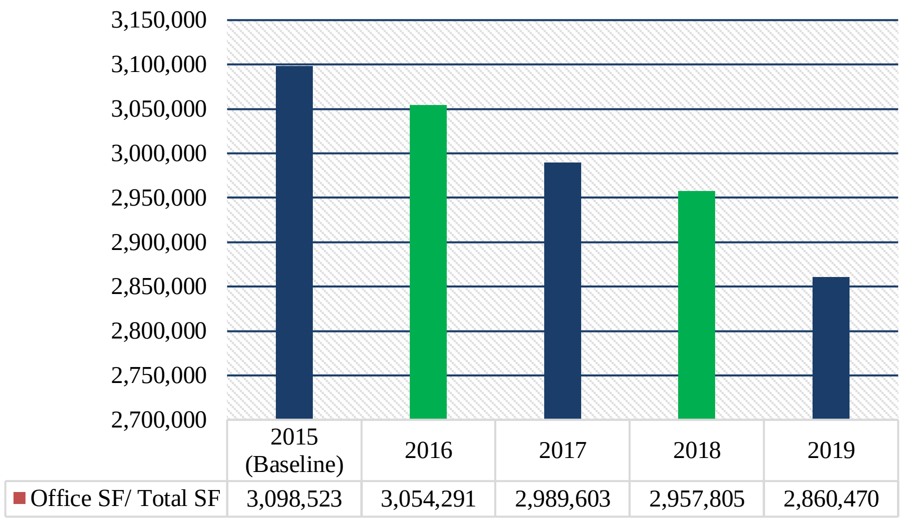
Many of HUD's occupied locations were designed when staffing levels were far greater, posing a significant challenge. HUD has initiated a discussion with GSA to develop strategies to relinquish unnecessary space from its inventory in a marketable fashion.

HUD developed new design standards that became effective in March 2016. The standards call for a goal of 175 USF per person nationwide.

HUD's real property performance data may be found at https://www.performance.gov/reduce/reduce_the_footprint.html under the FY2024 Reduction Targets and Results Data tab.

Reduce the Footprint Baseline Comparison	2015 Baseline SF	2019 SF	Overall Change	Percentage Reduced
Total Square Footage	3,098,523	2,860,470	(238,053)	-7.68%

TOTAL SQUARE FOOTAGE PER YEAR



Secretary's Audit Resolution Report to Congress

In FY 2020 the Department implemented a successful audit resolution refresh to meet agency-wide audit closure goals. Through several initiatives, HUD improved in many key metrics. Highlights included:

- Achieved 114% of the departmental goal and reduced unresolved active recommendations to 865;
- Reduced number of open recommendations by 40% since FY 2018, setting a seven-year low for open (active and restricted) recommendations (below 1,300);
- Reduced overdue recommendations by 81% in a single year (from 621 to 115); and
- Increased the closure of aged recommendations by 70% since FY17.

The following charts provided additional details on the key metrics cited above.

Status of OIG Recommendations by Fiscal Year		
Recommendations	**FY 2020**	**FY 2019**
Total New Audit Recommendations	228	371
Total Closed Recommendations	696	730
Total Unresolved/Open Recommendations	1,299	1,767
Active Recommendations[24]	865	1,319
Restricted Recommendations[25]	434	448
Overdue Recommendations	115	621

The significant progress was made possible through:

- Creating an open venue for Program Offices and OIG to build stronger connections and relationships, to promote open discussions about current processes, resource gaps and strategies for addressing open audit recommendations, and to exchange ideas and options for overcoming barriers to closure.
- Conducting virtual roadshows and quarterly meetings with HUD stakeholders.
- Holding regular touchpoint meetings with affected stakeholders and offering multiple training session along with customized tools such as a new dashboard to help the Audit Liaison Officers (ALOs) better manage their resources and track the status of their open audit recommendations which promoted audit awareness, drove deeper conversations and helped uncover key insights toward tracking, closing, and reporting all audit-related activities across HUD.

[24] Active recommendations – Represent recommendations that HUD is working to resolve.

[25] Restricted recommendations – Represents recommendations where no action by HUD may be taken as an investigation or judicial review is underway or legislative change is needed or where a payment agreement is in place.

OIG Open Recommendations by Offices						
Offices	End of FY17	End of FY18	End of FY19	End of FY20	Open & Restricted FY20[26]	Open & Active FY20
Community Planning and Development	690	662	604	502	112	390
Public and Indian Housing	743	721	589	445	244	201
Housing	516	462	356	217	69	148
Chief Financial Officer	95	89	48	31	0	31
Government National Mortgage Association	68	51	42	22	0	22
Chief Information Officer	30	35	45	20	0	20
General Counsel	58	48	31	20	9	11
Lead Hazard Control	4	28	24	22	0	22
Chief Procurement Officer	8	4	1	2	0	2
Fair Housing and Equal Opportunity	5	6	7	3	0	3
Administration	8	6	5	5	0	5
Deputy Secretary	10	10	10	5	0	5
Departmental Equal Employment Opportunity	1	1	2	2	0	2
Field Policy and Management	2	1	1	1	0	1
Chief Human Capital Officer	0	1	1	1	0	1
Policy Development and Research	0	1	1	1	0	1
Total	2,238	2,126	1,767	1,299	434	865

- Establishing a Tiger Team comprised of HUD and OIG members, and finalizing the team's charter, in which both efforts facilitated the negotiation of closing complex, aged, or otherwise difficult to resolve recommendations as well as enhancing open discussions across diverse and opposing groups.
- Transferring delegation of authority from HUD's Deputy Secretary to the Chief Financial Officer for recommendations not directed to CFO. This change of authority enabled the CFO to review and make decisions on referred recommendations that did not have agreed upon management decisions. Through this change, HUD has closed eight complex and aged recommendations.

---

[26] The sum of FY 20 Restrict & Repays by offices

Civil Monetary Penalty Adjustment for Inflation

In compliance with the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, 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 March 6, 2020, with an effective date of April 6, 2020.

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	2020	$11,665	85 Fed. Reg. 13041 (March 6, 2020)
42 U.S.C. 3537a(c)	Advance Disclosure of Funding.	1989	2020	$20,489	85 Fed. Reg. 13041 (March 6, 2020)
42 U.S.C. 3545(f)	Disclosure of Subsidy Layering	1989	2020	$20,489	85 Fed. Reg. 13041 (March 6, 2020)
12 U.S.C. 1735f–14(a)(2)	FHA Mortgages and Lenders Violations.	1989	2020	Per Violation: $10,245 Per Year: $2,048,915	85 Fed. Reg. 13041 (March 6, 2020)
12 U.S.C. 1735f–14(a)(2)	Other FHA Participants Violations	1997	2020	Per Violation: $10,245 Per Year: $2,048,915	85 Fed. Reg. 13041 (March 6, 2020)
12 U.S.C. 1715z–13a(g)(2)	Indian Loan Mortgagees Violations	1992	2020	Per Violation: $10,245 Per Year: $2,048,915	85 Fed. Reg. 13041 (March 6, 2020)
12 U.S.C. 1735f–15(c)(2)	Multifamily & Section 202 or 811 Owners Violations.	1989	2020	$51,222	85 Fed. Reg. 13041 (March 6, 2020)
12 U.S.C. 1723i(b)	GNMA Issuers & Custodians Violations.	1989	2020	Per Violation: $10,245 Per Year: $2,048,915	85 Fed. Reg. 13041 (March 6, 2020)
12 U.S.C. 1703	Title I Broker & Dealers Violations.	1989	2020	Per Violation: $10,245 Per Year: $2,048,915	85 Fed. Reg. 13041 (March 6, 2020)
42 U.S.C. 4852d(b)(1)	Lead Disclosure Violation	1992	2020	$18,149	85 Fed. Reg. 13041 (March 6, 2020)
42 U.S.C. 1437z–1(b)(2)	Section 8 Owners Violations.	1997	2020	$39,811	85 Fed. Reg. 13041 (March 6, 2020)
31 U.S.C. 1352	Lobbying Violation	1989	2020	Min: $20,489 Max: $204,892.	85 Fed. Reg. 13041 (March 6, 2020)
42 U.S.C. 3612(g)(3)	Fair Housing Act Civil Penalties	1988	2020	No Priors: $21,410. One Prior: $53,524. Two or More Priors: $107,050.	85 Fed. Reg. 13041 (March 6, 2020)
42 U.S.C. 5410	Manufactured Housing Regulations Violation	1974	2020	Per Violation: $2,976 Per Year: $3,719,428	85 Fed. Reg. 13041 (March 6, 2020)

Grant Program Information

In accordance with OMB A-136 Financial Reporting Requirements, all reporting entities with Federal grants programs must submit a brief high-level summary of expired, but not closed, Federal grants and cooperative agreements. The summary table below shows the total number of awards and balances for which closeout has not yet occurred, but for which the period of performance has elapsed by two years or more prior to September 30, 2020 (i.e., on or before September 30, 2018).

GRANT CLOSE-OUTS				
Category	**2-3 Years**	**4-5 Years**	**>5 Years**	**TOTAL**
Number of Grants/Cooperative Agreements with Zero Dollar Balances	5,697	1,143	546	7,386
Number of Grants/Cooperative Agreements with Undisbursed Balances	468	64	1	533
Total Amount of Undisbursed Balances	$57,133,630.98	$7,081,012.52	$ 68,794.00	$64,283,437.50

Over the past year, HUD has made significant progress modifying its Line of Credit Control System (LOCCS) to better track grant closeout dates. The Department continues to educate its staff on the requirements of the Grants Oversight and New Efficiency (GONE) Act. To better identify open awards, the Department has established a new Financial DataMart report to identify grants that have been open more than one year after the Period of Performance End Date. The Department plans on distributing this report to the program offices for remediation.

OIG Report on Management and Performance Challenges for FY21+

Top Management Challenges Facing the U.S. Department of Housing and Urban Development in 2021

★ ★ OFFICE *of* ★ ★
INSPECTOR GENERAL
UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Memorandum

Date: November 25, 2020

Subject: Management and Performance Challenges for Fiscal Year 2021

From: Rae Oliver Davis
Inspector General, G

To: Benjamin Carson, Sr.
Secretary, S

The Reports Consolidation Act of 2000 requires the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), to issue a report summarizing what we consider to be the most serious management and performance challenges facing the Department. In turn, HUD is required to include this report in its annual agency financial report. This report represents HUD OIG's independent perspective on the top management challenges facing HUD in fiscal year 2021 and beyond.

The challenges discussed in this report represent our view of HUD's greatest vulnerabilities to waste, fraud, abuse, and mismanagement, and the most significant barriers to HUD's success in accomplishing its mission. In developing this report, we considered the issues affecting HUD based on our oversight work and research, reports published by other oversight bodies, and perspectives from key HUD officials, and applied our own judgment in determining which management challenges need to be HUD's top priority. The challenges are not listed in order of severity or significance. We view all of the challenges as vital and critical to HUD's work.

This year, many of the challenges identified remain from prior years. We added 2 additional challenges, which are focused on HUD's response to the COVID-19 pandemic and its ability to procure necessary goods and services efficiently. Our discussion of each challenge also includes acknowledgement of the HUD actions taken and progress made in addressing the challenge.

HUD's Top Management and Performance Challenges for Fiscal Year 2021 include:

- Responding to the COVID-19 Pandemic.
- Financial Management.
- Management and Oversight of Information Technology.
- Monitoring and Mitigating Risk.
- Ensuring the Availability of Affordable Housing That is Decent, Safe, Sanitary, and in Good Repair.
- Protecting the FHA Insurance Fund.
- Administering Disaster Recovery Assistance
- Human Resource Management Challenges.
- Increasing Efficiency in Procurement Processes.
- Ensuring Ethical Conduct.

Table of Contents

Responding to the COVID-19 Pandemic

The pandemic caused by the coronavirus disease of 2019 (COVID-19) created unprecedented challenges for American families, communities, and the economy. When the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed into law on March 27, 2020, Congress provided more than $12 billion in funding to HUD to assist renters, landlords, vulnerable populations, and impacted communities in preventing, preparing for, and responding to the COVID-19 pandemic through its grant programs. The CARES Act also created protections for renters, homeowners, and landlords participating in HUD programs through temporary moratoriums on evictions and certain foreclosure actions and forbearance on payments of federally backed mortgaged loans.

In June 2020, the Pandemic Response Accountability Committee released its report on *Top Challenges Facing Federal Agencies: COVID-19 Emergency Relief and Response Efforts*,[1] which included the Office of Inspector General's (OIG) assessment of the top challenges HUD faced in the early phases of the pandemic.[2] That report included OIG's analysis of the challenges the pandemic presented to (1) rental assistance programs, (2) mortgage loan forbearance administration, (3) assistance for vulnerable populations, (4) assistance for communities' response, and (5) HUD's mission performance.

HUD, like all Federal agencies, was challenged initially with implementing the substantial program changes required by the CARES Act and communicating to the public and program administrators about those changes during a rapidly evolving pandemic that required nearly all staff to work remotely. Additionally, the pandemic presents new challenges for HUD and its program participants in implementing necessary changes to their programs operations. OIG is concerned that the pandemic will exacerbate HUD's already existing Top Management and Performance Challenges.

To evaluate HUD's pandemic response, OIG has initiated agile engagements that are limited in scope so that OIG can complete this work quickly and offer insights to policymakers and the public in a timely manner. Through OIG's initial work and continuous risk assessments, as well as its communications with HUD leadership and its program participants, OIG has identified several ongoing challenges: (1) ensuring that the public receives accurate information about HUD's pandemic response and relief programs, (2) ensuring that CARES Act grant funds reach intended beneficiaries in a timely manner and are used appropriately, (3) implementing mortgage loan forbearance requirements in HUD's programs, and (4) performing HUD's mission operations through the pandemic.

---

[1] Top Challenges Facing Federal Agencies: COVID-19 Emergency Relief and Response Efforts, https://oversight.gov/report/prac/top-challenges-facing-federal-agencies-covid-19-emergency-relief- and-response-efforts.

[2] The HUD Inspector General was designated as a Pandemic Response Accountability Committee (PRAC) member on April 1, 2020, by PRAC Chairman-DOJ Inspector General Michael Horowitz.

Ensuring That the Public Receives Accurate Information

It is critical that the American public has complete and accurate information about HUD's pandemic response and its implementation of the CARES Act relief provisions. OIG has completed reviews of HUD's communications with renters about the CARES Act eviction moratorium[3] and of HUD's responses to homeowners' and mortgage servicers' inquiries regarding forbearance.[4] In both reviews, OIG found many instances in which HUD's communications were clear and sufficient but also identified several opportunities for improvement. OIG also completed an initial review[5] and a followup assessment[6] of the websites of mortgage loan servicers, evaluating whether they are offering complete and accurate information to homeowners with mortgages insured by the Federal Housing Administration (FHA). Through this work, OIG has highlighted for FHA leadership several ways in which the servicers participating in its programs could improve the quality of information they provide to homeowners with FHA loans.

OIG will continue to assess these areas as the pandemic evolves and HUD continues to communicate with the public about its response. OIG has also issued nine bulletins to raise awareness about fraud schemes in HUD's grant and mortgage programs and to highlight best practices for program participants.[7] OIG will issue similar bulletins to help prevent fraud, waste, and abuse throughout HUD's pandemic response.

Ensuring Timely and Appropriate Use of CARES Act Grant Funding

HUD faces challenges in overseeing the substantial increase in grant funding that the CARES Act provided to supplement rental assistance subsidies and assist public housing agencies (PHA) ($2.6 billion) to prevent homelessness and assist the elderly and people with HIV-AIDS ($4.1 billion) and to support local communities' pandemic response ($5 billion). HUD has taken actions necessary to make CARES Act funding available to grantees through its existing formulas and also developed new methodology to allocate funds to jurisdictions based on pandemic-related needs. HUD also made substantial changes to its grant programs in order to provide guidance and flexibility for grantees.

[3] Audit Memorandum 2021-NY-0801, Opportunities Exist To Improve HUD's Communication to Renters About Eviction Protections, issued October 13, 2020

[4] Audit Memorandum 2020-PH-1801, Opportunities Exist to Improve HUD's Responses to Inquiries From Borrowers, Industry Partners, and the General Public Regarding Forbearance and Foreclosure Relief Provided by the CARES Act, issued September 22, 2020

[5] Evaluation Memorandum, Some Mortgage Loan Servicers' Websites Offer Information about CARES Act Loan Forbearance That Is Incomplete, Inconsistent, Dated, and Unclear, issued April 27, 2020, https://www.hudoig.gov/sites/default/files/2020-04/Single Family Mortgage Forbearance Brief.pdf

[6] Evaluation Memorandum, Some Mortgage Loan Servicers' Websites Continue To Offer Information about CARES Act Loan Forbearance That Could Mislead or Confuse Borrowers, or Provide Little or no Information at all, issued September 30, 2020, https://www.hudoig.gov/sites/default/files/2020- 10/Single Family Mortgage Forbearance.pdff

[7] https://www.hudoig.gov/priority-focus-areas/covid-19-oversight

However, OIG remains concerned about the grantees' capacity to manage and spend these funds, considering that some grantees have previously been designated as slow spenders by HUD. Additionally, OIG has highlighted in recent years that HUD's Office of Community Planning and Development (CPD) faces substantial challenges in monitoring its grantees, which may be amplified by the increase in funding to these grantees coupled with the constraints on CPD operations resulting from the pandemic.

OIG is closely following grantee spending rates and trends. OIG is also surveying the grantees to understand the challenges they are facing during the pandemic and is conducting a review to identify the causes of slow spending in CPD programs.
Additionally, OIG staff is reviewing prior work to identify lessons learned from HUD's previous responses to natural disasters that might assist policymakers in responding to the COVID-19 pandemic.

Implementing Forbearance Requirements in HUD's Mortgage Programs

The CARES Act provides financial relief to homeowners with HUD-insured mortgage loans experiencing COVID-19-related hardships by permitting forbearance of their mortgage payments for up to 360 days. FHA moved quickly to make program changes to account for forbearance and allow servicers to file partial claims for insurance benefits to recoup missed payments from borrowers. However, FHA is currently facing challenges in ensuring that it has accurate and complete data from its servicers regarding loans in forbearance, which is necessary to estimate and prepare for the processing of future partial claims. OIG is also concerned that inaccuracies in forbearance data reported by servicers could mean that servicers are not complying with HUD's forbearance requirements.

OIG is currently conducting reviews of the forbearance data provided by servicers to FHA and the forbearance options servicers are offering to homeowners. OIG is also reviewing its prior work to identify lessons learned from previous reviews of FHA's oversight of default reporting and partial claims processing to provide applicable insights to FHA's leadership during the pandemic.

Performing HUD's Mission Operations Through the Pandemic

As OIG has outlined in prior Top Management and Performance Challenges reports, HUD already experiences significant challenges in the areas of human capital and procurement, financial management, information systems technology, and monitoring and oversight. OIG is concerned that the new work required by HUD under the CARES Act could amplify these challenges.

Early in the pandemic, OIG conducted a limited-scope survey of HUD staff members to assess the challenges they faced in a full-time telework environment, and most reported that they were able to perform their job functions. However, OIG also found that HUD's paper-reliant processes were severely slowed and HUD's network bandwidth was strained and limited some work functions.[8] OIG is conducting a follow-up assessment of HUD's information technology (IT) infrastructure and whether it has the capability to support long-term telework.[9] OIG also plans to review the pandemic's impact on HUD's IT modernization plan and efforts. OIG is reviewing HUD's procurement actions and contract administration during the pandemic to assess HUD's implementation of pandemic-related contract guidance and further assess any contracting challenges it faces.

It is particularly important that HUD protects the health and safety of staff members as they continue to perform HUD's mission operations and begin to return to the workplace. OIG is currently reviewing how HUD has implemented its plan for *Resuming Normal Operations Guide* when it has reopened Federal office space.

OIG is also concerned about the operational challenges that the pandemic places on HUD's ability to perform its mission work that requires contact with the public. Many HUD program offices suspended their onsite monitoring of program participants during the pandemic, thereby creating uncertainty about the true state of its program activities. OIG is currently reviewing the Office of Public and Indian Housing's plans for resuming health and safety inspections in HUD-assisted housing. OIG is also assessing the impact the pandemic has had on the Office of Fair Housing and Equal Opportunity's ability to conduct investigations and respond to complaints.

[8] Evaluation Memorandum Report 2020-OE-0006, Survey of HUD Employees Regarding Telework and its Impact on HUD Operations during COVID-19 Pandemic, issued June 1, 2020

[9] Audit Notification of Review, Assessment of HUD's IT Infrastructure to Support Telework Due to COVID 19, dated June 23, 2020, https://www.hudoig.gov/sites/default/files/2020-06/Assessment of HUD%27s IT%20Infrastructure_Support Telework Due to COVID 19_0.pdf

Financial Management

- HUD's Financial Management Leadership and Governance
- HUD's Internal Control Framework
- HUD's Financial Management Systems Weaknesses
- HUD's Financial Management Maturity
- Financial Management Challenges From the COVID-19 Pandemic

HUD continued to make progress during fiscal year 2020 in addressing its financial management weaknesses. For fiscal year 2020, HUD received an unmodified opinion[10] on its consolidated financial statements, the first such opinion since fiscal year 2012; and, OIG reported only one material weakness in internal control over financial reporting and one instance of noncompliance with applicable laws and regulations. OIG attributes this substantial improvement in financial management to the Office of the Chief Financial Officer's financial transformation initiative and coordination with program offices.

HUD needs to be able to sustain the improvements it has made so that HUD and its components can operate at a level that will consistently produce reliable and timely financial reports and ensure continuity during challenging times, such as those brought on by the COVID-19 pandemic. Additionally, HUD needs to increase the effectiveness of its complementary user entity controls and enhance the portions of its financial management system that consist of legacy systems and manual processes.

HUD needs to maintain the current momentum it has achieved in resolving material weaknesses and significant deficiencies and continue its work to remediate the effects of years of financial management inattention.

HUD's Financial Management Leadership and Governance

HUD experienced an extended period in which vacancies in key financial management positions remained open and HUD followed a siloed approach to financial management, which weakened its

[10] The American Institute of Certified Public Accountants' The Clarified Statements on Auditing Standards, AU-C 700.18 which states: "The auditor should express an unmodified opinion when the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework."

internal control environment and framework. This condition led to preventable financial management deficiencies that were not resolved in a timely manner.

HUD's current financial management leadership has made a concerted effort to address these deficiencies. In fiscal year 2018, HUD's Office of the Chief Financial Officer (OCFO) developed a financial management transformation strategy to address the challenges resulting from the Department's past weaknesses in financial management leadership and governance. OCFO continued to implement this strategy during fiscal year 2020, which included (1) improving governance and communication and building relationships across the agency, (2) improving internal controls by evaluating audit findings and developing overall remediation plans and executions, and (3) working with HUD's Chief Information Officer on an IT strategy to address OCFO data needs.

The transformation strategy has been successful and is beginning to show tangible results. As of June 2020, more than 140 open audit recommendations from prior-year Annual Financial Statement and Federal Information System Controls Audit Manual audits remained open, a decrease from more than 250 open recommendations listed in June 2019. During the 2020 fiscal year, HUD fully implemented its Accountability, Integrity, and Risk (AIR) Program, led by OCFO, which promotes fiscal accountability as a central focus of its mission. AIR's goals are to help HUD, its offices, and components accomplish their objectives and achieve strategic priorities by following a systematic, disciplined approach to evaluate and improve the effectiveness of governance, operations, risk management, and controls.

To maintain and successfully complete the implementation of its transformation strategy and to sustain the progress already made, OCFO needs continued financial and human resource commitments from the Secretary, Congress, and other stakeholders.

HUD's Internal Control Framework

In fiscal year 2019, HUD performed a limited assessment of the effectiveness of its internal controls over financial reporting, including reviews of its complementary user entity controls and funds control matrices. In fiscal year 2020, HUD performed a more complete assessment, including reviews of complementary user entity controls and internal controls over its fund balance with Treasury and several programs within the Offices of Public and Indian Housing (PIH), Community Planning and Development (CPD), and Housing. As of September 30, 2020, HUD determined that 66 percent of the complementary user entity controls assessed were designed effectively, an improvement from 50 percent in fiscal year 2019. Additionally, in the other areas tested, between 86 to 100 percent of the key controls identified were found to have been effectively designed.

The AIR program described in the previous section integrates HUD's assessment of internal controls and enterprise risk. Full implementation of the AIR program will contribute greatly to improving HUD's internal control framework and maturity level, ensuring compliance with the Federal Manager's Financial Integrity Act.

HUD's improvement and renewed focus on internal controls is starting to show results, but it is important that HUD continues to work toward a complete financial management transformation to ensure a full implementation of the AIR program and a sustained commitment to the identification and mitigation of internal control weaknesses and significant risks. This is especially important in light of the COVID-19 pandemic environment, in which waivers of normal processes and controls and competing priorities may pressure components to forgo proper financial management and accounting processes.

HUD's Financial Management Systems Weaknesses

Several significant financial business processes continue to be manual or nonexistent, resulting in unreliable and untimely financial reporting and poor financial management oversight. For example, PIH uses manual processes and Excel spreadsheets to comply with cash management requirements, resulting in untimely reports on HUD's prepayments, accounts payable, and accounts receivable. HUD also does not have a cost accounting system that can accurately report program costs, and, specifically, PIH lacks a system capable of fully accounting for its loan guarantee programs.

HUD continues its efforts to implement financial management systems in all program areas and offices and is also making progress in its efforts to bring its financial management system into compliance with the Federal Financial Management Improvement Act (FFMIA).

HUD continues its efforts to implement financial management systems in all program areas and offices. HUD plans to start implementing a cost accounting system and a system to address PIH's cash management needs during 2020, but neither system is expected to be fully operational by the time its fiscal year 2020 financial reporting is due.

HUD is also making progress in its efforts to bring its financial management system into compliance with the FFMIA. During fiscal year 2020, HUD brought four systems into compliance with FFMIA and assessed a fifth that was previously determined as non- compliant as a non-financial system due to the implementation of a new module within HUD's financial management system that replaced its functionality. However, the challenges in maintaining and ensuring that HUD's legacy systems can support the proper financial management of HUD's programs and operations will persist until they are modernized.

HUD's Financial Management Maturity

While HUD has made significant progress in resolving material weaknesses and significant deficiencies and closing recommendations, HUD continues to operate at a "basic" level of financial maturity, based on the U.S. Treasury's Financial Management Maturity Model. HUD is still reporting a low rate of operational effectiveness for its complementary user entity controls and continues to not be fully compliant with FFMIA. HUD also maintains and relies on several customized legacy systems with some automated interfaces, resulting in unresolved FISMA financial findings.

OIG found that HUD generally complied with the DATA Act in its fiscal year 2019 review.[11] Also, as mentioned above, HUD has been able to bring a few systems into FFMIA compliance. In prior years, OIG has cited HUD as being at an "inadequate" level of financial management maturity, however, some of HUD's financial management areas now meet the definition of the "capable" classification for financial management maturity, and HUD is trending toward an overall classification of "capable." HUD's enterprise risk management program is approaching a classification of "effective." HUD needs to continue to remediate OIG's open recommendations and improve its internal control effectiveness to ensure reliable and accurate financial reporting and compliance with laws and regulations.

Financial Management Challenges From the COVID-19 Pandemic

In response to the supplemental funds received in the CARES Act, signed into law on March 27, 2020, HUD established the HUD CARES Act Compliance Response Team (HCCRT) to specifically focus on the impact the CARES Act will have on HUD personnel, processes, and technology. The HCCRT verifies that CARES Act funding is distributed through existing program office channels, where processes and controls are already designed and operational. The HCCRT also monitors the status of the funds, confirms compliance with legislative requirements, and reviews obligations and expenditures.

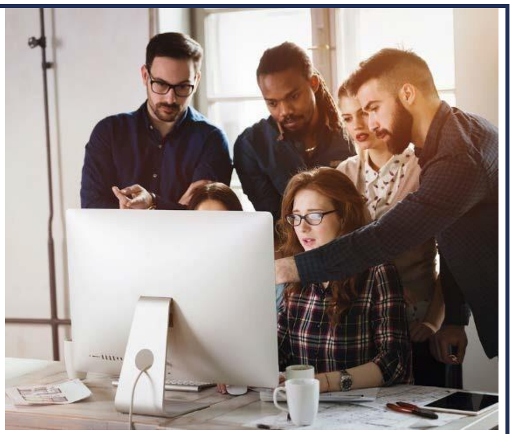
While HUD was generally well prepared for mandatory telework[12] and was able to handle most financial processes through electronic means, the COVID-19 pandemic has limited HUD's access to the historic documents and contracts that are solely maintained in paper records. This has led to difficulties in the program areas that rely on paper records, such as the Section 184 loan guarantee program, in which HUD is working to resolve issues related to the reporting of the amount of outstanding principal guaranteed. Challenges were also encountered as HUD conducted its AIR program during the fiscal year.

HUD needs to remain committed to improving its internal controls and financial processes and modernizing its financial systems to ensure that it can continue to operate as effectively and efficiently as possible during challenging times, such as the pandemic, as well as in times of normalcy.

[11] Audit Report 2020-CH-0001, DATA Act Compliance Audit of the U.S. Department of Housing and Urban Development, issued November 7, 2019

[12] OIG Evaluation Report, 2020-OE-0006, Telework Impact on HUD's Operations Due to the COVID-19 Pandemic, issued June 1, 2020

Management and Oversight of Information Technology



- IT Project Management and Modernization
- IT Procurement
- Cybersecurity and the Federal Information Security Modernization Act
- Privacy and Data Protection

For years, HUD has struggled to maintain its outdated information technology (IT) systems, which cannot be adapted to handle HUD's current complex mission and its demands for accountability. HUD's IT developments have been hindered for a number of reasons, but one significant problem has been the poor management of HUD's IT resources. Not all IT resources have been under the Chief Information Officer's (CIO) authority but, rather, distributed across multiple program offices. In response, HUD has made a concerted effort to fill key IT leadership positions that have been vacant for multiple years. HUD is confident that the advancement of skilled leadership will successfully execute its strategic direction. HUD continues to rely heavily on contract support for its operational and modernization efforts, making procurement activities vital to HUD's ability to progress. HUD's information security program remains at a maturity level that is determined to not be effective.

Since 2009, OIG has issued many audit and evaluation recommendations related to HUD's IT issues. Before fiscal year 2020, HUD had more than 230 IT-related recommendations that were either open or unresolved, while the U.S. Government Accountability Office (GAO) also had many open recommendations related to HUD's IT issues. Over the past year, the primary goal of the CIO was to reduce open and unresolved recommendations. As a demonstration of these efforts, as of August 2020, the OIG Office of Evaluation (OE) has recently received 78 closure requests of its 147 open IT recommendations, and OIG is in the process of reviewing those requests.

Under the current CIO, HUD is making progress with a number of its longstanding IT deficiencies, but the depth and breadth of the remaining management challenges will require ongoing financial support, a well-defined strategy, and ongoing leadership commitment.

IT Project Management and Modernization

The majority of HUD's IT systems were used to support its essential program and business processes between 1974 and 1995. These systems are outdated and incompatible with current technology, resulting in a higher susceptibility to failure and breach as they are no longer supported by their vendors for patches and updates. HUD has long struggled with its IT management capabilities and has reported overlapping and antiquated systems that are costly to maintain and prevent the collection of accurate program data. In November 2019, HUD presented its most recent enterprise-level modernization roadmap, which establishes activities for modernizing HUD's IT systems.

The Office of the Chief information Officer has 31 active projects that address the modernization of key HUD IT systems and anticipates that an additional 24 modernization projects are needed to move HUD toward a more modern and secure IT environment.

In addition, the Office of the Chief Information Officer (OCIO) plans to consolidate six major HUD data warehouses into one enterprise analytics platform, which would create efficiencies and properly secure personally identifiable information (PII) and sensitive data. Each individual project demands successful project management implementation and oversight to ensure that best practices are developed and followed. HUD faces great challenges in sustaining its momentum for IT projects because it has limited expertise in managing a project's technical aspects, schedules, and funding and ensuring that the project owners are held accountable.

An example of a recent modernization success is HUD's deployment of the FHA Catalyst System platform on December 16, 2019. The system enabled HUD to electronically receive FHA loan files in early 2020, at the onset of the Pandemic, which previously demanded the transmittal and handling of hardcopy binders. The technology and processes used for FHA loan processing were leveraged to address the modernization needs of the Section 184 Office of Native American Programs' (ONAP) Loan Origination System. HUD OCIO established a detailed Section 184 program roadmap and is progressing on all phases of the project. Unfortunately, the modernization plan began after ONAP had already failed to implement a project that had cost $4 million and did not satisfy the program requirements

An example of a significant modernization challenge for HUD is updating the Public and Indian Housing Information Center (PIC) Inventory Management System (IMS), which processes more than 50 percent of HUD's budget. The updated version of PIC IMS is called PIC Next Generation (NG) and has been in development since 2016, when HUD had a different CIO. Despite spending more than $8 million on development, PIC NG does not have a system architecture that aligns with HUD's OCIO strategy or an approved authorization to operate, as OCIO had minimal involvement in its development. As a result, a major issue that OCIO must resolve is that most web browsers will no longer support all of the PIC IMS capabilities after 2020 and PIC NG needs at least 2 more years of development before reaching full operational capability. IT project management with an enterprise view is necessary for HUD to successfully modernize its IT environment.

Despite HUD's modernization progress, enterprisewide improvements are challenging because many of HUD's IT systems are not centrally managed. Program offices continue to autonomously operate their applications and initiate development actions that are not in agreement with the enterprise-level modernization roadmap or Federal guidance. The Federal Information Technology Acquisition Reform Act (FITARA) was instituted in 2015 to help minimize waste resulting from the failure to follow enterprisewide IT modernization efforts. Some program offices within HUD have not complied with the FITARA controls, which hinders HUD's modernization and cybersecurity efforts. With program offices implementing unauthorized IT actions, OIG has repeatedly found instances in which OCIO did not maintain an accurate inventory or knowledge of its web application environment,[13] which makes modernization efforts extremely challenging.

HUD's outdated systems create reliability and security risks for HUD information. HUD needs to continue prioritizing and implementing oversight and performance checks for modernization projects based on their security risks, operational inefficiencies, and limitations. While FITARA ensures that CIOs play a significant role in the development, approval, and budgeting for IT investments, HUD has not always been successful in meeting FITARA's expected outcomes. To meet key FITARA requirements and implement a coordinated and effective modernization effort, HUD offices should receive approval from HUD's CIO or the CIO's delegated representative before using appropriations for IT services, purchases, or acquisitions.

The concerns and risks associated with HUD's supply chain have not been incorporated into its contingency planning program. Many IT systems that are critical to HUD's mission are operating on outdated technology, which adds to HUD's challenges and intensifies its urgency to modernize its systems. Within the current infrastructure, there are risks associated with the following: alternative suppliers of system components, alternative suppliers of systems and services, denial of service attacks to the supply chain, and planning for alternative processes if critical systems are unavailable. OCIO has an open recommendation to define the supply chains' risks in the contingency planning program.

OIG continues to believe that multiyear development, modernization, and enhancement project funding will help modernize HUD's IT systems and reduce recurring system operation and maintenance costs. HUD must continue to identify, prioritize, and successfully implement modernization and IT security program improvements and institute proper oversight to ensure that information security is built into all future modernization projects.

IT Procurement

HUD's procurement capacity is a key potential risk area within HUD's IT environment. While HUD's existing IT systems and its modernization plans depend heavily on contractors, HUD has historically faced significant challenges with implementing effective procurement processes. These challenges, if not effectively addressed, could impede HUD's IT modernization progress and significantly disrupt IT services that support HUD programs nationwide.

[13] HUD Fiscal Years 2016 and 2018 Federal Information Security Modernization Act of 2014 (FISMA) Evaluation Reports, respectively 2016-OE-006, issued November 9, 2016, and 2018-OE-0003, issued October 31, 2018 (nonpublic)

OIG has recently initiated multiple reviews of HUD's acquisition capacity. OIG's ongoing evaluation of HUD's processes for managing IT acquisitions will examine IT-related contracts that have lapsed in the past 2 years. Such lapses could impede program functions and impact system maintenance due to a break in associated IT services. We are also reviewing IT contract awards during this 2-year period that required a "bridge" contract extension to mitigate or avoid a lapse in services. Although necessary in some cases, bridge contracts are provisional measures that can increase overall costs, reduce value normally achieved through competition, and increase HUD's already significant procurement staff workload, which further strains its ability to process other planned acquisitions. Although HUD's published internal metrics for acquisition timeliness had not been updated recently, a report from early fiscal year 2019 showed that HUD program offices failed to complete timely requisitions for 74 percent of planned contract actions. These results indicate that the challenges with HUD's acquisition capacity persist and could pose significant ongoing risks to HUD's IT environment.

HUD also faces significant risk related to contractor oversight. A 2016 GAO report[14] found that HUD historically lacked the robust processes necessary to ensure that its contractors met their obligations and achieved expected outcomes. OIG has recently observed during its Federal Information Security Modernization Act of 2014 (FISMA) evaluation that contractors often understand HUD's IT environment better than HUD government employees due to the breadth of HUD systems that contractors maintain and a lack of government employee expertise or involvement in operations and maintenance. This skills gap between HUD employees and its contractors presents an additional risk to HUD's acquisition process as it can limit HUD's ability to implement effective contract oversight.

Cybersecurity and the Federal Information Security Modernization Act

In fiscal year 2019, HUD set a goal to have a more proactive approach in maintaining security compliance, preventing cyber threats, and addressing security weaknesses that had been longstanding at HUD. To accomplish this goal, HUD developed five major cybersecurity initiatives; identity management, remediation for OIG findings, security governance, the strengthening of cybersecurity capabilities, and continuous monitoring. As HUD executes these initiatives, it is also identifying new challenges. Challenges related to personnel and human error persist at HUD and apply to all of HUD's cybersecurity challenges as follows: awareness, willingness to comply, skills, and knowledge.

HUD has been planning identity management improvements for years. HUD initially established a strategy in 2017, the same year new Federal requirements were issued for identity management. Despite having implemented a proof-of-concept for these improvements, HUD is experiencing challenges in incorporating the knowledge gained from the proof-of-concept into the broader enterprise IT portfolio. Delays in implementing identity management improvements are partially attributed to the lapse in a

[14] GAO (public release 2016, August). Actions Needed to Incorporate Key Practices into Management Functions and Program Oversight. (GAO-16-497)

contract that was supporting the improvements and to changes in leadership throughout the project phases.

HUD established a "tiger team" to complete remediation activities on open OIG recommendations. Most open OIG findings related to cybersecurity were issued in conjunction with FISMA, a series of evaluations that require inspectors general to annually assess the effectiveness of a Federal agency's information security program. At the start of fiscal year 2020, 108 recommendations issued in FISMA reports since fiscal year 2013 have remained open. Of these recommendations, 26 were from fiscal year 2019, and 82 were from fiscal years 2013 to 2018. HUD closed 6 prior-year FISMA recommendations in fiscal year 2019 and 27 prior-year FISMA recommendations in fiscal year 2020. As of September 30, 2020, HUD had submitted an additional 29 recommendation closure requests, pending HUD OIG review, showing considerable progress toward closing years of recommendations. HUD must continue with these efforts and actively manage OIG's open recommendations to prevent the number of future security remediation issues from growing into the hundreds again.

Improvements in HUD's security governance can be directly attributed to new leadership and increased resources. HUD filled its Chief Information Security Officer (CISO) position and increased cybersecurity spending in fiscal year 2019. However, the increased amount of spending was still significantly less than the amount other agencies have spent on cybersecurity as a percentage of the overall IT budget.

In fiscal year 2018, HUD budgeted $16.6 million and in fiscal year 2019, $18.7 million for cybersecurity spending. This amount is just 5 percent of the total fiscal year 2019 HUD IT budget, compared to other Federal agencies' allocation average of 14 percent.

HUD's actual expenditures in fiscal year 2019 for cybersecurity were close to $35 million, well in excess of the budgeted amount. The CISO plans to use some of the additional funds to shore up staffing to support a planned reorganization of HUD's cybersecurity program.

HUD formed the Security Operation Center (SOC) in August 2019 to strengthen its cybersecurity capabilities. However, the SOC did not consistently monitor the entirety of HUD's network.[15] HUD OCIO is developing a plan to monitor all HUD devices as well as all inbound and outbound network traffic, a capability that HUD did not previously have. Additionally, HUD has not implemented a data loss prevention tool but has established a goal to implement it in late fiscal year 2020, which should assist HUD in addressing its data management challenges. HUD will need to finalize a plan for monitoring all

[15] HUD's network consists of dozens of network devices, hundreds of servers, and thousands of workstations located at multiple data centers, HUD headquarters, field offices, regional offices, and cloud service providers.

HUD devices and ensure that the current cybersecurity capabilities are not diminished due to funding and contract delays.

The annual FISMA assessment broadly reports on all of the Department's previously described cybersecurity challenges. The most recent assessment, the fiscal year 2019 FISMA, is based on the Office of Management and Budget (OMB) fiscal year 2019 OIG metrics, which consist of eight domains aligned with the five functional areas (identify, protect, detect, respond, and recover) from the National Institute of Standards and Technology Framework for Improving Critical Infrastructure Cybersecurity. Based on these metrics, OIG assessed HUD's information security program efforts using a maturity model. According to OMB and the FISMA OIG metric guidance, a "managed and measurable" maturity level, or level 4, represents an effective level of security. In the fiscal year 2019 FISMA report, OIG assigned maturity levels based on these OMB metrics and found that the continuous challenges HUD faces have resulted in an overall "defined" level of maturity, or 2 out of 5 levels. Table 2.1 below shows the FISMA report's overall results.

Table 2.1: FISMA results

FISMA Criteria	Maturity Level				
	1	2	3	4	5
Risk Management	✓	✓	✗	✗	✗
Configuration Management	✓	✓	✗	✗	✗
Identity and Access Management	✓	✓	✗	✗	✗
Data Protection & Privacy	✓	✓	✗	✗	✗
Security Training	✓	✓	✗	✗	✗
Information Security Continuous Mointoring	✓	✓	✗	✗	✗
Incident Response	✓	✓	✗	✗	✗
Contingency Planning	✓	✓	✓	✗	✗

Key: 1-ad hoc, 2-defined, 3-consistently implemented, 4-managed and measurable, 5-optimized (level 4 = effectively implemented according to OMB)

From fiscal year 2018 to fiscal year 2019, HUD maintained a defined level (level 2) in all categories, except incident response and contingency planning. HUD improved in contingency planning, raising its maturity level from level 2 to level 3, but fell from level 3 to level 2 in incident response. OIG assessed HUD's incident response program as "consistently implemented" in fiscal year 2018 and as "defined" in fiscal year 2019 primarily because HUD's computer incident response team (CIRT) contract was expired for most of 2019. HUD did not integrate a new incident response contract until August 2019. Therefore, HUD's CIRT duties were either suspended, modified, or delegated to personnel with other duties for most of fiscal year 2019.

HUD matured in contingency planning because its policies, procedures, and strategies for contingency planning were consistently defined and communicated. Since the current OMB metrics and maturity model were introduced in 2016, HUD has remained overall at level 2. In order to achieve a managed and measurable level 4 maturity level, HUD will need to face the challenges of closing both the gaps in its cybersecurity program and the 90 open FISMA recommendations.

Privacy and Data Protection

HUD continually faces longstanding privacy and data protection issues, which pose significant risk to the agency. HUD does not have the capability to label, fully identify, and inventory its extensive holdings of PII and has not developed the tools needed to search for electronic PII or to track and limit its access and dissemination within its IT environment. Additionally, HUD cannot detect or monitor unauthorized transmissions or the sharing of PII outside the agency. The exfiltration of data is a significant area of concern, as HUD's data loss prevention solution is limited to the detection and encryption of emails containing Social Security numbers. While HUD policy allowed employees to transport files containing PII to their residences for telework purposes; this policy had recently been rescinded. HUD's inability to identify and protect its sensitive information poses significant risk to both the agency and private individuals. HUD is taking actions to protect sensitive information, however the technology and processes are not consistently implemented.

Further, while some privacy program governance issues have been addressed, HUD faces additional governance challenges. HUD has conducted a program staffing analysis but has not determined whether resources could be allocated to address the critical staffing shortages. HUD has also been assessing the appropriate organizational placement for its Privacy Office.

OIG noted several program improvements during its FISMA evaluation in 2019. HUD filled its long-vacant Chief Privacy Officer position, and OIG observed increased prioritization and executive leadership support for its privacy program. HUD has addressed and closed several of OIG's longstanding privacy program recommendations. The Privacy Office has updated several privacy policies and procedures, improved its privacy impact assessment processes, upgraded its specialized privacy training, and taken a more collaborative approach with OCIO to determine whether privacy protection is being properly addressed in the agency's technology and business operations. HUD has also strengthened its data breach response plan, issued formal requirements for compliance, and exhibited an ability to consistently implement the plan. Through its Privacy Office, HUD has regularly conducted table-top exercises for breach response.

HUD's governance of records and data programs continues to be an area of concern. For the records program, HUD had not met the U.S. Office of Personnel Management (OPM) requirement to establish a Senior Agency Official for Records Management (SAORM) at the appropriate Assistant Secretary level. Positioning the SAORM at the proper level would improve HUD's ability to mature its records program and integrate records management with other programs, including privacy, IT, data, and enterprise risk management.

HUD acknowledged that there is currently no enterprise data governance in place. Federal requirements, including The Foundations for Evidence-Based Policymaking Act, the Federal Data Strategy, and OMB Memorandum M-19-23, require agencies to establish specific data governance functions. HUD is only now establishing relevant charters, creating steering committees and advisory groups, and hiring its first Chief Data Officer (CDO). As a result of a fiscal year 2019 audit, OIG found that HUD was generally in compliance with the Digital Accountability and Transparency Act (Data Act) requirements.[16] HUD plans to realign the Office of the CDO under the CIO and is requesting additional staff positions for fiscal year 2021. HUD has drafted a strategic "Master Data Management Program" that is currently pending CDO review. HUD acknowledged that it has not finalized its standard measures for data quality. HUD must continue to prioritize these efforts at the highest level to overcome these existing privacy and data protection challenges.

[16] Audit Report 2020-CH-0001, HUD's Office of Chief Financial Officer Generally Complied With the Digital Accountability and Transparency Act of 2014 With a Few Exceptions, issued November 7, 2019

Monitoring and Mitigating Risks

- Insufficient Monitoring of Operations
- Office of Community Planning and Development Monitoring of Grantees
- Monitoring Public Housing Agencies
- Ginnie Mae Counterparty Risk
- Monitoring of Section 232 Residential Care Facilities
- Monitoring of Indian Community Development Block Grant Closeout Process
- COVID-19's Impact on HUD's Monitoring of Program Participants

HUD implements many of its programs through grants, subsidies, and other payments to State, territorial, and local government entities; Indian tribes; and private organizations. HUD's program funding amounts to more than $50 billion per year. The funds include amounts for beneficiaries and program oversight. HUD relies heavily on partners, such as State, territorial, and local governments; PHAs; Indian tribes; private housing providers; and others, to operate its programs for its intended beneficiaries. To protect the Federal funds and ensure that the intended beneficiaries receive the benefits of these programs, HUD must regularly evaluate the programs' effectiveness and monitor its partners' and its own use of these funds.

While HUD has taken steps to improve programmatic risk management and management controls, HUD continues to struggle to effectively manage its own operations and oversee its program participants' activities. Several monitoring areas of concern have existed for years, and nominal progress has been made. HUD has demonstrated a lack of guidance for the appropriate review of programmatic management controls, a lack of staff to conduct the necessary monitoring, and a lack of reliable information from program partners used to assess program performance and compliance.

New Initiatives to Monitoring of Operations

For years, OIG had identified HUD's failure in performing its programs' management control reviews (MCR), which was a monitoring tool intended to provide reasonable assurance that programs and activities are effectively and efficiently managed and are protected against fraud, waste, and abuse. The MCR previously played a significant role in HUD's internal control framework that helped ensure that HUD has complied with GAO's Standards for Internal Control in Federal Government.[17] However, from 2015 to 2019, HUD had not conducted any routine or timely MCRs, depriving management of an

[17] GAO report, Standards for Internal Control in the Federal Government, GAO-14-704G (September 10, 2014)

important monitoring tool that would provide key feedback on the effectiveness and efficiency of departmental operations. To address this weakness, HUD adopted and fully implemented a new Accountability, Integrity, and Risk program charter during 2020 to replace its MCR process.

HUD adopted a new Accountability, Integrity, and Risk program charter in March 2020 to replace its MCRs.

The Accountability, Integrity, and Risk (AIR) program's mission is to promote fiscal accountability, integrity, and risk management through a strong governance system with agencywide coordination and collaboration. Planning and documentation of tests of the design of key controls were performed in early 2020, testing of its operating effectiveness occurred in July 2020, and the project was completed in September 2020.

Part of the AIR program includes the integration of risk assessments, evaluations, and internal controls as part of its enterprise risk management program. HUD has made progress in assessing enterprise risk, as required by OMB Circular A-123; however, the enterprise risk management program modules have not been fully implemented. Enterprise risk and fraud management is one of HUD's eight priority areas in its transformation program.

Another important monitoring tool is HUD's front-end risk assessment (FERA).[18] Until recently, HUD has not performed FERAs for several years, despite significant changes to various programs within HUD's portfolio. In July 2019, HUD issued a new FERA Policy Handbook, which is applicable to new and substantially amended HUD programs. HUD performed a pilot FERA in 2019 and subsequently initiated four FERAs in 2020. As of September 30, 2020, two have been completed.

Office of Community Planning and Development Monitoring of Grantees

HUD's Office of Community Planning and Development's (CPD) mission is to develop viable communities by promoting integrated approaches that provide decent housing and suitable living environments and expand economic opportunities for low- and moderate- income households. To accomplish this mission, CPD awards grants to fund community development projects, such as local affordable housing programs, homeless assistance programs, direct rental assistance to low-income people, and disaster recovery efforts.[19]

[18] A front-end risk assessment is a formal, documented review by management to determine the susceptibility of a new or substantially revised program or administrative function to waste, fraud, abuse, and mismanagement.

[19] Because of the scope of HUD disaster recovery efforts, this report addresses those management challenges separately.

Since 2015, OIG has consistently found that HUD needs to increase monitoring of CPD program grantees. For instance, in 2018, OIG performed a comprehensive review of CPD's Community Development Block Grant (CDBG) monitoring model and found that CPD did not have effective supervisory controls and its risk assessment and monitoring did not provide effective oversight of programs and grantees.[20]

HUD's Office of Community Planning and Development's risk assessment and monitoring do not sufficiently provide effective oversight of programs and grantees.

CPD continues to provide waivers to grantees for an OMB reporting requirement that would require them to provide information on their grant's obligations, disbursement, and program income, despite OIG making recommendations since 2014 to discontinue this practice.[21] Without the information from this reporting requirement, CPD cannot fully determine whether grantees complied with the applicable regulations and statutes, making oversight of grantees a challenge.

Monitoring Public Housing Agencies

The Office of Public and Indian Housing (PIH) administers public housing, tenant subsidy, and resident self-sufficiency and economic independence programs. More than 61 percent of HUD's 2020 appropriations were for PIH programs.[22] Public housing agencies (PHA) are key partners in PIH programs, such as the Housing Choice Voucher Program. HUD electronically monitors the voucher program through a system that relies on PHAs' self-assessments and self-reported information. Past audits and HUD's onsite reviews have confirmed that these self-assessments are not always accurate, questioning the reliability of the information in PIH systems.

PIH employs a risk-based approach to monitoring. Currently, HUD uses a Two-Year Tool to analyze a PHA's utilization rate and a National Risk Assessment Tool to determine which PHAs need increased monitoring or technical assistance, which is based on their performance, amount of funding, and compliance scores.

Last year, OIG found that HUD had not been referring troubled PHAs to the Assistant Secretary for Public and Indian Housing for receivership as the law and regulations require. Additionally, 18 PHAs that

[20] Audit Report 2018-FW-0001, CPD's Risk Assessment and Monitoring Program Did Not Provide Effective Oversight of Federal Funds, issued June 26, 2018

[21] OMB Standard Form 425 - Federal Financial Report.

[22] This calculation did not include supplemental appropriations for disaster recovery.

have been identified as "troubled" for more than 2 years and had not been referred. Further, HUD had not submitted an annual troubled PHA report to Congress for at least 11 years but recently started to submit the reports. HUD is working to address these recommendations.[23]

PIH allows PHAs to use a fee-for-service model by paying a central office cost center for certain expenses rather than allocating overhead costs. This practice affects the funding of the Housing Choice Voucher Program, Public Housing Operating Fund, and Public Housing Capital Fund. Once the allocated funds are paid to the central office cost center, the funds are defederalized and are no longer required to be spent on their respective PIH programs. When OIG questioned HUD's lack of support for its central office cost center fee limits, it found that PHAs transferred ineligible and unsupported funds to the central office cost centers. OIG also found that HUD lacked adequate justification for allowing PHAs to charge an asset management fee, which allows PHAs to defederalize more than $81 million annually.[24]

In December 2018, HUD and OIG reached an agreement on corrective action to address HUD's previous recommendations on funds paid to central office cost centers. HUD agreed to issue rules restricting the use of program funds paid to the central office cost center by requiring those funds to benefit low-income households. HUD also agreed to regularly assess the reasonableness of the central office cost center fee limits. Because of the significance of this issue, PHAs' central office cost center funding will remain a top management challenge until HUD's new rule is adopted and implemented. Final action for all recommendations is targeted for completion by October 2020.

Ginnie Mae Counterparty Risk

The Government National Mortgage Association (Ginnie Mae), a Federal Government corporation within HUD, guarantees payment on mortgage-backed securities (MBS), which are created by MBS issuers pooling their government-insured loans. The MBS are then sold to investors in a secondary mortgage market. The sale of Ginnie Mae guaranteed MBS in the secondary mortgage market allows the lenders to recoup funds and replenish their liquidity. Ginnie Mae's MBS portfolio continues to grow in 2020. As of June 2020, Ginnie Mae issued $522.1 billion in MBS while the total outstanding unpaid principal balance in Ginnie Mae's MBS portfolio was $2.1 trillion. Issuers are responsible for servicing, remitting, and reporting activities on the mortgages that collateralize the MBS. These issuers must have sufficient liquidity to advance payments to investors when a borrower does not pay. They must also have sufficient funds to repurchase defaulted loans from the MBS pools to address defective loans or provide a defaulting borrower revised loan terms. If any issuers fail to advance such funds, Ginnie Mae steps in to make the principal and interest payments to the investors. Ginnie Mae is a self- funded entity that finances its operations through guarantee and commitment fees charged to MBS issuers.

[23] OIG Evaluation Report, 2019-OE-0001, HUD Has Not Referred Troubled Public Housing Agencies as the Law and Regulations Require, issued February 4, 2020
[24] Audit Report 2014-LA-0004, HUD Could Not Support the Reasonableness of the Operating and Capital Fund

The percentage of Ginnie Mae's nonbank issuers continues to increase. According to a report from the Housing Finance Policy Center, Ginnie Mae's nonbank issuers' shares reached 74 percent in June 2020. Nonbanks are financial institutions that only offer mortgage services, have no depositor base, and are less regulated than banking institutions. Both OIG and Ginnie Mae have reported that as more nonbanks issue Ginnie Mae's securities, monitoring costs and risks increase because a majority of these institutions involve more complex third-party transactions, rely more on credit lines, and conduct more frequent trading of mortgage servicing rights (MSR). Ginnie Mae must be prepared to seize a portfolio if an issuer defaults but remains dependent on the servicers or master subservicers that Ginnie Mae has contracted with to transfer and service the seized portfolio.

In addition to an increase in the overall number of nonbank issuers, the concentration of MSR ownership continues to rise. According to Ginnie Mae, as of May 2020, close to half (46.7 percent) of the Ginnie Mae MSRs were owned by its top six issuers. Five of the top six issuers were nonbanks, with a total of 36.9 percent concentration, while the remaining top bank issuer retained 9.8 percent of the portfolio. Also, out of a total of more than 376 Ginnie Mae issuers, the top 30 issuers collectively owned 77.6 percent of Ginnie Mae's MBS portfolio. Twenty of these were nonbanks, with the remaining 10 being banking institutions. The distribution of the 77.6 percent of Ginnie Mae's MBS portfolio among the top 30 issuers poses a concentration risk exposure. The combination of market volatility, concentration risk, and the inherent complexity and less liquidity of nonbank issuers will continue to be a prominent challenge to Ginnie Mae's future.

The 2020 CARES Act has directly impacted Ginnie Mae issuers with prolonged mortgage forbearance granted to borrowers. Forbearance places greater financial strains on issuers of MBS, who must continue to make investor payments and advance borrower taxes and insurance, while forgoing servicing fees, even when the loans comprising the MBS are in forbearance. Since March 2020, FHA borrowers have been entitled to forbearance of up to a year. In addition, a July 2020 monthly chartbook from the Housing Finance Policy Center reported that 10.3 percent of Ginnie Mae's pooled loans were in forbearance.

As of September 2020, issuers appear to be managing the additional liquidity requirements through additional leveraging to MSRs. Ginnie Mae has offered a Pass- Through Assistance Program (PTAP), which provides pass-through assistance to issuers who are facing a temporary liquidity shortage due to a major disaster occurrence, foregoing the immediate consequence of termination and extinguishment. This assistance is only available to issuers as a last resort, and few issuers have participated in PTAP. As of September 2020, there has not been a recorded instance of issuer defaults resulting from extended forbearance; however, it is unclear whether this condition will change as forbearance continues. To protect Ginnie Mae investors from significant early prepayments, Ginnie Mae has required that loans in forbearance be removed from MBS pools, modified, and not be repooled until the loans are current for 6 months. This restriction will require issuers to carry mortgages in forbearance that were modified to bring the borrower current for 6 months. It will also require these issuers to have additional liquidity.

Monitoring of Section 232 Residential Care Facilities

FHA provides residential care facilities, such as nursing homes, assisted living facilities, and board and care homes, with mortgage insurance, which can cover the purchase, refinancing, new construction, or substantial rehabilitation of a facility. HUD has increased liability because it does not properly inspect or monitor the physical condition of these facilities. Since 2012, HUD has allowed skilled nursing facilities to be exempt from HUD physical inspections. Because nursing facilities are subject to inspections by the U.S. Department of Health and Human Services' Centers for Medicare & Medicaid Services (CMS), HUD relies solely on CMS to perform the necessary inspections and does not perform its own inspections through HUD's Real Estate Assessment Center (REAC). This creates a monitoring challenge because CMS' inspections do not accurately capture the entire physical condition of the facilities. In 2018, OIG issued a management alert about HUD's failure to oversee the physical condition of these facilities.[25] OIG's work has highlighted that CMS inspections do not include a roof inspection and do not check fire doors, emergency lighting, fire extinguishers, and electrical panels that REAC inspectors would typically examine.[26]

OIG continues to believe that HUD, not an outside agency, needs to conduct the physical inspections of care facilities in support of the mortgages HUD insures.[27]

HUD continues to experience high liability by not properly inspecting and monitoring the physical condition of insured Section 232 residential health care facilities

In a 2018 audit of 18 financially challenged Section 232 residential care facilities, OIG found that 4 of the nursing homes had been in default for up 6.5 years and an additional 9 nursing homes, with more than $82.4 million in HUD-insured mortgages, were at risk of default.[28] Along with multiple regulatory agreement violations, OIG found that a majority of the facilities provided untimely, inaccurate, or incomplete financial data. Since the 2018 audit, HUD has taken steps to monitor the financial performance of Section 232 residential care facilities; however, HUD continues to insure many troubled

[25] Management Alert 2018-CF-0801, HUD Did Not Provide Acceptable Oversight of the Physical Condition of Residential Care Facilities, issued January 2018

[26] Evaluation Memorandum, OIG Topic Brief - Skilled Nursing Facilities Currently Exempted from Real Estate Assessment Center Inspections, issued February 22, 2019

[27] Evaluation Memorandum, OIG Topic Brief - Skilled Nursing Facilities Currently Exempted from Real Estate Assessment Center Inspections, issued February 22, 2019

[28] Audit Report 2018-BO-0001, HUD's Office of Residential Care Facilities Did Not Always Have and Use Financial Information To Adequately Assess and Monitory Nursing Homes, issued September 17, 2018

facilities and allow defaulted loans to remain in its portfolio. In December 2018, HUD stated that it planned to update its computer system to identify missing and inaccurate financial data by 2021.

Monitoring of the Indian Community Development Block Grant Closeout Process

HUD's Office of Native American Programs (ONAP) administers housing and community development programs for the benefit of American Indians and Alaska Native governments, tribal members, the Department of Hawaiian Home Lands, and Native Hawaiian and other Native American organizations. ONAP distributes Indian Community Development Block Grants (ICDBG) to eligible grantees for housing rehabilitation, land acquisition, community facilities, infrastructure construction, and economic development activities that benefit primarily low- and moderate-income persons. ONAP is required to ensure that the closeout procedures are performed after ICDBG activities are completed. Closeout procedures include submitting final financial and performance reports, executing closeout agreements, and canceling the remaining grant funds.

In a prior OIG audit,[29] OIG found that HUD lacked sufficient policies and procedures for grant closeouts, resulting in nearly $4 million in funds that could be put to better use. This same OIG audit found that ONAP's Performance Tracking Database (PTD) had inaccurate or missing data. It took HUD 6 years to take corrective action on recommendations contained in the audit.[30]

According to the PTD, as of February 20, 2019, there were 278 open ICDBG grants totaling approximately $176.3 million. As ONAP considers untimely grant closeout as part of its competitive grant award rating process, improper reporting of grant information in the PTD could potentially impact a grantee's rating and future funding.

COVID-19's Impact on HUD's Monitoring of Program Participants

The COVID-19 pandemic has had a negative impact on HUD's ability to monitor its partners. Due to the pandemic, HUD limited some types of monitoring, including onsite monitoring visits, and completely stopped other types, including REAC physical inspections at various program participant locations. Affected HUD program offices include CPD, the Office of Multifamily Housing Programs, ONAP, the Office of Public Housing, the Office of Single Family Housing, and the Office of Fair Housing and Equal Opportunity.

[29] Audit Report 2014-LA-0006, HUD's ONAP Lacked Adequate Controls Over the ICDBG Closeout Process, issued August 19, 2014

[30] Audit Memorandum 2019-LA-0802, The Office of Native American Programs Did not Satisfactorily Complete the Agreed-Upon corrective Actions for Three of the Four Recommendations Prior OIG Report 2014-LA-0006, issued July 18, 2019

OIG anticipates that HUD will face challenges monitoring and mitigating program risks as it administers the CARES Act provisions.

For rental assistance, the pandemic challenges HUD to ensure that supplemental fund recipients properly provide tenants with rental subsidies in a timely manner and accurately track and report on the expenditure of these funds. There may also be challenges related to deferred inspections and maintenance on aging property portfolios and ensuring that landlords comply with eviction moratoriums and other protections for renters. There has also been notable media coverage indicating that tenants are being sexually harassed and assaulted by their landlords when they are unable to meet rent obligations. HUD will face challenges in mortgage forbearance, including ensuring that borrowers protected by forbearance are aware of their rights and HUD monitors that forbearance amounts are repaid. HUD needs to address the risk for its various grantees and vulnerable populations, including ensuring that funds are appropriately targeted to and received by at-risk populations and that grantees will maintain operations and meet program requirements.

Ensuring the Availability of Affordable Housing That Is Decent, Safe, Sanitary, and in Good Repair

- Increasing Access to Affordable Housing
- Protecting the Health and Safety of Residents in HUD Assisted Housing
- Effectively Inspecting Property Conditions

HUD provides affordable housing to more than 4.3 million low-income families through public housing, rental assistance, and voucher programs. In addition, HUD is responsible for ensuring that the housing it offers is decent, safe, sanitary, and in good repair. As the demand for affordable housing continues to grow, creating and preserving the Nation's existing affordable rental housing for America's most vulnerable families continues to be one of HUD's most critical roles.

Increasing Access to Affordable Housing

Very low-income renter households continually face challenges in finding affordable housing due to severe rent burden and increased competition for affordable rental housing. HUD defines “severe rent burden” as paying more than 50 percent of one’s income on rent.[31] HUD’s 2019 Worst Case Housing Needs report found that in 2017, more than 7.5 million renter households with very low income experienced severe rent burden. While the report found that renter households with “worst case housing needs” decreased in 2017, renter households with very low incomes, incomes of no more than 50 percent of the area median income, continued to face challenges in finding affordable rental housing units.[32] The report also found that the number of higher income renters increased in 2017, which created a tougher competition in the affordable housing market for very low-income renter households.[33] In May 2020, GAO reported that the overall number of renter households increased by almost 7 million between 2010 and 2017.[34]

[31] Office of Policy Development and Research (PD&R) (2020, June). Worst Case Housing Needs: 2019 Report to Congress.
[32] PD&R, Worst Case Housing Needs. 2019 Report to Congress.
[33] PD&R, Worst Case Housing Needs. 2019 Report to Congress
[34] GAO (2020, May), As More Households Rent, the Poorest Face Affordability and Housing Quality Challenges (GAO-20-427).

HUD has implemented programs that use public-private partnerships to address affordable housing issues. In 2015, HUD estimated that housing choice vouchers supported about 2 million low-income families in finding housing in the private market through a contract between PHAs and private entities. In addition, HUD administers the Rental Assistance Demonstration Program (RAD), which allows PHAs and owners of other HUD-assisted properties to convert units into project-based Section 8 contracts, giving them more flexibility to access private and public funding sources.[35] RAD preserves affordable homes and addresses the nationwide backlog of deferred maintenance, estimated in 2010 at $26 billion, through access to private capital and public-private partnerships. In September 2018, HUD reported that RAD had converted 100,000 public housing homes and planned to preserve or redevelop another 250,000 homes.[36] Although RAD is still in the demonstration phase, HUD reported in May 2018 that Congress had increased the unit cap[37] for RAD conversions from an initial 60,000 units to 455,000 units.

These mixed-finance housing assistance programs pose challenges to HUD's oversight capability. OIG's past work highlighted a weakness in HUD's oversight of PHAs administering housing choice vouchers and RAD conversions, which could result in less availability of affordable housing for eligible families and improper allocation of assistance funding.[38] OIG is continuing to monitor RAD conversions and assess their effectiveness. OIG has also conducted oversight of portability in the Housing Choice Voucher Program[39] and is currently reviewing its voucher utilization rates to better understand why certain communities take advantage of the program, while others do not. OIG will continue to assess the extent to which HUD public-private partnership programs meet residents' needs and PHAs' outstanding capital needs.

Under the CARES Act, HUD has awarded more than $1.1 billion to support affordable housing through a series of funding allocations. On May 1, 2020, HUD announced that it would allocate $685 million in COVID-19 relief funding to help low-income families living in public housing.[40] Additionally, on August 10, 2020, HUD announced that it would use $472 million in CARES Act funding for PHAs to help families assisted by housing choice and mainstream vouchers. OIG will continue to assess HUD's strategies to increase the availability of quality, affordable housing.

---

[35] PD&R (2014, August). Status of HUD's Rental Assistance Demonstration Evaluation and Results to Date

[36] Office of Multifamily Housing Programs (2018, September). 100,000 Homes Preserved. RAD Newsletter. Retrieved from https://www.hud.gov/RAD/news/newsletter

[37] "Unit Cap" is set by Congress and is the maximum number of units that may be converted under RAD. PD&R (2016, September). Interim Report: Evaluation of HUD's Rental Assistance Demonstration (RAD).

[38] Audit Reports: 2020-LA-1002, The Housing Authority of the City of Long Beach, CA, Did Not Administer Its Housing Choice Voucher Program in Accordance With HUD Requirements, issued March 5, 2020; 2019-PH- 1001, The Housing Authority of the City of Easton, PA, Did Not Always Properly Administer Its Housing Choice Voucher Program, issued July 30, 2019; 2019-LA-1008, The Compton Housing Authority, Compton, CA, Did Not Administer Its Housing Choice Voucher Program in Accordance With HUD Requirements, issued July 11, 2019; 2020-AT-1001, The Christian Church Homes, Oakland, CA, Did Not Ensure That the Rental Assistance Demonstration Program Conversion Was Accurate and Supported for Vineville Christian Towers, issued November 4, 2019 and 2019-FW-1001 The Little Rock Housing Authority, Little Rock, AR, Did Not Fully Meet Rental Assistance Demonstration Program Requirements, issued April 23, 2019

[39] Audit Report 2020-CH-0006, HUD Could Improve Its Oversight of Portability in the Housing Choice Voucher Program, issued September 9, 2020

[40] HUD Public Affairs, HUD (2020, May 1). HUD Allocates Second Wave of Relief Funds, Over Half a Billion Dollars to Help Protect Law-Income Americans. Retrieved from https://www.hud.gov/press/press_releases_media_ advisories/HUD_No_20_058

Protecting the Health and Safety of Residents in HUD Assisted Housing

In addition to providing quality, affordable housing, HUD is responsible for ensuring that all properties proposed for use in HUD programs are free of hazardous materials, contamination, toxic chemicals and gases, and radioactive substances, where a hazard could affect health and safety of occupants or conflict with the intended utilization of the property.[41]

HUD's most challenging housing-related health and safety issues include lead-based paint hazards, hazardous radon levels[42], and risk of hazardous waste sites.

The Lead Safe Housing Rule ensures that HUD is responsible for evaluating lead-based paint hazards in the Nation's housing stock and the reduction of childhood lead poisoning in federally assisted housing.[43] In its fiscal year 2021 Performance Plan, HUD announced that its goal is to make 17,800 at-risk housing units healthy and lead safe by September 30, 2021.[44] However, OIG's past work has demonstrated that HUD could further improve its oversight of PHAs' compliance with the Lead Safe Housing Rule. For instance, the New York City Housing Authority, the Nation's largest PHA, violated both HUD's and the Environmental Protection Agency's (EPA) lead paint safety regulations for years, putting tens of thousands of children living in its development at risk. In response to these findings, HUD and the U.S. Department of Justice reached an agreement with the Authority in January 2019 to address these health and safety hazards. In another example, a March 2020 OIG audit found that HUD lacked assurance that PHAs complied with the Lead Safe Housing Rule, potentially exposing children under age 6 to lead-based paint hazards.[45]

In August 2020, OIG issued two audit reports that found that HUD continued to face challenges in ensuring that its housing stock and insured properties had a sufficient supply of safe drinking water, free of lead contaminants. In both reports, OIG found that public water systems servicing the PHAs' assisted units and multifamily housing properties had reported levels of lead above EPA's lead action level. However, HUD had limited requirements concerning lead in the drinking water of assisted or insured properties and generally did not require PHAs and multifamily property owners or management agents to take action. HUD relied too heavily on EPA to ensure that public water systems provided water that was

[41] 24 CFR 50.3(i)(1) and 24 CFR 58.5(i)(2)(i)

[42] EPA recommends that homes with radon levels at or above 4 picocuries per liter should mitigate radon.

[43] HUD's Lead Safe Housing Rule at 24 CFR part 35 implemented the Residential Lead-Based Paint Hazard Reduction Act of 1992, also known as Title X, Sections 1012 and 1013

[44] HUD (2020, February). Fiscal Year 2019 Annual Performance Report and Fiscal Year 2021 Annual Performance Plan

[45] Audit Report (2020-CH-0003), HUD's Oversight of Public Housing Agencies' Compliance With the Lead Safe Housing Rule (March 18, 2020)

safe to drink, and as a result, HUD's internal measures lacked assurance that affected households, including households with children age 6 or under, had a sufficient supply of safe drinking water.

The OIG is also conducting work to understand HUD actions related to other significant health risks for residents in HUD-assisting housing. OIG is currently conducting an evaluation on the efforts HUD has made to determine and mitigate potential health risks posed to residents in HUD-funded properties near Superfund sites and other contaminated sites. Superfund sites are areas contaminated by hazardous waste that was dumped, left out in the open, or otherwise improperly managed. The Superfund sites include manufacturing facilities, processing plants, landfills, and mining sites.

The West Calumet Housing Complex, located in East Chicago, IN, was a public housing development built on top of a former lead smelting plant. In 2018, the U.S. Department of Health and Human Services concluded that a child living in the Complex between 2005 and 2015 had almost a three times greater chance of having an elevated blood lead level.[46] Because children's bodies are not fully developed, lead poisoning can cause serious health and developmental problems, including slowed growth, learning disabilities, and hearing loss.[47]

To address the Superfund site issue, in 2017 HUD and EPA established a memorandum of understanding to improve interagency communication and information sharing regarding certain public and HUD-assisted housing near Superfund sites in order to protect residents against health and environmental risks.[48]

Additionally, OIG is evaluating the Office of Multifamily Housing Programs, PIH, and CPD radon policies and approaches for testing and mitigating residents' exposure to elevated level of radon. Radon is a colorless and odorless radioactive gas which occurs naturally in soil and may cause lung cancer. Physical testing is the only way to determine radon levels.[49] EPA recommends radon mitigation for homes with radon levels at or above 4 picocuries per liter of air. EPA estimates that about 21,000 people in the United States die annually of radon-induced lung cancer.[50] For fiscal year 2021, HUD requested a $5 million budget for a Radon Testing and Mitigation Safety Demonstration[51] in order to determine the feasibility of radon testing in public housing.

---

[46] U.S. Department of Health and Human Services (2018, August). Health Consultation: Historical Blood Levels in East Chicago, Indiana Neighborhoods Impacted by Lead Smelters. Atlanta, GA 47 EPA. Learn about Lead."

[47] EPA. Learn about Lead. https://www.epa.gov/lead/learn-about-lead#effects

[48] HUD (2017, August).) MOU Between HUD and EPA Regarding Improving Communication About Certain Public and HUD-Assisted Multifamily Housing Near Superfund Sites. https://www.hudexchange.info/resources/

[49] Environmental Protection Agency. *Radon.* https://www.epa.gov/radon

[50] EPA. Health Risk of Radon. https://www.epa.gov/radon/health-risk-radon

[51] HUD. Fiscal Year 2021: Budget In Brief. https://www.hud.gov/budget

Effectively Inspecting Property Conditions

HUD is responsible for ensuring that its properties are decent, safe, sanitary, and in good repair. In September 1998, HUD created the Uniform Physical Condition Standards (UPCS) to standardize the physical inspection process for its real estate portfolios. Based on the UPCS, HUD's Real Estate Assessment Center (REAC) performs inspections that assess the physical condition of FHA-insured multifamily properties and public housing properties and issue a Physical Inspection Score.[52] In August 2019, REAC reevaluated its 20-year-old physical inspection process and found that it had a number of limitations and deficiencies that had been overlooked for years.[53]

HUD has acknowledged the limitations of the current REAC inspections and the need to update its 20-year-old physical inspection process to more accurately reflect the physical conditions of HUD properties. HUD stated that the deficiencies that negatively affect the current REAC Physical Inspection Scores do not accurately represent the residents' actual living conditions. For example, in 2019, a GAO report found that properties with poor unit conditions could still pass a REAC inspection.[54] Some property owners would hire current or former REAC contract inspectors to help them prepare for the official inspection and pass the minimal inspection requirements instead of performing year- round maintenance.[55]

Further, the current REAC inspection process creates obstacles that make it difficult for HUD to address a troubled PHA's outstanding issues in a timely manner. If the PHAs receive 60 percent or less in the overall inspection scores, REAC designates them as substandard or troubled, which requires HUD to monitor the property closely and develop a corrective action plan.[56] However, in some instances, by the time these PHAs receive their substandard or troubled designation, they have already been experiencing deferred or nonexistent maintenance or capital improvements for years or even decades, a situation that may be made worse if the PHA is experiencing financial issues. Therefore, it may not be feasible for HUD to effectively remediate some of the designated substandard or troubled PHAs with longstanding issues.

In August 2019, HUD launched a 2-year, voluntary National Standards for the Physical Inspection of Real Estate (NSPIRE) demonstration to reexamine its 20-year-old REAC physical inspection process. The NSPIRE model is designed to more accurately reflect the residents' living conditions and simplify the inspection process. However, HUD has identified some challenges that the NSPIRE demonstration is

---

[52] https://www.huduser.gov/portal/datasets/pis.html
[53] GAO (2019, March). Real Estate Assessment Center: HUD Should Improve Physical Inspection Process and Oversight of Inspectors. (GAO-19-254)
[54] GAO (2019, March). Real Estate Assessment Center: HUD Should Improve Physical Inspection Process and Oversight of Inspector. (GAO-19-254)
[55] GAO (2019, March) Real Estate Assessment Center: HUD Should Improve Physical Inspection Process and Oversight of Inspector. (GAO-19-254)
[56] HUD. Lead the Way: PHA Governance and Financial Management. Understanding Public Housing Assessment System (PHAS)

facing, including the procurement of a viable and secure IT system. OIG has initiated an evaluation on HUD's process for managing IT acquisitions and its IT contracts concerning NSPIRE.

Following the Centers for Disease Control and Prevention's (CDC) guidance on the Covid-19 pandemic, REAC has postponed all NSPIRE field testing until further notice.

As NSPIRE demonstration faces a series of issues to become fully operational, the reformation of REAC's inspection process remains one of HUD's most critical challenges in providing quality, affordable housing to residents.

Additionally, REAC suspended all physical inspections of HUD housing properties from March 16 to August 7, 2020, due to COVID-19. The inspections resumed in August under strict safety protocols.[57] OIG is concerned that the limited inspections and repairs will cause HUD's public housing stock to further deteriorate, as many of its properties are aging and in disrepair.[58] It is critical for HUD to maintain strict pandemic safety protocols to keep both the residents and inspectors safe while resuming REAC inspections to preserve HUD's aging housing stock.

[57] Public Affairs, HUD (2020, August). Secretary Carson Announces HUD Will Safely Resume Physical Inspections: Inspections Previously Pause During COVID-19 outbreak due to health concerns. https://www.hud.gov/press/press_releases_media_advisories/HUD_No_20_119

[58] Urban Institute (2020, February). The Future of Public Housing: Public Housing Fact Sheet

Protecting the FHA Mortgage Insurance Fund

- FHA's Mortgage Insurance Programs Continue To Lack Sufficient Safeguards
- HECM Losses Undermine FHA's MMI Fund
- The MMI Fund and HUD Programs Face Potential Risk on Increased Claims Due to COVID 19 and the CARES ACT

FHA programs are designed to provide government insurance on mortgage loans on single-family homes, apartment buildings, residential healthcare facilities, and hospitals, as well as reverse mortgages, referred to as home equity conversion mortgages (HECM). Each year, more than 1 million home buyers benefit from FHA's single-family mortgage insurance programs, and FHA insurance allows more than 300,000 affordable rental units, including those for seniors and people with disabilities, to become available through FHA's multifamily mortgage insurance programs. FHA is one of the largest mortgage insurers in the world, with an active insurance portfolio of more than $1.3 trillion as of July 2020.

Through FHA mortgage insurance programs, HUD ensures the timely repayment of insured loans that go into default as a result of a borrower's failure to make their mortgage payments. Upon a borrower default, FHA will pay an approved single family mortgage lender's insurance claim from the Mutual Mortgage Insurance (MMI) Fund, which as of the end of fiscal year 2020 had significant capital resources. FHA funds the MMI Fund through the mortgage insurance premiums it receives from borrowers. If the MMI Fund fails to maintain an adequate level of capital, due to payment of too many claims resulting from a significant number of borrower defaults, or the failure to collect adequate insurance premiums, then FHA must seek an appropriation from Congress consistent with the Federal Credit Reform requirements.[59]

[59] Federal Credit Reform § 504(b)(1) (1) requires that new direct loan obligations may be incurred and new loan guarantee commitments may be made of fiscal year 1992 and thereafter only to the extent that new budget authority to cover their costs is provided in advance in an appropriations Act.

FHA's Mortgage Insurance Programs Continue To Lack Sufficient Safeguards

To maintain the solvency of the MMI Fund, FHA must ensure that its lenders only approve borrowers who meet statutory, regulatory, and program eligibility requirements and also strengthen its policies and controls to curtail the lengthy process of foreclosure and conveyance.

HUD-approved lenders who originate the FHA-insured loans perform the necessary eligibility screenings and decisions on HUD's behalf. OIG has found that HUD did not always adequately protect the mortgage insurance fund and repeatedly failed to ensure that FHA mortgage insurance was not extended to ineligible borrowers. In a 2019 report, OIG discovered that FHA insured more than 56,000 single-family loans, worth $13 billion in fiscal year 2018, to borrowers who were not eligible for insurance because they had delinquent Federal tax debt.[60] A previously published OIG audit report also found that FHA insured an estimated 9,507 loans worth $1.9 billion during calendar year 2016 to ineligible borrowers with delinquent Federal debt or who were subject to Federal administrative offset for delinquent child support.[61] The violations occurred even though FHA provided lenders with the Credit Alert Verification Reporting System (CAIVRS)[62] to screen borrowers for delinquent Federal debt. Additionally, OIG is currently conducting an audit into whether FHA provided insurance for loans that did not meet the underwriting requirements for special flood hazard areas.

As of July 2020, FHA plans to work with Internal Revenue Service (IRS) to establish a method of borrower consent that verifies the existence of delinquent Federal taxes and complies with the requirements established under the Tax Payer First Act of 2019,[63] as well as to modernize its technology to operationalize the annual screening of FHA's approximately 2 million borrowers for such delinquent debt. FHA also plans to integrate the U.S. Department of the Treasury's Do Not Pay (DNP) portal as part of the FHA insurance endorsement process for the identification of ineligible applicants who are delinquent on child support. DNP is a no-cost analytics tool, which helps Federal agencies detect and prevent improper payments made to vendors, grantees, loan recipients, and beneficiaries. FHA intends to participate in a pilot project that will expand the screening of all delinquent Federal debt.

Another challenge HUD faces in protecting the MMI Fund is a lengthy foreclosure and conveyance process, which negatively impacts the MMI Fund. When an FHA-insured loan defaults and the lender submits a claim, HUD is obligated to reimburse the lender for its losses, including the unpaid principal balance, accrued interest, and the holding costs of the lender during the foreclosure and conveyance

[60] Audit Report 2019-KC-0003, FHA Insured at Least $13 Billion in Loans to Ineligible Borrowers With Delinquent Federal Tax Debt, issued September 30, 2019

[61] Audit report 2018-KC-0001, FHA Insured $1.9 Billion in Loans to Borrowers Barred by Federal Requirements, issued March 26, 2018

[62] CAIVRS is a shared database of defaulted Federal debtors developed by HUD to provide information to processors of applications seeking Federal credit benefits.

[63] Public Law No: 116-25. (2019, July). *Taxpayer First Act*. This Act was signed into law on July 1, 2019. It aims to broadly redesign the IRS, which includes expanding and strengthening taxpayer rights and to reform IRS into a more taxpayer friendly agency by requiring it, among other things, to modernize its technology and improve customer service.

process. HUD regulations require the lender to obtain a good and marketable title and then convey the property to HUD, generally within 30 days of the date on which the lender filed the foreclosure deed for recordation.

GAO reported that from July 2010 to December 2017, the process for conveying foreclosed-on properties to FHA took a median of 70 days, with servicers exceeding the required conveyance timeframe 55 percent of the time.[64]

OIG found that HUD paid an estimated $413 million in unnecessary interest and other costs for preforeclosure claims after lenders failed to complete servicing actions for defaulted loans within established timeframes.[65] FHA has addressed some of these challenges by improving its data system for conveyed properties and conducting property inspections before conveyance as a way to decrease the number of properties FHA reconveys to servicers for not complying with Federal standards. However, GAO found that FHA policies, procedures, and assessment efforts were inconsistent with Federal evaluation criteria and internal control standards.[66] As of July 2020, FHA had not fully implemented OIG recommendations to improve its inconsistencies in policies, procedures, and controls. Next year HUD is planning to amend 24 CFR part 203, which will require the curtailment of preforeclosure interest and other costs caused by lender servicing delays.

In July 2020, FHA issued Mortgagee Letter 2020-21 with additional guidance to enhance the effectiveness of the Claims Without Conveyance of Title (CWCOT) process. CWCOT is a claim option that allows FHA to pay insurance benefits to a lender after the property is sold to a third party at the foreclosure of the FHA-insured mortgage or through a postforeclosure sale. With CWCOT there is no property conveyance to HUD. CWCOT is designed to expedite the disposition of foreclosed-on properties and reduce the amount of time a property sits vacant. This benefits HUD by reducing administrative, holding, and servicing costs associated with the lengthy conveyance and real estate-owned (REO) disposition process. It also serves the goals of HUD's Housing Finance Reform Plan.
While the newly introduced CWCOT enhancements will help reduce reliance on the lengthy process of foreclosure and conveyance, FHA needs to remain vigilant and flexible in responding to emerging challenges and risks faced by the MMI Fund during the COVID-19 pandemic.

---

[64]GAO (2019, June). Federal Housing Administration: Improved Procedures and Assessment Could Increase Efficiency of Foreclosed Property Conveyances. (GAO-19-517)

[65]Audit Report 2018-LA-0007, HUD Paid an Estimated $413 Million for Unnecessary Preforeclosure Claim Interest and Other Costs Due to Lender Servicing Delays, issued September 27, 2018

[66] GAO (2019, June). Federal Housing Administration: Improved Procedures and Assessment Could Increase Efficiency of Foreclosed Property Conveyances. (GAO-19-517)

HECM Losses Undermine FHA's MMI Fund

Although the HECM portfolio improved in fiscal year 2019, its longstanding negative impact on the MMI Fund continues to be a major challenge for HUD. In HUD's 2019 Annual Report to Congress, HUD reported on the financial status of the MMI Fund, listing the net worth of its HECM portfolio at negative $5.92 billion. As in previous years, the HECM portfolio continues to be subsidized by the positive performance of the forward (single-family programs) portfolio with a negative 9.22 percent capital ratio in fiscal year 2019. HECM claims paid by the MMI Fund on assigned reverse mortgages were $9.56 billion for fiscal year 2019, an increase from the $6.15 billion reported in fiscal year 2018. The causes for some of the HECM portfolio's negative performances were attributed to HUD's internal control weaknesses.

GAO reported that the rate of FHA-insured HECM loans terminated due to borrower defaults increased from 2 percent in fiscal year 2014 to 18 percent in fiscal year 2018.[67]

The majority of these HECM loan defaults resulted from borrowers either not meeting the property's occupancy requirements by maintaining the property as their primary residence or failing to pay property charges, such as property taxes or homeowners' insurance. Since 2015, FHA has allowed HECM servicers to put borrowers with outstanding property charges into repayment plans as a way to help prevent foreclosures. However, as of the end of fiscal year 2018, only 22 percent of these borrowers had received this option. FHA's control weaknesses associated with HECM borrowers not meeting occupancy requirements have been reported by OIG audits in fiscal years 2012, 2014, and 2015.

GAO also reported that due to the HECM program's weaknesses in monitoring, performance assessment, and reporting, FHA lacks assurance that servicers are following federal requirements.[68] FHA officials said that they planned to resume the reviews of servicers in fiscal year 2020; however, as of July 2020, FHA had not finalized the process of developing and implementing procedures for conducting onsite reviews of HECM servicers, including a risk-rating system for prioritizing and determining the frequency of reviews.[69]

Numerous sources estimate that older Americans lose billions of dollars a year to financial exploitation schemes and scams that specifically target them. With a potential increase in the number of borrowers in

[67] GAO (2019, September). Reverse Mortgages: FHA Needs to Improve Monitoring and Oversight of Loan Outcomes and Servicing. (GAO-19-702)
[68] GAO (2019, September). Reverse Mortgages: FHA Needs to Improve Monitoring and Oversight of Loan Outcomes and Servicing. (GAO-19-702)
[69] GAO (2019, September). Reverse Mortgages: FHA Needs to Improve Monitoring and Oversight of Loan Outcomes and Servicing. (GAO-19-702)

financial distress due to the COVID-19 pandemic, OIG issued a fraud bulletin in August 2020, describing and warning against various HECM-related schemes that target the vulnerable elderly population.[70]

HUD must strengthen its effort to ensure that the lenders participating in the HECM program comply with its regulatory and administrative requirements and minimize claim costs. From the onset of underwriting to the timing of a claim, if HECM requirements are not properly observed by lenders or strictly enforced by HUD, the MMI Fund would be adversely affected due to the potential risk of improper payments to lenders. HUD has collaborated with OIG to take action against lenders who violate program requirements to recapture funds paid as a result of false claims and prevent future losses. For instance, the U.S. Department of Justice announced in March 2020 that one HECM lender agreed to pay a $2.47 million settlement to resolve allegations of a False Claims Act violation after knowingly originating and underwriting hundreds of FHA-insured HECM loans that did not meet HUD requirements. In September 2020, the United States filed a complaint[71] against a prominent HECM lender alleging the company forged certifications on HUD documents and used unqualified underwriters to approve FHA HECMs.

The MMI Fund and HUD Programs Face Potential Risk Due to COVID- 19 and the CARES ACT

As part of its response to the COVID-19 pandemic, HUD issued multiple temporary waivers of certain requirements for borrower communication, HECM repayment plans, origination and underwriting, appraisals, and early payment default quality control.
Although these waivers are meant to protect HUD employees, contractors, lenders, servicers, and borrowers from COVID-19 exposure while providing the needed flexibilities to borrowers suffering financial distress, the temporary waiver of requirements creates a higher risk of fraud, waste, and abuse in HUD programs and the MMI Fund.

The COVID-19 pandemic and legally mandated forbearance provided for in the CARES Act could negatively affect HUD's programs. According to the Mortgage Bankers Association's estimate, 3.9 million homeowners have forbearance plans as of July 2020.[72] Information from the single-family residential mortgage industry indicates that the nationwide scale of the CARES Act forbearance caused fears of a liquidity crunch for servicers, a collapse in mortgage servicing asset values, and a tightening of credit as lenders reduced risk. Also, there is a concern that distress in the industry at a time when borrowers most need assistance can lead to poor servicing outcomes for consumers.

[70] https://www.hudoig.gov/sites/default/files/2020-08/Fraud Bulletin_Reverse Mortgages.pdf
[71] https://www.justice.gov/opa/pr/united-states-files-complaint-against-nutter-home-loans-forging-certifications- and-using
[72] https://www.mba.org/2020-press-releases/july/share-of-mortgage-loans-in-forbearance-decreases-for-fifth- straight-week-to-780

Administering Disaster Recovery Assistance

- Codifying the CDBG-DR and CDBG-MIT Programs
- Ensuring That Expenditures Are Eligible, Supported, and Administered in a Timely Manner
- Ensuring and Certifying That Grantees Are Following Federal Procurement Regulations
- Addressing Concerns That People Encounter When Seeking Disaster Recovery Assistance
- Preventing Fraud in Disaster Recovery Assistance

HUD plays a vital role in the long-term recovery efforts following a disaster by addressing unmet needs in a community after the initial emergency disaster relief efforts have come to an end. Although HUD may access existing funds to provide assistance to impacted areas, the primary method by which HUD provides disaster recovery assistance is through the Community Development Block Grant Disaster Recovery (CDBG-DR) program. After the President declares a disaster, Congress may appropriate funds for these grants, which can be used for a broad range of initiatives and activities.

Since fiscal year 2001, Congress has appropriated $83.7 billion to HUD in the aftermath of presidentially declared disasters. As of September 30, 2020, of the active grants, $71.9 billion has been obligated, and more than $42.7 billion has been disbursed.

In February 2018, Congress appropriated $12 billion to mitigate disaster risks and reduce future losses through the Community Development Block Grant Mitigation Program (CDBG- MIT). This funding was set aside for mitigation activities pertaining to qualifying disasters in 2015, 2016, and 2017.[73]

Through these programs, HUD awards grants to States, territories, tribes, and units of local government for disaster recovery efforts. The State and local units work with subgrantees and contractors to implement the necessary recovery programs.

Over the years, HUD has made progress in assisting communities recovering from disasters, but it continues to face the following challenges in administering and overseeing these grants:

[73] Disaster Relief Requirements Act BIPARTISAN BUDGET ACT OF 2018, PL 115-123, February 9, 2018, 132 Stat 64 (Division B, Subdivision 1)

- codifying the CDBG-DR program;
- ensuring that expenditures are eligible, supported, and administered in a timely manner;
- ensuring and certifying that grantees are following Federal procurement regulations;
- addressing concerns that citizens encounter when seeking disaster recovery assistance; and
- preventing fraud in disaster recovery assistance.

Codifying the CDBG-DR and CDBG-MIT Programs

The CDBG-DR and CDBG-MIT funds are not provided under a codified program in the Code of Federal Regulations. The CDBG program requirements at 24 CFR part 570 only outline the framework for providing the funds. Instead, HUD issues the program requirements and waivers in Federal notices for each supplemental appropriation. Approximately 80 Federal Register notices have been issued since the funding of the 9/11 disaster recovery efforts. With each newly issued Federal Register notice, grantees are forced to study the notices, decide how to proceed given the unmet needs of their communities, and then develop a program outlined by an action plan. All of these steps are expected to be completed during a time of great uncertainty, given that personnel and infrastructure may have been impacted, and can create delays up to 9 to 12 months.[74]

Since 2017, OIG has recommended that HUD codify the CDBG-DR program to simplify the process and standards and to speed up allocation. In May 2019, Secretary Carson testified that he would support codification.[75]

Both the U.S. House of Representatives and U.S. Senate have introduced versions of the *Reforming Disaster Recovery Act* (H.R. 2702/S. 2301). These bills seek to codify CDBG- DR, which will shorten the time it takes for HUD to get funds to the communities in need.

Although these bills may improve HUD's ability to distribute funding in a timely manner, they fall short of an all-encompassing cure. HUD should consider defining invariable program requirements. For example, these bills do not address the "affordability period." An affordability period is the length of time a project is required to be affordable to low- and moderate-income households. An OIG audit found that a CDBG-DR grantee arbitrarily chose an affordability period that was not consistent with other parts of the

[74] The Evidence Base on How CDBG-DR Works for State and Local Stakeholders by Carlos Martin, Senior Fellow at the Urban Institute. See also GAO report, Better Monitoring of Block Grant Funds is Needed, GAO- 19-232 (March 25, 2019) https://www.gao.gov/assets/700/697827.pdf.

[75] May 21, 2019, testimony of Secretary Ben Carson before the House Financial Services Oversight Committee (May 21, 2019) https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=403654

program and that the same grantee did not have a process in place for enforcing the affordability period requirements.[76]

HUD should also consider limiting its current practice of permitting its grantees to incorporate their own interpretations of statutory and programmatic requirements for maximum feasible deference. Because the State CDBG program is a pass-through program, HUD grants maximum feasible deference to a State's interpretation of the statutory and programmatic requirements as long as the State's interpretations are not plainly inconsistent with the Housing and Community Development Act of 1974, as amended. HUD will defer to a State's definitions as long as the definitions are explicit, reasonable, and not plainly inconsistent with the Act. However, the term of maximum feasible deference is not in the Housing and Community Development Act of 1974. Instead, CPD noted in its public guidance regarding State CDBG that the term was created by HUD's Office of General Counsel (OGC). The guidance states that HUD created the theory of maximum feasible deference to (1) provide for minimal regulation beyond the statute and (2) allow States to adopt more restrictive requirements as long as they do not contradict or are not inconsistent with the 1974 Act. In practice, however, States have used this concept, with the implicit support of HUD, to adopt less restrictive requirements.

Ensuring That Expenditures Are Eligible, Supported, and Administered in a Timely Manner

HUD disaster relief assistance has funded a broad range of activities over the course of many years, making oversight difficult to maintain. As disaster funding grows in size and complexity, the staffing levels at HUD's Office of Block Grant Assistance (OBGA) have not kept up with the changes. A March 2019 GAO report found that HUD was not sufficiently staffed to meet its oversight objectives. The report noted that HUD needed to hire dedicated staff specifically trained in disaster recovery who did not have competing obligations, such as oversight of regular CDBG activities.[77] According to HUD, in response to the influx of funds from the 2017 disasters, HUD created a staffing plan in fiscal year 2019 to address staffing challenges. To date, HUD has filled 36 of the 42 positions identified in the staffing plan and has added staff to field offices to help balance workload. Currently, the understaffed OBGA office must monitor CDBG-DR grantees at least once per year.[78] HUD must ensure that grantees have the capacity to administer the funds and are using disbursed disaster funds for eligible and supported items. The March 2019 GAO report noted that HUD's monitoring plan for the 2017 funding pot was insufficient because the onsite monitoring visits were not defined and the risk analyses were deficient. In its fiscal year 2021 Congressional Justification, HUD requested funding for 10 full-time employees in the OBGA, Disaster Recovery and Special Issues Division, in order to create a Federal Financial Monitoring Team (FFMT)

[76] Audit Report 2019-FW-1007, The Texas General Land Office, Jasper, TX, Did Not Ensure That Its Subrecipient Administered Its Disaster Grant in a Prudent and Cost-Effective Manner, issued September 30. 2019
[77] GAO (2019, March). Report to Congress March 2019—Disaster Recovery-Better Monitoring is Needed. (GAO-19-232)
[78] Various federal register notices which allocate disaster funding contain a reference to annual monitoring requirements.

for Hurricanes Maria and Irma.[79] However this level of oversight is not being provided to other high-risk grantees. In the face of these challenges, HUD has improved its efficiency in providing funds over the last few years. The time between the initial supplemental appropriation and the allocation of funds decreased an average of 7.2 percent per year from 2005 to 2015.[80]

The Puerto Rico grants present additional challenges. In the wake of Hurricanes Maria and Irma, Puerto Rico was awarded more than $20 billion in CDBG-DR funds, which is the largest allocation of funds in the history of the program.[81]

As of September 30, 2020, $9.7 billion has been allocated by HUD, with only $3.2 billion released to Puerto Rico to spend. Puerto Rico has disbursed $112 million of the grant funds.

According to HUD, the first wave of funding was used to establish best practices, test systems, and controls designed to prevent waste, fraud, and misuse of funds.[82] The FFMT will monitor all disaster recovery funds previously awarded or scheduled to be awarded and will include 100 percent of expenditures. In a recent audit, OIG recommended that the Puerto Rico Department of Housing (1) review and update its policies and procedures to prevent duplication of benefits, (2) review and update its procurement policies and procedures, and (3) continue to fill its job vacancies.[83]

Additionally, HUD's monitoring systems do not have the capacity to effectively oversee the delivery of all funding to grantees. The Disaster Recovery Grant Reporting (DRGR) system is used by grantees to access grant funds and report performance accomplishments for grant-funded activities. The DRGR system is also used by HUD staff to review grant-funded activities, prepare reports to Congress and other interested parties, and monitor program compliance. OIG found that DRGR has material control weaknesses that have enabled grantees to not follow the Disaster Relief Appropriations Act of 2013.[84] For example, OIG found that DRGR had material control weaknesses which enabled grantees to spend more funds than they were obligated or budgeted. The system also failed to prevent grantees from making adjustments to a completed voucher months or even years after the transaction. HUD's fiscal year 2019

[79] See HUD FY21 Congressional Justifications, https://www.hud.gov/program_offices/cfo/reports/fy21_CJ

[80] See Carlos Martín, Brett Theodos, Brandi Gilbert, Dan Teles, and Christina Plerhoples Stacy. Improving the Speed of Housing Recovery after Severe Disaster: A Mixed-Methods Analysis of HUD's Community Development Block Grant Disaster Recovery Program

[81] CDBG-Disaster Grant History 1992-2020 dated March 31, 2020 https://files.hudexchange.info/resources/documents/CDBG-DR-Grant-History-Report.pdf (March 31, 2020)

[82]HHRG-116-AP20-Wstate-DennisI-20191017 https://docs.house.gov/meetings/AP/AP20/20191017/110073/HHRG-116-AP20-Wstate-KirklandJ- 20191017.pdf.

[83] Audit Report 2020-AT-1002, The Puerto Rico Department of Housing, San Juan, PR, Should Strengthen Its Capacity To Administer Its Disaster Grants, issued March 16, 2020

[84] Audit Report 2019-FW-0001, CPD Did Not Enforce the Disaster Appropriations Act, 2013, 24-Month Grantee Expenditure Requirement, issued May 17, 2019

Annual Performance Report says that DRGR has been updated to require its highest risk grantees to upload the necessary voucher documents. However, with the exception of onsite monitoring reviews, HUD does not have access to most of its grantees' voucher documentation, making broad- based monitoring for fraud, waste, and abuse difficult. HUD's fiscal year 2021 Congressional Justification states that it intends to enhance DRGR capabilities to improve oversight, but it is unclear whether the proposed improvements will address these weaknesses.[85]

HUD monitors its grantees but heavily relies on these same grantees to oversee their associated subgrantees and beneficiaries. In one 2019 audit report, OIG found that one grantee responsible for quality control and monitoring its subgrantees did not incorporate effective oversight practices.[86] The audit describes how the grantee did not ensure that the appraisals used to buy out flood-damaged homes were conducted in accordance with industry standards. Additionally, the grantee did not have the necessary documentation to support its appraisers' qualifications.

Based on HUD's Monthly CDBG-DR Grant Financial Report, as of February 28, 2020, HUD identified 49 grantees as slow spenders for disasters that impacted major areas from 2011 to 2017. HUD needs to ensure that funds are disbursed in a timely manner to benefit those impacted. This delay in funding increases the risk of not meeting program objectives and results in victims waiting for assistance years after the disasters.

Ensuring and Certifying That Grantees Are Following Federal Procurement Regulations

HUD has issued two Federal Register notices intended to strengthen its procurement requirements.[87] These notices require States to incorporate the principles of full and open competition and include an evaluation of cost and price of products and services.

Federal Register notice 83 FR 5844 requires the HUD Secretary to certify that grantees have sufficient procurement processes in place before executing a grant agreement. However, the notice allows grantees to use certifications that were completed before the notice's publication. OIG has raised concerns about these certification standards, which allow States to certify that these requirements are met based on their own standards, if determined to be equivalent, rather than the Federal standards.[88] Prior audits have found that grantees could not demonstrate that their procurement processes were equivalent to Federal

[85] HUD FY21 Congressional Justifications https://www.hud.gov/program_offices/cfo/reports/fy21_CJ

[86] Audit Report 2019-NY-1002, The State of New York Did Not Ensure That Appraised Values Used by Its Program Were Supported and Appraisal Costs and Services Complied With Requirements, issued May 29, 2019

[87] 83 FR 5844, 84 FR 47528

[88] Audit Report 2017-PH-0002, HUD Did Not Provide Sufficient Guidance and Oversight To Ensure That State Disaster Grantees Followed Proficient Procurement Processes, issued September 22, 2017

requirements.[89] In one audit, OIG found that a grantee without a written procurement policy had deficiencies in 100 percent of the procurement files sampled.[90]

HUD should identify and use a "best practices" approach that adequately addresses the needs of the grantees receiving assistance in future disaster areas. Grantees have spent a significant amount of time and effort to develop various systems and methods for tracking their beneficiary data, with some spending tens of millions of dollars to develop a system. One audit showed that a grantee was awarded a contract of more than $38 million to develop and manage a system and also had option years totaling more than $21 million to maintain the system.[91] The grantee did not show that the initial contract price was fair and reasonable, did not ensure that option years were awarded competitively, and included provisions in its request for quotations that restricted competition.

Addressing Concerns That People Encounter When Seeking Disaster Recovery Assistance

OIG has raised concerns that citizens who apply for disaster recovery assistance encounter a convoluted process and face substantial difficulties, depending on how, when, and where they submit a request for Federal assistance.[92] People may experience lengthy delays between the initial application process and the closing of their cases due to inconsistent communication, coordination, and collaboration between HUD and the grantees. Citizens may also experience delays in funding, duplication of benefits, and other challenges after the process is completed. OIG suggested that HUD improve communication, coordination, and collaboration among nonprofits and volunteers, as well as Federal and State agencies with disaster-related roles before the next disaster occurs. OIG has also suggested that HUD document any challenges reported by citizens to prepare for future disasters.

A great body of research has been conducted, which shows that people of lower socio- economic status are less prepared and are more vulnerable to the impact of disasters.[93] On February 19, 2020, GAO notified HUD that it intends to review the type of disaster assistance needed among the various demographic groups. The outcome of this review should shape HUD's policy on administering assistance to its most vulnerable populations.

---

[89] Audit Report 2018-FW-1003, The Texas General Land Office, Austin, TX, Should Strengthen Its Capacity To Administer Its Hurricane Harvey Disaster Grants, issued May 7, 2018

[90] Audit Report 2020-AT-1002, The Puerto Rico Department of Housing, San Juan, PR, Should Strengthen Its Capacity To Administer Its Disaster Grants, issued March 16, 2020

[91] Audit Report 2015-PH-1003, The State of New Jersey, Trenton, NJ, Community Development Block Grant Disaster Recovery-Funded Superstorm Sandy Housing Incentive Program Contract, issued September 30, 2016

[92] Evaluation Memorandum 2017-OE-0002S, Navigating the Disaster Assistance Process, issued April 10, 2017

[93] Substance Abuse and Mental Health Services Administration (SAMHSA) Disaster Technical Assistance Center Supplemental Research Bulletin Greater Impact: How Disasters Affect People of Low Socioeconomic Status https://www.samhsa.gov/sites/default/files/dtac/srb-low-ses_2.pdf

Preventing Fraud in Disaster Recovery Assistance

OIG investigations in disaster recovery assistance fraud have resulted in numerous indictments and convictions and have led to substantial recoveries. With a large amount of funds available for disaster recovery, preventing fraud, waste, and abuse in these programs remains a major challenge for HUD. OIG will continue to work to bring those involved in schemes to defraud HUD and HUD programs to justice. See Figure 1 below for more information on the most prevalent fraud schemes identified by investigators during previous disasters that have resulted in indictments, convictions, and recoveries.

Figure 1

Grantee fraud

- Corruption in administering the funds
- Procurement fraud
- Embezzlement

Contractor-subgrantee fraud

- Contractors not completing contracted work after being paid in part or in full
- Collusion in providing goods and services
- Embezzlement

Recipient fraud

- Homeowners fraudulently identifying a second home or an investment property as their primary residence
- Homeowners falsely purporting damage to properties that did not sustain damage during the disaster
- Homeowners disregarding the program requirements
- Sale of a rental property before the receipt of the homeowner rental assistance grant

Third-party fraud

- Identity theft using documents or materials left in evacuated areas
- Identity theft by unscrupulous actors posing as government officials or contactors

False statement and false claim warnings and accompanying perjury certifications enable HUD and its partners to hold parties responsible for fraud resulting in civil and criminal penalties. Civil penalties allow the agency to recoup its limited resources. As a result, such warnings and certifications should be standard language in any document provided to a grantee, subgrantee, or recipient. The language should include an advisement that the grantee must maintain full and open cooperation with OIG, and the certification should require an accompanying signature. OIG found that that while some contracts contained appropriate warnings and certifications, others did not.[94]

[94] Audit Report 2018-FW-1003, The Texas General Land Office, Austin, TX, Should Strengthen Its Capacity To Administer Its Hurricane Harvey Disaster Grants, issued May 7, 2018

In the past, OIG has partnered with HUD's Disaster Recovery Special Issues Division, the National Center for Disaster Fraud, and the U.S. Department of Justice to provide adequate disaster and fraud training to grantees, subrecipients, and contractors. HUD should continue to offer these training forums. Any receipt or referral of fraud allegations should be tracked by HUD and its grantees to ensure that the proper authorities are notified. HUD should ensure that it continues conducting the proper training for its grantees and subgrantees. Grantees and subgrantees should then provide their employees with information on the types of fraud schemes and how to report these schemes through the appropriate channels.

Duplication of benefits continues to plague the agency. While legislation codification could address data sharing agreements across government agencies, OIG suggests that HUD consider enhancing the availability of universal access to insurance claim data to prevent duplication of benefits when a recipient receives funds from an insurance claim and also seeks government funds. Grantees and subgrantees should be trained to use this information to prevent the duplication of benefits at the outset of a grant award. In a recent audit, one grantee stated that it encountered obstacles in negotiating some data sharing agreements and was unable or unwilling to negotiate other data sharing agreements.[95] In addition, CARES Act funding could create an environment for additional duplications of benefits. According to HUD, in 2019, it revised its guidance to grantees regarding duplication of benefits requirements[96] to respond to both changes in Federal law and to clarify longstanding questions encountered by CDBG-DR grantees. Additionally, HUD initiated a series of on-site "launch" engagements and webinars in 2019 and 2020 and provided on-going training to its CDBG-DR grantees on how to comply with duplication of benefit requirements. In 2020, HUD is completing revisions of its CDBG-DR monitoring exhibits to reflect its most recent duplication of benefits guidance. HUD has also made sample data sharing agreements available to its grantees through its "launch" tool kit on the HUD CDBG-DR website.

OIG has partnered with other OIGs to review agency preparedness for future disasters. OIG anticipates that the Council of the Inspectors General on Integrity and Efficiency (CIGIE) will assist Federal agencies with implementing the recommendations resulting from that review to ensure that each agency is better prepared to respond to any future nationally declared disasters.

[95] Audit Report 2020-AT-1002, The Puerto Rico Department of Housing, San Juan, PR, Should Strengthen Its Capacity To Administer Its Disaster Grants, issued March 16, 2020

[96] 84 FR 28836; 84 FR 28848

Human Resource Management

- Recruiting and Attrition
- Vacant Positions, Succession Planning, and Use of Contractors
- Implementation of the CARES Act

Over the past 10 years, HUD's staffing levels have declined, while its programs and responsibilities have increased. Additionally, HUD's attrition rate outpaces its current hiring capacity, and employees often do not have the right skill sets, tools, or capacity to perform the range of functions needed within HUD. Leadership gaps resulting from extended vacancies and constant turnover have contributed to poor or delayed decisions and an inability to sustain positive changes. Many, if not all, of the mission challenges HUD faces are impacted by its staffing issues.

In April 2018, CIGIE released a consolidated report of the top management and performance challenges 61 Federal agencies face in fiscal year 2017. One of the top challenges most frequently reported by the 61 Inspectors General was human capital management, which "impacts the ability of Federal agencies to meet their performance goals and to execute their missions efficiently."[97] The CIGIE report identified four key areas of concern as part of the human capital management challenge:

1. inadequate funding and staffing;
2. recruiting, training, and retaining qualified staff;
3. agency cultures that negatively impact the agency's mission;
4. and the impact of the lack of succession planning and high employee turnover.[98]

According to HUD's top 10 risk list, 4 of the 10 risks relate to staffing: retaining skilled employees, hiring staff with appropriate skills, training for staff specialization, and overall inadequate staffing. Additionally, by HUD's own assessment, its decline in staffing has

- eroded HUD's ability to monitor compliance on properties, loans, grants, PHAs, and other areas of responsibility,

---

[97] CIGIE Report, Top Management and Performance Challenges Facing Multiple Federal Agencies, issued April 2018 (https://www.oversight.gov/sites/default/files/oig-reports/CIGIE_Top_Challenges_Report_April_2018.pdf)

[98] CIGIE Top Management and Performance Challenges Facing Multiple Federal Agencies, April 2018: https://www.oversight.gov/sites/default/files/oig-reports/CIGIE_Top_Challenges_Report_April_2018.pdf

- significantly limited HUD's ability to address systemic issues, and
- adversely impacted long-term productivity improvements and innovation within HUD's programs.[99]

Recruiting and Attrition

Recruiting and hiring qualified employees has been a growing concern for the Federal Government. In March 2017, OPM predicted that within the next 5 years, the Federal Government would "lose a significant portion of its valued workforce through attrition, primarily due to retirement." OPM further predicted that the government's ability to replace these skill and experience losses with new talent will depend on the Department's capability to efficiently and effectively recruit, hire, and retain high performing employees.[100] OPM developed an 80-day average time-to-hire model as a guide for agencies in its End-to-End Hiring Initiative in March 2017. According to HUD, its average time-to-hire was 150, 113, and 102 calendar days in fiscal years 2017, 2018, and 2019, respectively. See table 7.1 below.

Table 7.1

Fiscal year	HUD's average time-to-hire (in calendar days)[101]	Program offices[102] with highest average time-to-hire (in calendar days)			Percentage of program offices meeting OPM 80-day standard
2017	150	OLHCHH	OFPM	OCPO	11%
2018	113	OGC	OFPM	GNMA	20%
2019	102	DEEO	OGC	OCIO	6%
2020 (Quarters 1, 2, 3)	153	OCPO	OGC	Housing	12%

According to HUD's 11th strategic objective, HUD plans to organize and deliver services more effectively by "developing a diverse, skilled, and accountable workforce that effectively meets HUD business needs."[103] Additionally, HUD plans to slow attrition and increase hiring by using the human capital

99 HUD Fiscal Year 2021 Budget in Brief, issued February 6, 2020, p.27

100 OPM End to End Hiring Initiative, March 2017: https://www.opm.gov/policy-data-oversight/human-capital- management/hiring-reform/reference/end-to-end-hiring-initiative.pdf

101 OIG has had trouble verifying the accuracy of the average time-to-hire data in this table. Additionally, this table excludes hiring data for OIG.

102 OLHCHH – Office of Lead Hazard Controls and Healthy Homes; OFPM – Office of Field Policy and Management; OGC- Office of General Counsel; DEEO – Office of Departmental Equal Employment Opportunity; OCPO – Office of the Chief Procurement Officer; OCIO – Office of the Chief Information Officer

103 HUD Strategic Plan 2018-2022, issued May 2019, p.39

strategies detailed in HUD's Office of the Chief Human Capital Officer's (OCHCO) Human Capital Operating Plan.[104] According to that plan, hiring at HUD continues to be a challenge in the quality of candidates, staffing resource levels, and classification of new positions.[105] A major HUD strategy is to "improve the hiring and human capital functions, to reduce the average time-to-hire and improve managers' satisfaction with the quality of hires."[106] One planned action to reduce the average time-to-hire is to identify bottlenecks and needed resources.[107] Successful completion of these actions will be challenging, due to the limited OCHCO resources; the current hiring workload, which may be worsened due to the COVID-19 pandemic; and the Bureau of the Fiscal Service's and OCHCO's ability to communicate with HUD program office hiring managers.

In fiscal year 2019, only 6 percent of HUD's 20 program offices were meeting OPM's 80-day standard.

Historically, HUD's staffing levels have declined by more than 51 percent since its highest staffing levels in 1991. As of September 30, 2020, HUD had 7,300 employees, which is nearly 30 percent lower than its staffing levels 20 years ago. During the 10-year period from 2008 to 2017, HUD lost 18.5 percent of its full-time permanent staff, while governmentwide, the number of employees increased by 11 percent.[108]

According to HUD's OCFO, receiving 2-year funding instead of annual funding has had a significantly positive impact on the hiring process because HUD can continue processing hiring actions without having to pause to account for budget continuing resolutions. As a result, HUD reported in 2020 that it is experiencing its largest increase in staffing in more than a decade. Through August 29, the Department had a net gain of 302 employees and will continue to add to this total through the end of the year.

In February of 2020, OIG began evaluating the efficiency of HUD's hiring process. The objectives of that engagement include (1) determining whether HUD is able to hire new employees in a timely manner, (2) determining what efforts are underway to reduce HUD's average time-to-hire and the impact of those efforts, and (3) identifying best hiring practices used by other Federal agencies.

HUD identified, in its Strategic Workforce Plan for 2018-2022, that HUD's aging workforce is an ongoing challenge.[109] According to HUD's Human Capital Succession Plan for 2018-2020, approximately 51 percent of the entire workforce has attained retirement eligibility status. HUD predicts that by fiscal

[104] HUD Fiscal Year 2021 Annual Performance Plan and Fiscal Year 2019 Annual Performance Report, p. 89
[105] HUD Human Capital Operating Plan 2020-2021, December 12, 2019, p. 5
[106] HUD Fiscal Year 2021 Annual Performance Plan and Fiscal Year 2019 Annual Performance Report, p. 90
[107] HUD Strategic Plan 2018-2022, issued May 2019, p.39
[108] Office of Personnel Management Report, Sizing Up the Executive Branch, February 2018: https://www.opm.gov/policy-data-oversight/data-analysis-documentation/federal-employment-reports/reports- publications/sizing-up-the-executive-branch-2016.pdf
[109] HUD Strategic Workforce Plan, June 28, 2018 http://hudatwork.hud.gov/HUD/chco/doc/stratwrkforceplan2018-2022 (internal website)

year 2022, 63 percent of HUD employees will be retirement eligible and nearly 50 percent of HUD supervisors and managers will be retirement eligible.[110]

HUD's number of full-time equivalent employees has declined by 19 percent from 2009 to 2018.[111] To remedy this situation, one of Secretary Carson's priorities is to invest in HUD's critical staffing needs by increasing staffing levels across HUD.[112] As a result of this priority, HUD ended fiscal year 2019 with a slightly higher number of employees than at the beginning of 2019.[113] Additionally, there is a HUD-wide plan to simplify regulations and rules to improve human capital management.[114]

According to OCHCO's Response to 2020 OIG Top Management Challenges, "HUD's hiring initiative in fiscal year [20]19 resulted in a positive net gain of employee for the first time since 2011." HUD's Hiring and Separation Report from fiscal year 2019 shows a net gain of 44 employees. See table 7.2 below.

Table 7.2

Hires and separations at HUD [115]			
Fiscal year	Total hires	Total separations	Hires vs. separations
2015	528	- 778	- 250
2016	622	- 743	- 121
2017	530	- 698	- 168
2018	223	- 564	- 341
2019	627	- 583	44

Vacant Positions, Succession Planning, and Reliance on Contractors

Approximately 17 percent of OCHCO's management positions are either vacant or held by acting staff.[116] However, many director and supervisor management positions in OCHCO were filled in fiscal year 2020, and HUD recently named a new Assistant Secretary for Administration, who oversees OCHCO. The number of vacancies, acting personnel, and turnovers in OCHCO poses a challenge for HUD because OCHCO is responsible for developing and implementing policies and procedures associated with human

[110] HUD Human Capital Succession Plan 2018-22, September 14, 2018, (nonpublic)
[111] HUD Fiscal Year 2021 Budget in Brief, issued February 6, 2020, p.6
[112] HUD Fiscal Year 2021 Budget in Brief, issued February 6, 2020, p.6,9
[113] HUD Fiscal Year 2021 Budget in Brief, issued February 6, 2020, p.9
[114] HUD Strategic Plan 2018-2022, issued May 2019, p.11
[115] OIG has not verified he accuracy of the hiring data in this table. Additionally, this table excludes hiring data for OIG.
[116] The Office of the Chief Human Capital Officer's Key Staff Directory, https://www.hud.gov/program_offices/administration/about/ochcodir

capital management for all of HUD. Other HUD program offices also face high turnover and vacancy rates. See table 7.3 for details as of July 2020. :

Table 7.3, as of July 2020[117]

HUD program office	Percentage of vacant positions	Percentage of acting positions	Total percentage of vacant and acting positions
OCIO[118]	28%	6%	34%
Office of Fair Housing and Equal Opportunity[119]	21%	7%	28%
Office of Housing[120]	14%	9%	23%
OGC[121]	13%	7%	20%
PIH[122]	8%	7%	15%

In its fiscal year 2019 Performance Report, HUD claimed that it had completed a strategic workforce plan for 75 percent of its mission-critical occupations.[123] However, HUD's strategic milestone to "develop a market-informed pay and compensation strategy for cybersecurity and other mission critical IT positions to improve recruitment and retention" has been delayed until 2021.[124]

Although HUD has increasingly relied on contractors to fill its staffing gaps, HUD faces challenges with properly directing and monitoring these contractors, which is problematic as the contractors have significant influence on the development, implementation, and oversight of HUD programs. In 2018, OIG evaluated HUD's use of contractors. It found that in fiscal year 2017, HUD awarded 1,589 contracts, with a total cost of $3.1 billion. It also found that the exact number of HUD's full-time-equivalent contract employees was unknown because HUD does not track that information. When OIG requested this information, OCPO officials stated that OCPO contracts for services and products and that HUD pays for the contract's completion, not for a specific number of employees per contract. OCPO also said that

[117] Data is as of July, 2020, HUD OIG recognizes that by the end of the fiscal year some of the data presented in the table may have changed.
[118] Chief Information Officer Functional Points of Contact, as of July 10, 2020, https://www.hud.gov/program_offices/cio/dircio
[119] Who's Who in FHEO [Office of Fair Housing and Equal Opportunity], as of July 10, 2020, https://www.hud.gov/sites/dfiles/FHEO/documents/fheodir.pdf
[120] Office of Housing Directory, as of July 10, 2020, https://www.hud.gov/program_offices/housing/dirhousi
[121] OGC Headquarters Managers, as of July 10, 2020, https://www.hud.gov/program_offices/general_counsel/hq- managers
[122] PIH Headquarters Staff Directory, as of July 10, 2020, https://www.hud.gov/program_offices/public_indian_housing/about/headquarters
[123] HUD Fiscal Year 2021 Annual Performance Plan and Fiscal Year 2019 Annual Performance Report, p. 90
[124] HUD Fiscal Year 2021 Annual Performance Plan and Fiscal Year 2019 Annual Performance Report, p. 106

HUD's lack of oversight and information tracking is not unique to HUD and "there is no requirement to do so nor does it make any sense to do so."[125]

Implementation of the CARES Act

Additional funding and hiring needs created by the CARES Act have placed a burden on HUD's already overtaxed human resources staff to oversee the use of funds and hire people more quickly.

OCHCO has stated that it has worked with HUD leadership to streamline and expedite hiring for CARES Act personnel. To support additional hiring, OCHCO requested but did not receive funding for six internal program positions that will focus on supporting COVID- 19-related hires. Additionally, OCHCO worked with HUD hiring managers to ensure clarity and compliance with CARES Act hiring and other Federal hiring regulations. OCHCO has also provided hiring guidance to HUD managers onboarded in March to support program offices' hiring related to the CARES Act. OCHCO is able to distinguish CARES Act hires from other hires through a unique personnel identification number system related to the CARES Act. The majority of CARES Act hiring occurred in CPD and Housing in order to support HUD's mission-essential functions. As of September, 2020, of the 96 positions that have been approved with CARES Act funding, 61 recruitment requests have been submitted, 27 employees are already onboarded, and the remaining 34 submitted requests are in process.

[125] OIG Evaluation Report, 2017-OE-0006, HUD's use of Contractors, dated December 30, 2018

Increasing Efficiency in Procurement

HUD's Office of the Chief Procurement Officer (OCPO) is responsible for obtaining all contracted goods and services required to successfully maintain HUD operations.[126] CIGIE's 2018 Top Management and Performance Challenges Facing Multiple Federal Agencies stated that one of the top challenges most frequently reported by the 61 inspector's general was procurement management, including preaward planning, managing and overseeing contractor performance, and personnel training. CIGIE stated that "many federal agencies rely heavily on contractors to perform their missions and, as a result, a federal agency's failure to efficiently and effectively manage its procurement function could also impede the agency's ability to execute its mission."[127]

HUD's 2020 top 10 risk list includes its ability to execute timely procurement actions. In its 2019 risk list, HUD identified risks in untimely procurement, improper training and workload of contracting officer representatives, and inadequate oversight of vendors and third-party service providers. An internal HUD assessment completed in September 2019 also concluded that significant weaknesses persisted within several areas of HUD's acquisition process.

A HUD employee survey conducted during this internal assessment found that, although some employees saw improvement with HUD's procurement coordination and planning efforts, 44 percent concluded that HUD's OCPO did not have the right skills, knowledge, or training. Responses for this issue were notably worse than in the same survey from the previous year.

[126] https://www.hud.gov/program_offices/cpo

[127] CIGIE Top Management and Performance Challenges Facing Multiple Federal Agencies, April 2018: https://www.oversight.gov/sites/default/files/oig-reports/CIGIE_Top_Challenges_Report_April_2018.pdf

OIG has observed that many program offices continue to have difficulty awarding contracts due to HUD's inadequate acquisition staff. HUD OCIO recently concluded that it would need additional contract office capacity to maintain existing service levels and mitigate breaks in service for HUD's mission-critical applications. Due to these shortfalls, multiple key IT contracts have been awarded outside HUD OCPO, with the acquisition processes supported through other Federal agencies in order to avoid the current HUD procurement delays. Similarly, Ginnie Mae has also awarded contracts outside of HUD OCPO to avoid delays.

HUD has taken some recent actions in improving its acquisition processes. In March 2020, HUD enacted a new policy designed to institutionalize the practice of program and project management for acquisitions, which also incorporates related employee performance plan metrics. In May 2020, HUD contracted out for support services that were designed to improve the efficiency of its source selection process for competitive acquisitions. HUD also reported that it conducted additional acquisition staff training. Although HUD's recent actions have the potential to improve its procurement efforts, the effectiveness of those changes will depend on HUD's ability to consistently implement its planned process improvements, address acquisition staffing challenges, and address any additional outstanding weaknesses.

HUD's fiscal year 2020 Forecast of Contracting Opportunities identifies the HUD functions that heavily rely on contractors, ranging from policy development to document destruction, IT modernization, project management, and program management, such as Section 232 mortgage insurance for long-term care facilities and Section 242 mortgage insurance for hospitals. The Office of Housing, OCIO, the Office of Administration, and Ginnie Mae are the largest contract users.[128]

In fiscal year 2019, the Office of Housing and the Office of Policy Development and Research used the U.S. Department of Health and Human Services for their contracting needs, while Ginnie Mae and OCIO used the U.S. General Services Administration (GSA) for their contracting needs. According to OCPO, HUD's use of outside acquisitions services in fiscal year 2019 cost HUD $17.2 million. Ginnie Mae's staffing model is based on a modest level of permanent staff and a majority of contractors. In fiscal year 2019, contractor expenses added up to $213.9 million, which was 74.9 percent of Ginnie Mae's total expenses.[129] Ginnie Mae originally transitioned its contracting services to GSA in 2014 after concluding that HUD could not meet its contractual needs in a timely manner.[130] However, according to OCPO, Ginnie Mae and OCIO have expressed dissatisfaction with the support received from GSA and want to return to using HUD OCPO.

[128] HUD Fiscal Year 2020 Forecast of Contracting Opportunities Products and Services, dated August 7, 2020
[129] Ginnie Mae 2019 Annual Report, March 2020, p. 21 and 26
[130] GAO-19-191, Ginnie Mae: Risk Management and Staffing-Related Challenges Need to Be Addressed, (April 2019)

OCPO's goal is for 75 percent of submissions to be complete by the target release date.

HUD OCPO has identified the untimely submission of acquisition packages as a challenge in awarding contracts. In its Annual Performance Report, HUD reports on the timeliness of its acquisition packages submissions.[131] See table 8.1 for information on the timely submission of acquisition packages.

Table 8.1

Fiscal year	Percentage of on-time submissions
2018	48%
2019[132]	33%
2020 (as of July 30, 2020)	38%

According to HUD's 2018-2022 Strategic Plan, a major HUD initiative is to streamline acquisition management by analyzing its end-to-end acquisition processes, developing a communication strategy that would engage and inform key acquisition process personnel of any underlying challenges, and establishing transformation plans. To achieve this objective, HUD plans to develop and implement scorecards that would track the timeliness of acquisition services and incorporate a customer survey process to obtain feedback on acquisition accomplishments and issues.[133]

HUD's fiscal year 2021 Budget in Brief notes that the integrity task force has improved HUD's acquisition process.[134] Of the nine current acquisition management objectives, five are on track, and three have been completed.[135] However, the task force dashboard from July 2019 lists several key short-term objectives to help remove issues identified as improvement barriers in the acquisition process, including contract award, funding, the timeliness of the procurement process, or the bandwidth of OCPO staff.

According to information on HUD's website, HUD's procurement office is appropriately staffed,[136] and as of January 2020, OCPO has filled 100 of it 117 available positions. However, OCPO told OIG that the

[131] HUD Fiscal Year 2021 Annual Performance Plan and Fiscal Year 2019 Annual Performance Report, p. 101
[132] CPO told OIG that the fiscal year 2019 on-time submissions percentage was probably impacted by the Federal Government shutdown. OIG did not verify the accuracy of this claim.
[133] HUD Strategic Plan 2018-2022, issued May 2019, p.39-40
[134] HUD Fiscal Year 2021 Budget in Brief, issued February 6, 2020, p.10
[135] HUD's Agency-Wide Integrity Task Force Dashboard, July 31, 2019, slides 12-14 (nonpublic)
[136] OCPO Contacts, https://www.hud.gov/program_offices/cpo/about/OCPO_Contacts

Department's ability to hire additional staff is affected by budget constraints, heavy workload, and attrition rates, which continue to be outstanding challenges for fiscal year 2020 and fiscal year 2021.

Under the CARES Act, HUD was given flexibility in its procurement and contract administration activities. OMB issued a memorandum in March 2020 that allowed HUD to rescope some of its existing contracts for pandemic response and leverage the special emergency procurement authorities in connection with the President's emergency declaration.[137] However, to date HUD has not had to exercise those flexibilities.

[137] https://www.whitehouse.gov/wp-content/uploads/2020/03/M-20-18.pdf

Ensuring Ethical Conduct

- Performing Government Duties Ethically
- Ethical Risk in HUD's Reliance on External Actors
- Whistleblower Retaliation Complaints

The American public relies on HUD officials and the entities that participate in HUD programs to perform their duties ethically and with integrity. Ethical lapses or failures undermine program effectiveness and ultimately diminish the public trust in HUD and its programs. The vast number of HUD programs, the significant amount of Federal funds flowing through these programs, and HUD's resource constraints make ensuring ethical conduct an ongoing management and performance challenge for the Department.

Performing Government Duties Ethically

HUD officials must be held accountable in order to perform their duties impartially and free from conflicts of interest. In particular, the Department's policymaking role in the financial-services industry presents several areas of risk that HUD must continuously work to mitigate. To promote ethical conduct, the Department must provide employees who set policies and make decisions affecting the financial positions of external entities with sufficient training and guidance on the requirements for disclosing financial interests and effectively mitigating potential conflicts of interest. Identifying potential conflicts is a critical first step in mitigating conduct that does not comply with the ethical standards for government employees. In a September 2018 review of HUD's ethics program, the Office of Government Ethics made four recommendations for HUD to improve the timeliness of its confidential reporting and financial disclosures,[138] which HUD has since taken action to correct. But challenges remain for the Department.

For example, it is common for HUD political and senior-level positions to be filled by experienced private-sector leaders in HUD-related industries, and HUD officials frequently change employment from government service to private-sector firms that participate in HUD programs. This "revolving door" effect

138 https://www.oge.gov/web/oge.nsf/Ethics Docs/9061471AADAE5E28852585B9006C07A2/$FILE/2018 HUD Final Report.pdf?o pen

presents a potential conflict of interest for HUD officials developing policies or decisions that relate to the private-sector entities, with whom they may also be seeking or negotiating employment.
A recent OIG investigation demonstrated the nature of this particular risk. OIG investigated allegations that a former HUD director had, while still employed by HUD, failed to recuse himself from and inappropriately intervened in HUD matters while negotiating postgovernment employment with an employer in the mortgage-banking industry. The former HUD director agreed to pay $25,000 in a civil settlement with the U.S. Attorney's Office for the Eastern District of Virginia to resolve allegations that he had an improper conflict of interest with a private company while serving as a HUD employee.[139] The OIG has also referred this matter to the Department for any additional action that it may wish to take. In November 2020, HUD reached a settlement with the former director requiring him to pay the Department $60,000 and prohibiting him from applying for or accepting any position of employment with the Department from now on. It will be important for HUD to provide appropriate training, guidance, and oversight to prevent similar employment conflicts from arising in the future.

Additionally, as stewards of Federal funds and of nonpublic information, HUD must develop internal controls to ensure fairness in awards of government contracts and grants awarded and to safeguard information that is proprietary, sensitive, and potentially market-moving. OIG receives allegations of public corruption by HUD officials, which include financial conflicts of interest, bribery, gratuities, kickbacks, and embezzlement.

Recent OIG investigations of such allegations include the following examples:

- The OIG investigated allegations of government employees providing nonpublic information about pending HUD contract actions to a private party in exchange for money, tickets to sporting events, travel expenses, and other things of value. A former HUD supervisory contract specialist agreed to plead guilty to violating the Program Integrity Act and pay a forfeiture money judgment of $23,055, representing the value of the gifts and benefits she received.[140] Another former HUD employee also agreed to plead guilty to bribery charges and was sentenced to 24 months in prison and agreed to pay a forfeiture money judgment of $50,302, representing the value of the gifts and benefits he received.[141]
- The OIG investigated allegations that a former HUD employee was engaged in a scheme to use a fake identity and forge signatures to conceal her interest in rental properties receiving HUD subsidies in violation of HUD requirements.[142] The former employee was convicted of five counts of wire fraud and three counts of identity theft and sentenced to 66 months in prison, and $207,000 in restitution.

---

139 https://www.justice.gov/usao-edva/pr/former-hud-official-agrees-settle-conflict-interest-allegations
140 https://www.hudoig.gov/newsroom/press-release/former-hud-employee-sentenced-providing-non-public- information-government
141 https://www.hudoig.gov/newsroom/press-release/former-hud-employee-pleads-guilty-accepting-bribes- government-contractor
142 https://www.hudoig.gov/newsroom/press-release/jury-finds-former-hud-employee-guilty-fraud-and-identity- theft

OIG is also mindful of the unique ethical considerations that arise in election years. The Hatch Act prohibits the majority of Federal employees from engaging in certain political activities, both during duty hours and, for certain employees, when not at work.[143] For instance, Federal employees may not use their government position to influence or affect an election and are generally not permitted to solicit or receive political contributions.[144]

In fiscal year 2020, OIG referred several alleged HUD employee Hatch Act violations to the U.S. Office of Special Counsel (OSC), which is the independent Federal agency responsible for enforcing the Act. With the upcoming November 2020 presidential election, the Department must be ready to report any potential violations of the Hatch Act and take appropriate action to prevent or remediate such violations.

Another concern during an election year is the prospect of political appointees "burrowing" into career-employee status. This practice is legal but only if carried out in accordance with procedures that are designed to prevent the appearance of impropriety and ensure that political appointees are qualified for career jobs. In June 2020, a Federal court of appeals ruled on a case involving a HUD official who hired an individual with whom she had worked as a fellow political appointee at another Federal agency.[145] The court found that HUD had the right to fire this individual because the record contained substantial evidence that supported the appearance of improper political influence. To maintain public trust, HUD must ensure that it complies with the hiring procedures designed to prevent the appearance of impropriety when political appointees transition into career-employment status.

Ethical Risk in HUD's Reliance on External Actors

HUD relies on private-sector participants, including grantees, contractors, and housing agency directors, to help carry out its mission, and it entrusts significant amounts of Federal funding and sensitive information to these participants to execute HUD programs. HUD program participants face continuous challenges in establishing and maintaining sufficient internal controls that prevent fraud, waste, and abuse. Ensuring that these participants act in accordance with governing ethics requirements remains a top challenge for the department.

Beginning in fiscal year 2017 through the first half of fiscal year 2020, OIG's Office of Investigation has conducted work that resulted in 65 arrests, 77 indictments, 54 convictions, and the recovery of more than $2 million in cases involving HUD program participants[146] engaged in unethical activity.[147]

[143] 5 U.S.C. §§ 7321-7326
[144] 5 U.S.C. 7323(a)(1)-(2).
[145] *Avalos v. HUD*, 963 F.3d 1360 (Fed. Cir. 2020)
[146] Program participants include: housing authority executives, directors, board members, accountants, employees, inspectors, and managers, in addition to political officials (including mayors).
[147] "Unethical activity" means bribery, graft, kickbacks, extortion, conflicts of interest, embezzlement, false statements, procurement fraud, public corruption, and theft of government property.

Examples of this work include the following recently announced case results:

- The OIG investigated allegations that an executive director of the Collinwood and Nottingham Villages Development Corporation (CNVDC) in Cleveland, Ohio, misused over $195,000 in CNVDC funds through a variety of schemes, such as making unauthorized cash withdrawals, having checks issued to her, and using CNVDC debit and credit cards to pay her personal expenses, including money spent at casinos and $19,080 for the purchase of an automobile.[148] The director plead guilty, received a sentence of 33 months in prison, and agreed to pay $164,120 in restitution.
- The OIG investigated allegations that an accountant for a non-profit corporation dedicated to providing affordable housing to residents of Englewood, New Jersey, used her position to embezzle hundreds of thousands of dollars from that corporation, including by issuing unauthorized checks made payable to herself or entities she controlled, forging the signature of the corporation's president on those checks, and representing to the corporation that the payments were for legitimate business expenses.[149] The investigation resulted in the arrest of this accountant and charges against her including four counts of wire fraud.
- The OIG investigated allegations that an executive director for the Coshocton Metropolitan Housing Authority (CMHA) embezzled more than $431,000 from CMHA between 2012 and 2017 for the payment of his personal expenses and the personal expenses of a co-conspirator, including utility bills, cell phone expenses, personally owned real estate, home improvements, and a marina slip.[150] The director also allegedly converted $41,636 of his salary benefits from the CMHA during this period by routinely traveling to Georgia to manage his investment properties while being paid to run the day-to-day operations of the CMHA, and conspired to falsify claims made to HUD to obtain Housing Assistance Payments on behalf of tenants at a HUD subsidized multi-family complex he operated in Georgia. The investigation resulted in a sentence of 30 months of incarceration and 36 months supervised release for the director.

OIG's audit work during the last several years has routinely identified ethical lapses on the part of HUD program participants as an area of general concern, including conflicts of interest, such as the hiring of or awarding of contracts to family members or related parties, a lack of fair and open competition in contracting, and the abuse of power for personal gain. As part of its audit work, OIG has made recommendations to HUD intended to promote ethical conduct by its program participants, including recommendations that HUD (1) require housing authorities to develop and implement procedures to

148 https://www.hudoig.gov/newsroom/press-release/former-executive-director-collinwood-and-nottingham- villages-development-0
149 https://www.hudoig.gov/newsroom/press-release/hoboken-woman-arrested-embezzling-hundreds- thousands-dollars-non-profit
150 https://www.justice.gov/usao-sdoh/pr/former-coschocton-public-housing-director-sentenced-prison- embezzling-hud-funds

identify, report, and resolve conflict-of-interest and other ethics concerns[151] and (2) evaluate apparent conflict-of-interest situations and pursue administrative sanctions when warranted.[152]

Whistleblower Retaliation Complaints

Whistleblowers play a critical role in keeping government programs honest, efficient, and accountable. OIG will continue to ensure that all HUD employees are aware of their right to disclose any instances misconduct, waste, or abuse discovered in HUD programs without reprisal and to assist these employees in seeking redress when they believe they have been subject to retaliation for whistleblowing. As a general practice, OIG will refer any HUD employee alleging whistleblower retaliation to OSC, which has the authority to investigate and prosecute such matters.

In the second half of fiscal year 2020 OIG opened 18 complaints regarding whistleblower retaliation

OIG also investigates all government contractor and grantee whistleblower retaliation complaints.[153] If an employee of a HUD contractor, subcontractor, grantee, or subgrantee believes he or she has been retaliated against for whistleblowing, that individual may file a complaint with the OIG. OIG's Office of Investigation will investigate the complaint and, if the complaint meets the statutory requirements, report its findings to HUD so that the Department may take appropriate action.

Once OIG reports its finding to the Secretary to take appropriate action, the Secretary has 30 days to review and act on the matter. If the Secretary fails to act, the complainant can take his or her case to the appropriate district court. In at least one instance over the last year, the Secretary did not take any action on a complaint referred to the Department by the OIG. Failure to act on such referrals creates a challenge for the Department in ensuring ethical conduct in its program areas.

[151] OIG report 2018-PH-1005, The Adams County Housing Authority, Gettysburg, PA, Did Not Administer Its Housing Choice Voucher Program According to HUD Requirements, issued September 19, 2018.
[152] OIG report 2018-NY-1006, The Buffalo Municipal Housing Authority, Buffalo, NY, Did Not Administer Its Operating Funds in Accordance With Requirements, issued September 26, 2018.
[153] 41 U.S.C 4712

Top Management Challenges
Facing the U.S. Department of Housing and
Urban Development in 2021

Response to 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 Americans. We are unwavering in our dedication to improving our business operations by addressing significant challenges, mitigating the risks associated with our programs and past practices, and transforming our processes to address waste, fraud, and abuse.

In response to the COVID-19 pandemic, we took initiative to prioritize the safety of our employees by transitioning to a remote environment and ensuring our staff were equipped with the tools and trainings to optimally perform their duties. In addition, we implemented procedures to protect citizens who were at risk of and/or experiencing homelessness as a result of the virus. Moreover, we established the HUD CARES Compliance and Response Team (HCCRT) to monitor compliance and audit processes associated with the CARES Act; and we are continuing to develop additional methods to further respond to the impacts of the COVID-19.

The Management and Performance Challenges report highlights our progress in specific areas and provides the opportunity to touch on others significant accomplishments. During this past year, we made substantial progress with operational efficiency by prioritizing efforts in the areas of financial management, risk monitoring, and information technology. To continue remediating a significant amount of material weaknesses and address outstanding OIG recommendations, we launched the Accountability, Integrity, and Risk (AIR) program to establish the foundation on the reasonableness of our control environment and achieve a reasonable assurance for FY 20. We also enhanced operational efficiency by incorporating Robotics Process Automation (RPA) and intelligent automation (IA) process. Furthermore, we are developing tools to automate data analysis as well as bifurcate data related to HUD funding and spending.

The work of the OIG is intended to help HUD ensure that our workforce operates with fairness and integrity, that our programs are delivered in the most efficient and effective manner, and strengthen the Department's efforts to ensure responsible stewardship of taxpayer resources in the execution of HUD's mission. The Management and Performance Challenges report provide by OIG identify ten improvement opportunities as summarized below.

- As the pandemic continues to evolve, the challenge to maintain HUD's heighten level of delivery and limited recipient oversight may have future consequences.
- Sustaining improvements and continuing to transform financial management across HUD will be difficult and heavily dependent on funding.
- Substantial challenges remain in addressing HUD's complex business portfolio with reliable IT solutions given the IT funding, resources, and procurement process.
- Ineffective and limited monitoring and mitigation at the program recipient and participant levels increase risks and potential liability and costs across many HUD programs.

- Complex health and safety issues related to lead-based paint hazards, radon levels, hazardous waste sites, and physical condition of housing across America increases the importance of effective safety programs within HUD.
- COVID-19 could cause a significant increase in foreclosures plus the lengthy process of foreclosure and conveyance could have negative impacts on the Mutual Mortgage Insurance (MMI) Fund.
- Although outside of HUD authority, without a permanent disaster recovery assistance organization, HUD will continue to be constrained in executing and overseeing disaster funds.
- Like many offices at HUD, OCHCO has insufficient resources to effectively support the Department's human capital needs.
- HUD's procurement processes are not efficient in supporting the Department procurement needs nor do they have effective controls.
- HUD should continue to ensure that all employees are aware of their critical role in supporting our environment of ethical conduct and behavior and that they have the right to disclose any instances of misconduct, waste, or abuse in HUD programs without reprisal.

HUD is fully dedicated to supporting and engaging in continuous process improvement as well as investing in technology and resources to achieve our goal of financial excellence. We intend to use these OIG conclusions to enhance process improvement efforts and assist in resolving our most crucial management challenges. We are vested in working collaboratively with the OIG to foster a problem-solving environment that instills audit rigor, improves mission delivery, better services America's taxpayers, and cultivates the ideal workplace for our most important asset, our employees.

SECTION 4: APPENDICES

TABLE OF CONTENTS

Appendix A: Glossary of Acronyms and Abbreviations

A	
ADA	Anti-Deficiency Act (Public Law No. 97–258)
AFR	Agency Financial Report
AHAR	Annual Homeless Assessment Report
AIDS	Acquired Immune Deficiency Syndrome
AIR	Agency Insight Report
APG	Agency Priority Goal
APM	All Participant Memoranda
APP	Annual Performance Plan
APR	Annual Performance Report
ARC	Administrative Resources Center
ASC	Accounting Standards Codification
ATO	Authority to Operate
B	
BFS	Bureau of the Fiscal Service
BOP	Bureau of Prisons
C	
CAIVRS	Credit Alert Verification Reporting System
CAP	Corrective Action Plan
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CDBG	Community Development Block Grant
CDBG-DR	Community Development Block Grant Disaster Recovery
CDC	Centers for Disease Control and Prevention
CDO	Chief Data Officer
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CIO	Chief Information Officer
CIRT	Computer Incident Response Team
CISO	Chief Information Security Officer
CLAIMS	Single Family Insurance System – Claims Subsystem
CMHA	Coshocton Metropolitan Housing Authority
CMHI	Cooperative Management Housing Insurance
CMIA	Cash Management Improvement Act of 1990
CMS	Centers for Medicare & Medicaid Services
CNVDC	Collinwood and Nottingham Villages Development Corporation
CoC	Continuum of Care
CoE	Centers of Excellence

COOP	Continuity of Operations Plan
CPD	Office of Community Planning and Development
CRO	Chief Risk Officer
CSC2	Credit Subsidy Calculator
CSRS	Civil Service Retirement System
CWCOT	Claims Without Conveyance of Title
CY	Calendar Year
D	
DATA Act	Digital Accountability and Transparency Act of 2014
DCAMS	Debt Collection Asset Management System
DCIA	Debt Collection Improvement Act
DHHL	Department of Hawaiian Home Lands
DOJ	U.S. Department of Justice
DOL	U.S. Department of Labor
DNP	Do Not Pay
DRAA	Disaster Relief Appropriations Act
DRGR	Disaster Recovery Grant Reporting
DRSI	Disaster Recovery Special Issues
DSRS	Distributive Shares and Refund System
E	
EHLP	Emergency Homeowner's Loan Program
ELOCCS or eLOCCS	Electronic Line of Credit Control System
EPA	Environmental Protection Agency
ESG	Emergency Solutions Grants
F	
FAMES	Federal Asset Management Enterprise System
FASAB	Federal Accounting Standards Advisory Board
FASS	Financial Assessment Subsystem
FBWT	Fund Balance with Treasury
FCC	Federal Communications Commission
FCRA	Federal Credit Reform Act of 1990
FDM	Financial Data Mart
FECA	Federal Employee Compensation Act of 1916
FERA	Front End Risk Assessment
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act
FFMT	Federal Financial Monitoring Team
FHA	Federal Housing Administration
FHEO	Office of Fair Housing and Equal Opportunity
FIFO	First-in, First-out

FISMA	Federal Information Security Management Act
FITARA	Federal Information Technology Acquisition Reform Act
FMFIA	Federal Managers' Financial Integrity Act (Public Law No. 97-255)
FOC	Financial Operation Center
FR	Federal Register
FS	Financial Statements
FY	Fiscal Year
G	
GA	Guaranty Asset
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GDP	Gross Domestic Product
GFAS	GNMA Financial Accounting System
GI	General Insurance
GL	General Ledger
GNMA	Government National Mortgage Association
GO	Guaranty Obligation
GONE	Grants Oversight and New Efficiency
GSA	General Services Administration
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System
H	
H4H	HOPE for Homeowners
HAG	Homeless Assistance Grants
HAP	Housing Assistance Payment
HCCRT	HUD CARES Compliance and Response Team
HCV	Housing Choice Voucher
HECM	Home Equity Conversion Mortgage
HESG	HUD Emergency Assistance Grant Program
HFA	Housing Finance Authorities
HFI	Held for Investment
HFS	Held for Sale
HIM	Hurricane Harvey, Irma, Maria
HIV	Human Immunodeficiency Virus
HOME	HOME Investment Partnerships Program
HOPE VI	Program for Revitalization of Severely Distressed Public Housing
HOPWA	Housing Opportunities for Persons with AIDS
HPRP	Homelessness, Prevention and Rapid Re-Housing Program
HTF	Housing Trust Fund
HUD	U.S. Department of Housing and Urban Development
HUDCAPS	HUD's Central Accounting and Program System
I	
IA	Intelligent Automation

ICDBG	Indian Community Development Block Grant
IDIS	Integrated Disbursement and Information System
IHBG	Indian Housing Block Grant
IHLG	Indian Housing Loan Guarantee
IMS	Inventory Management System
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act of 2002
IPMS	Integrated Pool Management System
IRS	Internal Revenue Service
IT	Information Technology
IUS	Internal Use Software
L	
LAS	Loan Accounting System
LGL	Loan Guarantee Liability
LLG	Liability for Loan Guarantees
LLR	Loan Review System
LOCCS	Line of Credit Control Systems
LTV	Loan-To-Value
M	
MBS	Mortgage Backed Securities
MCR	Management Control Reviews
MD&A	Management Discussion & Analysis
MMI	Mutual Mortgage Insurance
MNA	Mortgage Note Assigned
MOU	Memorandum of Understanding
MSS	Master Sub-servicer
MTW	Moving-to-Work
MX	Modification and Exchange
N	
NAHA	National Affordable Housing Act of 1990
NAHASDA	Native American Housing Assistance and Self Determination Act
NCIS	New Core Interface Solution
NET	Non-Expenditures Transfers
NG	Next Generation
NHHBG	Native Hawaiian Housing Block Grant
NOFA	Notice of Funding Availability
NSP	Neighborhood Stabilization Program
NSPIRE	National Standards for the Physical Inspection of Real Estate
NSP-TA	Neighborhood Stabilization Program Technical Assistance
O	
OA	Occupancy Agreements

OBGA	Office of Block Grant Assistance
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
OE	Office of Evaluation
OGC	Office of General Council
OIG	Office of Inspector General
OIPM	Office of Issuer and Portfolio Management
OLHCHH	Office of Lead Hazard Control and Health Homes
OMB	Office of Management and Budget
ONAP	Office of Native American Programs
OPEB	Other Post-Employment Benefits
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
OSC	U.S. Office of Special Counsel
P	
PAS	Program Accounting Systems
PBRA	Project-Based Rental Assistance
PBV	Project-Based Vouchers
PCI	Purchased Credit Impaired
PD&R	Office of Policy Development and Research
PH	Public Housing
PH Capital Fund	Public Housing Capital Fund
PHA	Public Housing Agency
P&I	Principal and Interest
PIC	PIH Information Center
PIH	Office of Public and Indian Housing
PII	Personally Identifiable Information
PJs	Participating Jurisdictions
PMM	Purchase Money Mortgages
POST	Public and Indian Housing One-Stop Tool
PP&E	Property, Plant, and Equipment
PRA	Project Rental Assistance
PRAC	Project Rental Assistance Contract
PTAP	Pass-Through Assistance Program
PTD	Performance Tracking Database
Q	
Q1	Quarter 1
Q2	Quarter 2
R	
RAD	Rental Assistance Demonstration

RD	Rural Development
REAC	Real Estate Assessment Center
Recovery Act	American Recovery and Reinvestment Act of 2009
REMIC	Real Estate Mortgage Investment Conduits
REO	Real Estate-Owned
RFI	Request for Information
RHAP	Rental Housing Assistance Programs
RMC	Risk Management Council
RNP	Restricted Net Position
RPA	Robotics Process Automation
RSSI	Required Supplementary Stewardship Information
S	
SAORM	Senior Agency Official for Records Management
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
S&E	Salary and Expense
SER	Single Effective Rate
SF	Single Family
SFFAS	Statements of Federal Financial Accounting Standards
SFIS	Single-Family Insurance System
SFN	Single-Family Notes
SMART	Single Family Mortgage Notes Recovery Technology
SNAPS	Special Needs Assistance Programs
SNC	Statement of Net Cost
SOC	Security Operation Center
SOF	Statement of Financing
SRI	Special Risk Insurance
T	
TA	Technical Assistance
TBRA	Tenant-Based Rental Assistance
TDHE	Tribally Designated Housing Entity
TDR	Troubled Debt Restructurings
TEAM	Total Estimated and Allocation Mechanism
TOP	Treasury Offset Program
TRACS	Tenant Rental Assistance Certification System
Treasury	U.S. Department of the Treasury
TSP	Thrift Savings Plan
U-W	
UPB	Unpaid Principal Balance
UPCS	Uniform Physical Condition Standards
U.S.	United States of America
USAO	U.S. Attorney's Office

U.S.C.	United States Code
USDA	U.S. Department of Agriculture
USF	Usable Square Footage
USSGL	U.S. Standard General Ledger
VMS	Voucher Management System
WCF	Working Capital Fund

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

Help for Mortgages

- 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
- Information for Housing Counselors

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
- GNMA
- Healthcare Programs
- Lead Hazard Control and Healthy Homes
- HOME Investment Partnerships Program
- Housing
- Housing Counseling Program
- Multifamily Housing
- Policy Development and Research
- Programs of HUD
- Public and Indian Housing
- Single Family Housing
- Strategic Planning and Performance

Links to Other Resources and HUD Research

- HUD's Budget and Performance Reports
- HUD's FY 2018-2022 Strategic Plan
- HUD's FY 2021 Annual Performance Plan & FY 2019 Annual Performance Report
- HUD Webcasts
- Online Library
- Performance.gov
- HUDUser.gov

Featured Initiatives

- Equal Housing Opportunity
- DATA.gov
- Open Government Directive
- Making Home Affordable
- USA Spending

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/afr2020.pdf

U.S. Department of Housing and Urban Development

451 7th Street S.W., Washington, DC 20410
Telephone: 202-708-1112 TTY: 202-708-1455
www.hud.gov