



## **3. Financial Information**



## The Chief Financial Officer's Message

Fiscal Year (FY) 2002 was an exciting time to be HUD's Chief Financial Officer, working with the Secretary and Deputy Secretary as part of the leadership team to provide the budget, accounting, financial management systems, and performance management support necessary to carry out an aggressive housing and community development program agenda for the benefit of the American people. Under the President's Management Agenda, our collective efforts to address HUD's significant management challenges have both benefited this year's performance and laid the foundation for future improvements to HUD's program delivery, oversight and outcomes. Some of the more significant financial management activities of the past year included:

- Accelerated issuance of this annual Performance and Accountability Report by two months to provide the Congress and the public more timely and useful information on the effectiveness of HUD's use of public funds in pursuit of its critically important mission;
- Receipt of an unqualified or clean audit opinion on the Department's consolidated financial statements for the third consecutive year—a strong indicator of financial management stability;
- Completion of a new general ledger system for the Federal Housing Administration (FHA), as part of a multi-year FHA Subsidiary Ledger Project that will replace FHA's commercial accounting system and provide integration to 19 program feeder systems to correct material weaknesses and bring HUD's overall integrated financial management system into substantial compliance with federal financial management systems requirements by 2006;
- Continued implementation of corrective actions to address material weaknesses in HUD's rental housing assistance programs oversight;
- Revision of the Department's accounting policies and procedures to strengthen the administrative control of funds; and
- Further integration of performance information in HUD's budget justifications to increase accountability for results and improve decision making on resource allocations.

The Independent Auditor's Report expresses an unqualified opinion that the Department's principal financial statements present fairly, in all material respects, the financial position of HUD as of September 30, 2002. However, the report identifies three material management control weaknesses and ten reportable conditions associated with HUD's underlying financial management operations. Continued progress in resolving these control issues is a top priority for HUD management. Further information on HUD's plans and progress to correct these weaknesses and conditions is provided in the Financial Management Accountability section of this report.

I look forward to continuing a productive working relationship with HUD's management team, OMB, and the Congress to address HUD's financial management challenges and improve program performance.

Very respectfully,



Angela M. Antonelli  
Chief Financial Officer





# Financial Statements

## Introduction

The principal financial statements have been prepared to report the financial position and results of operations of the Department of Housing and Urban Development (HUD), pursuant to the requirements of the Chief Financial Officers Act of 1990 (31 U.S.C. 3515 (b)). While the financial statements have been prepared from HUD's books and records in accordance with formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The principal financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication is that liabilities reported in the financial statements cannot be liquidated without legislation that provides resources to do so.

The financial statements included in this annual report are as follows:

- Consolidated Balance Sheet;
- Consolidating Statement of Net Cost;
- Consolidating Statement of Changes in Net Position;
- Combined Statement of Budgetary Resources; and
- Consolidated Statement of Financing.

These financial statements include all of HUD's activities, including those of the Federal Housing Administration and the Government National Mortgage Association. These financial statements cover all of HUD's budget authority.

### 3. FINANCIAL INFORMATION

**Department of Housing and Urban Development**  
**Consolidated Balance Sheet**  
**As of September 30, 2002 and 2001**  
(Dollars in Millions)

	2002	2001
<b>ASSETS</b>		
Intragovernmental		
Fund Balance with Treasury (Note 3)	\$77,632	\$73,948
Investments (Note 5)	28,342	23,979
Accounts Receivable (Net) (Note 7)	3	6
Other Assets (Note 8)		43
<b>Total Intragovernmental Assets</b>	<b>\$105,977</b>	<b>\$97,976</b>
Investments (Note 5)		
Accounts Receivable (Note 7)	782	679
Credit Program Receivables and Related Foreclosed Property (Note 9)	11,379	10,949
General Property Plant and Equipment (Note 10)	87	73
Other Assets (Note 8)	152	140
<b>TOTAL ASSETS</b>	<b>\$118,377</b>	<b>\$109,817</b>
<b>LIABILITIES</b>		
Intragovernmental Liabilities		
Accounts Payable	\$3,096	\$2,046
Debt (Note 12)	11,677	9,235
Other Intragovernmental Liabilities (Note 13)	4,674	4,941
<b>Total Intragovernmental Liabilities</b>	<b>\$19,447</b>	<b>\$16,222</b>
Accounts Payable	1,398	1,443
Loan Guarantees Liabilities (Note 9)	3,814	6,090
Debt Held by the Public (Note 12)	2,220	2,496
Federal Employee and Veterans' Benefits (Note 2)	81	86
Debentures Issued to Claimants (Note 12)	288	224
Loss Reserves (Note 14)	539	536
Other Governmental Liabilities (Note 13)	1,047	1,165
<b>TOTAL LIABILITIES</b>	<b>\$28,834</b>	<b>\$28,262</b>
<b>NET POSITION</b>		
Unexpended Appropriations	\$65,407	\$63,305
Cumulative Results of Operations	24,136	18,250
<b>TOTAL NET POSITION</b>	<b>89,543</b>	<b>81,555</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$118,377</b>	<b>\$109,817</b>

The accompanying notes are an integral part of these statements

# PERFORMANCE AND ACCOUNTABILITY REPORT

## Department of Housing and Urban Development Consolidating Statement of Net Cost For the Year Ended September 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
<b>COSTS:</b>							
<b>Unsubsidized Program</b>							
Intragovernmental Gross Cost	\$516						\$516
Intragovernmental Earned Revenue	(1,354)						(1,354)
Intragovernmental Net Costs	(\$838)	\$0	\$0	\$0	\$0	\$0	(\$838)
Gross Costs With the Public	(\$1,084)						(\$1,084)
Earned Revenue With the Public	(678)						(678)
Net Costs With the Public	(\$1,762)	\$0	\$0	\$0	\$0	\$0	(\$1,762)
Net Program Costs	(\$2,600)						(\$2,600)
<b>Subsidized Program</b>							
Intragovernmental Gross Cost	\$125						\$125
Intragovernmental Earned Revenue	(107)						(107)
Intragovernmental Net Costs	\$18	\$0	\$0	\$0	\$0	\$0	\$18
Gross Costs With the Public	(\$987)						(\$987)
Earned Revenue With the Public	(366)						(366)
Net Costs With the Public	(\$1,353)	\$0	\$0	\$0	\$0	\$0	(\$1,353)
Net Program Costs	(\$1,335)						(\$1,335)
<b>Government National Mortgage Association</b>							
Intragovernmental Gross Cost							\$0
Intragovernmental Earned Revenues		(399)					(399)
Intragovernmental Net Costs	\$0	(\$399)	\$0	\$0	\$0	\$0	(\$399)
Gross Cost With the Public		\$57					\$57
Earned Revenues		(452)					(452)
Net Costs With the Public	\$0	(\$395)	\$0	\$0	\$0	\$0	(\$395)
Net Program Costs		(\$794)					(\$794)
<b>Section 8:</b>							
Intragovernmental Gross Cost			\$27	\$26	\$0		\$53
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs	\$0	\$0	\$27	\$26	\$0	\$0	\$53
Gross Cost With the Public			\$11,385	\$7,019	\$17		\$18,421
Earned Revenues			(175)	175			0
Net Costs With the Public	\$0	\$0	\$11,210	\$7,194	\$17	\$0	\$18,421
Net Program Costs			\$11,237	\$7,220	\$17		\$18,474
<b>Low Rent Public Housing Loans and Grants</b>							
Intragovernmental Gross Cost			\$214				\$214
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs	\$0	\$0	\$214	\$0	\$0	\$0	\$214
Gross Cost With the Public			\$4,038				\$4,038
Earned Revenues							0
Net Costs With the Public	\$0	\$0	\$4,038	\$0	\$0	\$0	\$4,038
Net Program Costs			\$4,252				\$4,252

The accompanying notes are an integral part of these statements

### 3. FINANCIAL INFORMATION

#### Department of Housing and Urban Development Consolidating Statement of Net Cost For the Year Ended September 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
<b>COSTS (Continued):</b>							
<b>Operating Subsidies:</b>							
Intragovernmental Gross Cost			\$33				\$33
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs	\$0	\$0	\$33	\$0	\$0	\$0	\$33
Gross Cost With the Public			\$3,666				\$3,666
Earned Revenues							0
Net Costs With the Public	\$0	\$0	\$3,666	\$0	\$0	\$0	\$3,666
Net Program Costs			\$3,699				\$3,699
<b>Housing for the Elderly and Disabled</b>							
Intragovernmental Gross Cost				\$264			\$264
Intragovernmental Earned Revenues				0			0
Intragovernmental Net Costs	\$0	\$0	\$0	\$264	\$0	\$0	\$264
Gross Cost With the Public				\$898			\$898
Earned Revenues				(646)			(646)
Net Costs With the Public	\$0	\$0	\$0	\$252	\$0	\$0	\$252
Net Program Costs				\$516			\$516
<b>Community Development Block Grants:</b>							
Intragovernmental Gross Cost					\$26		\$26
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs	\$0	\$0	\$0	\$0	\$26	\$0	\$26
Gross Cost With the Public					\$5,417		\$5,417
Earned Revenues							0
Net Costs With the Public	\$0	\$0	\$0	\$0	\$5,417	\$0	\$5,417
Net Program Costs					\$5,443		\$5,443
<b>HOME:</b>							
Intragovernmental Gross Cost					\$14		\$14
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs	\$0	\$0	\$0	\$0	\$14	\$0	\$14
Gross Cost With the Public					\$1,537		\$1,537
Earned Revenues							0
Net Costs With the Public	\$0	\$0	\$0	\$0	\$1,537	\$0	\$1,537
Net Program Costs					\$1,551		\$1,551
<b>Other:</b>							
Intragovernmental Gross Cost			\$39	\$17	\$54	\$103	\$213
Intragovernmental Earned Revenues			(1)	(4)	(2)		(7)
Intragovernmental Net Costs	\$0	\$0	\$38	\$13	\$52	\$103	\$206
Gross Cost With the Public			\$810	\$687	\$1,495	\$232	\$3,224
Earned Revenues				(27)	(2)		(29)
Net Costs With the Public	\$0	\$0	\$810	\$660	\$1,493	\$232	\$3,195
Net Program Costs			\$848	\$673	\$1,545	\$335	\$3,401
Costs Not Assigned to Programs			\$208	\$64	\$130	\$1	\$403
<b>NET COST OF OPERATIONS</b>	<b>(\$3,935)</b>	<b>(\$794)</b>	<b>\$20,244</b>	<b>\$8,473</b>	<b>\$8,686</b>	<b>\$337</b>	<b>\$33,010</b>

The accompanying notes are an integral part of these statements

# PERFORMANCE AND ACCOUNTABILITY REPORT

## Department of Housing and Urban Development Consolidating Statement of Net Cost For the Year Ended September 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
<b>COSTS:</b>							
<b>Unsubsidized Program</b>							
Intragovernmental	\$503						\$503
Intragovernmental Earned Revenues	(1,482)						(1,482)
Intragovernmental Net Costs	(\$979)						(\$979)
With the Public	(\$1,234)						(\$1,234)
Earned Revenue With the Public	(313)						(313)
Net Costs With the Public	(\$1,547)						(\$1,547)
Net Program Costs	(\$2,526)						(\$2,526)
<b>Subsidized Program</b>							
Intragovernmental	\$122						\$122
Intragovernmental Earned Revenues	(127)						(127)
Intragovernmental Net Costs	(\$5)						(\$5)
With the Public	(\$469)						(\$469)
Earned Revenue With the Public	(143)						(143)
Net Costs With the Public	(\$612)						(\$612)
Net Program Costs	(\$617)						(\$617)
<b>Government National Mortgage Association</b>							
Intragovernmental							\$0
Intragovernmental Earned Revenues		(\$430)					(430)
Intragovernmental Net Costs		(\$430)					(\$430)
With the Public		\$73					\$73
Earned Revenues		(448)					(448)
Net Costs With the Public		(\$375)					(\$375)
Net Program Costs		(\$805)					(\$805)
<b>Section 8:</b>							
Intragovernmental			\$7	\$24			\$31
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs			\$7	\$24	\$0		\$31
With the Public			\$9,543	\$7,059	\$11		\$16,613
Earned Revenues				150			150
Net Costs With the Public			\$9,543	\$7,209	\$11		\$16,763
Net Program Costs			\$9,550	\$7,233	\$11		\$16,794
<b>Low Rent Public Housing Loans and Grants</b>							
Intragovernmental			\$204				\$204
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs			\$204				\$204
With the Public			\$3,851				\$3,851
Earned Revenues							0
Net Costs With the Public			\$3,851				\$3,851
Net Program Costs			\$4,055				\$4,055

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### 3. FINANCIAL INFORMATION

#### Department of Housing and Urban Development Consolidating Statement of Net Cost For the Year Ended September 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Public and Indian Housing	Housing	Community Planning and Development	Other	Consolidated
<b>COSTS (Continued):</b>							
<b>Operating Subsidies:</b>							
Intragovernmental			\$35				\$35
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs			\$35				\$35
With the Public			\$3,112				\$3,112
Earned Revenues							0
Net Costs With the Public			\$3,112				\$3,112
Net Program Costs			\$3,147				\$3,147
<b>Housing for the Elderly and Disabled</b>							
Intragovernmental				\$314			\$314
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs				\$314			\$314
With the Public				\$784			\$784
Earned Revenues				(665)			(665)
Net Costs With the Public				\$119			\$119
Net Program Costs				\$433			\$433
<b>Community Development Block Grants:</b>							
Intragovernmental					\$33		\$33
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs					\$33		\$33
With the Public					\$4,947		\$4,947
Earned Revenues							0
Net Costs With the Public					\$4,947		\$4,947
Net Program Costs					\$4,980		\$4,980
<b>HOME:</b>							
Intragovernmental					\$11		\$11
Intragovernmental Earned Revenues							0
Intragovernmental Net Costs					\$11		\$11
With the Public					\$1,425		\$1,425
Earned Revenues							0
Net Costs With the Public					\$1,425		\$1,425
Net Program Costs					\$1,436		\$1,436
<b>Other:</b>							
Intragovernmental			\$51	\$29	\$45	\$43	\$168
Intragovernmental Earned Revenues			(1)	(10)	(2)	(1)	(14)
Intragovernmental Net Costs			\$50	\$19	\$43	\$42	\$154
With the Public			\$800	\$548	\$1,477	\$217	\$3,042
Earned Revenues				(26)	(5)		(31)
Net Costs With the Public			\$800	\$522	\$1,472	\$217	\$3,011
Net Program Costs			\$850	\$541	\$1,515	\$259	\$3,165
Costs Not Assigned to Programs			\$153	\$141	\$87	\$1	\$382
<b>NET COST OF OPERATIONS</b>	<b>(\$3,143)</b>	<b>(\$805)</b>	<b>\$17,755</b>	<b>\$8,348</b>	<b>\$8,029</b>	<b>\$260</b>	<b>\$30,444</b>

The accompanying notes are an integral part of these statements

# PERFORMANCE AND ACCOUNTABILITY REPORT

## Department of Housing and Urban Development Consolidated Statement of Changes in Net Position For the Period Ending September 2002 and 2001

(Dollars in Millions)

	2002		2001	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Net Position-Beginning of Period	(\$18,250)	(\$63,305)	(\$13,889)	(\$60,870)
Prior Period Adjustments (Note 19)	5	(5)		
Beginning Balances, As Adjusted	(\$18,245)	(\$63,310)	(\$13,889)	(\$60,870)
<b>BUDGETARY FINANCING SOURCES</b>				
Appropriations Received		(45,630)		(42,508)
Transfers In/Out		1,280		1,239
Other Adjustments (Recissions, etc)		1,717		2,601
Appropriations Used	(40,542)	40,536	(36,233)	36,233
Transfers In/Out Without Reimbursement	839		318	
Other Budgetary Financing Sources	8		(7)	
Other Financing Sources				
Donations and Forfeitures of Property				
Transfers In/Out Without Reimbursement	865		1,180	
Imputed Financing From Costs				
Absorbed From Others	(73)		(70)	
Other	2		7	
<b>TOTAL FINANCING SOURCES</b>	<b>(\$38,901)</b>	<b>(\$2,097)</b>	<b>(\$34,805)</b>	<b>(\$2,435)</b>
Net Cost of Operations	33,010		30,444	
<b>ENDING BALANCES</b>	<b>(\$24,136)</b>	<b>(\$65,407)</b>	<b>(\$18,250)</b>	<b>(\$63,305)</b>

The accompanying notes are an integral part of these statements

### 3. FINANCIAL INFORMATION

**Department of Housing and Urban Development**  
**Consolidated Statement of Budgetary Resources**  
**For the Period Ending September 2002 and 2001**  
(Dollars in Millions)

	2002		2001	
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts
<b>BUDGETARY RESOURCES:</b>				
Budget Authority	\$45,809	\$3,925	\$46,694	\$900
Net Transfers, Current Year Authority	6		6	
Unobligated Balance-Beginning of Year	39,641	4,537	39,691	4,503
Net Transfers, Actual, Prior Year Balance	700			
Spending Authority from Offsetting Collections	10,281	10,237	8,337	12,333
Adjustments				
Recoveries of Prior Year Adjustments	3,695	50	3,275	4
Permanently not available				
Cancellations – Expired and No Year Accts	(45)		(56)	
Enacted Recissions	(1,958)		(2,534)	
Capital Trans & Debt Redemption	(2,796)	(916)	(2,252)	(3,511)
Other Authority Withdrawn	(6,559)		(6,863)	
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$88,774</b>	<b>\$17,833</b>	<b>\$86,298</b>	<b>\$14,229</b>
<b>STATUS OF BUDGETARY RESOURCES:</b>				
Obligations Incurred (Note 20)	\$43,487	\$14,740	\$46,656	\$9,692
Unobligated Balances Available	9,362	1,467	10,433	2,195
Unobligated Balances Not Available	35,925	\$1,626	29,209	2,342
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$88,774</b>	<b>\$17,833</b>	<b>\$86,298</b>	<b>\$14,229</b>
Obligated Balance, Net-Beg of Period	\$94,000	(\$119)	\$97,502	\$212
Obligated Balance Transferred, Net				
Obligated Balance, Net – End of Period	89,706	(98)	94,000	(119)
<b>OUTLAYS:</b>				
Disbursements	\$44,216	\$14,658	\$47,152	\$9,953
Collections	(10,410)	(10,226)	(8,606)	(12,267)
Subtotal	\$33,806	\$4,432	\$38,546	(\$2,314)
Less: Offsetting Receipts	(2,001)		(626)	
<b>NET OUTLAYS</b>	<b>\$31,805</b>	<b>\$4,432</b>	<b>\$37,920</b>	<b>(\$2,314)</b>

The accompanying notes are an integral part of these statements

# PERFORMANCE AND ACCOUNTABILITY REPORT

## Department of Housing and Urban Development Consolidated Statement of Financing For the Year Ended September 2002 and 2001 (Dollars in Millions)

	2002	2001
<b>RESOURCES USED TO FINANCE ACTIVITIES:</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$58,227	\$56,348
Less: Spending Authority from Offsetting Collections & Recoveries	(24,263)	(23,949)
Obligations Net of Offsetting Collections	\$33,964	\$32,399
Less: Offsetting Receipts	(2,001)	(626)
Net Obligations	\$31,963	\$31,773
<b>Other Resources</b>		
Transfers In/Out Without Reimbursement	(865)	(1,180)
Imputed Financing from Costs Absorbed by Others	73	70
Other Resources	6	(63)
Net Other Resources Used to Finance Activities	(\$786)	(\$1,173)
<b>Total Resources Used to Finance Activities</b>	<b>\$31,177</b>	<b>\$30,600</b>
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS</b>		
Change in Budgetary Resources Obligated for Goods Services/Benefits Ordered but not yet Provided	\$4,199	\$3,957
Resources That Fund Expenses from Prior Periods	(6,261)	(9,481)
Budgetary Offsetting Collections and Receipts Not Affecting Net Cost of Operations	19,488	18,081
Resources Financing Acquisition of Assets	(10,335)	(8,550)
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	4	(603)
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<b>\$7,095</b>	<b>\$3,404</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>\$38,272</b>	<b>\$34,004</b>
<b>COMPONENTS OF NET COST OF OPERATIONS NOT REQUIRING/ GENERATING RESOURCES IN THE CURRENT PERIOD:</b>		
<b>Components Requiring or Generating Resources in Future Periods</b>		
Increase in Annual Leave Liability (Note 22)	\$2	\$1
Reestimates of Credit Subsidy Expense	1,149	559
Exchange Revenue Receivable from the Public	(657)	(677)
Other		33
<b>Total Requiring/Generating Resources in Future Periods</b>	<b>\$494</b>	<b>(\$84)</b>
<b>Components Not Requiring/Generating Resources</b>		
Depreciation and Amortization	\$13	\$4
Revaluation of Assets or Liabilities	(1,275)	(1,124)
Other	(4,494)	(2,356)
<b>Total Components of Net Cost of Operation Not Requiring/Generating Resources</b>	<b>(\$5,756)</b>	<b>(\$3,476)</b>
<b>Total Components of Net Cost of Operations Not Requiring/Generating Resources in the Current Period</b>	<b>(\$5,262)</b>	<b>(\$3,560)</b>
<b>NET COST OF OPERATIONS</b>	<b>\$33,010</b>	<b>\$30,444</b>

The accompanying notes are an integral part of these statements

## **Notes to Financial Statements September 30, 2002 and 2001**

### **Note I – Entity And Mission**

The U.S. Department of Housing and Urban Development (HUD) was created in 1965 to (1) provide housing subsidies for low and moderate income families, (2) provide grants to states and communities for community development activities, (3) provide direct loans and capital advances for construction and rehabilitation of housing projects for the elderly and persons with disabilities, and (4) promote and enforce fair housing and equal housing opportunity. In addition, HUD insures mortgages for single family and multifamily dwellings; insures loans for home improvements and manufactured homes; and facilitates financing for the purchase or refinancing of millions of American homes.

HUD's major programs are as follows:

The **Federal Housing Administration** (FHA) was created as a Government corporation within HUD and administers active mortgage insurance programs which are designed to make mortgage financing more accessible to the home-buying public and thereby to develop affordable housing. FHA insures private lenders against loss on mortgages which finance single family homes, multifamily projects, health care facilities, property improvements, and manufactured homes.

The **Government National Mortgage Association** (Ginnie Mae) was created as a Government corporation within HUD to administer mortgage support programs that could not be carried out in the private market. Ginnie Mae guarantees the timely payment of principal and interest on mortgage-backed securities issued by approved private mortgage institutions and backed by pools of mortgages insured or guaranteed by FHA, the Rural Housing Service (RHS), the Department of Veterans Affairs (VA) and the HUD Office of Public and Indian Housing (PIH).

The **Section 8 Rental Assistance** programs assist low- and very low-income families in obtaining decent and safe rental housing. HUD makes up the difference between what a low- and very low-income family can afford and the approved rent for an adequate housing unit.

**Operating Subsidies** are provided to Public Housing Authorities (PHAs) and Tribally Designated Housing Entities (TDHEs) to help finance the operations and maintenance costs of their housing projects.

The **Community Development Block Grant** (CDBG) programs provide funds for metropolitan cities, urban counties, and other communities to use for neighborhood revitalization, economic development, and improved community facilities and services. The United States Congress appropriated \$2 billion in FY 2002 and \$783 million in emergency supplemental appropriations in FY 2001 for "Community Development Fund" for emergency expenses to respond to the September 11, 2001 terrorist attacks on the United States. Of the amounts appropriated, \$312.5 million was expensed in FY 2002. Any remaining un-obligated balances shall remain available until expended.

The **Low Rent Public Housing Grants** program provides grants to PHAs and TDHEs for construction and rehabilitation of low-rent housing. This program is a continuation of the Low Rent Public Housing Loan program which pays principal and interest on long-term loans made to PHAs and TDHEs for construction and rehabilitation of low-rent housing.

The **Section 202/811 Supportive Housing for the Elderly and Persons with Disabilities** programs, prior to fiscal 1992, provided 40 year loans to nonprofit organizations sponsoring rental housing for the elderly or disabled. During fiscal 1992, the program was converted to a grant program. The grant program provides long-term supportive housing for the elderly (Section 202) and disabled (Section 811).

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

**Other Programs** not included above consist of other smaller programs which provide grant, subsidy funding, and direct loans to support other HUD objectives such as fair housing and equal opportunity, energy conservation, assistance for the homeless, rehabilitation of housing units, and home ownership. These programs comprise approximately 9.1 percent of HUD's consolidated assets and 8.2 percent of HUD's consolidated revenues and financing sources for fiscal 2002 and 9.9 percent of HUD's consolidated assets and 9.1 percent of HUD's consolidated revenues and financing sources for fiscal 2001.

### **Note 2 – Summary of Significant Accounting Policies**

#### **A. Basis of Consolidation**

The financial statements include all funds and programs for which HUD is responsible. All significant intra-fund balances and transactions have been eliminated in consolidation. Transfer appropriations are consolidated into the financial statements based on an evaluation of their relationship with HUD.

#### **B. Basis of Accounting**

The financial statements include the accounts and transactions of the Ginnie Mae, FHA, and HUD's Grant, Subsidy and Loan programs.

The financial statements are presented in accordance with the Office of Management and Budget (OMB) Bulletin 01-09, Form and Content of Agency Financial Statements, and in conformance with the Federal Accounting Standards Advisory Board's (FASAB) Statements of Federal Financial Accounting Standards (SFFAS).

The financial statements are presented on the accrual basis of accounting. Under this method, HUD recognizes revenues when earned, and expenses when a liability is incurred, without regard to receipt or payment of cash. Generally, procedures for HUD's major grant and subsidy programs require recipients to request periodic disbursement concurrent with incurring eligible costs.

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. HUD's disbursement of funds for these purposes are not considered advance payments, but are viewed as good cash management between the department and the grantees. In the event it is determined that the grantee/recipient did not disburse the funds within the three days time frame, interest earned must be returned to HUD and deposited into one of Treasury's miscellaneous receipt accounts.

### **C. Operating Revenue and Financing Sources**

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

#### *Appropriations for Grant and Subsidy Programs*

HUD receives both annual and multi-year appropriations, and recognizes those appropriations as revenue when related program expenses are incurred. Accordingly, HUD recognizes grant-related revenue and related expenses as recipients perform under the contracts. HUD recognizes subsidy-related revenue and related expenses when the underlying assistance (e.g., provision of a Section 8 rental unit by a housing owner) is provided.

#### *FHA Unearned Premiums*

Premiums charged by FHA for single family mortgage insurance provided by its Mutual Mortgage Insurance (MMI) Fund and Cooperative Management Housing Insurance (CMHI) Fund include up-front and annual risk based premiums. Pre-credit reform up-front risk based premiums are recorded as unearned revenue upon collection and are recognized as revenue over the period in which losses and insurance costs are expected to occur. Annual risk-based premiums are recognized as revenue on a straight-line basis throughout the year. FHA's other activities charge periodic insurance premiums over the mortgage insurance term. Premiums on annual installment policies are recognized for the liquidating accounts on a straight-line basis throughout the year.

Premiums associated with Credit Reform loan guarantees are included in the calculation of the liability for loan guarantees (LLG) and not included in the unearned premium amount reported on the Balance Sheet, since the LLG represents the net present value of future cash flows associated with those insurance portfolios.

#### *Ginnie Mae Fees*

Fees received for Ginnie Mae's guaranty of mortgage-backed securities are recognized as earned on an accrual basis. Fees received for commitments to subsequently guarantee mortgage-backed securities and commitments to fund mortgage loans are recognized when commitments are granted.

### **D. Appropriations and Monies Received from Other HUD Programs**

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

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

### **E. Investments**

HUD limits its investments, principally comprised of investments by FHA's MMI/CMHI Fund and by Ginnie Mae, to non-marketable market-based Treasury interest-bearing obligations (i.e., investments not sold in public markets). The market value and interest rates established for such investments are the same as those for similar Treasury issues, which are publicly marketed.

HUD's investment decisions are limited by Treasury policy which: (1) only allows investment in Treasury notes, bills, and bonds; and (2) prohibits HUD from engaging in practices that result in "windfall" gains and profits, such as security trading and full scale restructuring of portfolios, in order to take advantage of interest rate fluctuations.

FHA's normal policy is to hold investments in U.S. Government securities to maturity. However, as a result of Credit Reform, cash collected on insurance endorsed on or after October 1, 1991, is no longer available to invest in U.S. Government securities, and may only be used to finance claims arising from insurance endorsed during or after fiscal 1992. FHA may have to liquidate its U.S. Government securities before maturity to finance claim payments from pre-fiscal year 1992 insurance endorsements. However, management does not expect early liquidation of any U.S. Government Securities and believes it has the ability to hold these securities to maturity.

HUD reports investments in U.S. Government securities at amortized cost. Premiums or discounts are amortized into interest income over the term of the investment. HUD intends to hold investments to maturity, unless needed for operations. No provision is made to record unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

### **F. Credit Program Receivables and Related Foreclosed Property**

HUD finances mortgages and provides loans to support construction and rehabilitation of low rent housing, principally for the elderly and disabled under the Section 202/811 program. Prior to April 1996, mortgages were also assigned to HUD through FHA claims settlement (i.e., mortgage notes assigned (MNAs)). Single family mortgages were assigned to FHA when the mortgagor defaulted due to certain "temporary hardship" conditions beyond the control of the mortgagor, and when, in management's judgment, it is likely that the mort-

gage could be brought current in the future. During fiscal 2002, FHA continued to take single family assignments on those defaulted notes that were in process at the time the assignment program was terminated. In addition, multifamily mortgages are assigned to FHA when lenders file mortgage insurance claims for defaulted notes.

Multifamily and single family performing notes insured pursuant to Section 221(g)(4) of the National Housing Act may be assigned automatically to FHA at a pre-determined point.

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 Federal Credit Reform Act of 1990 and SFFAS No. 2, "Accounting for Direct Loans and Loan Guarantees," as amended by SFFAS No. 18. Those obligated or committed on or after October 1, 1991 (post-Credit Reform) are valued at the net present value of expected cash flows from the related receivables.

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

Foreclosed property acquired as a result of defaults of loans obligated or loan guarantees committed on or after October 1, 1991, is valued at the net present value of the projected cash flows associated with the property. Foreclosed property acquired as a result in defaulted loans obligated or loan guarantees committed prior to 1992 is valued at net realizable value. The estimate for the allowance for loss related to the net realizable value of foreclosed property is based on historical loss rates and recovery rates resulting from property sales, net of cost of sales.

#### **G. Liability for Loan Guarantees**

The liability for loan guarantees (LLG) related to Credit Reform loans (made after October 1, 1991) 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 pre-Credit Reform LLG is computed using the net realizable value method. The LLG for pre-Credit Reform single family insured mortgages includes estimates for defaults that have taken place, but where claims have not yet been filed with FHA. In addition, the LLG for pre-Credit Reform multifamily insured mortgages includes estimates for defaults which are considered probable but have not been reported to FHA.

## **H. Full Cost Reporting**

Beginning in fiscal 1998, SFFAS No. 4 required that full costing of program outputs be included in Federal agency financial statements. Full cost reporting includes direct, indirect, and inter-entity costs. For purposes of the consolidated department financial statements, HUD identified each responsible segment's share of the program costs or resources provided by HUD or other Federal agencies. These costs are treated as imputed cost for the Statement of Net Cost, and imputed financing for the Statement of Changes in Net Position and the Statement of Financing.

## **I. Accrued Unfunded Leave and Federal Employees Compensation Act (FECA) Liabilities**

Annual leave and compensatory time are accrued as earned and the liability is reduced as leave is taken. The liability at year-end reflects cumulative leave earned but not taken, priced at current wage rates. Earned leave deferred to future periods is to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources in the Net Position section of its Consolidated Balance Sheet. Sick leave and other types of leave are expensed as taken.

HUD also accrues the portion of the estimated liability for disability benefits assigned to the agency under the FECA, administered and determined by the Department of Labor. The liability, based on the net present value of estimated future payments based on a study conducted by the Department of Labor, was \$81 million as of September 30, 2002 and \$86 million as of September 30, 2001. Future payments on this liability are to be funded by future appropriations. HUD offsets this unfunded liability by recording future financing sources.

## **J. Loss Reserves**

HUD records loss reserves for its mortgage insurance programs operated through FHA and its financial guaranty programs operated by Ginnie Mae. FHA loss reserves are recorded for actual or probable defaults of FHA-insured mortgage loans. Ginnie Mae establishes reserves for actual and probable defaults of issuers of Ginnie Mae-guaranteed mortgage-backed securities. Such reserves are based on management's judgment about historical claim and loss information and current economic factors.

## **K. Retirement Plans**

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

A primary feature of FERS is that it offers a savings plan whereby HUD automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. Under CSRS, employees can contribute up to 7 percent of their pay to the

savings plan, but there is no corresponding matching by HUD. Although HUD funds a portion of the benefits under FERS relating to its employees and makes the necessary withholdings from them, it has no liability for future payments to employees under these plans, nor does it report CSRS, FERS, or FECA assets, accumulated plan benefits, or unfunded liabilities applicable to its employees retirement plans. These amounts are reported by the Office of Personnel Management (OPM) and are not allocated to the individual employers. HUD's matching contribution to these retirement plans during fiscal 2002 and 2001 was \$71 million and \$66 million, respectively.

#### L. Federal Employee and Veterans' Benefit

The Department's Federal Employee and Veterans' benefit expenses totaled approximately \$125 million for fiscal 2002; this amount includes \$31 million to be funded by the OPM. Federal Employee and Veterans' benefit expenses totaled approximately \$122 million for fiscal 2001; this amount includes \$32 million to be funded by the OPM. Amounts funded by the OPM are charged to expense with a corresponding amount considered as an imputed financing source in the statement of changes in net position.

#### M. Reclassifications

Starting in fiscal year 2002, HUD prepared its financial statements in the format provided by OMB Bulletin 01-09, Form and Content of Agency Financial Statements. Certain prior-year financial statement line items have, therefore, been reclassified to conform to the fiscal year 2002 presentation format. Included in these reclassifications is the addition of the general fund receipt account. The general fund receipt account of FHA's GI and SRI funds is used to accumulate resources related to negative credit subsidy from new endorsements and downward credit subsidy reestimates. At the beginning of the following fiscal year, these accumulated resources are transferred to the U.S. Treasury's general fund. This fund was not originally presented in the fiscal year 2001 financial statements, but it is included in these comparative statements. The addition of the general fund receipt account increased FHA's fund balances with U.S. Treasury and the payable to the U.S. Treasury by \$620 million. These changes in classification have no effect on previously reported net position.

#### Note 3 – Fund Balance with the U.S. Treasury

The U.S. Treasury, which, in effect, maintains HUD's bank accounts, processes substantially all of HUD's receipts and disbursements. HUD's fund balances with the U.S. Treasury as of September 30, 2002 and 2001, were as follows (dollars in millions):

Description	2002	2001
Revolving Funds	\$11,187	\$11,819
Appropriated Funds	64,359	61,454
Trust Funds	8	4
Other	2,078	671
<b>TOTAL – FUND BALANCE</b>	<b>\$77,632</b>	<b>\$ 73,948</b>

## PERFORMANCE AND ACCOUNTABILITY REPORT

HUD's fund balances with U.S. Treasury as reflected in the entity's general ledger as of September 30, 2002 were as follows:

Description	Unobligated		Obligated Not Yet Disbursed	Total Fund Balance
	Available	Unavailable		
FHA	\$2,091	\$5,434	\$2,072	\$9,597
GNMA	–	2,509	–	2,509
Section 8 Rental Assistance	1,737	10	16,632	18,379
CDBG	1,756	30	11,413	13,199
HOME	257	–	4,669	4,926
Operating Subsidies	–	26	1,660	1,686
Low Rent Public Housing Loans and Grants	866	23	8,811	9,700
Section 202/811	2,501	42	4,764	7,307
All Other	2,633	519	7,177	10,329
<b>TOTAL</b>	<b>\$11,841</b>	<b>\$8,593</b>	<b>\$57,198</b>	<b>\$77,632</b>

HUD's fund balances with U.S. Treasury as reflected in the entity's general ledger as of September 30, 2001 were as follows:

Description	Unobligated		Obligated Not Yet Disbursed	Total Fund Balance
	Available	Unavailable		
FHA	\$3,759	\$3,662	\$2,021	\$9,442
GNMA	–	2,043	–	2,043
Section 8 Rental Assistance	1,675	10	16,356	18,041
CDBG	1,029	25	9,095	10,149
HOME	284	–	4,385	4,669
Operating Subsidies	141	–	1,688	1,829
Low Rent Public Housing Loans and Grants	882	–	9,389	10,271
Section 202/811	2,848	–	4,217	7,065
All Other	3,015	115	7,309	10,439
<b>TOTAL</b>	<b>\$13,633</b>	<b>\$5,855</b>	<b>\$54,460</b>	<b>\$73,948</b>

An immaterial difference exists between HUD's recorded Fund Balances with the U.S. Treasury and the U.S. Department of Treasury's records. It is the Department's practice to adjust its records to agree with Treasury's balances at the end of the fiscal year. The adjustments are reversed at the beginning of the following fiscal year.

## Note 4 – Commitments Under HUD’s Grant, Subsidy, and Loan Programs

### A. Contractual Commitments

HUD has entered into extensive long-term contractual commitments under its various grant, subsidy and loan programs. These commitments consist of legally binding agreements the Department has entered into to provide grants, subsidies, or loans. Commitments become liabilities when all actions required for payment under an agreement have occurred. The mechanism for funding subsidy commitments generally differs depending on whether the agreements were entered into before or after 1988.

Prior to fiscal 1988, HUD’s subsidy programs, primarily the Section 8 program and the Section 235/236 programs, operated under contract authority. Each year, Congress provided HUD the authority to enter into multiyear contracts within annual and total contract limitation ceilings. HUD then drew on and continues to draw on permanent indefinite appropriations to fund the current year’s portion of those multiyear contracts. Because of the duration of these contracts (up to 40 years), significant authority exists to draw on the permanent indefinite appropriations. Beginning in fiscal 1988, the Section 8 and the Section 235/236 programs began operating under multiyear budget authority whereby the Congress appropriates the funds “up-front” for the entire contract term in the initial year.

As shown below, appropriations to fund a substantial portion of these commitments will be provided through permanent indefinite authority. These commitments relate primarily to the Section 8 program, and the Section 235/236 rental assistance and interest reduction programs, and are explained in greater detail below.

HUD’s commitment balances are based on the amount of unliquidated obligations recorded in HUD’s accounting records with no provision for changes in future eligibility, and thus are equal to the maximum amounts available under existing agreements and contracts. Unexpended appropriations and cumulative results of operations shown in the Consolidated Balance Sheet comprise funds in the U.S. Treasury available to fund existing commitments that were provided through “up-front” appropriations, and also include permanent indefinite appropriations received in excess of amounts used to fund the pre-1988 subsidy contracts and offsetting collections.

The following shows HUD’s obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2002 (dollars in millions):

Programs	Commitments Funded Through			Total Contractual Commitments
	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collection	
Section 8 Rental Assistance	\$16,371	\$21,290	–	\$37,661
Community Development Block Grants	11,382	–	–	11,382
HOME Partnership Investment Program	4,660	–	–	4,660
Operating Subsidies	1,590	–	–	1,590
Low Rent Public Housing Grants and Loans	8,600	–	–	8,600
Housing for Elderly and Disabled	4,636	–	–	4,636
Section 235/236	215	8,012	–	8,227
All Other	6,770	48	\$128	6,946
<b>TOTAL</b>	<b>\$54,224</b>	<b>\$29,350</b>	<b>\$128</b>	<b>\$83,702</b>

## PERFORMANCE AND ACCOUNTABILITY REPORT

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2002, \$28.9 billion relates to project-based commitments, and \$8.7 billion relates to tenant-based commitments.

The following shows HUD's obligations and contractual commitments under its grant, subsidy, and loan programs as of September 30, 2001 (dollars in millions):

Programs	Commitments Funded Through			Total Contractual Commitments
	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collection	
Section 8 Rental Assistance	\$15,975	\$26,412	–	\$42,387
Community Development Block Grants	9,048	–	–	9,048
HOME Partnership Investment Program	4,370	–	–	4,370
Operating Subsidies	1,652	–	–	1,652
Low Rent Public Housing Grants and Loans	9,165	–	–	9,165
Housing for Elderly and Disabled	4,056	–	–	4,056
Section 235/236	138	9,517	–	9,655
All Other	6,993	64	\$110	7,167
<b>TOTAL</b>	<b>\$51,397</b>	<b>\$35,993</b>	<b>\$110</b>	<b>\$87,500</b>

Of the total Section 8 Rental Assistance contractual commitments as of September 30, 2001, \$32.7 billion relates to project-based commitments, and \$9.7 billion relates to tenant-based commitments. With the exception of the Housing for the Elderly and Disabled and Low Rent Public Housing Loan Programs (which have been converted to grant programs), Section 235/236, and a portion of "all other" programs, HUD management expects all of the above programs to continue to incur new commitments under authority granted by Congress in future years. However, estimated future commitments under such new authority are not included in the amounts above.

### B. Administrative Commitments

In addition to the above contractual commitments, HUD has entered into administrative commitments which are reservations of funds for specific projects (including those for which a contract has not yet been executed) to obligate all or part of those funds. Administrative commitments become contractual commitments upon contract execution.

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The following shows HUD's administrative commitments as of September 30, 2002 (dollars in millions):

Programs	Administrative Commitments Funded Through			
	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance Project-Based	\$278	–	–	\$278
Section 8 Rental Assistance Tenant-Based	3	–	–	3
Community Development Block Grants	1,484	–	–	1,484
HOME Partnership Investment Program	229	–	–	229
Low Rent Public Housing Grants and Loans	747	–	–	747
Housing for Elderly and Disabled	2,310	–	–	2,310
All Other	554	\$11	\$3	568
<b>TOTAL</b>	<b>\$5,605</b>	<b>\$11</b>	<b>\$3</b>	<b>\$5,619</b>

The following shows HUD's administrative commitments as of September 30, 2001 (dollars in millions):

Programs	Administrative Commitments Funded Through			
	Unexpended Appropriations	Permanent Indefinite Appropriations	Offsetting Collections	Total Reservations
Section 8 Rental Assistance Project-Based	\$152	–	–	\$152
Section 8 Rental Assistance Tenant-Based	4	–	–	4
Community Development Block Grants	771	–	–	771
HOME Partnership Investment Program	254	–	–	254
Low Rent Public Housing Grants and Loans	819	–	–	819
Housing for Elderly and Disabled	2,586	\$73	–	2,659
All Other	1,180	15	\$5	1,200
<b>TOTAL</b>	<b>\$5,766</b>	<b>\$88</b>	<b>\$5</b>	<b>\$5,859</b>

#### Note 5 – Investments

The U.S. Government securities are non-marketable intra-governmental securities. Interest rates are established by the U.S. Treasury and during fiscal year 2002 ranged from 3 percent to 13.88 percent. During fiscal year 2001 interest rates ranged from 2.49 percent to 13.89 percent. The amortized cost and estimated market value of investments in debt securities as of September 30, 2002 and 2001, were as follows (dollars in millions):

Fiscal Year	Cost	Par Value	Un-amortized Premium (Discount)	Accrued Interest	Net Investments	Unrealized Gain	Market Value
FY 2002	\$27,845	\$28,209	\$(194)	\$327	\$28,342	\$2,208	\$30,550
FY 2001	\$23,524	\$23,864	\$(195)	\$310	\$23,979	\$1,641	\$25,620

**Note 6 – Entity and Non-Entity Assets**

The following shows HUD’s assets as of September 30, 2002 and 2001, were as follows (dollars in millions):

Description	2002			2001		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
<b>Intragovernmental</b>						
Fund Balance with Treasury	\$75,477	\$2,155	\$77,632	\$72,946	\$1,002	\$73,948
Investments	28,340	2	28,342	23,972	7	23,979
Accounts Receivable	–	3	3	6	–	6
Other Assets	–	–	–	43	–	43
<b>TOTAL INTRAGOVERNMENTAL ASSETS</b>	<b>\$103,817</b>	<b>\$2,160</b>	<b>\$105,977</b>	<b>\$96,967</b>	<b>\$1,009</b>	<b>\$97,976</b>
Accounts Receivable	592	190	782	435	244	679
Loan Receivables and Related Foreclosed Property	11,372	7	11,379	10,942	7	10,949
General Property Plant and Equipment	86	–	86	73	–	73
Other Assets	29	123	152	30	110	140
<b>TOTAL ASSETS</b>	<b>\$115,896</b>	<b>\$2,480</b>	<b>\$118,376</b>	<b>\$108,447</b>	<b>\$1,370</b>	<b>\$109,817</b>

**Note 7 – Accounts Receivable**

The department’s accounts receivable represents claims to cash from the public and state and local authorities for bond refundings, Section 8-year end settlements, sustained audit findings, FHA insurance premiums and foreclosed property proceeds. A 100 percent allowance for loss is established for all delinquent debt 90 days and over.

**Section 8 Settlements**

Section 8 subsidies disbursed during the year under annual contribution contracts are based on estimated amounts due under the contracts by PHAs. At the end of each year the actual amount due under the contracts is determined. The excess of subsidies paid to PHAs during the year over the actual amount due is reflected as accounts receivable in the balance sheet. These amounts are “collected” by offsetting such amounts with subsidies due to PHAs in subsequent periods. As of September 30, 2002 and 2001 this amount totaled \$229 million and \$150 million, respectively.

**Bond Refundings**

Many of the Section 8 projects constructed in the late 1970s and early 1980s were financed with tax exempt bonds with maturities ranging from 20 to 40 years. The related Section 8 contracts provided that the subsidies would be based on the difference between what tenants could pay pursuant to a formula, and the total operating costs of the Section 8 project, including debt service. The high interest rates during the construction period resulted in high subsidies. When interest rates came down in the 1980s, HUD was interested in getting the bonds refunded. One method used to account for the savings when bonds are refunded (PHA’s sell a new series of bonds at a lower interest rate, to liquidate the original

### 3. FINANCIAL INFORMATION

bonds), is to continue to pay the original amount of the bond debt service to a trustee. The amounts paid in excess of the lower "refunded" debt service and any related financing costs, are considered savings. One-half of these savings are provided to the PHA, the remaining half is returned to HUD. As of September 30, 2002 and 2001, HUD was due \$189 million and \$240 million, respectively.

#### Other Receivables

Other receivables include sustained audit findings, refunds of overpayment, FHA insurance premiums and foreclosed property proceeds due from the public.

The following shows accounts receivable as reflected in the Balance Sheet as of September 30, 2002 and 2001, as follows (dollars in millions):

Description	2002			2001		
	Gross Accounts Receivable	Allowance for Loss	Total	Gross Accounts Entity	Allowance for Loss	Total
Section 8 Settlements	\$229	–	\$229	\$150	–	\$150
Bond Refundings	200	\$(11)	189	252	\$(12)	240
Other Receivables:						
FHA Premiums	207	–	207	247	(34)	213
Other Receivables	243	(83)	160	146	(64)	82
<b>TOTAL</b>	<b>\$879</b>	<b>\$(94)</b>	<b>\$785</b>	<b>\$795</b>	<b>\$(110)</b>	<b>\$685</b>

#### Note 8 – Other Assets

The following shows HUD's Other Assets as of September 30, 2002 (dollars in millions):

Description	FHA	Ginnie Mae	Section 8 Rental Assistance	All Other	Total
Intragovernmental Assets:					
Receivables from unapplied disbursements	–	–	–	–	–
Section 312 Rehabilitation Loan Program Receivables	–	–	–	–	–
Mortgagor Reserves for Replacement – Investment	–	–	–	–	–
Other Assets	–	–	–	–	–
<b>TOTAL INTRAGOVERNMENTAL ASSETS</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Receivables Related to Asset Sales	–	–	–	–	–
Receivables Related to Credit Program Assets	–	–	–	–	–
Equity Interest in Multifamily Mortgage Trust 1996	–	–	–	–	–
GNMA Real Estate Owned Property and Hole Mortgages	–	\$10	–	–	\$10
Mortgagor Reserves for Replacement – Cash	\$123	–	–	–	123
Advances from the Public	–	–	–	\$4	4
Other Assets	15	–	–	–	15
<b>TOTAL</b>	<b>\$138</b>	<b>\$10</b>	<b>–</b>	<b>\$4</b>	<b>\$152</b>

## PERFORMANCE AND ACCOUNTABILITY REPORT

The following shows HUD's Other Assets as of September 30, 2001 (dollars in millions):

Description	FHA	Ginnie Mae	Section 8 Rental Assistance	All Other	Total
Intragovernmental Assets:					
Receivables from unapplied disbursements	\$43	–	–	–	\$ 43
Section 312 Rehabilitation Loan Program Receivables	–	–	–	–	–
Mortgagor Reserves for Replacement – Investment	–	–	–	–	–
Other Assets	–	–	–	–	–
<b>TOTAL INTRAGOVERNMENTAL ASSETS</b>	<b>\$43</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>\$43</b>
Receivables Related to Asset Sales	–	–	–	–	–
Receivables Related to Credit Program Assets	–	–	–	–	–
GNMA Real Estate Owned Property and Hole Mortgages	–	\$14	–	–	14
Equity Interest in Multifamily Mortgage Trust 1996	–	–	–	–	–
Premiums Receivable	–	–	–	–	–
Mortgagor Reserves for Replacement – Cash	110	–	–	–	110
Other Assets	15	–	–	\$1	16
<b>TOTAL</b>	<b>\$168</b>	<b>\$14</b>	<b>–</b>	<b>\$1</b>	<b>\$183</b>

### Receivable from Unapplied Disbursements

The initial allocations of the confirmed Fund Balances with Treasury among the U.S. Treasury accounts that make up FHA are based on estimates. At the end of the fiscal year, these estimates resulted in the establishment of the receivables and payables that reflect the differences between the Fund Balance with Treasury and the estimates recorded in FHA's general ledger.

Before fiscal year 2001, the receivable and payables were classified as receivable from and payable to the U.S. Treasury. In fiscal year 2001, these receivables and payables were classified as receivables and payables between different FHA accounts to more appropriately reflect the nature of the differences. As a result, in the process of preparing the FHA consolidated statements, these intra-FHA receivables and payables are eliminated. The remaining receivable and/or payable is classified to a receivable or payable with other U.S. government agencies.

### Note 9 – Direct Loans and Loan Guarantees, Non-Federal Borrowers

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

### 3. FINANCIAL INFORMATION

Direct loan obligations or loan guarantee commitments made after fiscal 1991, and the resulting direct loans or defaulted guaranteed loans, are governed by the Federal Credit Reform Act of 1990 and are recorded as the net present value of the associated cash flows (i.e. interest rate differential, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows). The following is an analysis of loan receivables, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees for fiscal 2002 and 2001 were as follows:

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

1. FHA
2. Ginnie Mae
3. Housing for the Elderly and Disabled
4. Low Rent Public Housing Loan Fund
5. All Other
  - a) Revolving Fund
  - b) Flexible Subsidy
  - c) CDBG, Section 108(b)
  - d) Public and Indian Loan Guarantee
  - e) Loan Guarantee Recovery Fund
  - f) Public and Indian Housing Loan Fund
  - g) Hawaiian Home Guarantee Loan Fund
  - h) Title VI Indian Housing Loan Guarantee

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

(dollars in millions):

Direct Loan Programs	2002				
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	\$27	–	\$(9)	–	\$18
Housing for Elderly and Disabled	7,646	\$88	(19)	\$9	7,724
Low Rent Public Housing Loans	2	2	–	–	4
All Other	811	54	(588)	2	279
<b>TOTAL</b>	<b>\$8,486</b>	<b>\$144</b>	<b>\$(616)</b>	<b>\$11</b>	<b>\$8,025</b>

Direct Loan Programs	2001				
	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	\$42	–	\$(23)	–	\$19
Housing for Elderly and Disabled	7,804	\$98	(20)	\$9	7,891
Low Rent Public Housing Loans	3	2	–	–	5
All Other	807	54	(583)	2	280
<b>TOTAL</b>	<b>\$8,656</b>	<b>\$154</b>	<b>\$(626)</b>	<b>\$11</b>	<b>\$8,195</b>

# PERFORMANCE AND ACCOUNTABILITY REPORT

## C. Direct Loans Obligated After FY 1991 (dollars in millions):

Direct Loan Programs	2002				
	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	–	–	\$(3)	–	\$(3)

Direct Loan Programs	2001				
	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property	Value of Assets Related to Direct Loans
FHA	\$1	–	\$(2)	–	\$(1)

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

Direct Loan Programs	2002				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	\$2,301	\$107	\$(984)	\$203	\$1,627

Direct Loan Programs	2001				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan and Interest Losses	Foreclosed Property, Net	Defaulted Guaranteed Loans Receivable, Net
FHA	\$2,057	\$12	\$(1,131)	\$264	\$1,202

## E. Defaulted Guaranteed Loans From Post-FY 1991 Guarantees (dollars in millions):

Direct Loan Programs	2002				
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	Value of Assets Related to Defaulted Guaranteed Loans
FHA	\$817	\$23	\$(1,455)	\$2,344	\$1,729
All Other	–	–	–	1	1
TOTAL	\$817	\$23	\$(1,455)	\$2,345	\$1,730

### 3. FINANCIAL INFORMATION

Direct Loan Programs	2001				Value of Assets Related to Defaulted Guaranteed Loans
	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Foreclosed Property, Gross	
FHA	\$793	\$82	\$(1,367)	\$2,045	\$1,553
				2002	2001
<b>Total Credit Program Receivables and Related Foreclosed Property, Net</b>				<b>\$11,379</b>	<b>\$10,949</b>

#### F. Guaranteed Loans Outstanding (dollars in millions):

##### Guaranteed Loans Outstanding:

Loan Guarantee Programs	2002	
	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	\$608,889	\$555,463
All Other	2,232	2,232
<b>TOTAL</b>	<b>\$611,121</b>	<b>\$557,695</b>

Loan Guarantee Programs	2001	
	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	\$601,715	\$555,463
All Other	2,049	2,049
<b>TOTAL</b>	<b>\$603,764</b>	<b>\$557,512</b>

##### New Guaranteed Loans Disbursed (Current Reporting Year)

Loan Guarantee Programs	2002	
	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	\$168,865	\$159,550
All Other	149	149
<b>TOTAL</b>	<b>\$169,014</b>	<b>\$159,699</b>

##### New Guaranteed Loans Disbursed (Prior Reporting Years)

Loan Guarantee Programs	2001	
	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
FHA Programs	\$150,656	\$142,910
All Other	231	231
<b>TOTAL</b>	<b>\$150,887</b>	<b>\$143,141</b>

# PERFORMANCE AND ACCOUNTABILITY REPORT

## G. Liability for Loan Guarantees

(Estimated Future Default Claims, Pre-1992)(dollars in millions):

Loan Guarantee Programs	2002		
	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
FHA Programs	\$5,088	\$(1,327)	\$3,761
All Other	–	53	53
<b>TOTAL</b>	<b>\$5,088</b>	<b>\$(1,274)</b>	<b>\$3,814</b>

Loan Guarantee Programs	2001		
	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
FHA Programs	\$6,364	\$(311)	\$6,053
All Other	–	37	37
<b>TOTAL</b>	<b>\$6,364</b>	<b>\$(274)</b>	<b>\$6,090</b>

## H. Subsidy Expense for Post-FY 1991 Loan Guarantees:

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

Loan Guarantee Programs	2002				
	Endorsement Amount	Default Component	Fee Component	Other Component	Subsidy Amount
FHA	–	\$2,517	\$(5,964)	\$258	\$(3,189)
All Other	–	14	–	–	14
<b>TOTAL</b>	<b>–</b>	<b>\$2,531</b>	<b>\$(5,964)</b>	<b>\$258</b>	<b>\$(3,175)</b>

Loan Guarantee Programs	2001				
	Endorsement Amount	Default Component	Fee Component	Other Component	Subsidy Amount
FHA	–	\$1,933	\$(4,555)	\$334	\$(2,288)
All Other	–	8	–	–	8
<b>TOTAL</b>	<b>–</b>	<b>\$1,941</b>	<b>\$(4,555)</b>	<b>\$334</b>	<b>\$(2,280)</b>

### 3. FINANCIAL INFORMATION

#### Modification and Re-estimates (dollars in millions)

Loan Guarantee Programs	2002			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FHA	–	–	\$951	\$951
<b>TOTAL</b>	–	–	\$951	\$951

Loan Guarantee Programs	2001			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
FHA	–	–	\$873	\$873
<b>TOTAL</b>	–	–	\$873	\$873

#### Total Loan Guarantee Subsidy Expense (dollars in millions)

Loan Guarantee Programs	Current Year	Prior Year
FHA	\$(2,238)	\$(1,415)
All Other	15	8
<b>TOTAL</b>	<b>\$(2,223)</b>	<b>\$(1,407)</b>

#### I. Subsidy Rates for Loan Guarantees by Programs and Component:

##### Budget Subsidy Rates for Loans Guarantee for FY 2002

Loan Guarantee Program	Default	Fees and Other Collections	Other	Total
<b>FHA</b>				
FHA	1.54%	-3.77%	0.16%	-2.07%
FHA – Other	2.88%	-4.48%		-1.60%
<b>ALL OTHER</b>				
Section 108 (b)	2.30%			2.30%
Indian Housing	2.47%			2.47%
Hawaiian Home	2.47%			2.47%
Title VI Indian Housing	11.07%			11.07%

The subsidy rates above pertain only to FY 2002 cohorts. These rates cannot be applied to the guarantees of loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loan guarantees reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohort. The subsidy expense reported in the current year also includes modifications re-estimates.

## J. Schedule for Reconciling Loan Guarantee Liability Balances (post 1991 Loan Guarantees): (dollars in millions):

Beginning Balance, Changes, and Ending Balance	2002	2001
Beginning balance of the loan guarantee liability	\$6,090	\$7,554
<b>Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:</b>		
(a) Interest supplement costs	–	–
(b) Default costs (net of recoveries)	2,530	1,943
(c) Fees and other collections	(5,964)	(4,555)
(d) Other subsidy costs	258	333
<b>Total of the above subsidy expense components</b>	<b>\$(3,176)</b>	<b>\$ (2,279)</b>
<b>Adjustments:</b>		
(a) Loan guarantee modifications	–	–
(b) Fees Received	2,946	3,313
(c) Interest supplemental paid	–	–
(d) Foreclosed property and loans acquired	3,314	2,228
(e) Claim payments to lenders	(5,890)	(5,423)
(f) Interest accumulation on the liability balance	(150)	(64)
(g) Other	(134)	2,557
<b>Ending balance of the subsidy cost allowance before reestimates</b>	<b>\$3,000</b>	<b>\$7,886</b>
<b>Add or Subtract subsidy reestimates by component:</b>		
(a) Interest rate reestimate	–	–
(b) Technical/default reestimate	814	(1,796)
<b>Total of the above reestimate components</b>	<b>814</b>	<b>(1,796)</b>
<b>Ending balance of the subsidy cost allowance</b>	<b>\$3,814</b>	<b>\$6,090</b>

## K. Administrative Expense (dollars in millions):

Loan Guarantee Programs	2002	2001
FHA	\$ 511	\$ 553
All Other	1	1
<b>TOTAL</b>	<b>\$512</b>	<b>\$554</b>

#### Note 10 – General Property Plant and Equipment

General property plant and equipment consists of furniture, fixtures, equipment and data processing software used in providing goods and services that have an estimated useful life of two or more years. Purchases of \$100,000 or more are recorded as an asset and depreciated over their estimated useful life on a straightline basis with no salvage value. Capitalized replacement and improvement costs are depreciated over the remaining useful life of the replaced or improved asset. Generally, all the department's assets are depreciated over a 4-year period, unless it can be demonstrated that the estimated useful life is significantly greater than 4 years.

The following shows general property plant and equipment as of September 30, 2002 and 2001, (dollars in millions):

Description	2002			2001		
	Cost	Accumulated Depreciation and Amortization	Book Value	Cost	Accumulated Depreciation and Amortization	Book Value
Furniture, Fixtures, and Equipment	\$61	\$(44)	\$17	\$55	\$(32)	\$23
Data Processing Software	6	(2)	4	–	–	–
Internal Use Software in development	72	(9)	63	58	(8)	50
Other Property Plant and Equipment	2	–	2	–	–	–
<b>TOTAL ASSETS</b>	<b>\$141</b>	<b>\$(55)</b>	<b>\$86</b>	<b>\$113</b>	<b>\$(40)</b>	<b>\$73</b>

#### Note 11 – Liabilities Covered and Not Covered by Budgetary Resources

The following shows HUD's liabilities as of September 30, 2002 and 2001 (dollars in millions):

Description	2002			2001		
	Covered	Not-Covered	Total	Covered	Not-Covered	Total
<b>Intragovernmental</b>						
Accounts Payable	\$3,096	–	\$3,096	\$2,046	–	\$2,046
Debt	10,465	\$1,212	11,677	7,948	\$1,287	9,235
Other Intragovernmental Liabilities	276	4,398	4,674	517	4,424	4,941
<b>TOTAL INTRAGOVERNMENTAL LIABILITIES</b>	<b>\$13,837</b>	<b>\$5,610</b>	<b>\$19,447</b>	<b>\$10,511</b>	<b>\$5,711</b>	<b>\$16,222</b>
Accounts Payable	1,398	–	1,398	1,443	–	1,443
Liabilities for Loan Guarantees	3,814	–	3,814	6,090	–	6,090
Debentures Issued to Claimants	288	–	288	224	–	224
Loss Reserves	539	–	539	536	–	536
Debt	30	2,190	2,220	31	2,465	2,496
Federal Employee and Veterans' Benefits	–	81	81	–	86	86
Other Liabilities	983	64	1,047	1,103	62	1,165
<b>TOTAL LIABILITIES</b>	<b>\$20,889</b>	<b>\$7,945</b>	<b>\$28,834</b>	<b>\$19,938</b>	<b>\$8,324</b>	<b>\$28,262</b>

**Note 12 – Debt**

Several HUD programs have the authority to borrow funds from the U.S. Treasury for program operations. Additionally, the National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to pay claims. Also, PHAs and TDHEs borrowed funds from the private sector and from the Federal Financing Bank (FFB) to finance construction and rehabilitation of low rent housing. HUD is repaying these borrowings on behalf of the PHAs and TDHEs.

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2002 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
<b>Agency Debt:</b>			
Held by Government Accounts	\$1,430	\$(76)	\$1,354
Held by the Public	2,720	(212)	2,508
<b>Total Agency Debt</b>	<b>\$4,150</b>	<b>\$(288)</b>	<b>\$3,862</b>
<b>Other Debt:</b>			
Debt to the U.S. Treasury	\$7,797	\$2,521	\$10,318
Debt to the Federal Financing Bank	8	(3)	5
<b>Total Other Debt</b>	<b>\$7,805</b>	<b>\$2,518</b>	<b>\$10,323</b>
<b>TOTAL DEBT</b>	<b>\$11,955</b>	<b>\$2,230</b>	<b>14,185</b>
<b>Classification of Debt:</b>			
Intragovernmental Debt			\$11,677
Debt held by the Public			2,220
Debentures Issued to Claimants			288
<b>TOTAL DEBT</b>			<b>\$14,185</b>

The following shows HUD borrowings, and borrowings by PHAs/TDHEs for which HUD is responsible for repayment, as of September 30, 2001 (dollars in millions):

Description	Beginning Balance	Net Borrowings	Ending Balance
<b>Agency Debt:</b>			
Held by Government Accounts	\$1,431	\$(1)	\$1,430
Held by the Public	3,037	(317)	2,720
<b>Total Agency Debt</b>	<b>\$4,468</b>	<b>\$(318)</b>	<b>\$4,150</b>
<b>Other Debt:</b>			
Debt to the U.S. Treasury	\$10,979	\$(3,182)	\$7,797
Debt to the Federal Financing Bank	11	(3)	8
<b>Total Other Debt</b>	<b>\$10,990</b>	<b>\$(3,185)</b>	<b>\$7,805</b>
<b>TOTAL DEBT</b>	<b>\$15,458</b>	<b>\$(3,503)</b>	<b>\$11,955</b>
<b>Classification of Debt</b>			
Intragovernmental Debt			\$9,235
Debt held by the Public			2,496
Debentures Issued to Claimants			224
<b>TOTAL DEBT</b>			<b>\$11,955</b>

Interest paid on borrowings during the year ended September 30, 2002 and 2001, were \$1 billion and \$1.2 billion, respectively. The purpose of these borrowings is discussed in the following paragraphs.

#### *Borrowings from the U.S. Treasury*

HUD is authorized to borrow from the U.S. Treasury to finance Housing for Elderly and Disabled loans. The Treasury borrowings typically have a 15-year term, but may be repaid prior to maturity at HUD's discretion. However, such borrowings must be repaid in the sequence in which they were borrowed from Treasury. The interest rates on the borrowings are based on Treasury's 30-year bond yield at the time the notes are issued. Interest is payable on April 30 and October 31. Interest rates ranged from 8.69 percent to 9.17 percent during fiscal year 2002 and 7.44 percent to 9.2 percent for fiscal year 2001.

In fiscal 2002 and 2001, FHA borrowed \$4.2 billion and \$1 billion respectively from the U.S. Treasury. The borrowings were needed when FHA initially determined negative credit subsidy amounts related to new loan disbursements or to existing loan modifications. In some instances, borrowings were needed where available cash was less than claim payments due or downward subsidy-estimates. All borrowings were made by FHA's financing accounts. Negative subsidies were generated primarily by the MMI/CMHI Fund financing account; downward re-estimates have occurred from activity of the FHA's loan guarantee financing accounts. These borrowings carried interest rates ranging from 5.47 percent to 7.59 percent during fiscal 2002 and 2001.

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

During the 1960s, 1970s, and 1980s, PHAs obtained loans from the private sector and from the FFB to finance development and rehabilitation of low rent housing projects. HUD is repaying these borrowings on behalf of the PHAs, through the Low Rent Public Housing program. For borrowings from the Public, interest is payable throughout the year. Interest rates range from 2.25 percent to 12.88 percent for both fiscal 2002 and 2001. The borrowings from the FFB and the private sector have terms up to 40 years. FFB interest is payable annually on November 1. Interest rates range from 9.15 percent to 16.18 percent for both fiscal year 2002 and 2001.

Before July 1, 1986, the FFB purchased notes issued by units of general local government and guaranteed by HUD under Section 108. These notes had various maturities and carried interest rates that were one-eighth of one percent above rates on comparable Treasury obligations. The FFB still holds substantially all outstanding notes, and no note purchased by the FFB has ever been declared in default.

#### *Debentures Issued To Claimants*

The National Housing Act authorizes FHA, in certain cases, to issue debentures in lieu of cash to settle claims. FHA-issued debentures bear interest at rates established by the U.S. Treasury. Interest rates related to the outstanding debentures ranged from 4 percent to 12.88 percent for fiscal 2002 and 2001. Debentures may be redeemed by lenders prior to maturity to pay mortgage insurance premiums to FHA, or they may be called with the approval of the Secretary of the U. S. Treasury.

**Note 13 – Other Liabilities**

The following shows HUD’s Other Liabilities as of September 30, 2002 (dollars in millions):

Description	Non-Current	Current	Total
<b>Intragovernmental Liabilities</b>			
FHA Payable from Unapplied Receipts Recorded by Treasury	–	–	–
HUD-Section 312 Rehabilitation Program Payable	–	–	–
Unfunded FECA Liability	–	\$17	\$17
Resource Payable to Treasury	\$ 4,381	–	4,381
Miscellaneous Receipts Payable to Treasury	273	–	273
Deposit Funds	–	–	–
Other Liabilities	–	3	3
<b>TOTAL INTRAGOVERNMENTAL LIABILITIES</b>	<b>\$4,654</b>	<b>\$20</b>	<b>\$ 4,674</b>
<b>Other Liabilities</b>			
FHA Other Liabilities	\$11	\$189	\$200
FHA Escrow Funds Related to Mortgage Notes	–	269	269
FHA Unearned Premiums	381	–	381
Ginnie Mae Deferred Income	–	65	65
Deferred Credits	–	1	1
Deposit Funds	12	31	43
Accrued Unfunded Annual Leave	64	–	64
Accrued Funded Payroll Benefits	24	–	24
Other	–	–	–
<b>TOTAL OTHER LIABILITIES</b>	<b>\$5,146</b>	<b>\$575</b>	<b>\$5,721</b>

The following shows HUD’s Other Liabilities as of September 30, 2001 (dollars in millions):

Description	Non-Current	Current	Total
<b>Intragovernmental Liabilities</b>			
FHA Payable from Unapplied Receipts Recorded by Treasury	–	–	–
HUD-Section 312 Rehabilitation Program Payable	–	–	–
Unfunded FECA Liability	–	\$17	\$17
Resource Payable to Treasury	\$4,407	–	4,407
Miscellaneous Receipts Payable to Treasury	511	–	511
Other Liabilities	–	6	6
<b>TOTAL INTRAGOVERNMENTAL LIABILITIES</b>	<b>\$4,918</b>	<b>\$23</b>	<b>\$4,941</b>
<b>Other Liabilities</b>			
FHA Other Liabilities	\$12	\$158	\$170
FHA Escrow Funds Related to Mortgage Notes	–	163	163
FHA Unearned Premiums	556	–	556
Ginnie Mae Deferred Income	–	50	50
Deferred Credits	–	4	4
Deposit Funds	34	75	109
Accrued Unfunded Annual Leave	62	1	63
Accrued Funded Payroll Benefits	49	–	49
Other	–	1	1
<b>TOTAL OTHER LIABILITIES</b>	<b>\$5,631</b>	<b>\$475</b>	<b>\$6,106</b>

**Note 14 – Loss Reserves**

For fiscal years 2002 and 2001, Ginnie Mae established loss reserves of \$539 million and \$536 million, respectively, which represents probable defaults by issuers of mortgage-backed securities, through a provision charged to operations. The reserve is relieved as losses are realized from the disposal of the defaulted issuers' portfolios. Ginnie Mae recovers part of its losses through servicing fees on the performing portion of the portfolios and the sale of servicing rights which transfers to Ginnie Mae upon the default of the issuer. Ginnie Mae management believes that its reserve is adequate to cover probable losses from defaults by issuers of Ginnie Mae guaranteed mortgage-backed securities.

Ginnie Mae incurs losses when insurance and guarantees do not cover expenses that result from issuer defaults. Such expenses include: (1) unrecoverable losses on individual mortgage defaults because of coverage limitations on mortgage insurance or guarantees, (2) ineligible mortgages included in defaulted Ginnie Mae pools, (3) improper use of proceeds by an issuer, and (4) non-reimbursable administrative expenses and costs incurred to service and liquidate portfolios of defaulted issuers.

**Note 15 – Financial Instruments with Off-Balance Sheet Risk**

Some of HUD's programs, principally those operated through FHA and Ginnie Mae, enter into financial arrangements with off-balance sheet risk in the normal course of their operations.

**A. FHA Mortgage Insurance**

Unamortized insurance in force outstanding for FHA's mortgage insurance programs as of September 30, 2002 and 2001, was \$608 billion and \$602 billion, respectively and is discussed in Note 9F.

**B. Ginnie Mae Mortgage-Backed Securities**

Ginnie Mae financial instruments with off-balance sheet risk include guarantees of Mortgage-Backed Securities (MBS) and commitments to guaranty MBS. The securities are backed by pools of FHA-insured, RHS-insured, and VA-guaranteed mortgage loans. Ginnie Mae is exposed to credit loss in the event of non-performance by other parties to the financial instruments. The total amount of Ginnie Mae guaranteed securities outstanding at September 30, 2002 and 2001, was approximately \$568 billion and \$604 billion, respectively. However, Ginnie Mae's potential loss is considerably less because the FHA and RHS insurance and VA guaranty serve to indemnify Ginnie Mae for most losses. Also, as a result of the structure of the security, Ginnie Mae bears no interest rate or liquidity risk.

During the mortgage closing period and prior to granting its guaranty, Ginnie Mae enters into commitments to guaranty MBS. The commitment ends when the MBS are issued or when the commitment period expires. Ginnie Mae's risks related to outstanding commitments are much less than for outstanding securities due, in part, to Ginnie Mae's ability to limit commitment authority granted to individual issuers of MBS. Outstanding commitments as of September 30, 2002 and 2001, were \$43.2 billion and \$42.8 billion, respectively. Generally, Ginnie Mae's MBS pools are diversified among issuers and geographic areas.

No significant geographic concentrations of credit risk exist; however, to a limited extent, securities are concentrated among issuers.

In fiscal 2002 and 2001, Ginnie Mae issued a total of \$122.2 billion and \$67.4 billion respectively in its multi-class securities program. The estimated outstanding balance at September 30, 2002 and 2001, were \$214.4 billion and \$165.6 billion, respectively. These guaranteed securities do not subject Ginnie Mae to additional credit risk beyond that assumed under the MBS program.

### **C. Section 108 Loan Guarantees**

Under HUD's Section 108 Loan Guarantee program, recipients of CDBG Entitlement Grant program funds may pledge future grant funds as collateral for loans guaranteed by HUD (these loans were provided from private lenders since July 1, 1986). This Loan Guarantee Program provides entitlement communities with a source of financing for projects that are too large to be financed from annual grants. The amount of loan guarantees outstanding as of September 30, 2002 and 2001, were \$2 billion and \$1.9 billion, respectively. HUD's management believes its exposure in providing these loan guarantees is limited, since loan repayments can be offset from future CDBG Entitlement Program Funds and, if necessary, other funds provided to the recipient by HUD. HUD has never had a loss under this program since its inception in 1974.

### **Note 16 – Contingencies**

#### **Lawsuits and Other**

HUD is party in various legal actions and claims brought against it. In the opinion of HUD's management and General Counsel, the ultimate resolution of these legal actions and claims will not materially affect HUD's financial position or results of operations for the fiscal year ended September 30, 2002 and 2001. Payments made out of the Claims, Judgments and Relief Acts Fund in settlement of the legal proceedings are subject to the Department of Justice's approval.

A case was filed by owners of 43 multifamily housing projects alleging that the United States effected breaches of contract by enacting the Emergency Low-Income Housing Preservation Act of 1987 (ELIHPA) and the Low-Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA). The plaintiffs claim that these acts prevented them from pre-paying their mortgages 20 years after mortgage-insurance endorsement, or alternatively, that LIHPRHA effected regulatory takings of their properties. The Court of Federal Claims ruled that the project owners' mortgage contracts had in fact been breached by implementation of ELIHPA and LIHPRHA, and held a trial in November 1996 to determine damages, if any, with respect to that claim. The court awarded \$3,061,107 in damages to the Plaintiffs for four "test" properties jointly selected by the parties. The United States appealed this judgment. On December 7, 1998, the United States Court of Appeals for the Federal Circuit reversed the judgment of the Court of Federal Claims, holding that ELIHPA and LIHPRHA did not breach contract between the plaintiffs and HUD. The Federal Circuit remanded the action to the Court of Federal Claims for consideration of the plaintiffs' takings claim. On March 11, 1999, the Federal Circuit denied rehearing and declined rehearing en banc. On October 4, 1999, the United States Supreme Court denied certiorari.

In April 2000, the Court of Federal Claims held that because plaintiffs had chosen not to pursue their prepayment options through the statutorily required process, their takings claims were not ripe for review. HUD's motion for summary judgment was granted as to both the takings claims and the breach of contract claim; and the complaint was dismissed. On June 23, 2000, plaintiffs in this case filed a notice to appeal to the Federal Circuit. On September 18, 2001, the United States Court of Appeals for the Federal Circuit reversed the Court of Federal Claims decision which had held that plaintiff's taking claims were not ripe for review. The Federal Circuit remanded the case to the Court of Federal Claims to adjudicate the takings claims of the four model plaintiffs and of the owners of the 39 other plaintiff project owners so that, if the factual circumstances of any or all of the remaining owners present a similarly compelling case of administrative futility, the trial court should adjudicate their takings claims, as well.

On December 5, 2001, in the related case, the court granted the Government's motion for summary judgment with respect to plaintiff's taking claims and dismissed the complaint. The Court concluded that the prepayment rights contained in the mortgage loan notes between plaintiffs and their private lending institutions are not properly protected by the Fifth Amendment's Just Compensation Clause.

On January 8, 2002, the Court of Federal Claims dismissed the complaint, holding that LIHPRHA had not effected regulatory takings. The plaintiffs' appeal of this ruling was held on December 4, 2002.

In two-dozen similar ELIPHA/LIHPRHA cases, involving almost 800 project owners nationwide, which were brought between 1987 and 1996, more than a dozen have been dismissed, and the dismissal affirmed or not appealed. As of January 2003, only 9 other cases (involving 199 projects) were still pending.

The United States intends to continue to defend the remaining LIHPRHA cases vigorously. HUD is unable at this time to form a judgment about the likelihood of an unfavorable outcome.

In the second case, two corporations allege breach of contract stemming from a repayment agreement executed by HUD in 1994. The plaintiffs allege that HUD was contractually bound to process Section 241(f) "equity loans," which were part of an incentive offered to multifamily project owners under LIHPRHA. The plaintiffs further assert that HUD's 1997 Appropriation Act effectively modified the repayment agreement, because it repealed the authorization to provide Section 241(f) loans, and instead earmarked a \$75 million appropriation for capital (direct) loans. According to the plaintiffs, HUD breached its contractual obligation by failing to provide these direct loans for twenty of the twenty-six properties identified in the repayment agreement. No amount of damages is specified in the complaint. HUD intends to contest this case vigorously.

A third case involves a claim filed under the Federal Tort Claims Act by an individual who claims personal injury from mold spores ("black mold") while inspecting a HUD single-family property for possible purchase. The plaintiff alleges that HUD and its agents failed to maintain the property, and he seeks damages in the amount of \$5 million.

HUD has responded to the complaint by denying the claim and asserting its defenses in the case. It will also file a motion to dismiss, or for summary judgment.

In the fourth case, a contractor alleges that HUD committed breach of contract in regard to an annual financial statements contract that the company held between 1990 and 1994. The Court of Federal Claims dismissed the contractor's initial lawsuit for \$63 million because the company had failed to comply with the Contract Disputes Act by not presenting its claims to the contracting officer before filing the suit.

The contractor then submitted three claims for intellectual property, totaling \$62.5 million, to a HUD Contracting Officer. The Contracting Officer denied all three claims on March 19, 2001. In response, the contractor filed suit once again in the Court of Federal Claims. The parties are filing cross-motions for summary judgment on January 31, 2003. HUD continues to vigorously defend this action.

In the fifth case, the plaintiffs claim that their \$14 million bid at a nonjudicial foreclosure sale was wrongfully rejected as invalid because it was below the minimum upset price (over \$37 million). They seek either specific performance or \$25 million in monetary relief. HUD intends to contest the case vigorously.

In all five of the above cases, HUD is unable at this time to make an estimate of the amount or range of potential loss if the plaintiffs should prevail. However, any adverse judgment would be paid out of the permanent indefinite appropriation established by 31 U.S.C. Section 1304 (the Government's Judgment Fund).

### **Note 17 – Rental Housing Subsidy Payment Errors**

HUD's rental housing assistance programs—which include public housing and various tenant-based and project-based rental housing assistance programs—are administered on HUD's behalf by third party intermediaries including public housing agencies, private housing owners and contracted management agents. Under these programs, eligible tenants generally are required to pay 30 percent of their income towards rent, with HUD providing the balance of the rental payment. New applicants provide certain information on household characteristics, income, assets and expense activities used in determining the proper amount of rent they are to pay. Existing tenants are required to recertify this information on an annual basis, and in certain other circumstances when there are significant changes in household income. Applicant or tenant failure to correctly estimate their income, or the failure of the responsible program administrator to correctly process, calculate and bill the tenant's rental assistance, may result in the Department's overpayment or underpayment of housing assistance.

In 2000, HUD began to establish a baseline error measurement to cover the three types of rental housing assistance payment errors, including: 1) program administrator income and rent determinations, 2) tenant reporting of income, and 3) program administrator billings for assistance payments. Error estimates for each of these three components are provided in the captioned sections below, based on year 2000 activity. The baseline estimates for the first two components were completed last year and the preliminary estimates for the third component, billing error, were completed this year. Starting in 2003, HUD intends to perform a

single annual measurement of all error components to assess the impact of corrective actions to reduce error.

### **Program Administrator Income and Rent Determinations**

HUD estimates of erroneous payments attributed to program administrator rent calculation and processing errors were based on a HUD Office of Policy Development and Research (PD&R) study of “Quality Control for Rental Assistance Subsidies Determinations,” which was published as a final report in June 2001. PD&R’s methodology provided for interviewing a representative sample of tenants, verifying and validating tenant income reporting, and recalculating rents for comparison to program administrator determinations for the purpose of identifying errors. The study verified rent calculations for a representative sample of 2,403 households receiving assistance at 600 projects in 2000. The study found that 60 percent of the calculations had some type of administrative or calculation component error contributing to an assistance overpayment or underpayment situation. Errors were considered if they exceeded a \$5 impact threshold on monthly assistance payment amounts. The study projected, with 95 percent confidence, annual assistance overpayments of \$1.669 billion  $\pm$  \$251 million and annual assistance underpayments of \$634 million  $\pm$  \$151 million, due to errors attributable to program administration.

### **Tenant Reporting of Income**

In developing the estimate of assistance overpayments attributed to tenant underreporting of income, the Department used the same PD&R sample of 2,403 households assisted in 2000. These tenants had all been asked detailed questions about all sources of income. These responses were compared with earned and unearned household income from Social Security Administration (SSA) and Internal Revenue Service (IRS) databases. Identified cases of possible undisclosed income sources were verified with employers. The additional sources of income were also examined to determine if the additional income found would affect the computation of the correct HUD rental assistance amount, or if the income discrepancies were attributed to other causes not affecting the assistance amount (e.g., data entry errors in any of the systems involved in the matching process, timing differences in the income data being considered, or tenant income excluded by program regulation). Validated income discrepancies were further assessed against the original program administrator error estimates for these sample cases to eliminate any duplication. Based on the results of this review, the Department projects, with 95 percent confidence, that the amount of assistance overpayments attributed to tenant underreporting of income was \$978 million  $\pm$  \$247 million.

### **Program Administrator Billings**

As part of HUD’s continuing efforts to improve management of its rental housing assistance programs, two reviews of billing errors were conducted during 2002. One review related to Office of Housing project-based Section 8 assistance, and the other to the Office of Public and Indian Housing’s voucher program. The purpose of these reviews was to determine, on a sample basis, whether HUD assistance was disbursed in accordance with HUD policies and regulations. Data for a randomly selected sample of 50 projects was collected for each program area. Fiscal year 2000 records were selected to permit use of reconciled statements and bills, which also served to maintain consistency with HUD’s other 2000 baseline error estimates. The distribution of the sampled projects matched well with that of the respective program universe. Ten (10) tenant files were selected for each project in the sample. The below results for each program area are considered preliminary, pending further review and

verification of cases for which all required supporting documentation for billings was not readily available to determine the amount of any actual valid assistance payment error. For Public and Indian Housing data, specifically, there is concern about the completeness of the data collected and the validity of the conclusions reached, and additional information is being sought to provide corroboration of the initial review results.

**Office of Housing:** Based on the 95 percent of sampled cases with all required supporting documentation, estimated assistance underpayments totaled \$14.7 million and assistance overpayments totaled \$22.8 million, for a net assistance overpayment estimate of \$8.1 million attributed to billing errors. The relatively small size of these errors resulted in a relatively large 95 percent estimate confidence interval of plus/minus \$0.9 million for the net error estimate. Regarding the 5 percent of sampled cases with missing tenant assistance determinations or billing records, the full value of the projected assistance associated with such cases is estimated at \$72 million. This estimate has a 95 percent confidence interval of plus/minus \$0.6 million. While the full amount of this estimate is in question because the required supporting documentation was not readily available for review, further review is necessary to determine how much, if any, of this estimate actually represents a valid payment error versus a program administration or record keeping deficiency.

**Office of Public and Indian Housing:** Assistance underpayments totaled an estimated \$120.9 million and assistance overpayments totaled an estimated \$98.7 million, for a net assistance underpayment estimate of \$22.2 million attributed to billing errors. The 95 percent confidence interval for these estimates was in the plus/minus \$7 million range. These estimates apply to the 76 percent of sampled cases with all required supporting documentation available. The extent of actual error on the remaining 24 percent of sampled cases cannot be substantiated due to documentation issues. These unsupported cases represent an estimated \$1,267 million of assistance. Further review is being undertaken to determine the extent to which these unsupported cases represent any valid payment error versus a valid program administration or record keeping deficiency. It is likely that any actual valid errors associated with these unsupported cases follow the pattern of cases where all documentation was available.

In addition to the discrepancies noted above, on net there appeared to be significant net underpayment to participating private landlords by HUD's program administrators. While this amounted to only about 1 percent of all documented eligible payments, the projected estimates amounted to a total of \$83 million given the program's large size. HUD plans to further review, verify and appropriately address cases of apparent under billing or underpayment.

### **Combined Error Impacts**

The combined effect of the estimated \$1.669 billion of overpayments and \$634 million of underpayments attributed to program administrator processing errors, plus the \$978 million of overpayments attributed to tenant underreporting of income, yields a gross payment error estimate of \$3.281 billion. Offsetting the overpayment and underpayment error estimates yields a net annual subsidy overpayment estimate of \$2.013 billion, which represents approximately 10.7 percent of the \$18.883 billion in total rental subsidies paid by HUD in FY 2000. Given the preliminary nature of the billing error estimates, HUD has not combined them in the total error estimate at this time. However, HUD plans to provide a single updated combined annual error estimate beginning with 2003 program activity.

### Corrective Actions

HUD is taking actions to address the causes of erroneous assistance payments, and is instituting necessary controls to better assure that payments are made in the correct amounts, in accordance with program statutory and regulatory requirements. HUD's goal is to reduce processing errors and resulting erroneous payments 50 percent by 2005. It should be noted that the reduction of errors and improper payments is unlikely to have an equivalent impact on budget outlays. HUD's experience indicates that its program integrity improvement efforts are likely to result in some higher income tenants leaving assisted housing and being replaced with lower income tenants requiring increased outlays. This type of secondary impact is desirable, since it better targets assisted housing resources, but reduces potential savings.

### Note 18 – Total Cost and Earned Revenue by Budget Functional Classification

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal 2002 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
<b>Intragovernmental:</b>			
Commerce and Housing Credit	\$896	\$1,860	\$(964)
Community and Regional Development	63	2	61
Income Security	500	4	496
Administration of Justice	–	–	–
Miscellaneous	–	–	–
<b>TOTAL INTRAGOVERNMENTAL</b>	<b>\$1,459</b>	<b>\$1,866</b>	<b>\$(407)</b>
<b>With the Public:</b>			
Commerce and Housing Credit	\$(1,984)	\$2,151	\$(4,135)
Community and Regional Development	5,660	2	5,658
Income Security	31,868	19	31,849
Administration of Justice	43	–	43
Miscellaneous	–	–	–
<b>TOTAL WITH THE PUBLIC</b>	<b>\$35,587</b>	<b>\$2,172</b>	<b>\$ 33,415</b>
<b>TOTAL:</b>			
Commerce and Housing Credit	\$(1,088)	\$4,011	\$(5,099)
Community and Regional Development	5,723	4	5,719
Income Security	32,368	23	32,345
Administration of Justice	44	–	44
Miscellaneous	–	–	–
<b>TOTAL:</b>	<b>\$37,047</b>	<b>\$4,038</b>	<b>\$33,009</b>

## PERFORMANCE AND ACCOUNTABILITY REPORT

The following shows HUD's total cost and earned revenue by budget functional classification for fiscal 2001 (dollars in millions):

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
<b>Intragovernmental:</b>			
Commerce and Housing Credit	\$928	\$2,040	\$(1,112)
Community and Regional Development	70	2	68
Income Security	423	12	411
Administration of Justice	-	-	-
Miscellaneous	-	-	-
<b>TOTAL INTRAGOVERNMENTAL</b>	<b>\$1,421</b>	<b>\$2,054</b>	<b>\$(633)</b>
<b>With the Public:</b>			
Commerce and Housing Credit	\$(1,607)	\$1,575	\$(3,182)
Community and Regional Development	5,354	5	5,349
Income Security	28,743	(130)	28,873
Administration of Justice	37	-	37
Miscellaneous	-	-	-
<b>TOTAL WITH THE PUBLIC</b>	<b>\$32,527</b>	<b>\$1,450</b>	<b>\$31,077</b>
<b>TOTAL:</b>			
Commerce and Housing Credit	\$(679)	\$3,615	\$(4,294)
Community and Regional Development	5,424	7	5,417
Income Security	29,166	(118)	29,284
Administration of Justice	37	-	37
Miscellaneous	-	-	-
<b>TOTAL:</b>	<b>\$33,948</b>	<b>\$3,504</b>	<b>\$30,444</b>

### Note 19 – Prior Period Adjustments

For fiscal year 2002, HUD recorded \$4.8 million in prior period adjustments for Community Planning and Development programs. This adjustment resulted from the liquidation of obligations for fiscal year 2001 expenditures used to cover Section 108(b) Loan Guarantee repayments.

### Note 20 – Apportionment Categories of Obligations Incurred

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

Fiscal Year	Category A	Category B	Exempt from Apportionment	Total
FY 2002	\$1,227	\$56,686	\$314	\$58,227
FY 2001	\$1,194	\$54,814	\$340	\$56,348

#### **Note 21 – Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government**

At the end of FY 2002, the Statement of Budgetary Resources for FHA reported \$3 million less for obligations incurred than the amount reported in the Budget of the U.S. Government. This difference is due to adjustments relating to claims and contingent liabilities recorded as part of HUD's year-end closing process. At the end of FY 2002, the Statement of Budgetary Resources for the Section 8 Housing Certificate Program reported an additional \$200 million more in recoveries of prior year obligations than the amount reported in the Budget of the U.S. Government. This difference is due to audit adjustments proposed by the OIG related to their review of the Department's unexpended balances as of September 30, 2002. An OCFO analysis of the subsidiary records for this program further reduced the balance of the Department's accounts payable balance by \$105 million as of September 30, 2002. The one time adjustment is reported on HUD's Statement of Budgetary Resources as an offsetting collection, but is reported as a non-cash adjustment in the United States' Budget. Other HUD grant and loan programs also reported \$150.8 million in expired unobligated balances in the Statement of Budgetary Resources but not in the Budget of the U.S. Government.

For fiscal year 2001, there were differences between the Statement of Budgetary Resources and the Budget of the U.S. Government. These timing differences were related to audit adjustments made subsequent to the 2001 Budget of the U.S. Government submission. These adjustments were included in the 2001 Statement of Budgetary Resources. In addition, other HUD grant and loan programs reported \$144 million in expired un-obligated balances in the Statement of Budgetary Resources and the Report on Budget Execution (SF-133) but not in the Budget of the U.S. Government.

#### **Note 22 – Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Changes In Components Requiring or Generating Resources In Future Periods**

In FY 2002 and FY 2001, the department reported a net increase in unfunded annual leave liability, in the consolidated Statement of Financing, of \$2.4 million and \$1.4 million, respectively. This unfunded leave liability is not covered by budgetary resources at the balance sheet date, as explained in note 11.





# **Consolidating Financial Statements**

**(By Major Program Area)**

# PERFORMANCE AND ACCOUNTABILITY REPORT

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT CONSOLIDATING BALANCE SHEET AS OF SEPTEMBER 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
<b>ASSETS</b>				
Intragovernmental				
Fund Balance with Treasury (Note 3)	\$9,597	\$2,509	\$18,379	\$13,199
Investments (Note 5)	21,346	6,996		
Accounts Receivable (Net) (Note 7)				
Other Assets (Note 8)	88		6	9
<b>Total Intragovernmental Assets</b>	<b>\$31,031</b>	<b>\$9,505</b>	<b>\$18,385</b>	<b>\$13,208</b>
Investments (Note 5)				
Accounts Receivable (Note 7)	331	31	419	
Credit Program Receivables and Related Foreclosed Property (Note 9)	3,371			
General Property Plant and Equipment (Note 10)		9		
Other Assets (Note 8)	137	10		
<b>TOTAL ASSETS</b>	<b>\$34,870</b>	<b>\$9,555</b>	<b>\$18,804</b>	<b>\$13,208</b>
<b>LIABILITIES</b>				
Intragovernmental Liabilities				
Accounts Payable	\$3,096			\$5
Debt (Note 12)	7,552			
Other Intragovernmental Liabilities (Note 13)			\$239	
<b>Total Intragovernmental Liabilities</b>	<b>\$10,648</b>	<b>\$0</b>	<b>\$239</b>	<b>\$6</b>
Accounts Payable	1,196	33	7	24
Loan Guarantees Liabilities (Note 9)	3,761			
Debt Held by the Public (Note 12)				
Federal Employee and Veterans' Benefits (Note 2)				
Debentures Issued to Claimants (Note 12)	288			
Loss Reserves (Note 14)		539		
Other Governmental Liabilities (Note 13)	850	65	4	3
<b>TOTAL LIABILITIES</b>	<b>\$16,743</b>	<b>\$637</b>	<b>\$250</b>	<b>\$33</b>
<b>NET POSITION</b>				
Unexpended Appropriations	\$761		\$18,554	\$13,175
Cumulative Results of Operations	17,366	\$8,918		
<b>TOTAL NET POSITION</b>	<b>\$18,127</b>	<b>\$8,918</b>	<b>\$18,554</b>	<b>\$13,175</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$34,870</b>	<b>\$9,555</b>	<b>\$18,804</b>	<b>\$13,208</b>

Figures may not add to totals because of rounding.

### 3. FINANCIAL INFORMATION

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
\$4,926	\$1,686	\$9,700	\$7,307	\$10,329		\$77,632
						28,342
				9	(6)	3
8		35	1	52	(199)	
\$4,934	\$1,686	\$9,735	\$7,308	\$10,390	(\$205)	\$105,977
				1		782
		4	7,724	280		11,379
				78		87
				5		152
\$4,934	\$1,686	\$9,739	\$15,032	\$10,754	(\$205)	\$118,377
					(\$6)	\$3,096
		\$1,354	\$2,766	5		11,677
			4,381	253	(199)	4,674
\$0	\$0	\$1,354	\$7,147	\$258	(\$205)	\$19,447
8	69	29	2	30		1,398
				53		3,814
		2,220				2,220
				81		81
						288
						539
1	1	6	16	101		1,047
\$9	\$70	\$3,609	\$7,165	\$523	(\$205)	\$28,834
\$4,925	\$1,616	\$9,533	\$7,109	\$9,734		\$65,407
		(3,403)	758	497		24,136
\$4,925	\$1,616	\$6,130	\$7,867	\$10,231		\$89,543
\$4,934	\$1,686	\$9,739	\$15,032	\$10,754	(\$205)	\$118,377

# PERFORMANCE AND ACCOUNTABILITY REPORT

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT CONSOLIDATING BALANCE SHEET AS OF SEPTEMBER 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
<b>ASSETS</b>				
Intragovernmental				
Fund Balance with Treasury (Note 3)	\$9,443	\$2,043	\$18,041	\$10,149
Investments (Note 5)	17,338	6,641		
Accounts Receivable (Net) (Note 7)	6			
Other Assets (Note 8)	79		3	5
<b>TOTAL INTRAGOVERNMENTAL ASSETS</b>	<b>\$26,866</b>	<b>\$8,684</b>	<b>\$18,044</b>	<b>\$10,154</b>
Investments (Note 5)				
Accounts Receivable (Note 7)	250	33	391	
Credit Program Receivables and Related Foreclosed Property (Note 9)	2,773			
General Property Plant and Equipment (Note 10)		8		
Other Assets (Note 8)	125	14		
<b>TOTAL ASSETS</b>	<b>\$30,014</b>	<b>\$8,739</b>	<b>\$18,435</b>	<b>\$10,154</b>
<b>LIABILITIES</b>				
Intragovernmental Liabilities				
Accounts Payable	\$2,046			\$5
Debt (Note 12)	4,544			
Other Intragovernmental Liabilities (Note 13)			\$510	
<b>Total Intragovernmental Liabilities</b>	<b>\$6,590</b>	<b>\$0</b>	<b>\$510</b>	<b>\$5</b>
Accounts Payable	1,143	29	105	39
Loan Guarantees Liabilities (Note 9)	6,053			
Debt Held by the Public (Note 12)				
Federal Employee and Veterans' Benefits (Note 2)				
Debentures Issued to Claimants (Note 12)	224			
Loss Reserves (Note 14)		536		
Other Governmental Liabilities (Note 13)	889	50	7	4
<b>TOTAL LIABILITIES</b>	<b>\$14,899</b>	<b>\$615</b>	<b>\$622</b>	<b>\$48</b>
<b>NET POSITION</b>				
Unexpended Appropriations	\$2,129		\$17,813	\$10,106
Cumulative Results of Operations	12,986	\$8,124		
<b>TOTAL NET POSITION</b>	<b>\$15,115</b>	<b>\$8,124</b>	<b>\$17,813</b>	<b>\$10,106</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$30,014</b>	<b>\$8,739</b>	<b>\$18,435</b>	<b>\$10,154</b>

Figures may not add to totals because of rounding.

### 3. FINANCIAL INFORMATION

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
\$4,669	\$1,829	\$10,270	\$7,065	\$10,439		\$73,948
						23,979
				8	(8)	6
6		11		30	(91)	43
\$4,675	\$1,829	\$10,281	\$7,065	\$10,477	(\$100)	\$97,976
				5		679
		5	7,891	280		10,949
				65		73
				1		140
\$4,675	\$1,829	\$10,286	\$14,956	\$10,828	(\$99)	\$109,817
				\$3	(\$8)	\$2,046
		\$1,430	\$3,253	8		9,235
			4,406	116	(91)	4,941
\$0	\$0	\$1,430	\$7,659	\$127	(\$99)	\$16,222
14	32	35	9	37		1,443
				37		6,090
		2,496				2,496
				86		86
						224
						536
1	4	6	24	180		1,165
\$15	\$36	\$3,967	\$7,692	\$467	(\$99)	\$28,262
\$4,660	\$1,793	\$10,068	\$6,899	\$9,837		\$63,305
		(3,749)	365	524		18,250
\$4,660	\$1,793	\$6,319	\$7,264	\$10,361	\$0	\$81,555
\$4,675	\$1,829	\$10,286	\$14,956	\$10,828	(\$99)	\$109,817

# PERFORMANCE AND ACCOUNTABILITY REPORT

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT CONSOLIDATING STATEMENT OF NET COST FOR THE PERIOD ENDED SEPTEMBER 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
<b>PROGRAM COSTS</b>				
Intragovernmental Gross Costs	\$641		\$53	\$26
Less: Intragovernmental Earned Revenue	(1,461)	(\$399)		
Intragovernmental Net Costs	(\$820)	(\$399)	\$53	\$26
Gross Costs With the Public	(\$2,071)	\$57	\$18,421	\$5,417
Less: Earned Revenues	(1,044)	(452)		
Net Costs With the Public	(\$3,115)	(\$395)	\$18,421	\$5,417
<b>TOTAL NET COSTS</b>	<b>(\$3,935)</b>	<b>(\$794)</b>	<b>\$18,474</b>	<b>\$5,443</b>
Costs Not Assigned to Programs				
<b>NET COST OF OPERATIONS</b>	<b>(\$3,935)</b>	<b>(\$794)</b>	<b>\$18,474</b>	<b>\$5,443</b>

Figures may not add to totals because of rounding.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT CONSOLIDATING STATEMENT OF NET COST FOR THE PERIOD ENDED SEPTEMBER 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
<b>PROGRAM COSTS</b>				
Intragovernmental Gross Costs	\$625		\$31	\$33
Less: Intragovernmental Earned Revenue	(1,609)	(\$430)		
Intragovernmental Net Costs	(\$984)	(\$430)	\$31	\$33
Gross Costs With the Public	(\$1,703)	\$73	\$16,613	\$4,947
Less: Earned Revenues	(456)	(448)	150	
Net Costs With the Public	(\$2,159)	(\$375)	\$16,763	\$4,947
<b>TOTAL NET COSTS</b>	<b>(\$3,143)</b>	<b>(\$805)</b>	<b>\$16,794</b>	<b>\$4,980</b>
Costs Not Assigned to Programs				
<b>NET COST OF OPERATIONS</b>	<b>(\$3,143)</b>	<b>(\$805)</b>	<b>\$16,794</b>	<b>\$4,980</b>

Figures may not add to totals because of rounding.

### 3. FINANCIAL INFORMATION

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
\$14	\$33	\$214	\$264	\$213		\$1,458
				(7)		(1,867)
\$14	\$33	\$214	\$264	\$206	\$0	(\$409)
\$1,537	\$3,666	\$4,038	\$898	\$3,224		\$35,187
			(646)	(29)		(2,171)
\$1,537	\$3,666	\$4,038	\$252	\$3,195	\$0	\$33,016
\$1,551	\$3,699	\$4,252	\$516	\$3,401	\$0	\$32,607
				403		403
\$1,551	\$3,699	\$4,252	\$516	\$3,804	\$0	\$33,010

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
\$11	\$35	\$204	\$314	\$168		\$1,421
				(14)		(2,053)
\$11	\$35	\$204	\$314	\$154	\$0	(\$632)
\$1,425	\$3,112	\$3,851	\$784	\$3,042		\$32,144
			(665)	(31)		(1,450)
\$1,425	\$3,112	\$3,851	\$119	\$3,011	(\$0)	\$30,694
\$1,436	\$3,147	\$4,055	\$433	\$3,165		\$30,062
				382		382
\$1,436	\$3,147	\$4,055	\$433	\$3,547	\$0	\$30,444

# PERFORMANCE AND ACCOUNTABILITY REPORT

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION FOR THE PERIOD ENDED SEPTEMBER 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
<b>Cumulative Results of Operations</b>				
Net Position-Beginning of Period	(\$12,986)	(\$8,124)		
Prior Period Adjustments (Note 19)				5
Beginning Balances, As Adjusted	(\$12,986)	(\$8,124)	\$0	\$5
<b>BUDGETARY FINANCING SOURCES</b>				
Other Adjustments (Recissions, etc)				
Appropriations Used	(\$2,381)		(\$18,391)	(\$5,405)
Transfers In/Out Without Reimbursement	839			
Other Budgetary Financing Sources			(83)	(38)
<b>OTHER FINANCING SOURCES</b>				
Donations and Forfeitures of Property				
Transfers In/Out Without Reimbursement	1,102			
Imputed Financing From Costs Absorbed From Others	(14)			
Other	9			(5)
<b>TOTAL FINANCING SOURCES</b>	<b>(\$445)</b>		<b>(\$18,474)</b>	<b>(\$5,448)</b>
Net Cost of Operations	(3,935)	(794)	18,474	5,443
<b>ENDING BALANCES</b>	<b>(\$17,366)</b>	<b>(\$8,918)</b>	<b>\$0</b>	<b>\$0</b>

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
<b>Unexpended Appropriations</b>				
Net Position-Beginning of Period	(\$2,129)		(\$17,813)	(\$10,106)
Prior Period Adjustments				(5)
Beginning Balances, As Adjusted	(\$2,129)		(\$17,813)	(\$10,111)
<b>BUDGETARY FINANCING SOURCES</b>				
Appropriations Received	(\$2,982)		(\$20,746)	(\$7,783)
Transfers In/Out	1,986			(700)
Other Adjustments (Recissions, etc)	(17)		1,614	14
Appropriations Used	2,381		18,391	5,405
<b>TOTAL FINANCING SOURCES</b>	<b>\$1,368</b>		<b>(\$741)</b>	<b>(\$3,064)</b>
<b>ENDING BALANCES</b>	<b>(\$761)</b>		<b>(\$18,554)</b>	<b>(\$13,175)</b>

Figures may not add to totals because of rounding.

### 3. FINANCIAL INFORMATION

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
		\$3,749	(\$365)	(\$524)		(\$18,250)
						5
\$0	\$0	\$3,749	(\$365)	(\$524)	\$0	(\$18,245)
(\$1,531)	(\$3,672)	(\$4,527)	(\$887)	(\$3,748)		(\$40,542)
						839
(20)	(27)	(71)	(22)	269		8
				(237)		865
				(59)		(73)
				(2)		2
(\$1,551)	(\$3,699)	(\$4,598)	(\$909)	(\$3,777)	\$0	(\$38,901)
1,551	3,699	4,252	516	3,804		33,010
\$0	\$0	\$3,403	(\$758)	(\$497)	\$0	(\$24,136)
HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
(\$4,660)	(\$1,793)	(\$10,068)	(\$6,899)	(\$9,837)		(\$63,305)
						(5)
(\$4,660)	(\$1,793)	(\$10,068)	(\$6,899)	(\$9,837)		(\$63,310)
(\$1,846)	(\$3,495)	(\$3,986)	(\$1,097)	(\$3,695)		(\$45,630)
				(6)		1,280
50				56		1,717
1,531	3,672	4,521	887	3,748		40,536
(\$265)	\$177	\$535	(\$210)	\$103		(\$2,097)
(\$4,925)	(\$1,616)	(\$9,533)	(\$7,109)	(\$9,734)		(\$65,407)

# PERFORMANCE AND ACCOUNTABILITY REPORT

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION FOR THE PERIOD ENDED SEPTEMBER 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
<b>Cumulative Results of Operations</b>				
Net Position-Beginning of Period	(\$10,166)	(\$7,319)		
Prior Period Adjustments				
Beginning Balances, As Adjusted	(\$10,166)	(\$7,319)	\$0	\$0
<b>BUDGETARY FINANCING SOURCES</b>				
Appropriations Used	(\$1,371)		(\$16,743)	(\$4,925)
Transfers In/Out Without Reimbursement	318			
Other Budgetary Financing Sources			(51)	(55)
<b>OTHER FINANCING SOURCES</b>				
Transfers In/Out Without Reimbursement	1,384			
Imputed Financing From Costs Absorbed From Others	(15)			
Other	7			
<b>TOTAL FINANCING SOURCES</b>	<b>\$323</b>	<b>\$0</b>	<b>(\$16,794)</b>	<b>(\$4,980)</b>
Net Cost of Operations	(3,143)	(805)	16,794	4,980
<b>ENDING BALANCES</b>	<b>(\$12,986)</b>	<b>(\$8,124)</b>	<b>\$0</b>	<b>\$0</b>

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
<b>Unexpended Appropriations</b>				
Net Position-Beginning of Period	(\$1,152)		(\$17,600)	(\$9,925)
Prior Period Adjustments				
Beginning Balances, As Adjusted	(\$1,152)		(\$17,600)	(\$9,925)
<b>BUDGETARY FINANCING SOURCES</b>				
Appropriations Received	(\$3,580)		(\$18,941)	(\$5,602)
Transfers In/Out	1,245			
Other Adjustments (Recissions, etc)	(13)		1,985	496
Appropriations Used	1,371		16,743	4,925
<b>TOTAL FINANCING SOURCES</b>	<b>(\$977)</b>		<b>(\$213)</b>	<b>(\$181)</b>
<b>ENDING BALANCES</b>	<b>(\$2,129)</b>		<b>(\$17,813)</b>	<b>(\$10,106)</b>

Figures may not add to totals because of rounding.

### 3. FINANCIAL INFORMATION

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
		\$4,090		(\$494)		(\$13,889)
\$0	\$0	\$4,090	\$0	(\$494)		(\$13,889)
(\$1,418)	(\$3,088)	(\$4,338)	(\$772)	(\$3,578)		(\$36,233)
						318
(18)	(59)	(58)	(26)	260		(7)
				(204)		1,180
				(56)		(70)
						7
(\$1,436)	(\$3,147)	(\$4,396)	(\$798)	(\$3,577)	\$0	(\$34,805)
1,436	3,147	4,055	433	3,547	0	30,444
\$0	\$0	\$3,749	(\$365)	(\$524)	\$0	(\$18,250)

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
(\$4,282)	(\$1,647)	(\$10,263)	(\$6,661)	(\$9,340)		(\$60,870)
(\$4,282)	(\$1,647)	(\$10,263)	(\$6,661)	(\$9,340)		(\$60,870)
(\$1,800)	(\$3,242)	(\$4,144)	(\$1,083)	(\$4,116)		(\$42,508)
				(6)		1,239
4	8	1	73	47		2,601
1,418	3,088	4,338	772	3,578		36,233
(\$378)	(\$146)	\$195	(\$238)	(\$497)		(\$2,435)
(\$4,660)	(\$1,793)	(\$10,068)	(\$6,899)	(\$9,837)		(\$63,305)

# PERFORMANCE AND ACCOUNTABILITY REPORT

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT COMBINING STATEMENT OF BUDGETARY RESOURCES FOR THE PERIOD ENDED SEPTEMBER 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME
<b>BUDGETARY RESOURCES:</b>					
Budget Authority	\$3,231		\$20,641	\$7,783	\$1,846
Net Transfers, Current Year Authority					
Unobligated Balance-Beginning of Year	19,894	\$8,605	1,685	1,054	284
Net Transfers, Actual, Prior Year Balance				700	
Spending Authority from Offsetting Collections	7,423	931	105		
Adjustments					
Recoveries of Prior Year Adjustments	25		2,634	9	3
Permanently not available					
Cancellations-Expired and No Year Accts	(4)			(4)	
Enacted Recissions			(1,588)		(50)
Capital Trans & Debt Redemption	(2,199)				
Other Authority Withdrawn			(5,122)		
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$28,370</b>	<b>\$9,536</b>	<b>\$18,355</b>	<b>\$9,542</b>	<b>\$2,083</b>
<b>STATUS OF BUDGETARY RESOURCES:</b>					
Obligations Incurred (Note 20)	\$4,536	\$121	\$16,408	\$7,756	\$1,827
Unobligated Balances Available	625		665	1,756	256
Unobligated Balances Not Available	23,209	9,415	1,282	30	
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$28,370</b>	<b>\$9,536</b>	<b>\$18,355</b>	<b>\$9,542</b>	<b>\$2,083</b>
Obligated Balance, Net – Beginning of Period	\$1,576	(\$39)	\$42,494	\$9,091	\$4,383
Obligated Balance Transferred, Net					
Obligated Balance, Net – End of Period	1,707	6	37,664	11,409	4,667
<b>OUTLAYS</b>					
Disbursements	4,492	76	18,604	5,429	1,540
Collections	(7,535)	(931)	(105)		
Subtotal	(\$3,043)	(\$855)	\$18,499	\$5,429	\$1,540
Less: Offsetting Receipts	(1,993)				
<b>NET OUTLAYS</b>	<b>(\$5,036)</b>	<b>(\$855)</b>	<b>\$18,499</b>	<b>\$5,429</b>	<b>\$1,540</b>

Figures may not add to totals because of rounding.

### 3. FINANCIAL INFORMATION

Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	2002 Budgetary Total	Federal Housing Administration Non Budgetary	Other Non Budgetary Credit Program Accounts	2002 Total Non Budgetary Credit Program Financing Accounts	Total
\$3,495	\$4,011	\$1,097	\$3,705	\$45,809	\$3,925		\$3,925	\$49,734
			6	6				6
141	882	2,922	4,174	39,641	4,478	\$59	4,537	44,178
				700				700
	72	807	943	10,280	10,223	14	10,237	20,518
26	42	14	942	3,695	50		50	3,745
			(37)	(45)				(45)
			(320)	(1,958)				(1,958)
	(90)	(489)	(18)	(2,796)	(916)		(916)	(3,712)
	(522)	(73)	(842)	(6,559)				(6,559)
\$3,662	\$4,395	\$4,278	\$8,553	\$88,774	\$17,760	\$73	\$17,833	\$106,607
\$3,636	\$3,506	\$1,735	\$3,962	\$43,487	\$14,739	\$1	\$14,740	\$58,227
	867	2,501	2,692	9,362	1,467		1,467	10,829
26	22	42	1,899	35,925	1,554	72	1,626	37,551
\$3,662	\$4,395	\$4,278	\$8,553	\$88,774	\$17,760	\$73	\$17,833	\$106,607
\$1,683	\$13,711	\$4,215	\$16,886	\$94,000	(\$98)	(\$21)	(\$119)	\$93,881
1,658	12,609	4,762	15,224	89,706	(79)	(19)	(98)	89,608
3,635	4,566	1,174	4,700	44,216	14,657	1	14,658	58,874
	(72)	(807)	(960)	(10,410)	(10,211)	(15)	(10,226)	(20,636)
\$3,635	\$4,494	\$367	\$3,740	\$33,806	\$4,446	(\$14)	\$4,432	\$38,238
			(8)	(2,001)				(2,001)
\$3,635	\$4,494	\$367	\$3,732	\$31,805	\$4,446	(\$14)	\$4,432	\$36,237

# PERFORMANCE AND ACCOUNTABILITY REPORT

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT COMBINING STATEMENT OF BUDGETARY RESOURCES FOR THE PERIOD ENDED SEPTEMBER 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants	HOME
<b>BUDGETARY RESOURCES:</b>					
Budget Authority	\$7,734		\$18,941	\$5,602	\$1,800
Net Transfers, Current Year Authority					
Unobligated Balance-Beginning of Year	19,004	\$7,839	2,958	903	189
Spending Authority from Offsetting Collections	5,542	918	(27)		(4)
Adjustments					
Recoveries of Prior Year Adjustments	17		2,583	14	9
Permanently not available					
Cancellations-Expired and No Year Accts			(8)	(5)	
Enacted Recissions	(2)		(1,971)	(490)	(4)
Capital Trans & Debt Redemption	(1,369)				
Other Authority Withdrawn			(5,149)		
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$30,926</b>	<b>\$8,757</b>	<b>\$17,327</b>	<b>\$6,024</b>	<b>\$1,990</b>
<b>STATUS OF BUDGETARY RESOURCES:</b>					
Obligations Incurred (Note 20)	\$11,032	\$151	\$15,642	\$4,970	\$1,706
Unobligated Balances Available	1,566		739	1,027	284
Unobligated Balances Not Available	18,328	8,606	946	27	
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$30,926</b>	<b>\$8,757</b>	<b>\$17,327</b>	<b>\$6,024</b>	<b>\$1,990</b>
Obligated Balance, Net – Beginning of Period	\$1,233	(\$63)	\$46,129	\$9,074	\$4,107
Obligated Balance Transferred, Net					
Obligated Balance, Net – End of Period	1,575	(39)	42,495	9,091	4,383
<b>OUTLAYS</b>					
Disbursements	10,882	128	16,693	4,939	1,420
Collections	(5,751)	(918)	27		4
Subtotal	\$5,131	(\$790)	\$16,720	\$4,939	\$1,424
Less: Offsetting Receipts	(620)				
<b>NET OUTLAYS</b>	<b>\$4,511</b>	<b>(\$790)</b>	<b>\$16,720</b>	<b>\$4,939</b>	<b>\$1,424</b>

Figures may not add to totals because of rounding.

### 3. FINANCIAL INFORMATION

Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	2001 Budgetary Total	Federal Housing Administration Non Budgetary	Other Non Budgetary Credit Program Accounts	2001 Total Non Budgetary Credit Program Financing Accounts	Total
\$3,242	\$4,169	\$1,083	\$4,123	\$46,694	\$900		\$900	\$47,594
			6	6				6
57	1,714	2,876	4,151	39,691	4,471	\$32	4,503	44,194
(1)	76	793	1,040	8,337	12,300	33	12,333	20,670
3	55	59	535	3,275	4		4	3,279
(1)			(42)	(56)				(56)
(7)	(48)	(2)	(10)	(2,534)				(2,534)
	(94)	(666)	(123)	(2,252)	(3,511)		(3,511)	(5,763)
	(584)		(1,130)	(6,863)				(6,863)
\$3,293	\$5,288	\$4,143	\$8,550	\$86,298	\$14,164	\$65	\$14,229	\$100,527
\$3,152	\$4,406	\$1,221	\$4,376	\$46,656	\$9,686	\$6	\$9,692	\$56,348
138	866	2,846	2,967	10,433	2,194	1	2,195	12,628
3	16	76	1,207	29,209	2,284	58	2,342	31,551
\$3,293	\$5,288	\$4,143	\$8,550	\$86,298	\$14,164	\$65	\$14,229	\$100,527
\$1,671	\$13,690	\$4,157	\$17,504	\$97,502	\$212		\$212	\$97,714
1,683	13,711	4,215	16,886	94,000	(98)	(\$21)	(119)	93,881
3,136	4,331	1,105	4,518	47,152	9,947	6	9,953	57,105
1	(77)	(793)	(1,099)	(8,606)	(12,255)	(12)	(12,267)	(20,873)
\$3,137	\$4,254	\$312	\$3,419	\$38,546	(\$2,308)	(\$6)	(\$2,314)	\$36,232
			(6)	(626)				(626)
\$3,137	\$4,254	\$312	\$3,413	\$37,920	(\$2,308)	(\$6)	(\$2,314)	\$35,606

# PERFORMANCE AND ACCOUNTABILITY REPORT

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT CONSOLIDATING STATEMENT OF FINANCING FOR THE YEAR ENDED SEPTEMBER 2002

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
<b>RESOURCES USED TO FINANCE ACTIVITIES:</b>				
<b>Budgetary Resources Obligated</b>				
Obligations Incurred	\$19,275	\$121	\$16,408	\$7,756
Less: Spending Authority from Offsetting Collections & Recoveries	(17,721)	(931)	(2,739)	(9)
Obligations Net of Offsetting Collections	\$1,554	(\$810)	\$13,669	\$7,747
Less: Offsetting Receipts	(1,993)			
Net Obligations	(\$439)	(\$810)	\$13,669	\$7,747
<b>Other Resources</b>				
Donations & Forfeitures of Property				
Transfers In/Out Without Reimbursement	(\$1,102)			
Imputed Financing from Costs Absorbed by Others	14			
Other Resources	(9)	\$16		
Net Other Resources Used to Finance Activities	(\$1,097)	\$16		
<b>TOTAL RESOURCES USED TO FINANCE ACTIVITIES</b>	<b>(\$1,536)</b>	<b>(\$794)</b>	<b>\$13,669</b>	<b>\$7,747</b>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>				
Change in Budgetary Resources Obligated for Goods Services/Benefits Ordered but not yet Provided	(\$154)		\$4,722	(\$2,337)
Resources That Fund Expenses from Prior Periods	(6,258)			
Budgetary Offsetting Collections and Receipts Not Affecting Net Cost of Operations	18,656			
Resources Financing Acquisition of Assets	(10,355)			
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	357		83	33
<b>TOTAL RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS</b>	<b>\$2,246</b>	<b>\$0</b>	<b>\$4,805</b>	<b>(\$2,304)</b>
<b>TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS</b>	<b>\$710</b>	<b>(\$794)</b>	<b>\$18,474</b>	<b>\$5,443</b>
<b>COMPONENTS OF NET COST OF OPERATIONS NOT REQUIRING/ GENERATING RESOURCES IN THE CURRENT PERIOD:</b>				
<b>Components Requiring or Generating Resources in Future Periods</b>				
Increase in Annual Leave Liability (Note 22)				
Increase in Environmental/Disposal Liability				
Reestimates of Credit Subsidy Expense	1,149			
Exchange Revenue Receivable from the Public				
Other				
<b>TOTAL REQUIRING/GENERATING RESOURCES IN FUTURE PERIODS</b>	<b>\$1,149</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Components Not Requiring/Generating Resources</b>				
Depreciation and Amortization				
Revaluation of Loss or Liabilities	(\$1,275)			
Other	(4,519)			
<b>TOTAL COMPONENTS OF NET COST OF OPERATION NOT REQUIRING/GENERATING RESOURCES</b>	<b>(\$5,794)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL COMPONENTS OF NET COST OF OPERATIONS NOT REQUIRING/GENERATING RESOURCES IN THE CURRENT PERIOD</b>	<b>(\$4,645)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>NET COST OF OPERATIONS</b>	<b>(\$3,935)</b>	<b>(\$794)</b>	<b>\$18,474</b>	<b>\$5,443</b>

Figures may not add to totals because of rounding.

### 3. FINANCIAL INFORMATION

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
\$1,827 (3)	\$3,636 (26)	\$3,506 (114)	\$1,735 (821)	\$3,963 (1,899)		\$58,227 (24,263)
\$1,824	\$3,610	\$3,392	\$914	\$2,064 (8)		\$33,964 (2,001)
\$1,824	\$3,610	\$3,392	\$914	\$2,056	\$0	\$31,963
				\$237 59 (1)		(\$865) 73 6
				\$295		\$ (786)
\$1,824	\$3,610	\$3,392	\$914	\$2,351	\$0	\$31,177
(\$293)	\$62	\$1,063	(\$580)	\$1,716 (3)		\$4,199 (6,261)
		72	806	26 (52)		19,488 (10,335)
20	27	(275)	22	(263)		4
\$273	\$89	\$860	\$248	\$1,424	\$0	\$7,095
\$1,551	\$3,699	\$4,252	\$1,162	\$3,775	\$0	\$38,272
				2		2
			(646)	(11)		1,149 (657)
\$0	\$0	\$0	(\$646)	(\$9)	\$0	\$494
				\$13		\$13 (1,275)
				25		(4,494)
\$0	\$0	\$0	\$0	\$38	\$0	(\$5,756)
\$0	\$0	\$0	(\$646)	\$29	\$0	(\$5,262)
\$1,551	\$3,699	\$4,252	\$516	\$3,804	\$0	\$33,010

# PERFORMANCE AND ACCOUNTABILITY REPORT

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT CONSOLIDATING STATEMENT OF FINANCING FOR THE YEAR ENDED SEPTEMBER 2001

(Dollars in Millions)

	Federal Housing Administration	Government National Mortgage Association	Section 8 Rental Assistance	Community Development Block Grants
<b>RESOURCES USED TO FINANCE ACTIVITIES:</b>				
<b>Budgetary Resources Obligated</b>				
Obligations Incurred	\$20,718	\$151	\$15,642	\$4,970
Less: Spending Authority from Offsetting Collections & Recoveries	(17,863)	(918)	(2,556)	(14)
Obligations Net of Offsetting Collections	\$2,855	(\$767)	\$13,086	\$4,956
Less: Offsetting Receipts	(620)			
Net Obligations	\$2,235	(\$767)	\$13,086	\$4,956
<b>Other Resources</b>				
Donations & Forfeitures of Property				
Transfers In/Out Without Reimbursement	(\$1,384)			
Imputed Financing from Costs Absorbed by Others	14			
Other Resources	(7)	(\$62)	\$51	\$55
Net Other Resources Used to Finance Activities	(\$1,377)	(\$62)	\$51	\$55
<b>TOTAL RESOURCES USED TO FINANCE ACTIVITIES</b>	<b>\$858</b>	<b>(\$829)</b>	<b>\$13,138</b>	<b>\$5,011</b>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>				
Change in Budgetary Resources Obligated for Goods Services/Benefits Ordered but not yet Provided	\$81		\$3,654	(\$36)
Resources That Fund Expenses from Prior Periods	(9,492)			5
Budgetary Offsetting Collections and Receipts Not Affecting Net Cost of Operations	17,178			
Resources Financing Acquisition of Assets	(8,565)			
Other Changes to Net Obligated Resources Not Affecting Net Cost of Operations	(260)			
<b>TOTAL RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS</b>	<b>(\$1,058)</b>	<b>\$0</b>	<b>\$3,654</b>	<b>(\$31)</b>
<b>TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS</b>	<b>(\$200)</b>	<b>(\$829)</b>	<b>\$16,791</b>	<b>\$4,980</b>
<b>COMPONENTS OF NET COST OF OPERATIONS NOT REQUIRING/ GENERATING RESOURCES IN THE CURRENT PERIOD:</b>				
<b>Components Requiring or Generating Resources in Future Periods</b>				
Increase in Annual Leave Liability (Note 22)				
Increase in Environmental/Disposal Liability				
Reestimates of Credit Subsidy Expense	\$564			
Exchange Revenue Receivable from the Public				
Other		\$24		
<b>TOTAL REQUIRING/GENERATING RESOURCES IN FUTURE PERIODS</b>	<b>\$564</b>	<b>\$24</b>	<b>\$0</b>	<b>\$0</b>
<b>Components Not Requiring/Generating Resources</b>				
Depreciation and Amortization				
Revaluation of Assets or Liabilities	(\$1,124)			
Other	(2,383)		\$3	
<b>TOTAL COMPONENTS OF NET COST OF OPERATION NOT REQUIRING/GENERATING RESOURCES</b>	<b>(\$3,507)</b>	<b>\$0</b>	<b>\$3</b>	<b>\$0</b>
<b>TOTAL COMPONENTS OF NET COST OF OPERATIONS NOT REQUIRING/GENERATING RESOURCES IN THE CURRENT PERIOD</b>	<b>(\$2,943)</b>	<b>\$24</b>	<b>\$3</b>	<b>\$0</b>
<b>NET COST OF OPERATIONS</b>	<b>(\$3,143)</b>	<b>(\$805)</b>	<b>\$16,794</b>	<b>\$4,980</b>

Figures may not add to totals because of rounding.

### 3. FINANCIAL INFORMATION

HOME	Operating Subsidies	Public and Indian Housing Loans and Grants	Housing for the Elderly and Disabled	All Other	Financial Statement Eliminations	Consolidating
\$1,706 (5)	\$3,152 (2)	\$4,406 (131)	\$1,221 (852)	\$4,382 (1,608)		\$56,348 (23,949)
\$1,701	\$3,150	\$4,275	\$369	\$2,774 (6)		\$32,399 (626)
\$1,701	\$3,150	\$4,275	\$369	\$2,768	\$0	\$31,773
				\$204 56 (261)		(\$1,180) 70 (63)
\$18	\$59	\$58	\$26	\$1		(1,173)
\$1,719	\$3,209	\$4,333	\$395	\$2,767	\$0	\$30,600
(\$283)	(\$62)	(\$18) 6	(\$75)	\$696		\$3,957 (9,481)
		76	785	118 (61)		18,081 (8,550)
		(344)		1		(603)
(\$283)	(\$62)	(\$280)	\$710	\$754	\$0	\$3,404
\$1,436	\$3,147	\$4,053	\$1,105	\$3,521	\$0	\$34,004
				\$1		\$1
				(5) (5) 9		559 (677) 33
\$0	\$0	\$0	(\$672)	\$0	\$0	(\$84)
				\$4		\$4 (1,124) (2,356)
\$0	\$0	\$2	\$0	22		
\$0	\$0	\$2	\$0	\$26	\$0	(\$3,476)
\$0	\$0	\$2	(\$672)	\$26	\$0	(\$3,560)
\$1,436	\$3,147	\$4,055	\$433	\$3,547	\$0	\$30,444

## **Required Supplementary Stewardship Information (Unaudited)**

- **Investment in Non-Federal Physical Property**
- **Investment in Human Capital**
- **Investment in Research and Development**

This section provides information on certain resources entrusted to HUD. These resources do not meet the criteria for information required to be reported or audited in HUD's financial statements but are, nonetheless, important to understand HUD's operations and financial condition. The stewardship objective requires that HUD "report on the broad outcomes of its actions." Such reporting provides information that can help report users assess the impact of HUD's operations and activities. HUD's stewardship reporting responsibilities extend to investments made by a number of HUD programs in Non-Federal Physical Property, Human Capital, and Research and Development. Due to the relative immateriality of the calculation and in the application of the related administrative costs, the amounts reported below reflect direct program costs only. The investments addressed in this section reflect activity of programs administered through HUD's Offices of Community Planning and Development (CPD), Public and Indian Housing (PIH), Policy Development and Research (PD&R), and Office of Healthy Homes and Lead Hazard Control (OHHLHC).

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. 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 may use the funds as they deem necessary, as long as their use meets at least one of the program's objectives. A portion of the funds supports the acquisition or rehabilitation of property owned by State and local governments, while other funds help to provide employment and job training to low and moderate-income persons.
- **Disaster Grants** help State and local governments recover from major natural disasters. A portion of these funds can be used to acquire, rehabilitate or demolish physical property.
- **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.
- **YouthBuild** grants are designed to assist younger individuals to obtain education, employment skills and meaningful work experience in a construction trade, enabling them to become more productive and self-sufficient.

**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 made stewardship investments through the following PIH programs:

- **The Public Housing (PH) Capital Fund** provides grants to PHAs to improve the physical condition and to upgrade the management and operation of existing public housing.
- **HOPE VI** grants are provided to public housing agencies (PHAs) to support the improvement of the living environment of public housing residents in distressed public housing units. Some investments supported the acquisition or rehabilitation of PHA-owned property, while others helped to provide education and job training to residents of the communities targeted for rehabilitation.
- **Indian Housing Block Grants (IHBG)** provides 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.
- **Indian Community Development Block Grants (ICDBG)** provides 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 Public Housing Drug Elimination Program (PHDEP)** seeks to eliminate drug-related crime and activities in Public and Indian housing communities. A portion of these funds is used to improve property owned by the PHAs and thus increase security and prevent crime at the properties. Congress has terminated funding for this program after FY 2001.

**PD&R:** stewardship responsibilities include maintaining current information to monitor housing needs and housing market conditions, and to support and conduct research on priority housing and community development issues. HUD made stewardship investments through the following PD&R programs:

- **Community Development Work Study (CDWS):** Colleges and universities throughout the United States use this program to offer financial aid and work experience to students enrolled in a full-time graduate program in community development or a closely related field such as urban planning, public policy, or public administration.
- **Partnership for Advancing Technology in Housing (PATH)** is a public/private sector initiative which seeks to expand the development and utilization of new technologies in order to make American homes stronger, safer, and more durable; more energy efficient and environmentally friendly; easier to maintain and less costly to operate; and more comfortable and exciting to live in. PATH links key agencies in the federal government with leaders from the home building, product manufacturing, insurance, financial, and regulatory communities in a unique partnership focused on technological innovation in the American Housing industry.

**OHHLHC:** seeks to eliminate childhood lead poisoning caused by lead-based paint hazards and to address other children's diseases and injuries, such as asthma, unintentional injury, and carbon monoxide poisoning, caused by substandard housing conditions.

- **Lead Technical Assistance Division**, in support of the Departmental lead hazard control program, establishes and coordinates lead-based paint regulations and policy, and supports compliance assistance and enforcement. These programs also support 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 support training for maintenance and rehabilitation workers to work with lead safely; for individuals to become certified lead professionals; for parents, building owners, housing and public health professionals, and others to increase awareness on lead-based paint and related housing-based health issues.

## Non-Federal Physical Property

Investments in Non-Federal Physical Property support the purchase, construction, or major renovation of physical property owned by state and local governments. These investments support HUD's strategic goal 1, Increase the Availability of Decent, Safe, and Affordable Housing in American Communities; goal 4, Improve Community Quality of Life and Economic Vitality; and goal 5, Ensure Public Trust in HUD. The following table summarizes material HUD Non-Federal Physical Property investments by program. Additional information about the following programs' contributions to HUD's goals may be found in Section II of this report.

**HUD Investments in  
Non-Federal Physical Property, FY 1998-2002**  
(dollars in millions)

Program	1998	1999	2000	2001	2002
<b>CPD</b>					
CDBG	\$761	\$603	\$1,237	\$1,189	\$1,298
Disaster Grants	39	29	198	56	29
HOME	–	–	34	24	8
<b>PIH</b>					
PH Capital Fund	\$2,178	\$2,414	\$2,046	\$1,863	\$2,036
HOPE VI	169	236	291	495	367
IHBG <sup>1</sup>	319	182	176	n/a	292
ICDBG	47	52	63	53	51
PHDEP <sup>2</sup>	11	10	6	4	n/a
<b>TOTAL</b>	<b>\$3,524</b>	<b>\$3,526</b>	<b>\$4,051</b>	<b>\$3,684</b>	<b>\$4,081</b>

<sup>1</sup>2001 investment data was unavailable for FY 2001 due to transition in contractor support providing data.

<sup>2</sup>Congress terminated funding for the PHDEP program for FY 2002.

### Human Capital

Investments in Human Capital support education and training programs intended to increase or maintain national economic productive capacity. These investments support HUD's strategic goal 3, Promote Self-Sufficiency and Asset Development of Families and Individuals; goal 4, Improve Community Quality of Life and Economic Vitality; and goal 5, Ensure Public Trust in HUD. The following table summarizes material HUD's Human Capital investments by program. Additional information about the following programs' contributions to HUD's goals may be found in Section II of this report.

#### HUD Investments in Human Capital, FY 1998-2002

(dollars in millions)

Program	1998	1999	2000	2001	2002
CPD:					
CDBG	\$16	\$21	\$22	\$25	\$29
Youthbuild	\$9	\$12	\$13	\$15	\$14
PIH:					
HOPE VI	\$27	\$22	\$29	\$55	\$51
PDR:					
CDWS	\$4	\$5	\$4	\$3	\$3
HHLHC:					
Lead Technical Assistance <sup>1</sup>	–	\$0	\$1	\$2	\$7
<b>TOTAL</b>	<b>\$56</b>	<b>\$60</b>	<b>\$69</b>	<b>\$100</b>	<b>\$104</b>

<sup>1</sup>Amounts reflect payments made for training contracts.

The following table presents the output (number of people trained) generated by human capital investments by HUD's CPD, PD&R, and HHLHC programs:

#### Number of People Trained, FY 1998-2002

Program	1998	1999	2000	2001	2002
CPD:					
CDBG	120,037	131,000	252,800	127,565	149,502
Youthbuild	2,264	2,752	3,000	3,614	2,717
PD&R:					
CDWS	110	97	101	98	99
HHLHC:					
Lead Technical Assistance <sup>1</sup>	–	–	6,834	19,579	23,501
<b>TOTAL</b>	<b>122,411</b>	<b>133,849</b>	<b>262,735</b>	<b>150,856</b>	<b>175,819</b>

<sup>1</sup>People trained in FY 00 are estimates based on FY 00 investment in human capital.

## PERFORMANCE AND ACCOUNTABILITY REPORT

The following table presents key HOPE VI cumulative performance information for FY 2001 and FY 2002 since the program's inception (FY 1993).

HOPE VI Service	2001			2002		
	Cumulative Enrolled	Cumulative Completed	Percent Completed	Cumulative Enrolled	Cumulative Completed	Percent Completed
Employment Preparation, Placement, & Retention	9,508	not applicable	not applicable	18,638	not applicable	not applicable
Job Skills Training Programs	5,767	3,583	62%	9,333	5,565	60%
High School Equivalent Education	2,987	1,793	60%	5,180	2,028	39%
Entrepreneurship Training	897	530	59%	1,182	631	53%
Homeownership Counseling	3,017	1,196	40%	3,646	1,580	43%

In addition, dating back to the program's inception, nearly 15,000 program participants are currently employed, with nearly 12,000 employed six months or more. Entrepreneurship training contributed to the creation of nearly 250 new businesses, employing nearly 350 HOPE VI property residents.

### Research and Development

Investments in Research and Development support the search for new or refined knowledge and ideas and of the application of such knowledge to develop new or improved products or processes intended to increase economic productive capacity or yield other future benefits. These investments support HUD's strategic goal 1, Increase the Availability of Decent, Safe, and Affordable Housing In American Communities; and goal 5, Ensure Public Trust in HUD. The following table summarizes HUD's material Research and Development Investments since FY 1998. Additional information on the following programs' contributions to HUD's goals may be found in Section II of this report.

#### HUD Investments in Research and Development FY 1998-2002

(dollars in millions)

Program	1998	1999	2000	2001	2002
PD&R:					
PATH	n/a	\$3	\$7	\$9	\$10
HHLHC:					
Lead Technical Assistance <sup>1</sup>	\$2	\$12	\$9	\$6	\$3
<b>TOTAL</b>	<b>\$2</b>	<b>\$15</b>	<b>\$16</b>	<b>\$15</b>	<b>\$13</b>

<sup>1</sup>Amounts represent budgeted obligations.

### 3. FINANCIAL INFORMATION

PD&R revised its performance goals for the PATH program starting in FY 2001. During FY 2001, PATH investments generated more than 160 technology listings, which exceeded program listing target levels. In addition, PATH awarded 11 university-based applied research projects, 16 technology development projects, and 6 technology policy/planning research projects. Though FY 2002 investments have not been completed, PATH has maintained over 190 technology listings, awarded 6 major university-based research projects, 5 technology development projects (with 8 more going through contract processes), and 5 technology policy/planning research projects, one of which includes the new measures for PATH's evaluation against the goals established in 2001. These measures will be completed in January 2003.

The studies under the Lead Technical Assistance program, in support of the Departmental lead hazard control program, have contributed to an overall reduction in the per-housing unit cost of the OHHLHC's Lead Hazard Control Grant Program, as indicated in the following table. These studies also lead to the identification of the prevalence of related hazards.

#### **Per-Housing Unit Cost of Lead Hazard Evaluation and Control FY 1998-2002**

Program	1998	1999	2000	2001	2002
HHLHC:					
Lead Technical Assistance	\$6,999	\$5,532	\$5,881	\$4,639	\$5,411

**Required Supplementary Information (Unaudited)**

• **Intragovernmental Balances**

HUD's Intragovernmental amounts represent transactions with other federal entities included in the government's annual report. These transactions include assets, liabilities and earned revenues as follows:

**September 30, 2002**

(Dollars in Millions)

**Intragovernmental Assets:**

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other	Total
Department of Treasury	\$77,632	\$3	\$28,342	–	\$105,977
Other Agencies	–	–	–	–	–
<b>Total</b>	<b>\$77,632</b>	<b>\$3</b>	<b>\$28,342</b>	<b>–</b>	<b>\$105,977</b>

**Intragovernmental Liabilities:**

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	\$3,096	\$11,677	\$4,654	\$19,427
Other Agencies	–	–	20	20
<b>Total</b>	<b>\$3,096</b>	<b>\$11,677</b>	<b>\$4,674</b>	<b>\$19,447</b>

**Intragovernmental Earned Revenues and Related Costs:**

Trading Partner	Earned Revenue
Department of Treasury	\$1,867
Other Agencies	–
<b>Total</b>	<b>\$ 1,867</b>

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	–
Community and Regional Dev	–
Income Security	–
<b>Total</b>	<b>–</b>

### 3. FINANCIAL INFORMATION

#### September 30, 2001

(Dollars in Millions)

##### Intragovernmental Assets:

Trading Partner	Fund Balance	Accounts Receivable	Investments	Other	Total
Department of Treasury	\$73,948	–	\$23,979	–	\$97,927
Other Agencies	–	\$ 6	–	\$ 43	49
<b>Total</b>	<b>\$73,948</b>	<b>\$6</b>	<b>\$23,979</b>	<b>\$43</b>	<b>\$97,976</b>

##### Intragovernmental Liabilities:

Trading Partner	Accounts Payable	Debt	Other	Total
Department of Treasury	\$2,039	\$9,235	\$4,918	\$16,192
Other Agencies	7	–	23	30
<b>Total</b>	<b>\$2,046</b>	<b>\$9,235</b>	<b>\$4,941</b>	<b>\$16,222</b>

##### Intragovernmental Earned Revenues and Related Costs:

Trading Partner	Earned Revenue
Department of Treasury	\$2,053
Other Agencies	–
<b>Total</b>	<b>\$2,053</b>

Budget Functional Classification	Gross Cost to Generate Revenue
Commerce and Housing Credit	–
Community and Regional Dev	–
Income Security	–
<b>Total</b>	<b>–</b>

## Independent Auditor's Report on the Financial Statements

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

In accordance with the Chief Financial Officers (CFO) Act of 1990, we have audited the accompanying consolidated balance sheets of the Department of Housing and Urban Development (HUD) as of September 30, 2002 and 2001, and the related consolidated statements of net cost, changes in net position, and financing and the combined statement of budgetary resources for the fiscal years then ended. The objective of our audit was to express an opinion on the fair presentation of these principal financial statements. We did not audit the financial statements of the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae), whose combined statements reflect total assets constituting 38 percent of the related consolidated totals. Other auditors, whose reports have been furnished to us, audited those statements and our opinion, insofar as it relates to the amounts included for FHA and Ginnie Mae, is based solely on the reports of the other auditors. In connection with our audit, we also considered HUD's internal control over financial reporting and tested HUD's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its principal financial statements.<sup>1</sup>

### Opinion on the Financial Statements

In our opinion, based on our audit and the reports of other auditors, the accompanying principal financial statements present fairly, in all material respects, the financial position of HUD as of September 30, 2002 and 2001 and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit also disclosed:

- Material weaknesses in internal controls in fiscal year 2002 related to the need to:
  - comply with Federal financial management system requirements, including the need to enhance FHA information technology systems to more effectively support FHA's business processes;
  - improve oversight and monitoring of subsidy calculations and intermediaries program performance; and
  - improve FHA's controls over budget execution and funds control.
- Reportable conditions in internal controls in fiscal year 2002 related to the need to:
  - improve quality control over performance measures data;
  - improve controls over project-based subsidy payments;
  - strengthen controls over HUD's computing environment;
  - improve personnel security practices for access to the Department's systems;
  - improve funds controls over public housing operating funds;
  - improve processes for reviewing obligation balances;
  - more effectively manage controls over the FHA systems' portfolio;
  - place more emphasis on monitoring lender underwriting and improving early warning and loss prevention for FHA single family insured mortgages;
  - sufficiently monitor FHA's single family property inventory; and
  - improve FHA's controls over the credit subsidy adjustment process.

<sup>1</sup> This report is a condensed version of a more detailed report issued separately on January 31, 2003 by HUD, OIG entitled, "Audit of U.S. Department of Housing and Urban Development Financial Statements for Fiscal Years 2002 and 2001" (2003-FO-0004). The report is available at HUD, OIG Internet site at <http://www.hud.gov/oig/oigindex.html>.

### 3. FINANCIAL INFORMATION

Most of these control weaknesses were reported in prior efforts to audit HUD's financial statements and represent long-standing problems. It should be noted, we have combined two material weaknesses reported in prior years relating to the need to "improve oversight and monitoring of housing subsidy determinations" and "ensure that subsidies are based on correct tenant income." Those material weaknesses are now reported as "Improvements needed in oversight and monitoring of subsidy calculations and intermediaries program performance."

In this *Fiscal Year 2002 Performance and Accountability Report*, HUD reports that it complied with Section 2 of the Federal Managers' Financial Integrity Act (FMFIA), with the exception of the material weaknesses and nonconformances specifically identified in that report. Section 2 and related guidance require that: (1) an agency's internal accounting and administrative controls provide reasonable assurance that obligations and costs are in compliance with applicable laws; (2) funds, property and assets are adequately safeguarded; and (3) revenues and expenditures are properly and reliably accounted for and reported. HUD was unable to report compliance with Section 4, which requires that accounting systems conform to applicable accounting principles and standards. For fiscal year 2001 and prior years, we disagreed with the Department's statement of overall assurance in the Department's *Accountability Reports*. HUD's compliance determinations did not fully consider the magnitude of the problems HUD acknowledges in its own FMFIA process. As permitted by the Reports Consolidation Act of 2000 (PL 106-531), HUD did not prepare a separate FMFIA report for fiscal year 2002, but will be addressing those reporting requirements in this *Fiscal Year 2002 Performance and Accountability Report*. Given the magnitude of the problems that still remain, we continue to believe that an FMFIA statement of noncompliance would be appropriate for HUD.

Our findings also include the following instance of non-compliance with applicable laws and regulations:

- HUD did not substantially comply with the Federal Financial Management Improvement Act (FFMIA). In this regard, HUD's financial management systems did not substantially comply with (1) Federal Financial Management Systems Requirements, (2) applicable accounting standards, and (3) the U.S. Standard General Ledger (SGL) at the transaction level.

#### Consolidating Financial Information

We conducted our audit for the purpose of forming an opinion on the fiscal years 2002 and 2001 principal financial statements taken as a whole. HUD is presenting consolidating balance sheets and related consolidating statements of net costs, changes in net position, and financing and combining statements of budgetary resources as supplementary information in this *Fiscal Year 2002 Performance and Accountability Report*. The consolidating and combining financial information is presented for purposes of additional analysis of the financial statements rather than to present the financial position, changes in net position, budgetary resources, and net costs of HUD's major activities. The consolidating and combining financial information is not a required part of the principal financial statements. The financial information has been subjected to the auditing procedures applied to the principal financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

### Required Supplementary Information

In this *Fiscal Year 2002 Performance and Accountability Report*, HUD presents “Required Supplemental Stewardship Information,” specifically, information on investments in non-federal physical property and human capital. In addition, HUD presents a (Management’s) “Discussion and Analysis of Operations” and information on intra-governmental balances. This information is not a required part of the basic financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board and Office of Management and Budget (OMB) Bulletin 01-09, *Form and Content of Agency Financial Statements*. We did not audit and do not express an opinion on this information, however, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. In accordance with OMB Bulletin 01-09, the Department, through confirmations, reconciled their intragovernmental transactions with their trading partners with immaterial differences.

Additional details on our findings regarding HUD’s internal control environment, housing assistance program delivery, and system and accounting issues are summarized below and were provided in a separate report to HUD management. These additional details also augment the discussions of instances in which HUD had not complied with applicable laws and regulations; the information regarding our audit objectives, scope, and methodology; and recommendations to HUD management resulting from our audit.

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### Issues with HUD’s Internal Control Environment

Most of the material weaknesses and reportable conditions discussed in this report relate to issues discussed in prior years’ reports on HUD’s financial statements. HUD has been taking actions to address the weaknesses and in some instances has made progress in correcting them. For the most part, progress has been at a slow pace because HUD needs to address issues that fundamentally impact its internal control environment. These issues are Department-wide in scope and must be addressed for HUD to more effectively manage its programs. We have reported for the past several years that HUD has made progress toward overhauling its operations and addressing its management problems through these efforts, but challenges remain. As discussed below, HUD’s ability to address its problems will substantially improve if it completes the efforts to:

- deploy a reliable financial management system that meets its program and financial management needs and complies with federal requirements, and
- continue with the implementation of its process to identify and justify its staff resource requirements.

The most critical need faced by HUD in improving its control environment is to complete development of adequate systems. The lack of an integrated financial system in compliance with federal financial system requirements has been reported as a material weakness since fiscal year 1991. To correct financial management deficiencies in a Department-wide manner, HUD initiated a project to design and implement an integrated financial system consisting of both financial and mixed systems. Over the years, the Department's plans have experienced significant schedule delays, changes in direction and cost overruns.

In addition to improving its financial systems, HUD will need to more effectively manage its limited staff resources. Many of the weaknesses discussed in this report, particularly those concerning HUD's oversight of program recipients, are exacerbated by HUD's resource management shortcomings. Accordingly, we consider it critical for the Department to address these shortcomings through the successful completion of ongoing plans.

In our separate report, we elaborate on the need for improved systems and resource management. In addition, we discuss the need for HUD to improve quality controls over performance measure data.

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#### **Housing Assistance Program Delivery**

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofits and for profit) and HAs. These intermediaries, in-turn, provide housing assistance to benefit primarily low-income households. HUD spent about \$23 billion in fiscal year 2002 to provide rent and operating subsidies that benefited over 4 million households. Weaknesses exist in HUD's control structure such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

Legislation authorizing HUD's housing assistance programs includes specific criteria concerning tenant eligibility and providing assistance for housing that meets acceptable physical standards. Moreover, legislation authorizing HUD's programs also establishes minimum performance levels to be achieved. For example, subsidized housing must comply with HUD's housing quality standards.

HUD relies heavily upon intermediaries to ensure that rent calculations for assisted households are based on HUD requirements. Ultimately, these rent calculations determine the amount of subsidy HUD pays on behalf of the assisted household. Under project-based programs administered by the Office of Housing, the individual project owners or agents carry out this responsibility. Under public housing and tenant-based Section 8 programs, the HAs determine eligibility and rent amounts for eligible households residing in public housing or at approved housing provided by private landlords. In prior reports on HUD's financial statements, we have expressed concerns about the significant risk to HUD

that these intermediaries are not properly carrying out this responsibility. HUD's control structure does not adequately address this risk due to insufficient on-site monitoring along with the absence of an on-going quality control program that would periodically assess the accuracy of intermediaries' rent determinations.

In November 2000, a contracted study of rent determinations under HUD's major housing assistance programs showed that estimated errors made by project owners and HAs resulted in substantial subsidy overpayments and underpayments. The purpose of the study was to provide national estimates of the extent, severity, costs, and sources of errors occurring in the certification and recertification procedures used by HAs and owners in calculating tenant rents. The study projected that annually, about \$1.7 billion in subsidies was overpaid on behalf of households paying too little rent and about \$600 million in subsidies was underpaid on behalf of households paying too much rent based on HUD requirements. In FY 2001, HUD used the information from the study to determine the estimated errors due to unreported tenant income. Tenants often do not report income or under report income which, if not detected, causes HUD to make excessive subsidy payments. As a result of the 2001 assessment, HUD identified an additional \$ 978 million in overpaid rental subsidies.

In fiscal year 2002, HUD again added to the study by determining an estimate for errors resulting from incorrect intermediaries' billings for Section 8 rental subsidies. HUD estimated an additional \$257.1 million in erroneous payments due to intermediaries' billings. This represents \$121.5 million in overpayments and \$135.6 million in underpayments. HUD plans to provide a single updated annual error estimate combining all three measurements beginning in fiscal year 2003.

In fiscal year 2001, HUD initiated the Rental Housing Integrity Improvement Project (RHIIP). This Secretarial initiative is designed to reduce errors and improper payments by (1) simplifying the payment process, (2) enhancing administrative capacity, and (3) establishing better controls, incentives, and sanctions. These improvements will be implemented over the next several years with a fiscal year 2005 goal of reducing by 50 percent the frequency of calculation processing errors and the amount of subsidy overpayments.

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### **System and Accounting Issues**

In our earlier discussion of concerns we have with HUD's internal control environment, we stressed the need for HUD to complete on-going efforts to improve its financial systems. Because of the large volume of financial transactions, HUD relies heavily on automated information systems. In prior years, we reported on security weaknesses in both HUD's general processing and specific applications such that HUD could not be reasonably assured that assets are adequately safeguarded against waste, loss, and unauthorized use or misappropriation. Progress in

improving these controls has been slow. The weaknesses noted in our current audit relate to the need to improve:

- controls over the computing environment; and
- administration of personnel security operations.

We also noted the need for HUD to improve funds controls over public housing operating funds and processes for reviewing outstanding obligations to ensure that unneeded amounts are deobligated in a timely manner. Major deficiencies include:

- PIH did not have an operational, information system for monitoring operating subsidy eligibility requirements and obligations during six months of fiscal year 2002.
- A lack of integration between accounting systems and the need for accurate databases has hampered HUD's ability to evaluate unexpended obligations.

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

A separate audit was performed of FHA's fiscal year 2002 and 2001 financial statements by the independent certified public accounting firm of KPMG LLP. Their report on FHA's financial statements, dated January 21, 2003,<sup>2</sup> includes an unqualified opinion on FHA's financial statements, along with discussions of two material weaknesses and four reportable conditions. The FHA material weaknesses are as follows:

- HUD/FHA's ADP system environment must be enhanced to more effectively support FHA's business processes. HUD and FHA are conducting day-to-day business with legacy-based systems. Several systems directly impact FHA's financial activity and necessitate financial transactions to be processed through non-integrated systems, requiring manual analysis and summary entries to be posted to FHA's general ledger. FHA's and HUD's inability to implement modern information technology adversely affects the internal controls related to accounting and reporting financial activities.
- Controls over budget execution and funds control must be improved. FHA does not have a collection of ADP financial systems that are capable of fully monitoring and controlling budgetary resources in an ADP integrated process. Lack of efficient integration between these systems requires the use of manual analysis and reconciliation and use of additional databases to collect and summarize funds control information, which subjects the process to the risk of errors resulting from reliance on manual processes.

<sup>2</sup> KPMG LLP's report on FHA entitled, "Audit of Federal Housing Administration Financial Statements for Fiscal Years 2002 and 2001" (2003-FO-0002, dated January 21, 2003) was incorporated in our report.

- KPMG LLP also notes four reportable conditions regarding the need for FHA and HUD to: (1) more effectively manage controls over the FHA ADP systems portfolio, (2) place more emphasis on monitoring lender underwriting and improving early warning and loss prevention for single family insured mortgages, (3) sufficiently monitor its single family property inventory, and (4) improve the controls over credit subsidy adjustment process.

We consider the above issues to be material weaknesses and reportable conditions at the Departmental level. A more detailed discussion of these issues can be found in KPMG LLP's report on FHA's fiscal years 2002 and 2001 financial statements.

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### **Results of the Audit of Ginnie Mae's Financial Statements**

A separate audit was performed of the Ginnie Mae's financial statements for fiscal years 2002 and 2001 by KPMG LLP. Their report on Ginnie Mae's financial statements, dated January 30, 2003,<sup>3</sup> includes an unqualified opinion on these financial statements. In addition, the audit results indicate that there were no material weaknesses or reportable conditions with Ginnie Mae's internal controls, or material instances of non-compliance with laws and regulations.

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### **HUD Has Made Progress in Addressing Management Deficiencies, but More Progress is Needed**

Most of the issues described in this report represent long-standing weaknesses that will be difficult to resolve. HUD's management deficiencies have received much attention in recent years. For example, in January 1994, GAO designated HUD as a high-risk area, the first time such a designation was given to a cabinet level agency. Since that time, HUD has devoted considerable attention and priority to addressing the Department's management deficiencies and has made some progress. In their January 2001 update, GAO redefined and reduced the number of programs deemed to be high-risk. Specifically, because of the actions taken by HUD in response to GAO's recommendations to improve its management controls over its Community Planning and Development programs, GAO concluded that this program area is no longer high risk. However, GAO concluded that significant weaknesses still persist in two of HUD's major program areas: (1) single-family mortgage insurance and (2) rental housing assistance. In addition, HUD needs to continue addressing management challenges in two other areas: (1) information and financial management systems and (2) human capital. GAO plans to release their 2003 Performance and Accountability and High Risk Series on January 30, 2003, which will update their January 2001 assessment of HUD.

With respect to fiscal years 2002 and 2001, we were able to conclude that HUD's consolidated financial statements were reliable in all material respects. However, because of continued weaknesses in HUD's internal controls and financial management systems, HUD continues to rely on

<sup>3</sup> KPMG LLP's report on Ginnie Mae entitled, "Audit of Government National Mortgage Association Financial Statements for Fiscal Years 2002 and 2001" (2003-FO-0003, dated January 30, 2003) was incorporated in our report.

extensive ad hoc analyses and special projects to develop account balances and necessary disclosures.

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#### **Objectives, Scope and Methodology**

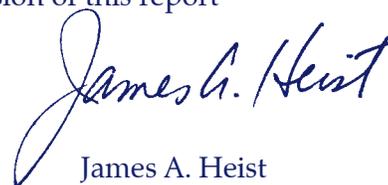
The accompanying principal financial statements are the responsibility of HUD management. Our responsibility is to express an opinion on these principal financial statements based on our audit. As part of our audit, we considered HUD's internal controls over financial reporting for the purpose of expressing our opinion on the principal financial statements and not to provide assurance on those internal controls. We conducted our audit in accordance with *Government Auditing Standards*, and the requirements of OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, as amended. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

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

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#### **Agency Comments and Our Evaluation**

On January 3, 2003, we provided a draft of the internal control and compliance sections of our report to the CFO and appropriate assistant secretaries and other Departmental officials for review and comment, and requested that the CFO coordinate a Department-wide response. The CFO responded in a memorandum dated January 10, 2003. Remaining sections of the draft report were provided on January 17, 2003. The Department generally agreed with our presentation of findings and recommendations subject to detailed comments included in the memorandum and attachments. The Department's response was considered in preparing the final version of this report



James A. Heist  
Assistant Inspector General for Audit

January 27, 2003

## Management and Performance Challenges and Progress

In accordance with the Reports Consolidation Act of 2000, HUD’s Annual Performance and Accountability Report “...shall include a statement prepared by the agency’s inspector general that summarizes what the inspector general considers to be the most serious management and performance challenges facing the agency and briefly assesses the agency’s progress in addressing those challenges.” On December 23, 2002, HUD’s Inspector General provided a statement on five management challenges for inclusion in this FY 2002 Performance and Accountability Report.

1. Complete Department-wide organizational changes.
2. Improve financial management systems.
3. Assure adequate and sufficiently trained HUD staff.
4. Improve Federal Housing Administration (FHA) single-family origination and real estate owned property oversight.
5. Improve the effectiveness and efficiency of public and assisted housing program administration.

The full text of the HUD Inspector General’s FY 2002 Management and Performance Challenges statement is presented in its entirety in the section that immediately follows. HUD management agrees that the five areas identified in the Inspector General’s statement are major challenges currently facing the Department. As an indicator of the importance being placed on addressing each of these challenge issues, they are all covered by HUD initiatives in the President’s Management Agenda. In addition to the progress recognized in the Inspector General’s statement, further information on HUD efforts to address these challenges is provided in President’s Management Agenda section of the Management Discussion and Analysis part of this report. The following chart presents a crosswalk between the Inspector General’s reported challenges and HUD initiatives under the President’s Management Agenda.

Inspector General Reported Challenge Issue		President’s Management Agenda (PMA) Coverage
1. Complete Department-wide organizational changes.	→	PMA Initiative 1 – Management of Human Capital
2. Improve financial management systems.	→	PMA Initiative 3 – Improved Financial Performance
3. Assure adequate and sufficiently trained HUD staff.	→	PMA Initiative 1 – Management of Human Capital
4. Improve Federal Housing Administration (FHA) single-family origination and real estate owned property oversight.	→	PMA Initiative 8 – Improve FHA Risk Management
5. Improve the effectiveness and efficiency of public and assisted housing program administration.	→	PMA Initiatives 5 and 7 – Improve the Performance of Housing Intermediaries and Reduce Overpaid Rent Subsidies



U.S. Department of Housing and Urban Development  
**Office of Inspector General**

451 7<sup>th</sup> St., S.W.  
Washington, D.C. 20410-4500

December 23, 2002

MEMORANDUM FOR: Mel Martinez, Secretary, S

A handwritten signature in blue ink, appearing to read "Kenneth M. Donohue".

FROM: Kenneth M. Donohue, Inspector General, G

SUBJECT: Management and Performance Challenges

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General is submitting a statement to you summarizing our current assessment of the most serious management and performance challenges facing the Department of Housing and Urban Development (HUD) in Fiscal Year 2003 and beyond. These issues have been the focus of much of our audit and investigative effort. Our Semiannual Reports to the Congress provide more specific details.

The management and performance challenges facing HUD have been present for many years. The management structure, size, and complexity of HUD's major programs make it difficult to correct and overcome program weaknesses. HUD is working to address these challenges and in some instances has made progress in correcting them. The Department's management challenges reported this year include the need to:

- Complete Department-wide organizational changes.
- Improve financial management systems.
- Assure adequate and sufficiently trained HUD staff.
- Improve Federal Housing Administration (FHA) single-family origination and real estate owned property oversight.
- Improve the effectiveness and efficiency of public and assisted housing program administration.

The attachment provides a greater discussion of these challenges and the OIG's efforts to help the Department resolve these matters. We continue our appeal that HUD makes every effort to eliminate high risk and staff intensive programs, and focus sufficient resources on HUD's core mission areas.

Attachment

### HUD Management and Performance Challenges Fiscal Year 2003 and Beyond

#### Department-wide Organizational Changes

For nearly 10 years, the Department has struggled with organizational and management changes in an effort to streamline operations. These changes were inevitable as HUD struggled to manage more programs and larger budgets with fewer staff. The past Administration made an effort to realign the Department along functional lines, separating outreach from program administration. Also, they attempted to place greater reliance on automated tools, processing centers, and contracted services. As HUD implemented these changes, many employees were assigned new duties and responsibilities and many new employees were hired. While organizational changes were intended to increase the efficiency and effectiveness of HUD's delivery systems, disruptions caused by these sweeping changes further compounded problems in effectively managing HUD operations. Among the problems were unclear lines of authority, many staff in the wrong location, and difficulty in providing supervision to remote staff.

Our past semiannual reports noted that many organizational changes were slow to be put in place, and those in place were not working effectively. For example, they lacked delegations of authority, written policies and procedures, and training support. HUD's current management team likewise found problems with the organizational and operational changes made by the previous Administration. They found some of the organizational and staffing realignments, such as the Community Builder function, an ineffective use of HUD's human capital. As a result, earlier this year, decisions were made and actions taken to pursue separate realignments of headquarters and field activities to better use existing resources. Changes this year include:

- The Departmental Enforcement Center (DEC) was placed under the direction of the General Counsel to consolidate legal resources in support of a strong program enforcement effort. HUD's program enforcement efforts were previously under the Office of General Counsel prior to the creation of a separate DEC.
- The Real Estate Assessment Center (REAC) was placed under the direction of the Assistant Secretary for Public and Indian Housing (PIH), in order to improve REAC's working relationships with program staff and program partners and strengthen accountability for resource use and results.
- The Office of the Chief Procurement Officer (OCPO) and Office of the Chief Information Officer (OCIO) were placed under the direction of the Assistant Secretary for Administration/Chief Information Officer, to streamline HUD's organizational structure and improve service delivery to HUD's program and administrative components.
- The Office of Field Policy and Management (FPM) was established as an independent office reporting to the Deputy Secretary, with responsibility for oversight of HUD's field management and assistance to program Assistant Secretaries in meeting program goals at the field office level.
- Substantial numbers of staff in the outreach function were redeployed to understaffed program delivery and oversight functions, where there is a critical need.

- New regional management positions were created to give HUD's field operations greater operational control over the administrative budget resources they need to pursue their operating and program goals, and to strengthen the local focus on workload management to meet national performance goals.

These operational changes delegate additional authority to the field. We see these as positive steps in bringing operational activities and authority closer to the customers HUD serves. We continue to see this as a management challenge as HUD is still working to formalize lines of authority and set these changes in place.

### **Financial Management Systems**

HUD needs to complete the development of its financial management systems. The lack of an integrated financial system in compliance with federal financial system requirements has been reported as a material weakness in internal controls since Fiscal Year 1991. While progress has been made in improving the Department's general ledger system, a number of long-standing deficiencies remain.

Our annual financial audits continue to report systems integration problems. For example, there is a lack of an automated interface between the Departmental general ledger and the FHA subsidiary ledger, which necessitates extensive manual analyses, reprocessing, and additional entries. FHA's funds control process is also largely manual, even to the point of requiring the handcarrying of documents. Other serious deficiencies include the inability to timely identify excess funds on expired Section 8 projects and inadequate assurance about the propriety of Section 8 rental assistance payments.

To correct financial management deficiencies in a Department-wide manner, HUD initiated a project to design and implement an integrated financial system consisting of both financial and mixed systems. Over the years, the Department's plans have experienced significant schedule delays, changes in direction, and cost overruns. Because of the many concerns we have raised in our audits, the Department is proceeding cautiously. The Department is planning to contract for a feasibility study and cost benefit and risk analyses to help it identify the best platform for its integrated financial system.

HUD's security program and practices is another issue critical to HUD's financial systems. In accordance with the requirements of the Government Information Security Reform Act, the OIG performed its annual evaluation of HUD's security program and practices and found that the security monitoring program still needs strengthening, the information security program lacks executive level leadership and direction, and previously reported weaknesses in management, operational, and technical controls remain uncorrected.

HUD has a draft plan for establishing and maintaining an effective, comprehensive information technology security program at HUD. Our review found improvements in information security. Also, during Fiscal Year 2002, HUD initiated the planning and program development for an entity-wide security awareness and training program. Despite these improvements, greater emphasis on information security is needed.

### **Adequate and Sufficiently Trained Staff**

For many years the Department has lacked a system for measuring work and reporting time, thereby making it a difficult task to determine staff resource needs. HUD worked with the National Academy of Public Administration (NAPA) to develop a methodology or approach for resource management that would allow the Department to identify and justify its resource requirements for effective and efficient program administration and management.

HUD needs to more effectively manage its limited staff resources. Many of the weaknesses facing HUD, particularly those concerning HUD's oversight of program recipients, are exacerbated by HUD's resource management shortcomings. Accordingly, we consider it critical for the Department to address these shortcomings through the successful completion of ongoing plans. To operate properly and hold individuals responsible for performance, HUD needs to know that it has the right number of staff with the proper skills.

To address staffing imbalances and other human capital challenges, the Department has implemented the Resource Estimation and Allocation Process (REAP). The last phase of REAP (a baseline for staffing requirements) was completed in January 2002. The next step in development of the Department's resource management strategy is the implementation of the Total Estimation and Allocation Mechanism (TEAM). TEAM is the validation component of REAP and will collect actual workload accomplishments and staff usage data for comparison against the REAP baseline. TEAM implementation began this spring and the second cycle began in August. Our audit of the TEAM process found the Department has made significant progress in developing and implementing the key components of its human resource management system since September 2000. The Department anticipates the allocation module of TEAM will be implemented in the first quarter of Fiscal Year 2003. The Department now needs to develop a comprehensive strategic workforce plan that includes elements as to how the data from the REAP studies and TEAM system will be used to plan and allocate its human resources among its various operating components.

HUD developed a 5-year Human Capital Strategic Plan, which was submitted to OMB earlier this year. An Executive Steering Committee is further refining this plan. HUD's human capital management challenges consist of:

- Linking and aligning staff with mission, goals, and organizational objectives through strategic Human Capital Planning;
- Correcting staff shortages and skills gaps resulting from downsizing initiatives during the 1990s;
- Meeting long range staff needs due to a maturing workforce, with about half of the workforce eligible for retirement over the next 5 years; and
- Increasing the use of technology to support organizational improvements and the accomplishment of goals and objectives.

### **FHA Single Family Origination and Real Estate Owned (REO) Oversight**

Procedures and practices pertaining to HUD's Single Family Loan Origination Program have undergone considerable change, particularly in the last 5 years. The changes have been both programmatic and organizational, including significant changes in loan underwriting requirements and the transfer of virtually all aspects of Single Family production and program monitoring from HUD staff to lenders and contractors under the oversight of HUD's Homeownership Centers.

Consistent with the GAO's identification of single-family mortgage insurance programs as a high-risk area, the President's Management Agenda has committed HUD to tackling long-standing management problems that expose FHA homebuyers to fraudulent practices. HUD is taking steps to protect homebuyers from a fraudulent practice known as property flipping, changes are underway to strengthen the property appraisal process and other actions are being proposed to better disclose FHA closing costs.

Prior audits of FHA's financial statements have reported on the need for improvement in early warning and loss prevention for FHA single family insured mortgages. FHA continues to make progress in improving its ability to monitor its insured portfolio. However, FHA needs to fully implement initiatives to effectively identify and manage risks in its single family insured portfolio. FHA needs to increase its use and analysis of other data now available to continue improvements in lender monitoring. Timely identification of lenders with above average early default rates is a key element of FHA's efforts to target monitoring and enforcement resources to single family insured mortgages and lenders that represent the greatest financial risks to FHA. Potentially problem lenders must be identified before FHA can institute loss mitigation techniques and lender enforcement measures that can reduce eventual claims.

Our most recent semiannual report to Congress discussed two single-family program audits. The first audit examined the priority-bidding period for owner occupants that were purchasing HUD owned properties. The audit found that as many as 29 percent of the buyers that purchased properties, as owner occupants, never lived in the property. Consequently, where HUD intended to give sales priority to first time homebuyers, many investors circumvented the rules during the initial 10-day priority-bidding period. The second audit examined the down payment assistance programs operated by several non-profit entities. Because of HUD system problems, the audit could not conclusively identify the extent to which down payment assistance loans have a higher default rates. However, we did find this activity increasing and some evidence that these loans pose a greater than average risk to the FHA program

Several steps are in process to improve FHA risk management. An accurate appraisal is critical in protecting FHA's insurance risk. An appraiser watch initiative was proposed in July 2002 that would permit HUD to take action against appraisers that are associated with a significant number of defaulted properties. Action on that proposal is expected in the next few months. Other actions are in process to strengthen appraiser oversight. Additionally the Department is attempting to put controls in place to deter the flipping of properties. Most property flips are at inflated values. The proposal under consideration would prohibit FHA from insuring properties where the last sale is less than 90 days old. Additionally, properties resold between 90 days and a year would receive tighter scrutiny. Properties that have been resold in the first year at excessive profit would require an additional appraisal to assure the proper valuation.

#### **Public and Assisted Housing Program Administration**

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofits and for profit) and Housing Authorities (HAs). These intermediaries, in-turn, provide housing assistance to benefit primarily low-income households. HUD spent about \$21 billion in Fiscal Year 2002 to provide rent and operating subsidies that benefited over 4 million households. In 2000, a HUD study found that 60 percent of all rent and subsidy calculations performed by administrative intermediaries contained some type of error. Weaknesses exist in HUD's control structure such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

The Office of Public and Indian Housing (PIH) provides funding for rent subsidies through its public housing operating subsidies and tenant-based Section 8 rental assistance programs. These programs are administered by HAs who are to provide housing to low-income families or make assistance payments to private owners who lease their rental units to assisted families. The Office of Housing administers a variety of assisted housing programs including parts of the Section 8 program and the Section 202/811 programs. These subsidies are called "project-based" subsidies because they are tied to particular properties, therefore tenants who move from such properties may lose their rental assistance. This is a significant responsibility because of the sizable number of project owners HUD must monitor.

## PERFORMANCE AND ACCOUNTABILITY REPORT

For many years we have reported on material weaknesses with the monitoring of HAs and multifamily projects. These monitoring weaknesses seriously impact HUD's ability to ensure that its intermediaries are correctly calculating housing subsidies. This material weakness was first reported in our financial audit in 1991 and it has been reported in every audit thereafter. The Secretary has made the reduction of subsidy overpayments a top priority of his Administration.

In conjunction with OMB, HUD has established a goal for a 50 percent reduction in both the frequency of calculation processing errors and the amount of subsidy overpayments by 2005. The Rental Housing Improvement Project is a Secretarial initiative designed to reduce errors and improper payments by 1) simplifying the payment process, 2) enhancing administrative capacity, and 3) establishing better controls, incentives, and sanction. These improvements will be implemented through a series of actions over the next 2 years.

HUD continues to implement its performance oriented, risk based strategy for carrying out its HA oversight responsibilities. As noted in previous financial audits, further improvements need to be made in the field offices' monitoring of its HAs in key areas. As in previous years, we could not fully assess HUD's measures aimed at improving oversight of HAs since the Department's plans to monitor and improve performance are not yet fully developed and continue to experience delays. Finally, HUD has been slow to implement additional strategies needed to improve the quality control over the rental assistance subsidy determinations.

In prior years we have also reported on long-standing weaknesses with the processing of subsidy payment requests under the project-based programs administered by the Office of Housing. Historically, this process has been hampered by the need for improved information systems to eliminate manually intensive review procedures that HUD has been unable to adequately perform.

Housing staff or their Contract Administrators (CAs) are to perform management reviews to monitor tenant eligibility and ensure accurate rents are charged at multifamily projects. The primary tool is to conduct on-site reviews that assess the owners' compliance with HUD's occupancy requirements. HUD's continued implementation of the CA initiative resulted in a substantial increase in the total number of management reviews. However, a comprehensive plan needs to be developed that would result in an increase of on-site reviews that would assess and ensure that all owners of assisted multifamily projects comply with HUD's occupancy requirements.

HUD's plans include a variety of continuing efforts. Principle among these are: continued implementation of the CA initiative; increased enforcement efforts; implementation of more targeted risk management of re-inspections of properties; better use of mortgagee inspectors; increased frequency of management/occupancy reviews for assisted projects; and development of an integrated risk reporting system. We support these efforts.