



Financial Management Accountability

This section covers:

Federal Managers' Financial Integrity Act Reporting

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Delinquent Debt Collection

Federal Managers' Financial Integrity Act Reporting

FMFIA Assurance Statement

I am able to certify with reasonable assurance that, except for the material weakness and non-conformances specifically identified in this section of the FY 2001 Performance and Accountability Report, the Department is in compliance with the provisions of Section 2 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. With regard to Section 4, I am unable to certify that HUD is in full compliance with FMFIA. While most of HUD's financial management systems are substantially compliant, the Department continues its efforts to ensure full compliance with capturing standard general ledger information at the transaction level.

HUD remains fully committed to bringing its internal controls and systems into full compliance with the requirements of FMFIA.



Mel Martinez, Secretary
Department of Housing and Urban Development

Material Weaknesses and Management Concerns

Material weaknesses are management control deficiencies that do not provide reasonable assurance that: obligations and costs are in accordance with applicable laws, assets are safeguarded, and accountability is maintained. Management concerns are areas that warrant actions to strengthen management controls, although the level of risk is assessed as within an acceptable materiality threshold.

Overall, HUD has made significant progress in addressing the weaknesses reported in prior FMFIA assurance statements, as independently verified by the Office of the Inspector General (OIG) in annual audits of the Department's Financial Statements. Notwithstanding, the one open material weakness reported at the beginning of FY 2001 remains open.

Material Weakness FY 2000 Carry Over Issue and FY 2001 Status

First Reported	Material Weakness	Status at End of FY 2001
1996	Controls Over Rental Subsidies ¹	Open

At the beginning of FY 2001, HUD had 12 open management concerns. At the end of FY 2001, management considered 2 concerns closed, but 2 new concerns were opened, leaving 12 open management concerns.

¹This material weakness was presented in 1999 and prior reports as "Income Verification." In FY 2000, HUD expanded the weakness to include all issues associated with improving controls over rental subsidies, including a previously reported management concern entitled "Project-Based Subsidy Payments."

Management Concerns FY 2000 Carry Over Issues and FY 2001 Status

Carry Over/ New Issues	Management Concern	Status at End of FY 2001
MC1	Performance Measures *	Open
MC3	PHA Monitoring	Open
MC4	HUD's Computing Environment*	Open
MC5	Personnel Security Over Systems*	Open
MC6	HUDCAPS Access/Data Integrity*	Closed
MC7	Obligation Balances*	Open
MC8	FHA Loss Prevention*	Open
MC10	SF Property Inventory*	Open
MC12	FHA Systems Controls*	Open
MC13	Resource Management	Open
MC14	Management Controls	Open
MC15	Reconciliation with Treasury Balances*	Closed
New	Single Audit Act Coverage	Open
New	Administrative Funds Control	Open

*Reportable Conditions in OIG's FY 2000 HUD Financial Audit

FY 2001 Management Control Improvements

In FY 2001, the Department continued to see significant progress in the control and accountability of its programs. Efforts to strengthen HUD's management control environment—by consolidating and streamlining operations and implementing automated program monitoring systems—were particularly successful. HUD program offices were provided with more complete, timely, and objective assessments of HUD's program performance, for risk-based targeting of program monitoring, assistance and intervention activity. In addition, increased enforcement actions were taken to demonstrate that HUD is serious about program integrity and performance, including aggressive actions with owners responsible for poor conditions in HUD-supported housing.

In order to bring consistency and uniformity to HUD's monitoring processes in Headquarters and the Field, the Department continued to deliver the Compliance and Monitoring Training Program, which was developed in FY 2000. In FY 2001, four sessions were held, and approximately 430 employees with monitoring and compliance responsibilities were trained. This brings the total number of employees trained under this program to over 1230.

Another successful FY 2000 initiative that was continued in FY 2001 was the Quality and Management Review (QMR) Program. QMRs are conducted to assess the effectiveness of management and program operations and controls, evaluate performance in terms of results, identify deficiencies or shortfalls, share exemplary performances, and provide immediate on-site technical assistance, as necessary. In FY 2001, ten QMRs were completed, providing top management with timely and relevant information.

HUD further refined its Management Plan, which holds organizations accountable for delivering specific results tied to HUD's Strategic and Annual Plans under the Government and Performance Results Act. In its report on "Managing for Results", GAO ranked HUD second among 28 federal agencies because its managers use the Department's strategic goals and performance information to establish priorities, coordinate program efforts, and set job expectations.

To address the staffing imbalances and other human capital challenges, the Department has implemented the Resource Estimation and Allocation Process (REAP). REAP establishes a baseline for staffing requirements and supports budget formulation and execution and strategic planning by tying together staff resources and program activities. The last phase of REAP was completed in December 2001. REAP results have been used to formulate staffing requirements for the FY 2003 budget, develop the FY 2002 staffing plan for the Congress, and develop the Department's long-range Workforce Plan. The next step in the 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 for comparison against the REAP baseline. TEAM is scheduled for implementation in the Spring of FY 2002.

HUD has also stabilized its financial management systems environment and instituted adequate controls. The Office of the Chief Financial Officer corrected two previous management concerns pertaining to the reliability and security of HUD's critical financial systems, and controls over fund balance with Treasury reconciliations.

Status of Remaining Material Weakness

The Rental Housing Integrity Improvement Project (RHIIP) was established as a Secretarial Initiative in the Spring of 2001, to resolve the high-risk status and material management control weaknesses in HUD's rental housing assistance programs. The project represents a shift from HUD's previous focus on back-end program error detection and recovery efforts to more proactive front-end program improvements and controls designed to address the root cause of errors and improper payments. The overall purpose of RHIIP is to ensure that the "right benefits go to the right persons"—enabling HUD's limited program funding to serve as many low-income households as possible.

HUD expenditures for rental housing assistance programs exceeded \$18 billion in FY 2000, and topped \$21 billion in FY 2001. Information on the nature and magnitude of improper payment problems in the rental housing assistance programs was significantly expanded by the January 2001 release of a HUD report on a variety of rent calculation errors by the public housing agency, project owner, and management agent intermediaries that administer these programs. Over 60 percent of rent calculations were found to contain some type of administrative or component processing error, resulting in an estimated \$1.7 billion of annual subsidy overpayments and \$0.6 billion in annual subsidy underpayments. The study was expanded to assess further erroneous payment impacts from tenant underreporting of income, resulting in an estimated \$978 million of additional estimated annual subsidy overpayments

HUD's prior corrective action focus on erroneous subsidy payments had been on developing and implementing a large-scale computer-matching program with IRS and SSA federal tax data, for after-the-fact detection and correction of erroneous payments. While more effective back-end program controls are still under consideration, a multi-organizational RHIIP Advisory Group developed a comprehensive strategy for addressing the root causes of all known types of subsidy payment error. The solutions are interrelated and a comprehensive corrective action plan has been developed.

An essential ingredient to resolving the material weaknesses is the active participation of all of the Department's customers. Their participation is essential for defining the problems, developing effective corrective action plans, and participating in the problem resolution. Therefore, HUD initiated a series of meetings to obtain stakeholders input, and created a web site for better communications.

Planned Initiatives

HUD will continue to implement its RHIIP strategy, including the completion of actions to:

- Develop and implement statutory and/or regulatory program simplification proposals;
- Increase the sharing of available tenant income data, from federal and/or state data sources, for upfront use in making correct rent and subsidy determinations;
- Provide a rent calculation software tool to better support the processing of rent and subsidy determinations by HUD's program intermediaries, as well as an automated subsidy payment validation process;
- Establish a periodic error measurement process;
- Design and implement a comprehensive Quality Control Program over the rent and subsidy determination and payment processes;
- Enhance program incentives and sanctions for tenants and administrative intermediaries;
- Update written program guidance; and
- Provide increased program training and education to tenants, administrative intermediaries and HUD monitoring staff.

Departmental Financial Management Systems

The following material non-conformances are carried over from the prior year:

Material Non-Conformances FY 2000 Carry Over Issues and FY 2001 Status

First Reported	Material Non-conformances	Status at End of FY 2001
1989	Departmental Financial Management Systems	Open
1991	FHA Accounting and Financial Management Systems	Open

FY 2001 marked a milestone year for the Department in declaring the completion of the Financial Systems Integration Project and establishing the HUD Accounting and Program System (HUDCAPS) as the Department's core standard general ledger. The Department's efforts to implement a core accounting system and establish a single integrated financial management system began in 1991. The objectives were to implement a core accounting and financial management system that provides department-wide financial information; improve financial management and integration of financial and programmatic systems; and provide necessary management information to carry out HUD's mission.

In FY 2002, the Office of the Chief Financial Officer will initiate an independent analysis of the Department's general ledger requirements for the future. The analysis will review the Department's current accounting systems status, evolving information technology products, and federal financial systems requirements. The strategies and plans resulting from this analysis will further integrate the Department's financial management systems, replace legacy systems, and provide for improved data flow processing and reporting. The Department will also ensure that it is keeping up to date with technology, is in compliance with federal regulations, and providing the most accurate and timely information to HUD management, staff and business customers.

HUD continues to address financial management systems non-compliance with the Federal Financial Management Improvement Act and OMB Circular A-127. A listing of the non-compliant systems is in Appendix A-2. As of fiscal year end 2001, HUD is reporting 17 non-compliant systems as compared to 11 non-compliant systems as of fiscal year end 2000. Prior year audits have discussed weaknesses with FHA's feeder systems, the need for manual processes and procedures to convert system data to be U.S. Standard General Ledger compliant, and inability to update the Departmental general ledger in a timely basis. The increase in the number of non-compliant systems represents recognition of the nature of these existing systems deficiencies and does not represent newly developed deficiencies.

HUD has developed corrective action/remediation plans to address the identified deficiencies for its non-compliant systems. HUD has also, since 1998, obtained independent reviews of its financial management systems to verify compliance with federal financial systems requirements, identify system and procedural weaknesses, and develop the corrective action steps to address identified weaknesses.

FHA Accounting and Financial Management Systems

The FHA Comptroller has developed a Blue Print for Financial Management Systems that describes FHA's overall plans to eliminate audit deficiencies, comply with federal laws and regulations affecting financial systems, adhere to HUD's systems modernization policies, and improve financial operations. Key objectives include implementing a new general ledger compliant with the U.S. Standard General Ledger and credit reform requirements; implement automated funds control processes; and eliminate manual accounting processes and improve integration of financial and program systems.

The FHA Subsidiary General Ledger Project will implement the Blue Print for Financial Management Systems. The Project is a multi-phase project to be executed over several years through December 2006. FHA has acquired a commercial off-the-shelf (COTS) financial management system to replace

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the existing general ledger. Current milestones include implementing a new FHA general ledger to automate Headquarters' and Field Office funds control processes, implement FHA payment and collection software, and integrate or replace FHA insurance systems with the subsidiary general ledger.

The new subsidiary general ledger is projected to be in operation starting October 2002. As a result, the majority of non-compliances identified in the FHA accounting systems will be substantially addressed.

Other Financial Management Systems Activities

Office of the Chief Financial Officer

- Enhancements were made to the core accounting system reporting capabilities to improve SF-224 reporting and FACTS II quarterly reporting.
- Implemented quarterly posting of FHA summary financial data to the HUDCAPS general ledger. The FHA Subsidiary General Ledger Project will provide for monthly submission of financial data for consolidated financial statement reporting.
- The HUD Travel Management System, HTMS, automates HUD's travel business processes by standardizing travel management forms and procedures, electronically routing approval paths, validating promptness of payment via on-line interface with HUD's accounting system, HUDCAPS. The HTMS project was recognized by Government Executive Magazine as "Travel Managers of the Year" as exemplary of effective federal agency travel by integrating the processes and related systems together.

Office of Housing

- Implemented corrective measures to systems problems and improved data transmission and accessibility through EDI and FHA Connection:

- Improved response time to access case histories for the Single Family Premium Collection Subsystem—Upfront (SFPCS-U);
- Implemented EFT to Taxing Authorities and EDI to Treasury to speed up transmission process for the Single Family Asset Management System (SAMS);
- Provided system users access to daily and monthly Treasury deposit reports via FHA Connection for the Home Equity Conversion Mortgage System (HECM); and
- Processed over 92 percent of loss mitigation claims received in July 2001 through the FHA Connection, rather than through paper documents, for the Single Family Claims Subsystem

Office of the Chief Information Officer

- HUD has developed a Department-wide Data Quality Improvement Program to address information quality deficiencies identified in audits and congressional reports. Annually, selected systems are assessed to determine whether data meets the required quality level, and are certified once data requirements are met. As of the end of FY 2001, the Department has certified four Program Areas as compliant with data quality standards.
- The IT Capital Investment Planning Process continues to be refined and institutionalized. Quarterly project reviews overlay a discipline by a combination of quantitative and subjective criteria to measure the IT projects' progress through the projects' lifecycle, and as a result, take corrective action where needed.
- The Departmental Electronic Government Program is a strategic effort bringing HUD into compliance with the Government Paperwork Elimination Act (GPEA) and the President's mandate to provide better, more efficient Government services and increased accountability primarily through the use of Internet technology.

Secretary's Audit Resolution Report To Congress

This information on HUD's audit resolution activity covers the fiscal year period October 1, 2000 through September 30, 2001. It is required by Section 106 of the Inspector General Act Amendments (P.L. 100-504), and provides information on the status of audit recommendations without management decisions and recommendations with management decisions but no final action. The report also furnishes FY 2001 statistics on the total number of audit reports and dollar value of disallowed costs, and the total number of audit reports and dollar value of recommendations that funds be put to better use.

Audit Resolution Highlights

For only the second time since the Inspector General first began reporting overdue management decisions, the Department ended the fiscal year with no overdue management decisions. This hallmark event was due to the high degree of collaboration between HUD's managers and the Inspector General's auditors, from the managers of HUD's smallest field offices to the top levels of Headquarters and OIG management. Maintaining this spirit of cooperation, the Offices of the Deputy Secretary, Inspector General, Chief Financial Officer and General Counsel have created an Audit Resolution Task Force to address ongoing audit issues and to improve and expedite the audit resolution process. In addition, the Chief Financial Officer is working with the Inspector General to develop a new on-line system for reaching management decisions and tracking the implementation of recommendations. This system, referred to as the Audit Resolution Corrective Action Tracking System (ARCATS), will be implemented in Fiscal Year 2002.

Management Decisions On Audit Recommendations

By statute, the Department is required to provide an acceptable management decision (an action plan with milestones) for each audit recommendation, within six-months from issuance of the related Office of Inspector General audit report.

The FY 2001 reporting period began with a total of 425 recommendations requiring a management decision. During the year, 857 new audit recommendations were added to our active workload and management decisions were made on a total of 986 recommendations. The fiscal year ended with 296 recommendations still requiring management decisions. However, there were no recommendations without management decisions beyond the six-months statutory resolution period.

Summary of Management Decisions on Audit Recommendations October 1, 2000 – September 30, 2001

Opening Inventory Requiring Decisions	425
New Audit Recommendations Requiring Decision	857
Management Decisions Made During Year	(986)
Audit Recommendations Still Requiring Decisions	296
Recommendations Beyond Statutory Resolution Period	0

Recommendations With Management Decision But No Final Action Taken

The Department began FY 2001 with an inventory of 935 management decisions requiring final action, and final action was completed on 632 of these decisions during the year. In addition, 986 new management decisions were made during the year, for which 353 final actions were completed. In total, the Department completed final action on 985 recommendations during FY 2001, and concluded the year with 952 audit recommendations with management decisions but final actions not yet completed, including 16 audit recommendations reopened during the year. Of this 952 number, 80 are under active multi-year repayment plans, which will remain open until the collection activities are completed.

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Summary of Recommendations With Management Decisions and No Final Action October 1, 2000 – September 30, 2001

Opening Inventory—Final Actions Pending	935
Final Actions Taken	(632)
Final Actions Still Pending	303
Management Decisions Made During FY 2001	986
Final Actions Taken	(353)
Final Actions Still Pending	633
Sub-Total Final Actions Pending	936
Audit Recommendations Reopened During Period (Without Final Action)	16
Total Audit Recommendations Still Requiring Final Actions	952

Status of Audits With Disallowed Costs

As of October 1, 2000, there were 150 audits with management decisions on which final action had not been taken, with a dollar value of disallowed costs totaling \$187 million. During FY 2001, management decisions were made for 57 audits with disallowed costs totaling approximately \$59.9 million. The Department had 45 audits in which final action was taken during the fiscal year, with approximately \$12.7 million in recoveries and \$15.2 million in write-offs. As of September 30, 2001, there were 162 audits with disallowed costs awaiting final action, with an associated value of approximately \$220 million.

Note that the Inspector General Act requires reporting at the audit report level versus the individual recommendation level. At the audit report level, disallowed costs are not recorded until all recommendations in a report are closed. When reporting is done at the more detailed recommendation level, the \$220 million of disallowed costs awaiting final action are reduced by \$71 million (See footnote 4).

Management Report on Final Action On Audits With Disallowed Costs For the Fiscal Year Ending 9/30/01

Classification	Number of Audit Reports	Disallowed Costs
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period	150	\$187,854,261
B. Audit reports on which management decisions were made during the period	57	\$59,977,665
C. Total audit reports pending final action during period	207	\$247,831,926
D. Audit reports on which final action was taken during the period		
1. Recoveries	37 ¹	\$12,692,431
(a) Collections and offsets	35	\$12,213,753
(b) Property	0	\$0
(c) Other	3	\$478,678
2. Write-offs	29	\$15,253,143
3. Total of 1 and 2	45 ²	\$27,945,574
E. Audit reports needing final action at the end of the period (subtract D3 from C)	162 ³	\$219,886,352
	(312) ⁴	(\$149,133,775)

¹Audit reports are duplicated in D.1.(a) and D.1.(c), thus the total is reduced by 1.

²Audit reports will not add by 21 because of partial recoveries and write-offs which are included in both D.1 and D.2.

³Litigation, legislation, or investigation is pending for 27 audit reports with costs totaling \$44,098,861.

⁴The figures in brackets represent data at the recommendation level as compared to the report level.

Status of Audits With Recommendations That Funds Be Put to Better Use

At the beginning of the period (October 1, 2000), there were 16 audits with management decisions on which final action had not been taken with recommendations to put funds to better use (i.e., used more efficiently), with a dollar value of approximately \$6.7 million. The Department had 1 recommendation for which final action was taken during the fiscal year with a dollar value of

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\$100,000, and 1 recommendation totaling \$1 million that management concluded should not or could not be implemented. At the end of the period (September 30, 2001), there were 17 audits with recommendations to put funds to better use awaiting final action, with an associated value of approximately \$9.96 million.

Management Report on Final Action on Audits with Recommendations That Funds Be Put to Better Use for the Fiscal Year Ending 9/30/01

Classification	Number of Audit Reports	Disallowed Costs
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period	16	\$6,673,429
B. Audit reports on which management decisions were made during the period	3	\$4,644,648
C. Total audit reports pending final action during period (Total of A and B)	19	\$11,318,077
D. Audit reports on which final action was taken during the period		
1. Value of recommendations implemented (completed)	2	\$348,778
2. Value of recommendations that management concluded should not or could not be implemented	1	\$1,005,182
3. Total of 1 and 2	2 ¹	\$1,353,960
E. Audit reports needing final action at the end of the period (Subtract D3 from C)	17 ²	\$9,964,117
	(12) ³	(\$3,608,468)

¹Audit reports are duplicated in D.1.(a) and D.1.(c), thus the total is reduced by 1.

²Litigation, legislation, or investigation is pending for 4 audit reports with costs totaling \$4,679,594.

³The figures in brackets represent data at the recommendation level as compared to the report level.

Delinquent Debt Collection

Fiscal Year Ending	Total Debt (in millions)	Delinquent Debt (in millions)	Delinquent Debt Collections (in millions)
2001	\$12,788	\$1,134	\$1,525

During fiscal 2001, HUD collected \$1.5 billion of delinquent debts. In FY 2001, Due Process Notices were sent to 4,585 delinquent debtors advising them that their debts were past due. These notices provide the debtor with the right to establish a repayment plan or appeal the enforceability of the debt through the HUD Board of Contract appeals or an Administrative Law Judge (Federal employees). Debtors who fail to make payment arrangements or successfully appeal the enforceability of the debt are referred to Treasury where they are subjected to aggressive collection efforts, including offset of federal payments. During FY 2001, the Department continued to send notices to delinquent debtors on a weekly basis.

At the end of fiscal 2001, HUD had referred 18,101 debts totaling \$266 million to Treasury for offset, and total collections via offset during fiscal 2001 were \$14.1 million. The Department also sent 11,292 debts totaling \$170.8 million to Treasury for cross-servicing during the year, and total collections were \$2.9 million.

The automated write-off process, which was instituted and utilized last fiscal year by the Title I Program included 4,126 cases totaling \$55 million in debt for fiscal 2001. Cases targeted for this process related to those which were not to be referred to Treasury for offset or cross-servicing, and consisted of bankruptcies, deceased debtors, expired ten-year Statute of Limitations, and accounts with small balances which qualified for write-off as paid in full. The write-off decreased the Title I portfolio by 11 percent.

The Department remains committed to maximizing collections using all available resources and will continue to work closely with systems contractors and Treasury to achieve systems and process improvements necessary to maintain compliance with the Debt Collection Improvement Act. In fiscal 2001, the Department continued to refer delinquent debtors to Treasury for offset on a weekly basis and to cross-servicing on a monthly basis. HUD also completed system enhancements to electronically send, receive and process payments, fee and other fiscal data on cases at cross-servicing. With this change, the fees assessed by Treasury and Treasury's private collection agencies will be passed on to the debtors.

