



Financial Management Accountability

This section covers:

Federal Managers' Financial Integrity Act Reporting

Secretary's Audit Resolution Report to Congress

Compliance with the Prompt Pay Act

Civil Monetary Penalties

Debt Collection Performance

This section includes summarized information normally included in other financial management reports prepared by the agency. It covers compliance with the Prompt Payment Act and the Federal Civil Penalties Inflation Adjustment Act of 1990. The information included in this section as it relates to the Federal Managers' Financial Integrity Act (FMFIA) and the Secretary's Semiannual Report to Congress are in lieu of separately preparing and filing the related reports.

Federal Managers' Financial Integrity Act Reporting

The Department of Housing and Urban Development has evaluated its systems of management controls for the Fiscal Year ending September 30, 1997, as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Based upon senior managements' assessments, reports of independent auditors and other sources, the Department can provide reasonable assurance that its structure of management controls achieve the requirements of FMFIA with the exception of the material weaknesses and nonconformances identified and discussed below. As part of this evaluation, the Department recognizes the deficiencies with its information and financial management systems. HUD's management remains strongly committed to improving these systems and bringing them into full compliance with the requirements of FMFIA.

Material Weaknesses

The Department's material weaknesses are classified as either closed, completed, or open. Closed weaknesses are material weaknesses which have been certified as corrected by accountable managers within the Department, with such resolution corroborated by an independent third party as evidenced by a verification review. Completed weaknesses are those which have been certified as corrected by accountable managers but a verification review has not yet been performed. Open weaknesses are those with corrective action plans in place and not yet completed.

The Department began FY 1997 with the following eight open material weaknesses, and none were certified as completed by the accountable managers during the Fiscal Year.

Material Weaknesses Carried Over from FY 1996

First Reported	Material Weakness	Status at End of FY 1997
1983	Sec. 8 Subsidy Payment Process	Open
1993	Multifamily Resource and Asset Management Strategy	Open
1993	Section 8 Bond Refunding	Open
1993	Single Family Resource and Asset Management Strategy	Open
1993	Management and Control of Staff Resources	Open
1996	Monitoring of Insured Mortgages and Multifamily Projects	Open
1996	Secretary-Held Multifamily and Single Family Mortgage Notes	Open
1996	Income Verification	Open

An additional 11 completed material weaknesses were carried forward from FY 1996. Of these, two were closed through verification reviews during FY 1997 and four were still undergoing verification reviews at the close of FY 1997. The remaining five completed material weaknesses will undergo verification reviews during FY 1998. HUD conducts corrective action verification reviews to fully confirm the risk abatement of material weaknesses. These reviews are conducted by independent auditors or by the Office of the Inspector General (OIG) in coordination with the Office of the Chief Financial Officer.

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The corrective action verification reviews provide additional quality assurance that material weaknesses are not reported closed until a determination has been made that sufficient corrective actions have been taken and that the problem has been resolved. These verification reviews provide additional assurance and are not required by OMB Circular A-123.

Material Weaknesses Reported Completed, Undergoing Corrective Action Verification Reviews During FY 1997

Material Weakness	Status at End of FY 1997
1. Ginnie Mae Management of Securities Issuers	Closed
2. Section 8 Special Claims	Draft Report
3. Servicing of Direct Loans for Section 202 Elderly Housing Projects	Draft Report
4. Undue Concentration of Assisted Persons	Closed
5. Direct Endorsement Program	Draft Report
6. Community Development Block Grant Entitlements	On-going

During FY 1997, the Department continued to focus on improving management's accountability through identifying and correcting the Department's most serious problems. This included the Secretary strongly encouraging managers to recognize significant material weaknesses identified through the various audit processes as FMFIA defined material weaknesses.

During FY 1997, the OIG identified and recommended a new FMFIA material weakness. At the end of FY 1997, there were no significant differences between material weaknesses identified by the FY 1997 financial statement audit process and the FMFIA process.

Material Weaknesses Declared in FY 1997

Material Weakness	Status at End of FY 1997
1. HUD Contracting	Open

The audit of "HUD Contracting" reported that the Department needs to improve in the following areas: needs determination; planning and periodic assessments; cost consciousness; contractor oversight

and monitoring; contracting for prohibited services; coordinated data and financial systems; timely closeout procedures; and interagency agreements.

A total of nine open material weaknesses are being carried over to FY 1998. Eight existed at the beginning of FY 1997 and one additional material weakness was declared during the year.

Material Nonconformances

The Department has two material nonconformances carried over from FY 1996.

Material Nonconformances Carried Over from FY 96

First Reported	
1989	Department Financial Management Systems, excluding those used to produce the consolidated financial statements (see Appendix for list)
1991	Multifamily Housing Systems (see Appendix for list)

I. Departmental Financial Management Systems

As part of HUD's Management Reform Plan, the Department is modernizing and integrating HUD's outdated financial management systems with an efficient, state-of-the-art system. This consolidated financial management system will improve the timeliness, accuracy and reliability of information to HUD's management and staff. It will facilitate the communication between HUD, its grantees, and communities across the country. With these improvements and enhanced financial management, HUD's goal is removal from GAO's high risk list.

To implement this reform, the Department established the Financial Systems Integration (FSI) Team under the leadership of the Deputy Secretary, the Chief Financial Officer and the Technical Investment Board Executive Committee. The team supports the Management Reform Plan by developing the FSI plan to integrate and improve HUD's financial management systems; standardizing and cleaning up significant data elements; improving

the accuracy and timeliness of information to HUD's management, staff and stakeholders; and implementing a core financial system that supports the entire Department's financial processing and information needs. The objective of the FSI plan is to implement an integrated financial management system, consisting of both financial and mixed systems, that provides the information necessary to carry out the financial and programmatic missions of the Department.

HUD conducted an extensive review of its inventory of financial management systems. HUD has made continued progress in its efforts to reduce the number of non-conforming systems. Over the past five years, the number of non-conforming systems has shown a steady decline, from 98 non-conforming systems reported in FY 1992, to 38 non-conforming systems reported in FY 1997. In conjunction with the Financial Systems Integration Plan, the Department is continuing with its efforts to further reduce the number of non-conforming systems.

Based on work performed as part of the audit of HUD's financial statements, the OIG has reported that HUD does not substantially comply with the Federal Financial Management Improvement Act of 1996 (FFMIA). As required by FFMIA, HUD is preparing a remediation plan that will be submitted to OMB as part of the CFO Five-Year Plan to be included in HUD's budget submission to OMB, scheduled for September 1998. As specified in FFMIA, the remediation plan is expected to be accomplished within a 3-year period. As noted in their report on compliance with laws and regulations, OIG has raised concerns about the adequacy of the documentation supporting some of the system assessments performed in determining the status of non-conforming systems. In developing the FFMIA remediation plan, the CFO will ensure that all assessments performed by program offices are adequately documented and that corrective action plans are developed for systems determined to be non-conforming.

In addition to its work to reduce the number of non-conforming systems, the Department developed and implemented new financial management systems that support HUD's requirements and replace legacy systems. About 30 percent of HUD's financial management systems have been implemented during the past five years as a result of its plans to improve financial management. The majority of these systems have been in the program areas, which support the Department's program delivery. As the Department implements a core financial system, the program systems will be integrated to record financial events in a timely and efficient manner. These new and upgraded systems improved the quality and timeliness of information, while enhancing operating efficiencies. Some of the specific system accomplishments during FY 1997 include:

- The Office of Community Planning and Development continued the rollout of the Integrated Disbursement and Information System. As of the end of the fiscal year, the system was operational in over 75 percent of CPD's approximately 950 entitlement grantees.
- The Office of Fair Housing and Equal Opportunity implemented the Grants Evaluation Management System to process grant applications for the Fair Housing Initiative Program funding awards.
- The Department developed and implemented the Community 2020 system as a fully functional Geographic Information System. It provides grantees and the public with information on HUD programs on a local, regional, and national level using contemporary mapping software.
- The Offices of Housing and Chief Financial Officer developed an interface between TRACS (Tenant Rental Assistance Certification System) and the Line of Credit and Control System to automate the disbursement of project-based Section 8 assistance payments.

2. Multifamily Housing Systems

The Office of Multifamily Housing continued its efforts to improve its program and financial management systems. In FY 1997, Multifamily Housing took the following steps to address its material non-conformance:

- Computer income matching was piloted to automatically compare income data in TRACS to data provided by the Social Security Administration and Internal Revenue Service. The income matching review identifies potential income discrepancies of subsidy recipients to reduce potential subsidy overpayments. The discrepancies require additional research and follow-up for resolution.
- For three budget cycles, the Department has interfaced Section 8 contract and accounting data using the budget module of TRACS. The results were used to develop the Department's submission to OMB and the Congress for Section 8 funding needs. Budget estimates are more timely and reliable.
- The Risk Assessment Management System (RAMS) was implemented in FY 1997 and establishes a ranked list of troubled projects which is used as an early warning of potentially troubled multifamily projects requiring further evaluation. These activities improve project management and diminish risks associated with the multifamily programs.

Secretary's Audit Resolution Report To Congress

This information on the Department of Housing and Urban Development's audit resolution and follow-up activity covers the period October 1, 1996 through September 30, 1997. 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, recommendations with management decisions but no final action, statistics on the total number of audit reports and dollar value of disallowed costs for FY 1997, and statistics on the total number of audit reports and dollar value of recommendations that funds be put to better use, agreed to by a management decision for FY 1997.

Recommendations Without Management Decisions

The Department is required to provide a management decision (an action plan with milestones) for each recommendation within six months from issuance of the related audit report issued by the Inspector General.

The period began with a total of 328 recommendations without a management decision. During FY 1997, 767 recommendations requiring management decisions were added to our active workload. Management decisions were made on a total of 798 recommendations. This fiscal year ended with 297 recommendations without management decisions; 12 of these remaining audit recommendations were beyond the statutory period at the close of the fiscal year.

Summary Of Recommendations Without Management Decisions October 1, 1996 - September 30, 1997

Opening Inventory	328
New Audit Recommendations Requiring Decision	762
Management Decisions Made	(793)
Audit Recommendations Awaiting Management Decisions	297
Audit Recommendations Beyond Statutory Period	12

Recommendations With Management Decision But No Final Action Taken

The Department is pleased to report again that the total number of audit recommendations with management decisions and no final action taken is at its lowest level since the inception of these Congressional reporting requirements in 1989. The number of these recommendations currently stands at 1,070 which represents a reduction of almost 46% from the number (1,965) of these recommendations reported as of September 30, 1994. This is clear evidence of the Department's success in not only reacting to identified deficiencies, but in proactively seeking to reduce the number of reported audit recommendations by improving the ways in which we do business.

The Department's performance in this area clearly indicates that we are on the path to becoming a service organization which is sensitive to both the needs of the American people and our fiduciary responsibilities as entrusted by the Congress.

Summary Of Recommendations With Management Decisions And No Final Action October 1, 1996 – September 30, 1997

Opening Inventory	1,249
Actions Taken	(385)
Awaiting Final Action	864
Management Decisions Made During FY 1997	793
Final Action Already Taken	(608)
Recommendations Requiring Final Action	185
Sub-Total No Final Action at End of Period	1,049
Audit Recommendations Reopened (Without Final Action)	21
Total Audit Recommendations Requiring Final Actions	1,070

Note: The Department has 95 recommendations under current repayment plans, and these recommendations are considered open and counted within the audit inventory, until final repayment is made.

Status Of Audits With Disallowed Costs

At the beginning of the period (October 1, 1996), there were 197 audits with management decisions on which final action had not been taken, with a dollar value of disallowed costs totaling \$227.1 million. During the period, management decisions were made for 54 audits with disallowed costs totaling approximately \$16.2 million. The Department had 76 audits in which final action was taken during the fiscal year, with approximately \$22.9 million in recoveries and \$28 million in write-offs. At the end of the period (September 30, 1997), there were 175 audits with disallowed costs awaiting final action, with an associated value of approximately \$192.4 million.

Management Report on Final Action On Audits With Disallowed Costs For the Fiscal Year Ending September 30, 1997

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.	197	\$227,057,574
B. Audit reports on which management decisions were made during the period.	54	\$16,180,365
C. Total audit reports pending final action during period	251	\$243,237,939
D. Audit reports on which final action was taken during the period		
1. Recoveries	58 ¹	\$22,852,102
(a) Collections and offsets	57	\$22,710,320
(b) Property	0	\$0
(c) Other	3	\$141,782
2. Write-offs	47	\$28,019,773
3. Total of 1 and 2	76 ²	\$50,871,875
E. Audit reports needing final action at the end of the period (subtract D3 from C)	175 ³	\$192,366,064
	(398) ⁴	(\$148,951,620)

¹ Audit reports are duplicated in D.1.(a), D.1.(b), and D.1.(c), thus the total is reduced by 2.

² Audits will not add by 30 because of partial recoveries and write-offs which are included in both D.1 and D.2.

³ Litigation, legislation, or investigation is pending for 55 audit reports with costs totaling \$90,041,925.

⁴ The 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, 1996), there were 28 audits with management decisions on which final action had not been taken with recommendations to put funds to better use, with a dollar value of approximately \$17.4 million. The Department had 8 audits in which final action was taken during the fiscal year, with a dollar value of \$2.1 million of recommendations implemented or completed and a dollar value of \$4.1 million of recommendations that management concluded should not or could not be implemented or completed. At the end of the period (September 30, 1997), there were 23 audits with recommendations to put funds to better use awaiting final action with an associated value of approximately \$13 million.

Management Report on Final Action On Audits With Recommendations That Funds Be Put to Better Use For The Fiscal Year Ending September 30, 1997

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	28	\$17,418,402
B. Audit reports on which management decisions were made during the period	3	\$ 1,674,187
C. Total audit reports pending final action during period (Total of A and B)	31	\$19,092,589
D. Audit reports on which final action was taken during the period		
1. Value of recommendations implemented (completed)	6	\$ 2,054,842
2. Value of recommendations that management concluded should not or could not be implemented	3	\$ 4,083,731
3. Total of 1 and 2	8 ¹	\$ 6,138,573
E. Audit reports needing final action at the end of the period (Subtract D3 from C)	23 ²	\$12,954,016
	(12) ³	(\$ 3,108,841)

¹ Audit reports are duplicated in D.1 and D.2, thus the total is reduced by 1.

² Litigation, legislation, or investigation is pending for 11 audit reports with costs totaling \$6,172,933.

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

Compliance With The Prompt Payment Act

HUD's prompt payment percentage for FY 1997 was 86.1 percent, an increase from the prior year's performance of 82.8 percent. A significant portion of this increase is attributable to improvements made by FHA in their on-time payment percentage, from 66.2 percent in FY 1996 to 82.5 percent in FY 1997. This increase is attributed to changes made in FHA's single family property disposition payment system. Although FHA's on-time payment percentage of 82.5 percent for the year did not meet the Department's goal of 90 percent, FHA anticipates meeting the 90 percent goal in FY 1998. The total amount of late payment interest paid during the year totaled \$128,571, a decrease from the \$172,710 paid the prior year.

Prompt Pay Act Compliance

	FY 93	FY 94	FY 95	FY 96	FY 97
Invoices Subject to Prompt Pay:					
• Total Dollars (millions)	\$324.6	\$310.2	\$399.0	\$365.5	\$488.4
• Number of Invoices (thousands)	84.5	81.0	70.7	74.9	62.4
Percentage of Invoices Paid on Time Based on:					
• Dollar Amount	85.5%	85.3%	81.8%	82.5%	91.1%
• Number of Invoices	81.2%	91.2%	86.1%	82.8%	86.1%
Late Payment Interest Paid:					
• Dollars (thousands)	\$ 95.9	\$ 87.8	\$159.9	\$172.7	\$128.6
• Number of Invoices (thousands)	5.1	2.4	4.7	4.3	3.4

Civil Monetary Penalties

Civil Monetary Penalties are non-criminal penalties imposed for violations of Federal law, for which a given dollar amount or maximum amount is specified by Federal law and which is assessed or enforced by an agency as a result of an administrative proceeding or civil action in the Federal courts (percentage or variable rate penalties are not included.) The Federal Civil Penalties Inflation Adjustment Act of 1990, P.L. 101-410, provides for regular reporting of penalties assessed and collected by Federal agencies to ensure that they continue to maintain their deterrent value and that penalty amounts due the Federal Government are properly accounted for and collected.

In FY 1997, HUD assessed a total of \$616,100 in Civil Monetary Penalties and collected \$330,300. As of the end of FY 1997, receivables totaled \$941,054 for 22 cases.

Debt Collection Performance

During FY 1997 the Department's debt collection activities centered around two major initiatives: (1) the continuation of our highly successful asset sales program and (2) the implementation of the provisions of the Debt Collection Improvement Act of 1996.

Asset Sales

The Department's asset sales program began in FY 1994 and was designed to sell up to \$11 billion in multifamily and single family mortgages that had been originated by private lenders and insured by FHA. The asset sales program:

- 1) transfers these HUD-held mortgages back to the private sector where they can be more efficiently serviced, and
- 2) allows more FHA resources to be assigned to monitor the more than \$400 billion worth of single family and multifamily mortgages that it currently insures. This more proactive monitoring of the FHA insured portfolio lowers the likelihood of default and, in the long run, reduces taxpayer exposure.

FY 1997 Mortgage Sale Activity (Dollars in millions)

	Single Family	Multi-Family	Total
Number of Mortgages Sold	36,700	137	36,837
Unpaid Principal Balance	\$2,267.0	\$984.0	\$3,251.0
Sales Proceeds	\$ 2069.1	\$842.3	\$ 2911.4
Value to Government ¹	(\$1,552.9)	(\$468.5)	(\$ 2021.4)
Negative Credit Subsidy ²	(\$ 516.2)	(\$373.8)	(\$ 890.0)

¹ The credit reform value to the government is the net present value that FHA would have received if it continued to service the loans given current policy and servicing practices and procedures.

² Negative credit subsidy represents a net savings to the taxpayer and the FHA fund.

Debt Collection Improvement Act of 1996 (DCIA)

With its asset sales program and its referral of over \$135 million to the Department of Treasury as part of Treasury's Administrative Offset Program, the Department is in substantial compliance with the debt collection provisions of DCIA.