



Financial Management Accountability

This section covers:

Federal Managers' Financial Integrity Act Reporting

Secretary's Audit Resolution Report to Congress

Debt Collection Performance

Status of Year 2000 Systems Compliance

This section includes summarized information normally included in other financial management reports prepared by the agency. Information relating to the Prompt Payment Act and the Federal Civil Monetary Penalties Inflation Adjustment Act is not included since it is no longer required to be reported.

Federal Managers' Financial Integrity Act Reporting

FMFIA Assurance Statement

I am able to certify with reasonable assurance that, except for the material weaknesses and non-conformances specifically identified in this section of the FY 1998 Accountability Report, the Department is in compliance with the provisions of Section 2 of the Federal Managers' Financial Integrity Act (FMFIA). HUD's financial management systems, especially the systems responsible for the major accounting functions (i.e., those that disburse funds), are in substantial compliance with Federal financial management systems requirements. However, the remaining non-compliant financial management systems are legacy systems that do not capture SGL accounting information at the transaction level. Thus, a qualified assurance is provided for Section 4 of FMFIA.



Andrew Cuomo, Secretary
Department of Housing and Urban Development

Material Weaknesses

The Department's material weaknesses are classified as 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. Management concerns are former material weaknesses for which sufficient corrective action has been taken to reduce the level of risk below the materiality threshold, but still require additional management action to eliminate the deficiency.

The Department began FY 1998 with the following nine open material weaknesses; four of these had sufficient corrective actions taken to be reclassified as management concerns.

Material Weaknesses Carried Over from FY 1997

First Reported	Material Weakness	Status at End of FY 1998
1983	Section 8 Subsidy Payment Process	MC
1991	Secretary-Held Multifamily and Single Family Mortgage Notes	MC
1993	Section 8 Bond Refunding	MC
1993	FHA Resource and Asset Management Strategy	Open
1993	Management and Control of Staff Resources	Open
1996	Monitoring of Insured Mortgages and Multifamily Projects	Open
1996	Early Warning and Loss Prevention for FHA Insured Mortgages	Open
1996	Income Verification	Open
1997	HUD Contracting	MC

(MC – Management Concern)

In prior year audits of the Department's Financial Statements, the Office of the Inspector General (OIG) found that HUD has not developed a comprehensive strategy to manage its resources. They recommended that HUD establish a more systematic approach to determining staffing requirements;

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hold field offices and headquarters accountable for work accomplishments in line with available resources; ensure that staffing standards are realigned as greater efficiencies are implemented; and consolidate accounting and other administrative functions. Many of the Department's resource management issues are being addressed through the implementation of the HUD 2020 Management Reform Plan. In addition to these actions, the Department, working with the National Academy of Public Administration, has developed a proposed resource management methodology. This methodology will be piloted during the second quarter of FY 1999.

The remaining material weaknesses are addressed in greater detail in the applicable sections of the "Discussion and Analysis of Operations" section of this report.

In addition to these material weaknesses and management concerns, the Department has the following areas of management concern of which four remain open.

FY 1997 Management Concerns with Corrective Action Verification Reviews Performed During FY 1998

Material Weakness	Status at End of FY 1998
1. Section 236 Excess Rental Income	Closed
2. Section 8 Special Claims	Open
3. Community Development Block Grant Entitlements	Open
4. Servicing of Direct Loans for Section 202 Elderly Housing Projects	Open
5. Direct Endorsement Program	Open

Corrective action verification reviews were completed for five management concerns during FY 1998. One was closed and the remaining four require additional management action. 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 OIG in coordination with the Office of the Chief Financial Officer.

HUD also conducts corrective action verification reviews to 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 problems have been resolved. These verification reviews provide additional assurance and are not required by OMB Circular A-123.

During FY 1998, 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 weaknesses identified through the various audit processes as FMFIA defined material weaknesses.

Material Weaknesses Declared in FY 1998

Material Weakness	Status at End of FY 1998
FHA Federal Basis and Budgetary Accounting	Open

The audit of FHA's fiscal year 1998 financial statements reported that FHA must perform analysis and reconciliation of obligations to ensure that obligated amounts are properly stated. This audit also reported that FHA must develop formal documentation to support the preparation of federal basis financial statements, budgetary standard forms, and FHA's cost allocation process.

A total of six open material weaknesses are being carried over to FY 1999. Five existed at the beginning of FY 1998 and one additional material weakness was declared during the year. A total of 8 management concerns are being carried over to FY 1999. Four of these were carried over from FY 1997 and four material weaknesses were reclassified as management concerns during the year.

Departmental Financial Management Systems

The Financial Systems Integration (FSI) Team was formed in 1997 to focus the Department's financial systems integration effort to support the Management Reform Plan. The objective of the FSI Team 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.

To accomplish this, the FSI Team is addressing the requirements and efforts to integrate and improve HUD's financial management systems; standardize and clean up significant data elements; improve the accuracy and timeliness of information to HUD's management, staff and stakeholders; and implement a core financial system that supports the entire Department's financial processing and information.

For its legacy systems, HUD continues its efforts to address financial management system compliance with FFMIA and OMB Circular A-127 requirements. HUD conducts extensive assessments of its inventory of financial management systems to determine compliance, and continues to make progress in its efforts to reduce the number of non-conforming systems. To ensure that assessments performed by program offices are adequately documented and corrective action plans are developed for systems determined to be non-conforming, the Office of the Chief Financial Officer contracted with a firm to conduct an independent review of key financial management systems to verify compliance with FFMIA and OMB Circular A-127 requirements.

Over the past several years, the number of non-conforming systems has shown a steady decline, from 98 non-conforming systems reported in FY 1992, to 28 non-conforming systems reported in FY 1998. These nonconformances are categorized as either Departmental Financial Management Systems, or as FHA Accounting and Financial Management Systems (a listing of these non-compliant systems is in the Appendix).

The Department considers six of these non-conforming systems to be immaterial. In addition, the Department's major accounting systems used to prepare the agency financial statements relating to our grant, loan and subsidy programs are in compliance.

Material Nonconformances Carried Over from FY 1997

First Reported	Material Nonconformance	Status at End of FY 1998
1989	Departmental Financial Management Systems	Open
1991	FHA Accounting and Financial Management Systems	Open

There have been major, comprehensive accomplishments in financial systems integration:

- **Integrated Disbursement and Information System (IDIS)** – The system is used by all of CPD's approximately 950 entitlement grantees. In addition, it was implemented in FY 1998 in nine states and the District of Columbia.
- **Integrated Business System (IBS)** – This included building a centralized database of Housing Authority and Project information, implementing software under a common integrated technical architecture, and eliminating nine legacy systems or subsystems. IBS also implemented an Internet submission subsystem that receives performance/progress reports for Economic Development and Supportive Services (ED/SS) grants from grantees electronically via the Internet.
- **Grants Evaluation Management System (GEMS)** – The system is deployed and two updates were completed during Fiscal Year 1998; one to support pre-award processing and competitive scoring of applications for Notices of Fund Availability (NOFAs) and the second to implement significant enhancements for tracking of grantee performance (post award).

- **Federal Housing Administration Mortgage Insurance Systems (FHAMIS)** – Implemented the Single Family Premium Collection Sub-system for upfront premiums. The subsystem eliminates data redundancies, improves service to lenders, and streamlines reassessment of late fees and interest fees and refunds of money received on erroneous cases and overpayments at closing. Completed installation of the single family data warehouse that consolidates several feeder systems and facilitates the financial systems integration data clean-up effort and implemented a multifamily data quality system.
- **Real Estate Management System (REMS)** – Developed and implemented the system and serves as the FHA multifamily core database to support the Enforcement Center, the Real Estate Assessment Center, the Section 8 Financial Management Center, Portfolio Reengineering, and Development Application Processing (DAP).
- **Established the Section 8 Budget Outlay Support System (BOSS)** which is a budget outlay forecasting system providing management with accurate and timely Section 8 outlay estimates. Section 8 BOSS consists of a data warehouse for the collection and retention of financial and program information, and a forecasting model capable of producing accurate outlay estimates based on user-specified assumptions applied to data available in the data warehouse. This system was used to produce outlay estimates for FY 2000.
- **Real Estate Assessment Center (REAC)** – REAC is a new HUD organization responsible for assessing the physical and financial conditions of real estate properties, which were previously performed by a number of different HUD organizations. In FY 1998 HUD developed and tested physical inspection software, and conducted an inspection pilot.

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, 1997 through September 30, 1998. 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 1998, 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 1998.

Recommendations Without Management Decisions

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

The period began with a total of 298 recommendations without a management decision. During FY 1998, 809 recommendations requiring management decisions were added to our active workload. Management decisions were made on a total of 815 recommendations. This fiscal year ended with 292 recommendations without management decisions; 31 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, 1997 – September 30, 1998

Opening Inventory	298
New Audit Recommendations Requiring Decision	809
Management Decisions Made	(815)
Audit Recommendations Awaiting Management Decisions	292
Audit Recommendations Beyond Statutory Period	31

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Recommendations With Management Decision But No Final Action Taken

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 currently stands at 1,058. This is 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 we do business. The Department's performance in this area 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, 1997 - September 30, 1998

Opening Inventory	1,070
Actions Taken	(472)
Awaiting Final Action	598
Management Decisions Made During FY 1998	815
Final Action Already Taken	(393)
Recommendations Requiring Final Action	422
Sub-Total No Final Action at End of Period	1,020
Audit Recommendations Reopened (Without Final Action)	38
Total Audit Recommendations Requiring Final Actions	1,058

Note: The Department has 92 recommendations under current repayment plans. These recommendations are considered open and count in the audit inventory, until final repayment is made.

Status Of Audits With Disallowed Costs

As of October 1, 1997, there were 174 audits with management decisions on which final action had not been taken, with a dollar value of disallowed costs totaling \$191.4 million. During FY 1998, management decisions were made for 48 audits with disallowed costs totaling approximately \$39.3 million. The Department had 65 audits in which final action was taken during the fiscal year, with approximately \$23.2 million in recoveries and \$25.1 million in write-offs. As of September 30, 1998, there were 157 audits with disallowed costs awaiting final action, with an associated value of approximately \$182.4 million.

Management Report on Final Action On Audits With Disallowed Costs For the Fiscal Year Ending 9/30/98

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.	174	\$191,447,956 ¹
B. Audit reports on which management decisions were made during the period.	48	\$39,266,244
C. Total audit reports pending final action during period	222	\$230,714,200
D. Audit reports on which final action was taken during the period		
1. Recoveries	59 ²	\$23,181,701
(a) Collections and offsets	58	\$22,127,475
(b) Property	0	\$0
(c) Other	3	\$1,054,226
2. Write-offs	46	\$25,128,545
3. Total of 1 and 2	65 ³	\$48,310,246
E. Audit reports needing final action at the end of the period (subtract D3 from C)	157 ⁴	\$182,403,954
	(368) ⁵	(\$146,968,009)

¹ Includes retroactive entries made after end of prior period.

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

³ Audits will not add by 40 because of partial recoveries and write-offs which are included in both D.1 and D.2.

⁴ Litigation, legislation, or investigation is pending for 44 audit reports with costs totaling \$54,886,021.

⁵ 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, 1997), there were 23 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 \$13 million. The Department had 3 audits in which final action was taken during the fiscal year, with a dollar value of \$3 million of recommendations implemented. At the end of the period (September 30, 1998), there were 21 audits with recommendations to put funds to better use awaiting final action with an associated value of approximately \$10 million.

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Management Report on Final Action On Audits With Recommendations That Funds Be Put to Better Use For The Fiscal Year Ending 9/30/98

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	23	\$12,954,016
B. Audit reports on which management decisions were made during the period	1	\$102,000
C. Total audit reports pending final action during period (Total of A and B)	24	\$13,056,016
D. Audit reports on which final action was taken during the period		
1. Value of recommendations implemented (completed)	3	\$3,045,370
2. Value of recommendations that management concluded should not or could not be implemented	0	\$0
3. Total of 1 and 2	3	\$3,045,370
E. Audit reports needing final action at the end of the period (Subtract D3 from C)	21 ¹	\$10,010,646
	(15) ²	(\$3,732,526)

¹ Litigation, legislation, or investigation is pending for 11 audit reports with costs totaling \$6,172,933.

² The figures in brackets represent data at the recommendation level as compared to the report level.

Debt Collection Performance

As of September 30, 1998, there was outstanding debt due the Department of approximately \$12.7 billion. Of this amount, \$8.2 billion pertains to the Section 202 Loan Program and \$3.3 billion pertains to defaulted loan guarantees (including interest receivable) in the FHA single family, multifamily, and Title I programs. Although HUD aggressively pursues collection of all funds due the Department, we have had particular success in collecting debt for these major programs as is explained below.

Section 202 Loan Program

This program provided long term direct loans to finance rental or cooperative housing facilities for occupancy by elderly and handicapped persons (in FY 1992 it was replaced with a capital grant program). There is Section 8 rental assistance associated with specified units of the multifamily dwellings and we offset these Section 8 payments as our primary collection mechanism. Collections during FY 1998 were \$780 million and were accomplished primarily through Section 8 offsets. Delinquencies for this program are about \$36 million, less than one-half of one percent of the total portfolio.

Asset Sales

From FY 1994 to FY 1997, the Department's asset sales program was its primary means of disposing of mortgages that the Department acquired as the result of defaulted loan guarantees in its FHA programs. The sales program was designed to sell up to \$11 billion in multifamily and single family mortgages, which would transfer these HUD-held mortgages back to the private sector where they could be more efficiently serviced. This would free up FHA resources which could then be used to monitor the \$475 billion worth of single family and multifamily mortgages that it currently insures. This more proactive monitoring of the FHA insured portfolio would lower the likelihood of default and, in the long run, reduce taxpayer exposure.

From FY 1994 to FY 1997 asset sales resulted in:

- the sale of over 115,500 mortgages with an unpaid principal balance of over \$9.5 billion;
- the reduction of multifamily mortgage notes from 2,400 to 1,100;
- the reduction of single family notes from 100,000 to 14,000 (along with the termination of the assignment program); and
- negative credit subsidy (a net savings to the FHA fund and the taxpayer) of \$2.1 billion.

During FY 1998, asset sales were suspended pending the procurement of services for a new financial advisor. Sales are expected to resume in FY 1999.

Treasury Offset Program

HUD has been an active participant in the IRS offset program since its inception in 1986. During FY 1998, HUD referred to Treasury over 16,500 delinquent debtors (primarily from the FHA Title I program), with debt of \$197 million, for their offset programs. Through September 1998, HUD collected \$7.8 million directly from the tax refund offset and Treasury offset programs. In addition, we estimate that the Department collected “voluntary payments” (payments received from debtors in response to our intent to offset due process notice) of \$8.6 million for a total collection attributable to the offset programs of \$16.4 million.

Treasury Cross-Servicing Program

As required by the Debt Collection Improvement Act, the Department has referred 7,400 delinquent Title I cases, amounting to \$81.6 million, to Treasury for cross-servicing. We anticipate additional referrals of Title I debt, as well as debt from other programs, during FY 1999.

Status of Year 2000 Systems Compliance

HUD reported its Year 2000 efforts to OMB in our Quarterly Progress Report in November, 1998. The following summarizes this information and updates our status through December, 1998.

HUD’s State of Readiness in Addressing the Year 2000 Issue

HUD has established a Year 2000 Project Office with the goal of ensuring that HUD’s application systems and the operating components of HUD’s computer systems are made Year 2000 compliant by March 31, 1999. By that date, those systems and operating components will accurately process date/time data from, into, and between the twentieth and twenty-first centuries, and the years 1999 and 2000, and leap year calculations. To reach this goal, the Year 2000 Project Office established several interim milestones which are displayed in the following matrix.

Y2K Compliance Milestones

Task	Target Completion Date	Status November 1998	Status December 1998
Renovation 100% Complete	9/30/98	Completed	Completed
Certification 100% Complete	1/15/99	89% Complete	94% Complete
Implementation 100% Complete	3/31/99	74% Complete	86% Complete

All Year 2000 renovations are completed, and HUD is confident that its progress is adequate to meet both the certification and implementation milestones. HUD was recently reclassified by the OMB on their Year 2000 status scale, from Tier 2 status (“Progress, but Concerns”) to Tier 3 status (“Satisfactory Progress”).

As the remaining HUD systems are made Y2K compliant, the greatest threat posed to the Department and its business functions becomes the non-readiness of third parties with which HUD has a material relationship. HUD is addressing this threat through contingency planning efforts that cover the Department’s mission-critical business functions, which are described below.

Historical and Projected Costs

HUD's estimate of costs associated with Y2K remediation are as follows:

Systems Costs of Y2K Compliance (Millions of Dollars)

Fiscal Year	Systems Costs
1996	\$ 0.7
1997	\$ 6.2
1998	\$20.8
1999	\$23.2
2000	\$ 6.2
TOTAL	\$57.1

Potential Effects of the Y2K Issue To HUD

The potential effects on agency operations are as follows:

Primary Business Functions

- Underwrite and Service Insurance (Single Family, Multifamily, and Title I);
- Administer Grants and Subsidies;
- Enforce Fair Housing and Equal Housing Opportunities; and
- Provide Secondary Market for Government Insured and Guaranteed Loans.

Key Support Processes

- Administrative and Management Information Systems;
- Information Technology Infrastructure.

HUD's most critical external dependencies may be classified under two general headings, major infrastructure failures and external business partners. Included in major infrastructure failures are water, electrical, or natural gas-generated power, and data and voice telecommunications. If these infrastructure failures occurred, HUD would be at risk through failures of computer systems, security systems, environmental control, elevators, and telephone and fax line usage. Under the general heading of external business partners, HUD's most critical dependencies are with the Treasury Department, the Federal Reserve, Housing Authorities, grantees, and the banks with which HUD has a direct relationship.

HUD's Contingency Plan

HUD completed its Business Process Continuity Contingency Plan (BPCCP) on June 30, 1998. The BPCCP identifies possible risks and/or threats due to Year 2000 failures in HUD systems and non-HUD systems, as well as who would be affected by those failures. The final draft of the BPCCP was approved by all Assistant Secretaries and Center directors on October 8, 1998.

Contingency plans are being finalized by HUD program area representatives that describe the steps HUD will take to ensure the continuity of the core business functions. These detailed plans will define temporary solutions should a crisis situation result from the internal or external Year 2000-induced failures identified in the BPCCP. Testing of the contingency plans will occur in 1999. Business resumption teams will be designated for each plan, and they will test the contingency plans through either a desktop exercise or a simulation testing scenario.