

TABLE OF CONTENTS

Message from Secretary Cuomo	i
The Deputy Chief Financial Officer's Message	iii
An Overview of the Department	1
HUD's Mission – <i>Empowering People and Communities</i>	2
Strategic Objectives	2
The Secretary's Personal Commitment – <i>Restoring the Public Trust</i>	4
HUD's Components	4
Discussion and Analysis of Operations	9
Increase Homeownership Opportunities, Especially in Central Cities, Through a Variety of Tools, Such as Expanding Access to Mortgage Credit	12
Increase Availability of Affordable Housing in Standard Condition to Families and Individuals, Particularly the Nation's Poor and Disadvantaged	22
Empower Communities to Meet Local Needs	37
Help Communities and States Establish a Full Continuum of Housing and Services Designed to Assist Homeless Individuals and Families in Achieving Permanent Housing and Self-Sufficiency	39
Provide Empowerment and Self-Sufficiency Opportunities for Low-Income Individuals and Families, Particularly the Nation's Poor and Disadvantaged	42
Promote Equal Housing Opportunities for Those Protected by Law	45
Public Trust Offices and Processing Centers	48
Financial Management Accountability	53
Federal Managers' Financial Integrity Act Reporting	54
Secretary's Audit Resolution Report to Congress	58
Delinquent Debt Collection	60
Status of Year 2000 (Y2K) Systems Compliance	61
Analysis of Financial Position and Net Results of Operations	63
Independent Auditor's Report On Efforts to Audit the Financial Statements and Agency Response	69
Financial Statements	89
Introduction	90
Consolidated Balance Sheet	91
Consolidating Statement of Net Cost	92
Consolidating Statement of Changes in Net Position	94
Consolidated Statement of Budgetary Resources	95
Consolidated Statement of Financing	96
Notes to Financial Statements	97
Consolidating Financial Statements (By Major Program Area)	123
Consolidating Balance Sheet	124
Consolidating Statement of Changes in Net Position	126
Consolidating Statement of Budgetary Resources	128
Consolidating Statement of Financing	130
Required Supplemental Stewardship Information (Unaudited)	133
Investment in Non-Federal Physical Property	134
Investment in Human Capital	135
Unaudited Supplemental Information	137
Intra-Governmental Balances	138
Budget Authority Relating to Unexpired Project-Based Section 8 Contracts	139
Appendices	A-1
Systems Not In Compliance with the Federal Financial Management System Requirements	A-2
Glossary of Acronyms	A-3

MESSAGE FROM SECRETARY CUOMO

I am pleased to present the Department of Housing and Urban Development's fourth annual Accountability Report. Our latest report documents the many important gains HUD has made in Fiscal Year 1999 in both program performance and financial accountability.

In last year's message, I said that HUD was working to restore the public trust by correcting management deficiencies and cracking down on those who misuse taxpayers' dollars. I also said that FY 1999's budget was the best in a decade and included measures that would transform public housing and help more families use HUD's Federal Housing Administration (FHA) insured mortgage programs to become homeowners.

This year, not only can we report success in meeting our goals for 1999 but also that we have even greater opportunities this year, because our FY 2000 budget is stronger still – the best HUD budget of the Clinton Administration. It puts HUD back in the business of creating and preserving affordable housing, jobs and economic development for America's people and places in greatest need. It gives us 60,000 incremental Section 8 vouchers to help more families live in decent, affordable housing – the largest expansion of affordable housing in seven years. It provides more funds for our most important initiatives, including HUD's public housing and homeless programs, and our fair housing initiatives.

FY 1999 has been a very successful year for the nation as well as. America has 18 million new jobs and the lowest peacetime unemployment in years. Crime, poverty, and welfare are down. And last year, 67 percent of all Americans owned their own homes – a new record high rate of homeownership. This means not only that more families own a piece of the American Dream, but it also boosts the economy at both the local and national levels.

HUD plays a prominent role in America's housing industry, and we are proud that in FY 1999, FHA completed the best year in its 65-year history by insuring \$125 billion in mortgages. According to a Harvard University study, housing – including construction, the real estate and mortgage industries, and the manufacture and sale of home furnishings – drives almost one-fifth of America's economy. Five million people are employed in the home building industry. For every 1,000 single family homes built in America, 2,500 jobs are created and \$80 million in wages generated.

Good housing also is a key element in building community, and in making families strong and safe.

But good economic news for much of America does not allow us to forget that not all Americans share in that prosperity. On any given night, 600,000 men, women and children are homeless. One in five children lives in poverty. And we face an unprecedented housing crisis because during this time of plenty, 5.3 million people do not have decent, affordable housing – the greatest number in our history

We know there are answers, and HUD is working hard to provide them. One of the most important things we do is to work in partnership with local housing agencies – including 3,400 public and Indian housing authorities (PHAs) – to provide attractive, affordable public housing. Ninety-seven percent of those PHAs are well-managed with hard-working residents and employees. We know that public housing works because we have implemented a new Public Housing Advisory Scoring system – and after 11,000 inspections of housing authorities, 87 percent were in good or in excellent condition, and three out of four were rated as high performers. When asked by the inspectors, 75 percent of the residents said they were satisfied or very satisfied. This is an excellent customer satisfaction score, for any public or private business – and innovative new programs like HOPE VI will make public housing an asset in every community.

Our latest Accountability Report makes it clear that HUD has made significant gains in the past year.

We have worked hard to be effective managers and have demanded financial accountability from ourselves and others. That discipline will be indispensable as we work to provide a decent home and a suitable living environment for every American. With the support of the Administration and the help of Congress, we will continue to target strategic objectives, and use our programs and expertise to bring opportunity and growth to all families and all communities.



Andrew Cuomo
Secretary

March 6, 2000

I am pleased to present the Department of Housing and Urban Development's Fiscal Year 1999 Accountability Report. During FY 1999 the Department made significant improvements in financial management. Most notably, we improved the management control environment and strengthened internal controls over program monitoring; reduced the number of non-compliant financial systems; submitted another timely budget to OMB; and provided the necessary performance reports as required under the Government Performance and Results act. We strongly disagree with the Inspector General's reasons for being unable to render an opinion on the agency's financial statements. These areas are discussed in greater detail below.

Audit Opinion

The Department received a disclaimer of opinion on its FY 1999 consolidated financial statements. The disclaimer states that at the time the auditors ceased their field work, there were significant unexplained differences in the fund balance with Treasury reconciliations. Due to a conversion of the primary accounting system from the Program Accounting System to HUDCAPS, information necessary to reconcile HUD's largest fund balance accounts during FY 1999 was not available until November, 1999, and this information was not complete.

Instead, the Department adjusted its fund balance with Treasury accounts to agree with Treasury's balance, since there was auditable support showing Treasury's balances to be correct. The only communication from the Office of the Inspector General regarding the severity of this issue was to inform HUD management in late February – one week prior to the due date for the auditors report to OMB – that a disclaimer of opinion was to be rendered. HUD management firmly believes that had the auditors notified management of the severity of issue in a timely manner, it would have been resolved and an unqualified opinion would have been rendered. HUD's formal response to the auditor's report can be found on page 84.

Upon being notified by the OIG of the severity of the fund balance with Treasury issue, HUD has spent a significant amount of time in gathering the

supporting documentation necessary to explain to the auditors the nature of all significant previously unexplained differences. This supporting information is now available for the auditors, and we have requested that they complete their audit of the FY 1999 consolidated financial statements.

Improving Management Controls

During Fiscal Year 1999, the Department made substantial progress in addressing long-standing "high risk" areas and material management control weaknesses reported by the General Accounting Office and HUD Office of Inspector General.

Improvements to HUD's management control environment included:

- completion of the organizational realignment under the HUD 2020 Management Reform Plan to enable HUD to better utilize its existing resources to more efficiently and effectively deliver and oversee its major programs;
- establishment of a Business and Operating Plan process to provide greater management, accountability for timely completion of major reform activities, and meeting on-going program performance goals;
- development of Internet-based systems for the automated collection and assessment of essential housing program performance and compliance monitoring information; and
- furtherance of Management Control Program objectives and activities, including an emphasis on planning and carrying-out corrective actions to address material weaknesses and audit recommendations; performance of Front-End Risk Assessments (FERAs) on new or substantially revised programs; and development and provision of guidance and training on risk-based program monitoring techniques and other control concepts.

Collectively, these improvements have served to improve the design and functioning of internal control systems over HUD's major program areas. In the significant public, multifamily and assisted housing program areas, a revised internal control

OFFICER'S MESSAGE

structure was put in place and has begun to operate to provide reasonable assurance that:

- housing quality standards are met,
- program beneficiaries and costs are in accordance with tenant income eligibility requirements, and
- other program statutory and regulatory requirements are adhered to.

Further information on HUD's progress in improving its management controls is provided in the Financial Management Accountability section of this report.

Coordinating The Budget Process

Since 1997, when the Office of Budget was consolidated into the CFO's Office, the Department has become highly proficient in meeting the deadlines for submission of its budget and in developing accurate data. HUD has submitted its budget to the Office of Management and Budget and the Congress by the due dates for years. It has moved from being chastised for being one of the last agencies to submit its annual budget justification to the Congress, to being held as a model for other Departments to follow by OMB's director and Committee members and staff.

The timely submission of the budget and the increased accuracy of estimates are two of the reasons that the Administration and the Congress have a renewed confidence in HUD's ability to administer its programs and to ensure the financial integrity of the budget execution. This was evidenced by the FY 2000 budget provided by Congress, which included the largest budget increase in ten years. It has also helped to restore sufficient confidence in HUD that the President's FY 2001 Budget request proposes the largest increase in the Department's funding levels in the last 20 years.

Reporting Under the Government Performance and Results Act

During FY 1999 the coordination between budget formulation, strategic planning and financial management became a Department-wide effort. A strategic planning team oversaw the development

of both the revised Strategic Plan and the Annual Performance Plan – a process that has been continued for FY 2001 Government Performance and Results Act (GPRA) reporting. This Department-wide effort resulted in the FY 2000 Annual Performance Plan being praised by both the Office of Management and Budget and the General Accounting Office for being greatly improved in both measurement and its linkage to the budget.

Increasing System Integrity

HUD continues its progress to address its financial management systems compliance with the Federal Financial Management (FMFIA) requirements during FY 1999. The number of non-compliant systems has decreased over the last four years, from 85 non-compliant systems in FY 1996 to 18 non-compliant systems as of the end of FY 1999. The reduction in non-compliant systems goes hand in hand with the overall reduction of the number of legacy systems maintained by the Department.

Over the last three years, the Department worked diligently to identify and correct possible Year 2000 (Y2K) problems in mission critical and non-mission-critical systems. HUD thoroughly addressed the Y2K issue and the effects it could have had on the organization, including internal systems and external business partners. As a direct result of this proactive approach, HUD experienced no significant disruptions to its business resulting from Y2K related problems.

FY 1999 was a year of continued financial management improvements. We have come a long way from just a few years ago – from an inadequate monitoring capability, inability to submit a timely budget, and widespread systems non-conformances – to our current position of state-of-the-art monitoring systems, timely budget submissions and most of our systems considered FMFIA compliant.

Respectfully



David M. Gibbons
Deputy Chief Financial Officer

March 10, 2000

