



Financial Management Accountability

This section covers:

Federal Managers' Financial Integrity Act Reporting

Secretary's Audit Resolution Report to Congress

Delinquent Debt Collection

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 1999 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 not able to certify that HUD is in full compliance with FMFIA. HUD needs to complete its conversion to an integrated financial management system and to continue its work to ensure the Department's full compliance with capturing standard general ledger information at the transaction level.

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



*Andrew Cuomo, Secretary
Department of Housing and Urban Development*

Material Weaknesses

The Department classifies material weaknesses as closed, completed, or open. Closed material weaknesses are those that accountable managers within the Department have certified as corrected, with resolution corroborated by an independent third party through a verification review. Completed weaknesses are those that Departmental accountable managers have certified as corrected, 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.

HUD has made significant progress in addressing each of the material weaknesses identified by the Office of the Inspector General (OIG) in prior year audits of the Department's Financial Statements. The Department began fiscal 1999 with the following six open material weaknesses: one of which has been closed, two others had sufficient actions taken to be reclassified as management concerns, and corrective actions on the remaining three are pending more complete implementation in fiscal 2000.

Material Weaknesses Carried Over from Fiscal 1998

First Reported	Material Weakness	Status at End of Fiscal 1999
1993	FHA Resource and Asset Management Strategy (see page 16)	Closed
1993	Management and Control of Staff Resources (see page 54)	MC
1996	Monitoring of Insured Mortgages and Multifamily Projects (see page 32)	Open
1996	Early Warning and Loss Prevention for FHA Insured Mortgages (see page 17)	MC
1996	Income Verification (see page 24)	Open
1998	FHA Federal Basis and Budgetary Reporting (see page 18)	Open

(MC – Management Concern)

FINANCIAL MANAGEMENT ACCOUNTABILITY

A summary of the corrective actions taken is provided below, and further information is discussed in the specific section of the Discussion and Analysis (D&A) to which any program specific weaknesses relate.

During fiscal 1999, the Department continued to improve its management control environment, as a basis for strengthening internal controls over its major programs. Actions were taken to:

- complete organizational changes called for by the 2020 Management Reform Plan;
- provide greater management accountability for achieving program and operating goals;
- further the Management Control Program structure and activities;
- increase the use of risk-based management control techniques; and
- improve automated systems support for financial and program management.

The OIG previously reported that HUD needed to develop a more comprehensive strategy to manage its resources. Under the HUD 2020 Management Reform Plan, the Department was reorganized along functional lines to more efficiently and effectively utilize its reduced work force in carrying out HUD's essential program processes. The organization of centralized "back room" processing centers was completed, consolidating HUD's expertise and capacity for handling high volumes of repetitive transactions or specialized services, on a national scale. Additional functions were outsourced – in areas such as the servicing of HUD-held mortgage notes and management and marketing of HUD-owned properties – where HUD lacked appropriate staffing capacity. Plans to further outsource Section 8 contract administration functions were also completed and are in-process.

The operation of the new processing centers and increased outsourcing has freed remaining HUD field office staff to focus on the performance of work in two critical areas, constituent services and program monitoring. Recognizing the inherent conflict between the functions of providing con-

stituent services and monitoring HUD's programs, the functions were separated through the creation of new jobs for Community Builders and Public Trust Officers. Development programs and training were completed for new job requirements related to HUD's management reform efforts.

To maximize accountability of HUD's managers, a new Business and Operating Plan (BOP) system was developed and institutionalized as the primary directive for planning, tracking, and reporting on the major mission-related program and operational goals and activities of the Department. HUD's Annual Performance Plan, was revamped and realigned with the BOP, as the annualized component of HUD's 5 Year Strategic Plan. The Deputy Secretary monitors performance against the BOP on a monthly basis.

Under the direction of the CFO, the revised Management Control Program and Audits Management System Handbooks were issued in February 1999, to strengthen HUD's Management Control Program. CFO staff held meetings with HUD's Principal Staff to review the status of corrective actions on material weaknesses, audit recommendations, and other management control improvement initiatives. These meetings reinforced executive level awareness of actions needed to address material weaknesses and other at-risk areas within the Department, resulting in improved management controls. The CFO also continued efforts to focus program managers on the performance of Front-End Risk Assessments (FERAs) to plan for adequate controls in new or substantially revised programs, with a total of five FERAs approved and 12 other FERAs underway or planned.

Additionally, the CFO and Departmental management completed a series of initiatives designed to increase HUD's ability to apply remote monitoring and risk-based monitoring techniques to more efficiently and effectively utilize HUD's limited resources for overseeing a large and diverse program participant universe.

HUD continued to make progress in the area of providing more effective, reliable and integrated program systems. A major accomplishment was

the completion of the Real Estate Assessment Center's new internet-based systems for the automated collection and assessment of program performance and compliance data to support risk-based targeting of the monitoring of 33,000 public and multifamily housing program participants. HUD now knows the quality of the housing its programs are providing, and is enforcing housing quality standards. HUD also has a stronger basis for assuring compliance with other applicable program regulations and requirements governing its public, multifamily and assisted housing programs.

The groundwork was also laid for the fiscal 2000 implementation of a large-scale computer matching program with the Social Security Administration and Internal Revenue Service. This is a long needed management control to address millions of dollars of estimated overpayments of Section 8 Program subsidies, to better assure program beneficiaries and costs are in accordance with tenant income eligibility requirements.

Collectively, the substantive accomplishments of the past year have served to improve HUD's resource management and overall management control environment, as well as internal controls over major programs. While much more remains to be done, HUD managers are meeting the challenge of moving HUD from a "high risk" to a "high performing" organization.

Financial Management Systems

The following material nonconformances are carried over from the prior year:

Material Nonconformances Carried Over from Fiscal 1998

First Reported	Material Nonconformance	Status at End of Fiscal 1999
1989	Departmental Financial Management Systems	Open
1991	FHA Accounting and Financial Management Systems	Open

Departmental Financial Management Systems

HUD continues to address financial management system compliance with FFMIA and OMB Circular A-127 requirements. Over the past several years, the number of nonconforming systems has shown a steady decline, from 98 nonconforming systems reported in fiscal 1992, to 18 nonconforming systems reported as of fiscal year end 1999. The reduction in fiscal 1999 is largely attributable to: 1) HUD retired 17 legacy systems of which 7 were nonconforming with federal financial management system requirements, and 2) FHA certified that it implemented processes to correct systems' deficiencies with the requirement to capture Standard General Ledger (SGL) accounting information at the transaction level. Systems reclassified as a result of this FHA certification will be independently reviewed to confirm conformance in fiscal 2000.

The IG has concerns about our compliance with the SGL at the transaction level because of FHA's purported inability to provide reports properly reconciled to the general ledger; FHA's purported inability to maintain detailed reports supporting the aggregate amounts recorded in the general ledger; and reports on budget execution were not maintained. The IG also expressed concerns about our inability to complete a timely reconciliation related to the HUDCAPS and PAS conversion activity and to complete a monthly reconciliation with Treasury.

During fiscal 1999 the Department did a massive conversion of data from PAS into HUDCAPS that resulted in serious difficulties in reconciling our fund balance with Treasury. The significant unexplained differences in our fund balance with Treasury reconciliations have since been investigated, and the underlying support has been obtained. We are ready for the auditors to review this information and complete their audit of the fiscal 1999 consolidated financial statements.

FINANCIAL MANAGEMENT ACCOUNTABILITY

In fiscal 1999, HUD spearheaded a federal government-wide initiative to establish a uniform guide, *Financial Management System Compliance Review Guide*, to assist federal agencies in conducting compliance reviews of their financial management systems. HUD has begun using the new Compliance Review Guide to facilitate assessing its financial management system compliance. To ensure that assessments performed by program offices are adequately documented and corrective action plans are developed for systems determined to be nonconforming, the Office of the Chief Financial Officer contracted with a firm to conduct independent reviews of key financial management systems to verify compliance with FFMIA and OMB Circular A-127 requirements.

The Office of the Chief Information Officer was established to advise the Department in strategic use of information technology (IT) that will improve the development and implementation of financial management systems in the Department, as well as promote the Department's Capital Planning and Investment Process. Significant to the current year's review process was the review of every proposed IT investment for linkages to HUD's mission, strategic plan, annual performance plan and business operating plans. HUD is employing an earned valued management approach for IT resources and has established a formal Project Management Review Board to assess the progress and results of IT projects and to control and evaluate IT investments.

During fiscal 1999 a department-wide common work breakdown structure was established and a common software tool was established by the Office of IT for use with all systems development activities. This software tool simplifies the development of project workplans and schedules and establishes a standard format for Department-wide project level of effort and associated costs.

Deficiencies identified with HUD's financial management systems include lack of integration between program and accounting systems and inadequate assurance about the propriety of Section 8 rental assistance payments. HUD has taken several actions to remedy the deficiencies in fiscal 1999:

- HUDCAPS integrates the programmatic and financial system components of the Department's Section 8 tenant-based program. This results in combining program area and financial data together into one application for Public Housing Section 8 information. Housing's Section 8 project-based Annual Contribution Contracts (ACC) projects were included in HUDCAPS in February 1999.
- The prototype of the Enterprise Information Systems using selected Community 2020 and financial data was implemented. A data interface was established with the HUD Geographic Information System (GIS) using consolidated data contained in the financial system and/or data marts.
- Community Planning and Development implemented several improvements to the Integrated Disbursement and Information System (IDIS) system to meet the concerns of IDIS users: provided internet access, improved reporting on consolidate plan projects, implemented electronic data interchange capability, fixed system problems with drawdowns, funding and processing for the HOPWA program.
- The Real Estate Assessment Center completed nationwide implementation of an existing fraud prevention system that computer matches social security and supplemental security income data with tenant information from HUD databases.
- FHA agrees that its information technology systems must be enhanced to more effectively support its business processes. FHA is in the process of developing a complete approach to support its business processes consistent with modernizing FHA systems and operations as outlined in the *FHA Vision of Financial Management Improvement*. FHA is currently documenting the detailed functional requirements for a JFMIP compliant subsidiary ledger with plans to begin the systems acquisition process in May 2000. The new subsidiary ledger will enable FHA to meet HUD departmental reporting requirements while maintaining responsibility for its own accounting and financial reporting.

In fiscal 2000, HUD will be closely monitoring the progress in remedying system deficiencies against the corrective action plans provided by the Program Offices. Current plans indicate that 4 of the 18 nonconforming systems will be discontinued in fiscal 2000 (in the first quarter, 3 of these systems have already been discontinued) and 2 systems expected to be reclassified as conforming systems. A listing of the noncompliant systems is in Appendix A-2.

FHA Accounting and Financial Management Systems

Nonconformances in FHA's financial management systems relate to deficient general ledger and subsidiary systems that impede better case level reporting, lack of budgetary accounting, and non-compliance with Credit Reform.

FHA accomplished the following in addressing its most significant areas of nonconformance:

- implemented the required processes to comply with Federal Generally Accepted Accounting Principles (GAAP) standards from their Commercial GAAP compliant general ledger;
- implemented the Housing Enterprise Real Estate Management System (HEREMS). HEREMS is an integrated HUD enterprise data model which all system development projects will utilize to eliminate data redundancy and integrity problems. This system integrates systems applications, entails modeling and design standards, creates a repository for reusable objects, and coordinates system release schedules across all Housing projects; and
- implemented the Single Family Premium Collection System -Periodic (SFPCS-Periodic) to support collection and processing of monthly premiums and collection of interest and late charges. This system provides for case level processing for all transactions and will interface with legacy single family systems.

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, 1998 through September 30, 1999. 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 statistics on the total number of audit reports and dollar value of disallowed costs for fiscal 1999, and statistics on the total number of audit reports and dollar value of recommendations that funds be put to better use.

Recommendations Without Management Decisions

The Department is required to provide a management decision (an action plan with milestones) for each audit recommendation within the 6 month statutory period from issuance of the related audit report issued by the Inspector General.

The period began with a total of 292 recommendations without a management decision. During fiscal 1999, 695 recommendations requiring management decisions were added to our active workload and management decisions were made on a total of 788 recommendations. The fiscal year ended with 199 recommendations without management decisions of which 53 were beyond the statutory period of 6 months at the close of the fiscal year.

Summary Of Recommendations Without Management Decisions 10/1/98 - 9/30/99

Opening Inventory	292
New Audit Recommendations Requiring Decision	695
Management Decisions Made	(788)
Audit Recommendations Awaiting Management Decisions	199
Audit Recommendations Beyond Statutory Period	53

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Recommendations With Management Decision But No Final Action Taken

The Department began the year with an inventory of 1,058 management decisions requiring final action, and final action was completed on 502 of these. During the year 788 additional management decisions were made for which 289 final actions were completed. During fiscal 1999, the Department completed final action on a total of 791 recommendations. The total number of audit recommendations with management decisions but final actions not yet completed currently stands at 1,085 and includes 30 audit recommendations reopened during the year. Of this 1,085 number, 79 are under active repayment plans which will remain open until the funds are collected or written off.

Summary Of Recommendations With Management Decisions And No Final Action 10/1/98 - 9/30/99

Opening Inventory	1,058
Final Action Taken	(502)
Awaiting Final Action	556
Management Decisions Made During Fiscal 1999	788
Final Action Taken	(289)
Recommendations Requiring Final Action	499
Sub-Total No Final Action at End of Period	1,055
Audit Recommendations Reopened (Without Final Action)	30
Total Audit Recommendations Requiring Final Actions	1,085

Note: The Department has 79 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, 1998, there were 158 audits with management decisions on which final action had not been taken, with a dollar value of disallowed costs totaling \$182.5 million. During fiscal 1999, management decisions were made for 45 audits with disallowed costs totaling approximately \$31.4 million. The Department had 55 audits in which final action was taken during the fiscal year, with approximately \$18.5 million in recoveries and \$17.1 million in write-offs. As of September 30, 1999, there were 148 audits with disallowed costs awaiting final action, with an associated value of approximately \$178.2 million.

Management Report on Final Action On Audits With Disallowed Costs For the Fiscal Ending 9/30/99

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.	158	\$182,489,967 ¹
B. Audit reports on which management decisions were made during the period.	45	\$31,362,960
C. Total audit reports pending final action during period	203	\$213,852,927
D. Audit reports on which final action was taken during the period		
1. Recoveries	48 ²	\$18,525,637
(a) Collections and offsets	47	\$17,692,850
(b) Property	0	\$0
(c) Other	2	\$832,787
2. Write-offs	29	\$17,106,606
3. Total of 1 and 2	55 ³	\$35,632,243
E. Audit reports needing final action at the end of the period (subtract D3 from C)	148 ⁴	\$178,220,684
	(374) ⁵	(\$136,293,295)

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 1.

³ Audits will not add by 22 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 31 audit reports with costs totaling \$30,844,853.

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, 1998), there were 21 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 \$10 million. The Department had 4 recommendations which final action was taken during the fiscal year with a dollar value of \$1.7 million, and 4 recommendations totaling \$.3 million that management concluded should not or could not be implemented. At the end of the period (September 30, 1999), there were 18 audits with recommendations to put funds to better use awaiting final action with an associated value of approximately \$8.5 million.

Management Report on Final Action On Audits With Recommendations That Funds Be Put to Better Use For The Fiscal Ending 9/30/99

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	21	\$10,010,646
B. Audit reports on which management decisions were made during the period	4	\$463,714
C. Total audit reports pending final action during period (Total of A and B)	25	\$10,474,360
D. Audit reports on which final action was taken during the period		
1. Value of recommendations implemented (completed)	4	\$1,654,496
2. Value of recommendations that management concluded should not or could not be implemented	4	\$278,126
3. Total of 1 and 2	7 ¹	\$1,932,622
E. Audit reports needing final action at the end of the period (Subtract D3 from C)	18 ²	\$8,541,738
	(16) ³	(\$3,401,870)

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 3 audit reports with costs totaling \$577,891.

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

Delinquent Debt Collection

Fiscal Ending	Total Debt (in millions)	Delinquent Debt (in millions)	Delinquent Debt Collections (in millions)
1999	\$13,818	\$2,130	\$3,050

During fiscal 1999, HUD collected \$3 billion of delinquent debts. In October 1998, Due Process Notices were sent to 16,000 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. Beginning in fiscal 1999, notices were sent to delinquent debtors on a weekly basis which significantly accelerated the collection of delinquent debt (the Department estimates that an additional \$19 million was collected by sending these notices on a weekly basis).

During fiscal 1999, HUD referred 68,006 debts totaling \$418 million to Treasury for offset, and total collections via offset during fiscal 1999 were \$13.8 million. The Department also sent 13,653 Title I cases totaling \$174.8 million to Treasury for cross-servicing during the year, and total collections were \$2.5 million.

In June, an automated write-off process was completed and included 12,763 Title I cases totaling \$156 million in debt. 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 10-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 23 percent.

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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 the near future, the Department expects to have the systems capability to refer delinquent debtors to Treasury on a weekly basis. Also, we expect to achieve full scale electronic communication with Treasury which will enable us to send and receive payment information electronically.

Status of Year 2000 Systems Compliance

On the eve of the new century, HUD was in good shape to meet the millennium challenge. HUD's computer infrastructure was made Year 2000 ready including mainframes and desktops, software, and data communications. HUD analyzed, renovated, certified and implemented all of its mission-critical systems and non mission-critical software ahead of or on schedule. One hundred percent of HUD's data exchanges were exchanging compliant data, and have been ready since March 31, 1999. The Department's level of confidence in its Y2K readiness was bolstered by the creation of Year 2000 contingency plans in every program area.

The nations largest Public Housing Authorities responded to a HUD survey and reported that they were 100 percent ready. In addition, HUD made an extensive outreach effort, led by our Chief Information Officer, encouraging our business partners to become Y2K compliant. HUD's Team 2000 Project Manager-delivered speeches to numerous business partner associations throughout the country. HUD also sponsored a "Y2K and You" day to encourage professional and personal readiness. The event, attended by business partners and employees, was televised live on Housing Satellite Network.

During the rollover weekend, HUD kept an eye on developments. In the weeks prior to the New Year holiday, HUD personnel planned, coordinated, organized and staffed HUD's Year 2000 Millennium Communication Center (MCC). Our state of readiness and our contingency plans were posted on the internet and updated continuously.

Historical and Estimated Costs

Historical and estimated costs associated with Y2K remediation are as follows:

Systems Costs of Y2K Compliance (amounts in millions)

Fiscal Year	Systems Costs
1996	\$.7
1997	\$6.9
1998	\$20.8
1999 (estimated)	\$28.7
2000 (estimated)	\$20.9
TOTAL	\$78.0

